



How donors engage with business

William Smith

A teal circular icon containing the text "Key messages" in white.

Key messages

- Business engagement is a tool through which donors can better achieve their existing objectives, rather than a separate objective or programme in its own right.
- Engagement with business does not necessarily focus on donors funding the activities of private sector entities. Donors may actually play more of a facilitating role as brokers of knowledge and relationships.
- Donors should recognise that company's core business activities and corporate social responsibility activities are increasingly merged; many companies value brand reputation as a business asset and recognise the inherent social impact of their business operations.
- Business engagement forms a part of many familiar development approaches: private sector development, M4P, value chain development. However, it is possible to engage with business for specific purposes without adopting these conceptual frameworks.

Table of contents

1 Objectives	1
2 Rationale	1
3 Types of business	2
4 Modalities of engagement	2
Excluded activities	3
Modalities	3
4.1 Consultation and dialogue	3
4.2 Establishing information exchange and networking platforms focused on particular issues	4
4.3 Linking businesses to create new opportunities	4
4.4 Mobilising funds and expertise from business	5
4.5 Advocating for positive business practices	5
4.6 Providing technical or management advice to companies	6
4.7 Sharing investment risk to stimulate innovation	7
4.8 Co-funding shared value.	7
4.9 Funding private sector research and development	8
4.10 Contracting private sector entities to provide services	8
5 Approaches	9
6 Conclusions	10

1 Objectives

A clear understanding of AusAID's objectives in engaging with business is necessary in order to define the full range of business engagement mechanisms that might be considered. It is understood that AusAID's objective for business engagement is the same as the organisation's overall objective - to help people overcome poverty. The aim is not to help Australian companies develop new business opportunities or to promote the private sector per se in developing countries. The objective is to help AusAID achieve its social mission more effectively. And, as business engagement is a tool for donors to achieve their existing social aims, it makes sense for business engagement activities to be embedded within existing programmes. Specifically, AusAID has outlined its goals as:

- Saving lives, by increasing access to water and sanitation, quality maternal and child health services and by supporting large scale disease prevention, vaccination and treatment.
- Promoting opportunities for all, by giving more children access to school, empowering women and enhancing the lives of people living with disabilities.
- Sustainable economic development, achieved by improving food security, increasing incomes, employment and enterprise opportunities and reducing the negative effects of climate change and other environmental factors.
- Effective governance, enabling delivery of better services, improved security, justice and human rights.
- Effective humanitarian and disaster response.

The contention is made here that engagement with business can contribute to more effective achievement of all these goals to some extent if appropriate forms of engagement are identified.

2 Rationale

Given these objectives, it is important also to outline the rationale for AusAID to engage with business in order to help achieve them. Donors have traditionally seen government and civil society organisations as partners and actors to achieve these aims. Why now are donors such as AusAID looking to engage with business? Explaining the reasons for this will also help to define the range of forms of engagement. AusAID may seek to engage with business to achieve its goals because:

- Business activities already impinge hugely and unavoidably on poor peoples' lives – in both positive and negative ways. Not engaging with business clearly reduces the scope and efficacy of donor efforts to tackle poverty. Donors may try to influence business to modify their activities – both to mitigate negative impacts and to accentuate positive impacts on the development outcomes that donors seek to bring about.
- Multi-national companies in particular, may also enjoy a scale and reach which can be leveraged to carry out activities or provide products which can impact a very large number of people.
- Particularly in an environment of increasing constraints on public development assistance, there is an increasing awareness that private sector capital may be mobilised for investment to achieve development aims. This capital may be broadly 'philanthropic' - funds allocated to meet corporate social responsibility objectives, or may be a firm's core business capital. Private sector financial resources dwarf sources of development assistance and significant opportunities exist to leverage how private capital is invested to optimise development impact.
- Due to the discipline of competing in the market, it is recognised that valuable resources have been developed within the private sector in terms of management expertise and processes to improve operational efficiency. Donors may seek to harness these strengths by engaging with business, or encourage public and civil society organisations to learn from, or adopt, such practices.

-
- Businesses often develop, own or sell specialised technology which can make a vital contribution to development and which is not available elsewhere e.g. pharmaceutical companies' vaccine research and development, or private sector computerised mapping technology that may be vital to disaster risk reduction efforts.
 - The business community inevitably plays some role in national and local governance and has a political significance that donors may seek to influence or promote as an alternative or independent voice in national debate.

3 Types of business

The reasons for engaging with business reflect the varied characteristics, capabilities and strengths which businesses may bring to the development agenda. It may be helpful, therefore, to clarify the types of business with which donors may seek to engage. There are a number of characteristics to be considered: ownership, scale and place of domicile. In principle, donors may engage with any type of business which is best equipped to contribute most effectively to achievement of the desired development objective, avoiding any inherent or ideologically derived preference for larger or smaller companies or for home country or locally based companies. However, some types of company may tend to exhibit characteristics which are particularly important in achieving the specific development objective in question:

- Large multinational companies, for example, may be particularly well placed to have impact at scale or to address cross-border issues, or to have the resources to develop complex or specialised technological solutions which can address development challenges. On the other hand, smaller, locally based businesses may have more impact in addressing problems created by particular local challenges.
- In general, partnerships only with home country companies would appear to offer a more restricted, skewed and less cost effective choice to donors. However, there may also be benefits for donors to engage with home country companies in terms of reducing transaction costs, facilitating communications and establishing trust.
- Another issue that may be of significance in some countries is whether to engage with state owned companies, or only the private sector. Generally, private sector entities are deemed to be more efficient partners, less subject to political interference and less financially cushioned than state owned companies. However, there may be justification for engagement with state owned companies in specific circumstances.
- 'Social enterprises' are sometimes identified as a particularly valid choice for donor partnerships, though the definition and characteristics of social enterprise vary so widely that this distinction may not be very helpful in defining priorities for donor partnerships. Donors should seek to prioritise partnerships with strong, viable companies as a priority.

Bearing these qualifications in mind, it is assumed here that AusAID might consider engagement with all types of legally constituted private business.

4 Modalities of engagement

Given the diversity of objectives and rationale for engaging with businesses, often of different types, it is unsurprising that the forms and content of donor engagement vary widely. What follows is a list of ways in which this engagement takes place, termed here the 'modalities' of engagement. Often donors, however, utilise a range of such modalities bundled into 'approaches' which are developed to meet particular objectives or address particular issues and which become well-known tools employed by donor agencies.

Excluded activities

Before describing the modalities of donor business engagement, it may be useful to stress that the list only covers ways in which donors interact directly with business entities. It therefore does not list a number of excluded activities that might typically be a strong focus of private sector development programmes:

- Donor interaction with government to improve the business environment in which firms operate - through research, policy work or technical assistance to government departments. While policy work to promote a regulatory and policy environment conducive to business is a standard component of most donors' private sector programmes, only donor consultation or dialogue with business to inform this work, or engagement with businesses to support their advocacy efforts directly with government, can be considered a form of donor business engagement.
- Donor support for state provision of public goods and services necessary for the private sector to flourish. Provision of a range of public goods and services is vital for private sector and general economic growth: vocational training, education and health services which improve the quality of the labour force; social insurance that may improve the operation of the labour market; road construction and upgrading that improves access to markets etc. However, donor support for state provision of public services does not constitute business engagement – except in circumstances where governments are seeking to promote private sector involvement in the financing or provision of such services.

Given the prevalence and sometimes confusing use of the term 'public private partnership' (PPP), it may also be useful to clarify why it is not listed as a modality of donor business engagement here. The term has been in use since the 1990s to cover a spectrum of contractual arrangements under which the private sector delivers an infrastructure project or service – often roads, bridges, ports, hospitals and schools. A key element of these partnerships is that the company shares responsibility for the operation and maintenance of the asset to some degree and its income is dependent on the performance of that asset. Types of PPP contract include operation-maintenance, build-operate-transfer, build-own-operate arrangements, amongst others. Under the more complex contracts, companies may finance initial construction of the asset and derive returns either from users, in the form of tolls, or from governments, in the form of fees, during the period when the company continues to operate and maintain the asset.

Donors may seek to encourage and facilitate the adoption of PPP arrangements by governments in developing countries for the construction of infrastructure. To do this, donors may employ a number of the modalities listed below: technical assistance to governments, loan guarantees for companies and so on. In these circumstances, establishing PPPs for infrastructure is a donor objective but is not a modality for donor-business engagement. Subsequently, the more general term 'public private partnership for development' has been coined. This is generic term for all kinds of partnership involving companies and public bodies and is not particularly useful as a means of defining or delineating types of partnership or engagement.

Modalities

The following list of modalities for donor engagement with business shows that donors such as AusAID can operate as much more than just a source of financial aid to companies and developing countries. Donors can fulfil a variety of other roles: sharing information, transferring technology, brokering relationships, influencing and advocating. The flow of resources is also not only one-way from donor to recipient. Donors can facilitate the flow of ideas, technology, finance and people from business into government and civil society organisations and a wealth of hybrid institutions. The list below, therefore, loosely follows a scale from lower input, higher leverage activities where the donor plays more of a facilitating or mobilising role, towards more traditional, higher input engagement where donors commit more significant financial resources.

4.1 Consultation and dialogue

The most basic and obvious form of engagement with business by donors is the consultative forum, through which donors aim to mobilise information and views that can inform donor strategy or donor advocacy efforts with government. These may be one-off events, a regular series of consultation events or institutional arrangements for on-going consultation. In some cases, platforms of this type have developed into channels for business and government to engage in direct dialogue, facilitated by the good offices of donor organisations. An example is the Vietnam Business

Forum which was established in 1997 through an initiative of the World Bank and IFC to mirror the Vietnam Consultative Group meeting between donors and the Vietnamese government. Since 2012, management of the forum's secretariat has been transferred from the IFC to a consortium of 15 business groups. The forum facilitates dialogue on a wide range of issues including labour market regulations, tax, land, trade, investment and capital markets and it also organises a number of sectoral groups, for example on vehicle manufacture, banking, mining, tourism etc.

Dialogue and consultation can be two-way. Businesses in country may benefit from learning more about donor activities, priorities and opportunities that may arise for co-operation. Such dialogue and consultation often occurs through donor presentations of their programmes at Chamber of Commerce meetings or other business association events in country. In some ways, it is this very basic form of engagement which is a vital foundation for development of trust, understanding and opportunities for deeper engagement.

Some consultation exercises may have a more specialised and specific objective. For example, donor programmes may seek private sector input into the curricula of state owned vocational training facilities. And business environment projects may regularly consult with business to understand regulatory constraints and bureaucratic hurdles for business and to design their interventions.

4.2 Establishing information exchange and networking platforms focused on particular issues

Donors have also become involved in establishing platforms which include businesses and sometimes also civil society organisations and government agencies to exchange information and ideas on how to solve particular development challenges. This is driven by a belief that large scale global problems are best addressed by a coalition of partners, particularly larger companies with financial weight and global presence. It assumes also that technical solutions sometimes exist for problems but are not well publicised and therefore not replicated because stakeholders are not sharing information or working together. Platforms of this kind include a business alliance established by the Global Alliance for Improved Nutrition (GAIN) in 2005 which promotes the role of business in combating malnutrition in low income markets. The alliance organises information sharing events, publishes newsletters, organises business awards and brokers partnerships with civil society organisations to foster new market solutions to nutrition problems. Examples include fortification of cooking oil or staple foods with vitamins, minerals and other nutrients, developing nutritional supplements for under 2's and research into bio-engineering of seeds to produce more nutritious crops.

Another well-known example is the Global Greenhouse Gas Flaring Reduction Partnership, launched by the World Bank in 2002, involving most of the main oil and gas refiners as well as governments and donors, in order to increase the use of natural gas associated with oil drilling and thereby reduce waste from flaring and venting of gas. The term 'transformational partnership' has more recently been coined and promoted by the UN which may set out more ambitious objectives in terms of 'systemic' change but utilises the same engagement modality as other platforms.

Such platforms have also been supported by donors at a national level. The Company Community Partnership for Health in Indonesia, for example, is a business – civil society platform for information exchange and networking funded by the Ford Foundation which has also brokered new health related activities by members, sharing examples of how companies have partnered with NGOs to address health issues of workers and communities. Established in 2008, the partnership attracted a membership of 140 companies and NGOs by 2012.

4.3 Linking businesses to create new opportunities

Another common modality of donor business engagement focuses on the donor's role as a broker of relationships between companies. The premise for this type of intervention is that without donor intervention, insufficient information, trust or capacity exists to enable businesses to seize mutually beneficial and socially beneficial opportunities. This type of rationale lies behind the export and investment promotion programmes that have been supported by donors in developing countries: providing companies in developed and developing countries with information about trade and investment opportunities. An example which encapsulates this concept is donor support for developing country handicraft producers to attend trade shows in Europe and Japan to access new markets and develop new trading relationships. As internet access and mobile technology reduces information barriers, donor support increasingly also focuses on subsidising the creation of IT solutions to link companies or customers and companies locally and internationally through internet portals.

This brokering role has become particularly common with the popularity of value chain projects where facilitating new linkages in a value chain or strengthening linkages between companies in a value chain is identified as an important means of unblocking new business opportunities. Types of donor support to encourage such value chain linkages vary and may be supplemented by other forms of technical or financial support. However, brokering of inter-firm relationships is clearly an important element of the following types of intervention:

- SME linkage to lead firms. IFC, for example, supported a programme to enable more local SMEs in Chad to become suppliers to ExxonMobil. Here the main limitation was capacity for SMEs to meet ExxonMobil requirements for suppliers, so IFC provided information, training and access to finance for SMEs with the potential to become eligible suppliers.
- Farmer linkage to lead firms. Many agricultural value chain interventions involve donor support to enable agricultural processors or trading companies to establish long term supplier relationships with farmers – through measures such as contract farming, out-grower agreements, certification schemes etc. The Malawi Cotton Seed Treatment programme, funded under the DFID Business Linkage Challenge Fund in 2005, is an example of a contract farming agreement, with improved seed varieties, subsidised fertiliser and pesticide sales and support from local extension workers which enabled 180,000 farmers to establish long term supply relationships with the Clark Cotton Ginning Company.
- Value chain forums. Sometimes donors have supported the establishment of sectoral associations of companies and other stakeholders in a value chain to try and improve information flows and increase trust between companies so that suppliers understand the requirements of buyers and buyers understand the constraints faced by suppliers.

4.4 Mobilising funds and expertise from business

Donors sometimes seek to engage with business in order to raise funds or utilise expertise for particular social projects. Generally, this involves more traditional philanthropic or ‘corporate social responsibility’ activities. USAID has been a forerunner in engagement with business through its Global Development Alliance (GDA) programme, launched in 2001. A USAID evaluation of the programme in August 2011 identified three different models of GDA, two of which are relevant here. In the ‘leverage model’, the companies’ role is ‘typically that of financial resource providers, their contribution increases the scale and reach of a project’. One example of such an alliance is the ‘Centers of excellence in teacher training – Latin America’ programme, to which Scholastic Books made a 50% contribution in the form of educational books, donated in kind, as well as empty shipping containers used to house libraries. Company contributions totalled \$462,000 and were matched equally by USAID. Clearly a potential issue with this modality is whether the donor funds actually leverage new business commitments or whether the company has leveraged donor support for a programme they would have carried out anyway.

The second, related model is referred to as the ‘expertise model’ in which businesses contribute manpower and specialised expertise rather than funds to a project. An example in this category is a partnership between Intel, Cisco Systems, Microsoft and USAID to develop ICT provision in the Kenyan education system. As part of this programme, the companies provided training to primary school teachers in use of ICT under the Intel Teach programme, Microsoft Partners in Learning programme and the Cisco Networking Academy. Partner contributions to this programme were valued at US\$4.5 million, compared with USAID investment of US\$1 million.

4.5 Advocating for positive business practices

Donors have also been involved in a wide range of efforts to advocate for more ethical business practices, both promoting positive practice and discouraging negative practice, typically covering human rights, labour conditions, environmental protection and corruption. High profile voluntary commitment programmes like the UN Global Compact seek to achieve these aims by mobilising companies to sign up to a set of 10 principles as part of their business strategies and operations. Since its establishment in 2000, over 7000 businesses have signed up to meet these commitments in 145 countries. Another example is DFID support for the Ethical Trading Initiative, an alliance of companies, trade unions and NGOs which seeks to improve the lives of workers producing or growing consumer goods. Member companies commit to following and reporting against a code of conduct which protects workers’ rights and integrates ethical trade into their business practices.

In addition to voluntary commitment programmes, donors have also supported third party certification schemes which provide externally audited verification that an agreed set of standards have been applied by participating companies. The most well-known certification schemes include Fair Trade, Rainforest Alliance, Forest Stewardship Council, and Utz – with different standards bodies emphasising different aspects of socially or environmentally ethical practice.

Donors also use positive publicity, combined with use of reputational capital, to promote certain business behaviours or attributes. The ‘Business Call to Action’ is an example. Supported by a variety of donor organisations, this programme encourages companies to implement and report on inclusive business models that will contribute to achievement of the Millennium Development Goals “through commercially-viable business ventures that engage low-income people as consumers, producers, suppliers, and distributors of goods and services.” Since 2008, 58 companies have joined this platform, benefiting primarily from publicity and networking opportunities. Another example is AusAid Indonesia support for Femina magazine to hold a competition for women entrepreneurs, with a cash prize for the winning business and publicity in the magazine to promote the entrepreneur as a positive role model.

4.6 Providing technical or management advice to companies

When a skills gap or lack of technical or management capacity is identified as a constraint to business development, donors have long been involved in providing technical or management assistance directly to enterprises. This has taken the form of general assistance to businesses that have been deemed to play a positive developmental role (e.g. small and medium enterprises, social enterprises) to enable them to carry out their core business activities more effectively.

Technical assistance, training and advice for SMEs became an important and distinct category of donor activity from the 1990’s, known as the ‘business development services’ (BDS) sector. The ways in which donors provided such support progressed from direct subsidy of public service provision towards attempting to stimulate a private market for such services. Donors have sought to stimulate both the supply of privately offered services and the demand for such services from SMEs. Supply side interventions have included capacity building for private BDS providers and development of new products such as training curricula, mentoring programmes etc. Demand side interventions have included the distribution of vouchers to SMEs which can be used to purchase training and advisory services on the private market – or interventions to help publicise the existence and value of privately offered BDS.

Donors have also sought to provide technical assistance targeted at other specific categories of business, such as incubator programmes for new start-up businesses. Agora Partnerships, supported by a variety of private foundations, provides technical assistance to new start-up companies in Latin America that seek to have social and environmental impacts.

In addition to technical assistance on matters relating to a company’s core business, donors sometimes have also provided assistance to companies on how to carry out activities categorised as ‘corporate social responsibility’ or philanthropic activities. Indonesia Business Links, for example, is an NGO set up with donor support to help companies develop and implement corporate social responsibility programmes in accordance with development ‘best practice’.

Donors usually provide financial assistance to pay for technical assistance but support in kind, through the use of volunteer programmes, is another possibility. The Australian Volunteers for International Development programme, for instance, allows Australian professionals to provide volunteer technical and managerial support to private sector companies in AusAID’s partner countries.

More recently, donors have also started providing technical assistance to larger firms to support the implementation of particular initiatives by these firms which are deemed to have a positive potential development impact. Terms for such initiatives include ‘inclusive business’ or ‘shared value’ activities which contribute both to meeting business and social objectives. DFID’s Business Innovation Facility provides technical assistance of this kind for the development or scale-up of ‘inclusive business’ models. It funds technical experts that can “assess routes to market, develop supply chains, ‘stress test’ a business model and tackle a host of other bottlenecks that companies face.”

Another variant of this type of engagement is business to business technical assistance funded by a donor. The DANIDA Business Partnerships programme is an example of this modality in which a Danish company and a developing country company can apply to DANIDA for support to establish commercially oriented partnerships. The

Danish company transfers knowledge and technology to local partner companies in a way which will create value both for the company and for society. Essentially, this is technical assistance provided by Danish companies but funded by the donor. Similar programmes are funded by the Norwegian, Finnish and other European donor organisations.

4.7 Sharing investment risk to stimulate innovation

Often companies perceive new activities such as ‘bottom of the pyramid’ investments or other activities promoted by donors for their development impact as being riskier than ‘business as normal’. This may be because they are new and untested or because they focus on low income, remote or unstable markets. Donors use a variety of financial mechanisms which attempt to reduce or share these risks and thereby mobilise greater private sector investment in developmentally positive project ideas:

- The traditional means for donors to reduce investment risk is to fund loan guarantee mechanisms to encourage lending to higher risk projects. The International Finance Corporation (IFC), for example, has long provided guarantees of this kind. An interesting example is the Sampoerna Student Financing Facility in Indonesia, where a local private Foundation and IFC share risk with an Indonesian commercial bank on a loan portfolio financing the costs of college education for disadvantaged students. This mechanism is used when local financial markets are sufficiently developed to offer access to businesses but where associated levels of risk are unacceptable to lenders.
- Another popular mechanism to share the risk of new business innovations has been matching grants, delivered through a competitive mechanism known as the Challenge Fund. The AusAid Enterprise Challenge Fund for the Pacific and Southeast Asia is a good example where a donor supports up to 50% of the cost of a new private sector investment which meets developmental criteria and, while not immediately commercially viable, holds potential for longer term profit. By covering part of the initial risk, donor funds mobilise new, pro-poor business investments.
- A more recent risk reducing instrument is the Advanced Market Commitment (AMC), developed initially under GAVI - the Global Alliance for Vaccines and Immunisation. The business case for pharmaceutical companies to invest in research and development into vaccines to counter diseases prevalent mainly in low income countries is often uncertain. Under the Pneumococcal AMC, a group of donors pledged to invest up to US \$1.5 billion in the purchase of vaccines for pneumococcal diseases by partner country governments if pharmaceutical companies could develop and supply vaccines. To date, two companies have pledged to provide 600 million doses over the next ten years – a commitment facilitated by the donors’ guarantee to purchase. The AgResults programme, agreed at the 2010 Toronto G10 meeting and managed by the World Bank, similarly provides donor ‘pull mechanisms’ to encourage private sector research and development to increase crop yields, reduce post-harvest losses, improve livestock management and enhance nutrition. ‘Prizes’ will be paid by donors on the basis of milestones and objectives being met by private companies.
- Another model used is the social venture capital fund, established by donor organisations to support new start-up companies with equity investment and loans in an attempt to draw in commercial investment later when the business concept has been proved. Within the Beira Agricultural Growth Corridor Initiative in Mozambique, the Catalytic Fund has been set up to invest in new agri-businesses which benefit smallholders and local communities.

4.8 Co-funding shared value.

Sometimes donors provide co-funding directly to businesses in order to help expand or mainstream activities which have been identified as having positive development outcomes. This mechanism is used to scale-up, rather than pilot, innovations. The IDH (Sustainable Trade Initiative) Cocoa Productivity and Quality Programme, for example, “aims to mainstream innovations on effective farmer support and improved production to catalyse large-scale positive impact within the sector.” It provides 50% co-funding to some of the largest cocoa traders in the world to provide farmer training on good agricultural practice, support certification, strengthen farmer organisations and establish agricultural financing mechanisms. The rationale is that sustainable production provides benefits to farmers, in terms of improved yields and quality and stable market opportunities, as well as to traders in terms of sustainable supply. Donors therefore justify providing financial support for the creation of ‘shared value’.

In addition to the ‘leverage’ and ‘expertise’ categories of partnership within the USAID Global Development Alliance programme, a ‘market model’ has also been identified in which USAID supports a company to develop commercially

viable business models which have identified social impact. An example given is the Procter and Gamble Children's Safe Drinking Water Initiative in which USAID supported a programme to include the PUR water purification technology – developed by Procter and Gamble - into emergency preparedness programmes in three Latin American countries.

In other examples, the 'shared value' may be created through a company's policies to support employees, or programmes to protect its brand or fulfil its sense of corporate social responsibility, rather than through its core business activities. For example, AusAID has supported the Papua New Guinea Business Coalition on AIDS (BAHA), co-funded by private companies operating in Papua New Guinea, to promote better workplace policies on AIDS and establish referral and treatment services for private sector workers. Companies derive benefits from a better informed and healthier workforce which is also a positive social outcome that can be identified as 'shared value'.

4.9 Funding private sector research and development

Donor funding of private sector research into 'pro-poor' products and services is a particular form of funding 'shared value' which merits separate categorisation as it may lead to creation of public goods of wider social benefit. Types of research and development vary widely, ranging from product development partnerships in medical research through to donor support for financial product design and piloting by financial institutions. Donors, for example, have been involved in supporting research into the development of financial products that address catastrophic natural disaster risk like index based insurance, weather derivatives or catastrophe bonds. Donor support covers the often high research costs associated with product design: analysing weather data, historical loss data, regional risk profiles, demand surveys etc. Products are then introduced to a range of private sector insurance companies or other financial institutions interested in offering products on the market.

In the case of product development partnerships (PDPs) in the health field, donors have created and co-funded hybrid institutions, such as the International AIDS Vaccine Initiative, the Medicines for Malaria Venture and the TB Alliance, to manage the research and development of vaccines, drugs and other technologies for diseases which predominantly affect poor, developing countries. Private sector funding for research into such technologies was previously constrained by low rates of return. PDPs utilise private sector management know-how and mobilise private sector resources to co-fund the research which is also carried out primarily within the pharmaceutical industry. The PDP organisation usually retains intellectual property rights over products developed or may require partners to offer products at preferential prices in developing country markets.

4.10 Contracting private sector entities to provide services

Traditionally, this has been the most common form of donor engagement with business. Many donors tender projects for implementation by private sector contractors which specialise in project management in the development field. And many projects involving investment in infrastructure rely heavily on direct contracting of construction companies to carry out this work. AusAID directly contracted companies to construct and supervise construction of the My Thuan Bridge across the Tien branch of the Mekong River between 1997 and 2000 and is now funding the construction of the Cao Lanh bridge over the Hau branch of the Mekong – this time indirectly through the ADB Central Mekong Delta Regional Connectivity Project. Other examples of such arrangements include the AusAID engagement with the Oil Search Health Foundation to establish a reproductive health training unit in Papua New Guinea which will train health workers in obstetric care and family planning. This relationship enables the donor to leverage the management capacity and their in country logistical systems to provide services more efficiently.

5 Approaches

In reality, many donor programmes combine a number of these different modalities in order to achieve their objectives. For example, IDH aims to build information exchange and networking platforms within specific agricultural commodity sectors but then goes on to use these platforms to establish funding agreements with platform members to scale up sustainable cultivation techniques by producers. A number of different approaches have also been developed which combine a variety of engagement modalities to meet different objectives. Some of these approaches have become well known and important development concepts and it is important to distinguish the relationship between these approaches and the modalities of business engagement outlined above.

Private sector development. Private sector development (PSD) is an approach to poverty reduction which emphasises the importance of economic growth and the private sector's role as the main engine of economic growth: providing jobs and income generating opportunities and generating tax revenues for government. Private sector development may include business engagement activities but encompasses a wider range of interventions. In particular, it involves interventions to create a positive business enabling environment, in terms of government policy and regulation, and therefore involves significant donor engagement with government policy makers and regulators. Usually, and in the case of AusAID's private sector development strategy, PSD also involves direct engagement with business: 'interventions targeted at specific firms or industries in fragile and conflict affected states and in areas of entrenched poverty'.

Making markets work for the poor (M4P). DFID defined this concept in 2005 as an approach 'which aims to accelerate pro-poor growth by improving outcomes that matter to the poor in their roles as entrepreneurs, employees or consumers of markets. M4P focuses on changing the structure and characteristics of markets to increase participation by the poor on terms that are of benefit to them'. M4P programmes may therefore include some forms of business engagement but they focus more on interventions that impact on market operations more systematically. M4P programmes involve analysis of government regulation, the operation of factors markets (land, labour, capital) and government services which affect how markets impact on poor people. Rather than constituting a distinct type of business engagement itself, M4P usually combines a variety of these interventions - particularly sharing investment risk to stimulate innovation and the provision of technical assistance to businesses.

Value chain development. Value chain development is an approach which aims to increase the incomes of participants in a particular sector by improving the operations of a whole network of companies and other players which form essential parts of the market. It is focused more on the efficient operation of the market in a particular sector than on outcomes experienced specifically by poor people. Value chain programmes will analyse the impact of external factors such as regulation, government policy and market conditions that effect the sector as a whole. The value chain approach tends to have a much narrower focus on a particular economic sector than M4P, sometimes, for example, working on quite niche agricultural products. Value chain projects typically involve a great deal of business engagement – with a particular emphasis, as the name suggests, on interventions that link businesses to create opportunities, through sharing information, building trust and creating new market linkages.

Inclusive business. 'Inclusive business' – and indeed 'shared value' – are concepts commonly referred to by donors. 'Inclusive business' refers to a sustainable business model which benefits low income communities, either as employees, suppliers, consumers or as part of the distribution channel. In contrast to M4P and value chain development, however, 'inclusive business' refers to what companies can do – with or without support from donors, NGOs or governments – rather than a type of donor engagement with business. Donors may seek to promote 'inclusive business' models and may use a variety of mechanisms to try to do that – through advocacy, publicity, information sharing or co-funding.

Local economic development – Development corridor approach – Cluster approach to economic development. Local economic development (LED) is an approach which seeks to promote economic capacity and improve living standards in a particular area. It involves collaboration between local government, business and civil society organisations. The distinctive feature of this approach is that it is area, rather than sector, based – though it may include support to particular sectoral clusters – and that it emphasises the lead role of government agencies. Within the LED approach, donors often employ business engagement strategies, particularly dialogue with companies on improving the business environment, support for small and medium enterprises and business incubators etc.

The development corridor approach is a similar, area-based, approach which seeks to co-ordinate public and private investment in a mutually reinforcing way. For example, the Beira Agricultural Growth Corridor initiative in Mozambique aims to bring 190,000 hectares of land into commercial irrigated agricultural production, including smallholder production through co-ordinating private and public sector investment. Donor business engagement mechanisms used include a social venture capital fund for agribusiness (Catalytic Fund) and a matching grant programme (Smallholder Facility).

The cluster approach is another area based strategy to promote economic development aimed specifically at promoting the economic benefits which occur when inter-connected businesses agglomerate in one location. Such benefits can include: efficiency increases due to greater competition; quicker flows of information, sharing of technology and adoption of innovation; easier linkage and access to relevant public goods such as vocational training, research and development facilities, certification etc. Donors have used a variety of tools to try and encourage the development of business clustering – often involving support for business linkage – e.g. business associations to promote joint sales, marketing or production – or through support for joint research and development or vocational training.

6 Conclusions

- Business engagement is a tool through which donors can better achieve their existing objectives, rather than a separate objective or programme in its own right. The aim of donor business engagement is to help people overcome poverty. It should not therefore be seen as an activity which is in competition or tension with other donor activities.
- Engagement with business does not necessarily focus on donors funding the activities of private sector entities. Engagement can be two directional, with donors mobilising finance, know-how and technology from the private sector to achieve its aims. Donors may actually play more of a facilitating role as brokers of knowledge and relationships – using their good offices as much as their aid budgets to partner with business to address development problems.
- Distinctions are often drawn between company's core business activities and their corporate social responsibility activities. In business, this distinction is becoming less prominent with companies themselves valuing brand and corporate reputation as a key business asset and risk management device, and also increasingly recognising the inherent social impact of their business operations. Mirroring this trend, when donors engage with business, differentiating between company's 'core' and 'philanthropic' activities may also be increasingly redundant. Many of the modalities described above may be used by donors to engage with companies 'core' activities or with those activities which contribute to business results more indirectly.
- The various modalities of business engagement form part of a variety of different development approaches – private sector development, M4P, value chain development, the development corridor approach - with which they are often closely associated but with which they are not synonymous. While such approaches may often be useful, it is quite possible to engage with business for specific purposes without adopting these conceptual frameworks – as in the USAID Global Development Alliance programme. Alternatively, these approaches may provide useful frameworks to explain the rationale for business engagement and how it fits into wider donor objectives.



ODI is the UK's leading independent think tank on international development and humanitarian issues.

Our mission is to inspire and inform policy and practice which lead to the reduction of poverty, the alleviation of suffering and the achievement of sustainable livelihoods.

We do this by locking together high-quality applied research, practical policy advice and policy-focused dissemination and debate.

We work with partners in the public and private sectors, in both developing and developed countries.

Readers are encouraged to reproduce material from ODI Reports for their own publications, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI.

© Overseas Development Institute 2013. This work is licensed under a Creative Commons Attribution-Non-commercial Licence (CC BY-NC 3.0).

ISSN: 2052-7209

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399