

## The Private Sector's Role in Development

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InterAction welcomes this fifth and final roundtable meeting between its members and U.S. government representatives to discuss key issues that will be dealt with at the Fourth High Level Forum (HLF) in Busan. This paper presents InterAction's recommendations on the role of the private sector in development.

We affirm the BetterAid definition of the private sector with one addition: "The private sector should be defined as the whole group of for-profit economic actors, including international and transnational business, domestic enterprises, small and medium enterprises and, in many areas relevant for development, the micro enterprises. Trade unions represent workers in private sector companies, and in that sense, are part of the private sector. A related sector is the social economy, made up of entities such as co-operatives which have often made a crucial contribution to development. Given that broad scope of the private sector, the impact and potential for development is extremely diverse and so is the role aid can play in this respect".<sup>i</sup>

To this definition, we add organizations active in private development assistance (PDA) including non-governmental organizations, foundations, universities, faith-based organizations, local civil society organizations and other private groups in development. Annual aid flows these organizations raise, almost entirely from private citizens in industrialized countries, and growing numbers in developing countries, surpass Official Development Assistance (ODA) provided by several bilateral donors combined. Private philanthropic aid from 14 industrialized countries amounted to \$49 billion in 2008.<sup>ii</sup> For example, U.S. NGOs alone raise approximately \$18 billion annually, conservatively estimated.<sup>iii</sup> These actors should be central to any discussion of the role of the private sector in development.

InterAction acknowledges the important role of the private sector in sustained economic development, and recognizes the linkage between overall economic well-being and human development indicators. The U.S. and other donor countries should continue to partner with small, medium and large local and national business communities and multinational corporations that also play important roles in developing countries. We welcome the U.S. government's support and advocacy for a business-enabling environment in developing countries.

As the U.S. and other donor countries consider how to expand and enhance public and private sector cooperation for development at HLF4, we put forward the following recommendations.

**At Busan, all private sector actors and public-private partnerships should be held accountable to appropriate standards.**

We acknowledge the effort of the U. S. government and other donors to call for principles to govern the work of the corporations in development, as noted in the joint

statement prepared for Busan. These proposed principles need to be strengthened in order to increase the likelihood of achieving real benefits for the poor and marginalized through private sector work in developing countries.<sup>iv</sup> We also urge the U.S. government and other donors to think critically about engagement with all private sector actors, ensuring that companies are held to standards including respect for workers, good governance, anti-corruption measures, environmental stewardship, and respectful engagement of communities where companies do business. Many businesses have already signed the UN Global Compact and the ILO Tripartite Declaration on Multinational Enterprises and Social Policy.

Private sector corporations and CSOs have worked together in setting standards for the extractive / mineral sectors, and increasingly such partnerships play a role in standard setting for the global water, food / agriculture, and environmental sectors. CSOs, especially faith-based organizations, have often focused on shareholder resolution efforts to engage with individual companies as well as broader industry-wide standards and accountability initiatives that a number of corporations are beginning to embrace and promote. For example, Interfaith Center for Corporate Responsibility members are working closely with Kraft (a Feed the Future partner), which is advancing not only considerable internal corporate social responsibility changes, but is also becoming a leader in promoting such changes with other corporations.

Public-private partnerships related to efforts against trafficking and forced labor have been particularly useful in changing business practices, creating industry champions, and have resulted in generating additional donor funds and employment creation. Examples in which both U.S. government and U.S. NGOs have promoted change include:

- a. NGOs engaged the tourism industry to combat trafficking for child sex tourism and pornography, persuading hotels, airlines, tourism associations, even taxi companies involved to train their staff, educate the public, support improved legislation and, in some cases, to create employment for at-risk (of trafficking) youth in the tourism industry;
- b. U.S. government and NGOs have engaged companies to change practices by internet and credit card companies in order to create firewalls against child pornography on the internet. These

companies and/or their foundations have funded projects to provide employment training and placement – such as the Microsoft Foundation in high risk areas in Asia.

Finally, CSOs are particularly concerned with free prior and informed consent (FPIC) of local, indigenous or marginalized communities in regard to resource extraction. This is supported by the Busan themes we promote of inclusive ownership, participation and an enabling environment in relation to aid instruments and especially aid and investment relating to extractives and other land use, including agriculture, in light of the current expanding practice of land grabbing.

**The U.S. government should support and encourage the role of civil society organizations in public-private partnerships. In particular, U.S. NGOs are often well positioned – and have a proven track record – to catalyze, manage and ensure greater effectiveness of private sector corporations in development assistance.**

In developing recommendations for Busan, both the U.S. government and the Working Party on Aid Effectiveness have overlooked the track record of NGOs partnering with profit-making corporations and other sources of private development assistance (local civil society organizations, foundations and small and medium entrepreneurs). These partnerships have leveraged mostly multinational private capital with targeted ODA investments in emerging markets in developing countries. This oversight contradicts U.S. government practice through its former Global Development Alliance (GDA) that spearheaded this approach since 2001. In development contexts, international NGOs often have the greatest local knowledge, established networks, and other assets that enable meaningful partnerships among donor agencies, corporations and those in the developing economy.

Beyond Busan, we advise that further considerations of the role of the private sector in development, and effective public-private partnerships, be rooted in a more comprehensive dialogue among governments and all private actors – centered on the notion of ODA leveraging private development assistance and vice versa. U.S. NGOs increasingly work closely with the private sector, with InterAction members now partnering with over 800 corporations. Most of these relationships do not include the U.S. government. A tripartite

approach that brings together ODA with both corporations and NGOs is a model that should be expanded.

**Evaluate and prioritize public-private partnerships based on the extent to which they are likely to produce development outcomes and reduce poverty through employment, capacity-building, and positive ripple effects for local small businesses, not simply according to the partner's implementation capacity or the potential return for the partner.**

Because the engagement of the private sector in this case is specifically intended to support economic *development*, (as opposed to establishing new bilateral trade arrangements, for example), guidelines are needed for both donors and private sector partners that frame investments as more than new business opportunities. Such guidelines should frame the role of the private sector so that the added value of its involvement lies in the degree to which the investment generates broad and shared economic benefits as well as other outcomes such as health and financial service provision across a wide range of local grassroots stakeholders. Under such guidelines, U.S. and other donors' development assistance programs aimed specifically at the private sector would prioritize business opportunities that offer the greatest development results.

For example, the former GDA model allowed private sector partners to co-design development investments that offered a potentially lucrative reason to engage in the partnership. It is not yet clear what the newly formed USAID Global Partnerships will propose as models. While the opportunity for a return on investment is a key engine of development that is essential to harness, the development-oriented purpose of public-private partnerships in ODA means such partnerships should be evaluated by and held accountable to the degree to which they succeed in achieving development results for local host communities. This includes the degree to which public-private partnerships in ODA "do no harm" to local economies by impacting local competitiveness, which can be a major driver of instability, especially in conflict-affected and fragile states.

This is one reason why it is essential to include local civil society (CSOs that are best attuned to and protective of the needs and interests of those who are most affected by poverty) in the vision, design, and

implementation of public-private partnerships in development assistance.

The new USAID Global Partnerships (GP) should leverage the private development assistance of U.S. NGOs. These private funds could be included in the design of programs with GP projects, building on existing privately funded U.S. NGO projects. Including a corporation in the mix, to increase the leveraging with government, non-profit and corporate funding, is a model that should be expanded.

**Engage in co-planning with the full range of actors required for effective public-private partnerships in order to reach the "bottom billion" and advance equitable economic growth in developing countries. CSOs are critical actors in these partnerships, bringing the poorest of the poor to the table as partners and potential entrepreneurs.**

The next development challenge is to ensure that the bottom billion are reached and served. Excluded from both development and market access, the poorest represent enormous untapped potential.<sup>v</sup> Focusing private sector engagement on the poorest is necessary to address head on the challenge of achieving economic growth with equity.

When companies are looking at new markets for the poorest, the financial risks are magnified. They see greater difficulty in distribution and supply chains, and the market's small nature makes these efforts costly. This is an obvious opportunity for businesses to team up with CSOs and donors, which can help mitigate the financial risk. CSOs that target the bottom billion must be enabled to become part of this co-planning process, and not simply relegated to the role of project implementer. Donor agencies often have neither the flexibility nor skill to bring marginalized rural poor to the table as partners – and the private sector is often unaware of their potential as entrepreneurs. Heifer International's East Africa Dairy Development Consortium is an example of this process. Initially this consortium was started with Gates Foundation support – turning subsistence dairy farmers into agricultural producers that are now attracting Nestle and other investors.<sup>vi</sup> Bringing suppliers themselves into the consortium's planning not only strengthens community networks, thus strengthening social equity, but also creates new linkages between producers and private agro-dealer networks and retailers.

**Advocate for development plans and regulatory frameworks that target the informal sector. Removing barriers and providing non-punitive incentives to move people from the informal to the formal economy must be a priority where the informal sector is a significant part of a country's economy.**

When the informal economy makes up over half of a country's economy, any discussion of effective engagement with the private sector is remiss if it does not include the informal sector. In shaping the outcomes of HLF4, the U.S. government should ensure that leaders in both donor and developing countries are planning with the informal sector in mind. Removing barriers and providing non-punitive incentives for moving the productive poor from the informal economy into the formal economy is a crucial part of sustainable, equitable economic development. Private sector partners of official donors in development must embrace this agenda alongside host governments and others.

In conclusion, the U.S. government and other donors should engage major corporations and other private sector actors not only for the financial resources they can provide but also for the innovation and creativity that can promote greater development effectiveness. This engagement should be carried out according to appropriate standards and with rigorous attention to accountability for results.

<sup>i</sup> BetterAid. 2011. *Private Sector and Development*.

<sup>ii</sup> The \$49 billion amount represents a lower bound, since it counts "identified flows" only. It is also important to note that local NGOs and CSOs are beginning to raise sums from individual donors in developing countries and that many local NGOs receive significant amounts of in-kinds assistance from citizens in developing countries.

Kharas, Homi, Koji Makino, and Woojin Jung. 2011. "Private Development Assistance: The Importance of International NGOs and Foundations in a New Aid Architecture". *Catalyzing Development: A new vision for aid*. The Brookings Institution

<sup>iii</sup> Hudson Institute. 2010. *Index of Global Philanthropy and Remittances: 2010*. Center for Global Prosperity. Santa Barbara, Calif.

<sup>iv</sup> Working Party on Aid Effectiveness, Informal Group on the Private Sector. *Expanding and Enhancing Public and Private Sector Co-operation for Development*. A Joint Statement for Endorsement by Representatives from the Public and Private Sector at HLF-4. Revised draft. 2011, October 12.

BetterAid is calling for stronger principles for private sector engagement in development.

<sup>v</sup> Prahalad, C.K. 2005. *The Fortune at the Bottom of the Pyramid: eradicating poverty through profits*. Prentice Hall

Hammond, Allen L., William J. Kramer, Robert S. Katz, Julia T. Tran, and Courtland Walker. 2007. *The Next Four Billion: Market Size and Business Strategy and the Base of the Pyramid*. World Resources Institute and International Financial Corporation

<sup>vi</sup> Heifer International. East Africa Dairy Development. <http://eadairy.wordpress.com/> (Accessed 16 November 2011)