

Private Sector Participation and Support of International Development Objectives

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Abstract

Discussions on private sector engagements to support international development has long been a challenging topic of discussion amongst international development actors, in part due to a lack of understanding on how private resources can be leveraged to support development objectives. Today, the methodologies and approaches to private investments show better linkages to market value chains and better meet the goals and objectives of all stakeholders. Though private sector efforts may vary in scope and reach, those private investments considered to be most successful share a common characteristic - a genuine understanding of community stakeholders' needs and goals, and a thorough understanding of the business's profit opportunities through the partnership. Sustainable economic growth and vitality require shared value partnerships to provide a value chain linkage at the intersection of community need, business profitability and market demand. As private sector participation is considered within a developing or emerging market, the coordination of investments and activities to create sustainable processes is central to economic growth. Organized approaches to meet the challenges faced by the development community increase the likelihood of success, and limit the risk of implementing unsustainable programs.

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JEL Classification: I25, O11, O19, E24

1. Introduction

For decades, discussions on private sector engagements to support international development had been considered an unapproachable topic amongst international development actors. Much of the taboo surrounding the topic of seeking private sector participation was due to a lack of understanding on how private resources (e.g. monetary funds, field experts, professional mentorships) can be leveraged to support development objectives, or rather, objectives through development. The topics in this review essay will consider the various methodologies, approaches to private investment, linking approaches to market value chains and finally, projecting returns on private investments in helping to meet stakeholder goals.

2. Literature Review

2.1 Framework of Private Sector Investments

The Busan Partnership for Effective Development Co-operation (Busan Partnership) (2011) provided the international development community with the principles, framework and the priorities that drive today's global development efforts. The Busan Partnership also validated the private sectors' key position in expanding economic opportunities in developing countries (Strickland, 2014). Currently, official development assistance (ODA) provides under 20% of the development resources flowing into developing countries, while the private sector contributions account for two-thirds of the non-ODA resources flowing into these same countries (Michel, 2014; Strickland, 2014). USAID (2010), The World Bank (2011) and other international development organizations, such as Creative Associates International (2014), have conducted analytical research on the impacts private sector investments' have on development efforts. In the 2015 Gates Annual Letter, the Bill and Melinda Gates Foundation highlighted how the resources available to private enterprises and individuals, when properly organized and implemented, can improve the health, educational and economic opportunities of those less fortunate and improve their lives (Gates & Gates, 2015). It is critical to understand the factors influencing the private sector's involvement within developing countries, and further, to understand the drivers of their investments into particular sectors (i.e., health, education, business). These indicators and evaluation criteria can then be applied when considering future private sector partnerships within the development community.

Though private sector efforts may vary in scope and reach, those private investments considered to be most successful share a common characteristic: Private investors genuinely understand the community stakeholders' needs and goals, while those beneficiaries' have a thorough understanding of the business's profit

opportunities through the partnership. In 1992, Nobel Laureate Gary Becker shared, “these (economic) opportunities are largely determined by the private and collective actions of individuals and organizations.” The Partnering Initiative (2011) later defined these mutually benefiting relationships as “shared value partnerships.” Today, the private sector utilizes various shared value approaches, models and frameworks, in providing development programming that is benefiting to investors and beneficiaries. Many large private and shareholder-owned business enterprises, including Nestlé and GE, have also become active members in various capacity building organizations, such as the UN Global Compact and the Global Business Initiative on Human Rights, even shaping their core business strategies to align business and community objectives (Nestlé, 2013). Microsoft and other corporations have established independent foundations, the largest being Bill and Melinda Gates Foundation, or networks such as Global Citizen, to increase philanthropic involvement in underdeveloped and underrepresented communities and nations (Gates & Gates, 2015). In recognizing that private investors stand to profit as a business as a result of their philanthropic or socially-responsible contributions, stakeholders need to also recognize the social, political and economic opportunities stemming as a direct result of capitalizing on private sector investments (Akukwe, 2014; Farquharson, Torres de Mästle & Yescombe, with Encinas, 2011; Nestlé, 2013; Strickland, 2014).

2.2. Approaches in Private Sector Partnerships

The Busan Partnership (2011), USAID Forward (2013), The World Bank (2011) and others recognize that the private sector will continue to be key component and resource provider in future development efforts globally (Farquharson et al., 2011; Michel, 2014; Strickland, 2014). As trends in international development have adapted from lessons learned, development organizations, governments and private sector investors are now able to recognize the importance of implementing development programs within the correct context, with local ownership or support through “community buy-in”, while also not becoming a government substitute in providing services for the populace (Akukwe, 2014; Michel, 2014). U.S. Ambassador James Michel’s cited Nobel Laureate Elinor Ostrom in his contribution to the Trends in Global Development series (2014) when he discussed the significance of local ownership in economic development. Michel (2014) further described that collaborative partnerships, between the private sector, government and communities, utilizing relevant monitoring and evaluation tools that have been validated to match the local context, establishes the trust necessary for successful partnerships (Michel, 2014; Strickland, 2014). Within private sector corporations and organizations, there is an understanding that sustainable market growth results from creating value chains linkages amongst stakeholders which requires community participation and support. Nestlé, as part of its Creating Shared Value Approach, regularly engages stakeholders at the community level. This ensures community needs are understood and followed-up with programs implemented to fulfil those needs, thereby supporting community development and expanding market access for their business (Nestlé, 2013). The thorough contextual understanding of the operating environment creates sustainable growth opportunities in developing countries. Organized approaches in meeting the challenges faced by the development community also increases the likelihood of success and limits the risks of implementing programs outside of beneficiaries’ capabilities and capacities (Gates & Gates, 2015; Michel, 2014). Key to creating sustainable value chains, also requires shared value partnerships to align private sector’ resources with beneficiary’ needs within a given market and sector (Akukwe, 2014; Farquharson et al., 2011; Gates & Gates, 2015; Nestlé, 2013; Strickland, 2014). Today, private sector engagement in developing countries by companies, such as Coca-Cola and Pfizer, are finding the most optimal outcomes through shared value approaches (Hills, Russell, Borgonovi, Doty & Iyer, 2012).

2.3. Linking Shared Value Approaches with Market Value Chains

Sustainable economic growth and vitality require shared value partnerships to provide a value chain linkage at the intersection of community need, business profitability and market demand. Not discussed in this paper thus far is the influence of multilateral government donors on private sector participation and investment. Within a developing market, participation by the private sector is driven by business strategy, influenced by the profitability of market capitalization, and the ability to gain competitive advantages in the market (Hills et al., 2012). Dissimilarly, investments in development by government organizations, such as USAID, are driven by national security policies, political agendas, and as a strategic resource to advance security and manage threats (Joint Strategic Plan for Department of State and United States Agency for International Development [Joint Strategic Plan], 2014-2017). Though the development objectives of government organizations are not always overlapping with the business goals of private organizations, there remain benefits of private sector and local stakeholder partnerships as a result of their abilities to maximize shared value outcomes on select sector value chains (Hills et al., 2012; Strickland, 2014).

During an interview to better understand the factors considered when determining private sector engagement within a developing market, Jay Ireland, President and CEO of GE Africa expressed, “the biggest

potential is when both sides (private sector and bilateral agencies) leverage each other” in delivering accountable and sustainable processes that can be localized, and offer a return on investment (ROI) that will warrant private investment (personal communication, January 19, 2015). Driving factors of private sector involvement include market potential, potential of localized talent to integrate into select value chains, and the ability of the select value chain to function as part of the larger market (Farquharson et al., 2011; Hills et al., 2012). The market’s ability to deliver a positive ROI, and rule of law within the geographical space of the market (to provide security of the investment), are components to determining market potential. Determining the shared value benefits between the private sector and potential beneficiaries becomes critical when assessing the local talent pools’ ability to integrate into the value chain and meet the needs of the market (Hills et al., 2012). Focusing investments into the creation of sustainable processes is central to economic growth. Within a market, programs are implemented to better health, improve education, build laborer skills, etc., but equally importantly, they are implemented to develop sustainable processes within a value chain that can be turned over to beneficiaries. Further, processes developed with shared value approaches ensures localized community ownership by recognizing increased opportunities within the value chain for beneficiaries and builds a larger footprint within the market for the private investor that together impact economic growth (Akukwe, 2014; Hills et al., 2012; Michel, 2014).

2.4. Projecting Returns from (Private Sector) Investments

Private sector contributions not only provide positive economic impacts to beneficiaries while expanding their business opportunities, but they also have impacts on social issues (Hills et al., 2012). The Trends in Global Development paper, *Survey of Trends in Private Sector Partnerships for International Development and Modalities for Engagement*, a study by Global Impact (2013) was referenced to highlight that 86% of companies plan investments in international development over the next year, with many impacting social issues (Strickland, 2014). Private contributions however, vary by sector. 2013 USAID and DEVEX data showed private investments in health and economic growth sectors accounted for 54% of investments, while the education sector received 6% of investments, a majority of those being in-kind contributions (Akukwe, 2014; Strickland, 2014). The disparity of private sector investments between the health/economic growth sectors and the education sector can partially be identified looking at a few factors. Investments in education can at times present unclear shared value objectives for investors and beneficiaries (Akukwe, 2014). Dr. Akukwe (2014) referenced the Partnering Initiative and USAID works as she discussed how undefined impacts and effects to stakeholder needs, coupled with questions on measurable returns on investments by private sector investors, can attribute to a dissolution of the public-private partnership. The Global Business Coalition for Education, Brookings Institution and Accenture (2013) found that private sector investments and partnerships in education provide not only better educational opportunities, but also drive the workforce opportunities of stakeholders. Using India data for reference, they estimated educational returns on investment yielded \$53USD for every \$1USD invested, while Educate a Child (2013) attributed lack of primary education to stalled economic growth (Akukwe, 2014). While research shows the education sector becoming more reliant on the private sectors’ in-kind contributions and professional/educational exchanges to build beneficiary capacity, others, such as the health sector are already benefiting greatly from non-monetary contributions (Strickland, 2014).

Nestlé’s primary commitment in global development programs places emphasis on improving the health, nutrition and lifestyles of children under 12, with the certainty it will lead to a healthier and more educated workforce in beneficiaries’ later adult years (Nestlé, 2013). A UNICEF release from 2014 found that the philanthropic contributions of pharmaceutical companies in 2013 provided over 800 million people worldwide with free medicines, and that these continuing contributions will help lower the death rate of children under age five from one in 20 to one in 40 by 2030 (Gates & Gates, 2015). It is clear that large private enterprises see the intrinsic value in their health sector investments indirectly impacting the education sector. In *Linking Growth and Governance for Inclusive Development and Effective International Cooperation*, Ambassador Michel’s writes, that the impairment of a child’s abilities to attain the necessary tools and education, due to poor health and nutrition, negatively impacts their human capital and future economic opportunities (Michel, 2014). Linkages can also be found between investments in the education and the economic growth sectors. The Gates Foundation’s educational investments in India and Africa are focused on providing greater access to online education and technology courses that will close the literacy gap between males and females, therefore opening new opportunities to women within the market. The World Bank (2014) estimates that the equaling of employment levels in those two countries may raise the Gross Domestic Product (GDP) 12% over the next 15 years (Gates & Gates, 2015). Nestlé’s education and training initiatives have impacted over 733,000 women (Bulcke, 2014) in developing communities throughout the world in their efforts to promote gender equality and expand market access (Nestlé, 2013).

3. Looking Ahead and Conclusion

In the developing world, inclusive economic growth, in which all members of society share in the benefits of growth, can be transformative by reducing poverty, expanding opportunity, and reducing gender inequality (Joint Strategic Plan, 2014-2017).

In terms of resources, the development community must have a thorough understanding of what the private sector brings to support global development efforts. In developing countries today, private sector companies find the most optimal outcomes by utilizing shared value approaches, models and frameworks in providing development programs that benefit both investors and beneficiaries. Initiatives developed with a shared value approach, ensure “community buy-in,” increase opportunities to participate by beneficiaries in the (developing) economic market and support building larger, more sustainable market value chains attractive to other investors that together, can positively impact economic growth. As private sector participation is considered within a developing or emerging market, the coordination of investments and activities to create sustainable processes is central to economic growth. Organized approaches to meet the challenges faced by the development community not only increase the likelihood of success, but limit the risks of implementing programs outside of beneficiaries’ capabilities and capacities.

As mentioned earlier, programs implemented through U.S. government organizations, such as USAID and the Department of State, are driven by the National Security Strategy (NSS). The NSS makes clear that in order to advance security, the underlying political and economic deficits fostering instability and undermining government abilities to manage threats and be partners in addressing challenges must be addressed (U.S. National Security Strategy, 2010). National security strategies, along with international development agendas and educational outcomes are designed to mitigate and prevent the socio-economic challenges faced by millions of families who continue to live with poverty and marginalization because of conflict or violence, government corruption or ineffectiveness, and displacement and have marked the beginning of the 21st century (Bolton & Hernandez, 2016).

2015 projections estimate that 50% of “Fragile States” populations live on/under \$1.25USD a day, which data suggest, significantly increases the likelihood of violence, poor health, low educational attainment, and armed conflict as a result of extreme poverty (Bolton & Hernandez, 2016; Hernandez & Wright, 2015). USAID’s mission is to create partnerships in order to end extreme poverty and promote resilient, democratic societies while advancing security and prosperity. Likewise, the Bill and Melinda Gates Foundation seeks global scale change through partnerships in health, farming, banking, and education. The organization makes a plea for “global citizens” to associate and invest in new tools to prevent and treat deadly diseases, refined techniques to help farmers grow more food, updated technologies to assist poor communities in creating financial security, and modernized and reorganized methods to assist teachers in propelling academics in the classroom.

The missions of organizations like USAID and the Gates Foundation are examples of partnership endeavors bringing together a trifecta of capital and resources, knowledge and experience, and vision and compassion in order to improve the quality of life in the developing world, thus creating inclusive economic growth, in which all members of society share in the benefits of growth. Research has shown that these strategies are proven to be transformative by reducing poverty, expanding opportunity, and reducing inequalities. Former USAID Administrator Rajiv Shah stated as part of the Joint Strategic Plan 2014-17 message, “Growing private capital flows and thriving entrepreneurship serve as engines of growth and opportunity.” However, in order for programs to be successful, governments and businesses must strive for transparency, healthy relationships, inclusive of mutual respect. Governments need to be proactive in implementing a policy development environment that facilitates cooperation and advancement of sustainability endeavors and encourages business stakeholders to envision their need for involvement and global benefits gained through partnerships. Moving forward, further research should be conducted on the benefits of synchronizing private industry and governmental/non-governmental objectives. Research should continue to show that private sector participation continues to be an effective and viable solution in international development and in meeting the goals of all participants.

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