Public-private sector development policy — what about big business?

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Bill Gates' recent presentation to the G20 was an important opportunity for government leaders to engage with some new ideas about where the efforts of the private and public sectors might coalesce for the global good (see this blog post for a full account of the report and its G20 take-up). This seems timely for AusAID, as it continues to grapple with how its development efforts can better engage with the private sector. And it's a theme which is set to predominate at the High Level Forum on Aid Effectiveness in Busan, where a special "building block" will focus on the private sector's contribution to development.

Despite his enthusiasm for partnership between the public and private sectors, you really have to dig into Gates' report to find innovation for donors, particularly if you are looking for ideas about how to engage corporations. This is perhaps because Gates was directing his remarks largely at G20 governments rather than their development assistance agencies, as well as the private sector. But one senses a lost opportunity to engage world leaders on how to move multinational and other corporations toward a business model that is developmental. The implication is that donors will need to do more work to convince the private sector how and why it should partner with them.

It's important to note at the outset that Gates is a big fan of publicly-funded aid, or overseas development assistance (ODA). Gates argues that more, and better spent, ODA is needed. He points to the innovation that ODA enables, for example by funding pilot projects that poor communities can't, and the research on which innovation is reliant. If all donors reached 0.7 % of GNI as an ODA target, as many European countries have, it would generate an additional $170 billion in funding for development. He sees real-time analysis, and evaluation, as among the keys to greater aid effectiveness.

In essence he urges the G20 and other donors to meet their ODA pledges to spend more, and to spend more effectively. Gates largely eschews the debate that more aid can actually worsen development outcomes, and his focus on innovation for development impact to some extent answers this dilemma. More funding for innovative development is his key message – and you can understand why, noting the scale and achievements of the Bill and Melinda Gates and other philanthropic foundations.

But what is the private and public sector partnership that Gates is encouraging, and what is the role of donors in it?

In his G20 presentation Gates sets out ways that ODA-private sector partnerships can help increase the capture of developing country private sector-driven resources and encourage the creation of businessfriendly investment environments. For example, Gates considers a range of potential taxes (which governments would need to implement) and public sector incentives to raise more funding from successful financial instruments in the private sector, to increase the flow of funding for essential services to the poor. He describes public sector reform efforts that better collect and direct private sector revenue for critical services among examples of innovative donor-funded work.

But what I'm really looking for from Gates' report (and actually, the G20) is an engagement with the some of the big issues that the corporate and public sectors face. Among these is the crisis of legitimacy that has resulted in part from an inadequate consideration of developmental and other social and ecological imperatives on the part of government and big business. I'm also looking for some ideas about how the more enlightened players in these sectors might pull together for improved developmental outcomes.

Gates does cover a range of corporate social responsibility approaches in his report (though he doesn't call them by name), for example, small business initiatives that are having a social impact and providing a rate of return on investment, including in schools and health clinics. But Gates doesn't address CSR efforts aimed at increasing the developmental potential of multinational companies, some of which famously have bigger budgets than many of the countries they operate in.

This CSR approach, as Harvard's Michael Porter and Mark Kramer explain it, sees companies working with communities to address social problems in ways that benefit both the company and society. As an example:

> "By tackling the AIDS pandemic in Africa, a mining company such as Anglo American would improve the continent's standard of living *and* the productivity of the African labor force it needs to succeed" (Source: Redefining CSR).

Porter and Kramer further argue that business engagement with the creation of social value will actually spur economic growth globally.

This understanding is needed regionally: Australian environmental and corporations laws have not succeeded in curbing the excesses of some Australian-based extractives operating in fragile political and ecological spaces, with often disastrous consequences for local communities and their habitats. Engaging early with corporations seems essential, both as a preventative and developmental strategy.

Recent Australian PhD research in Latin America by Maria Beamond nominates three main challenges to the effectiveness of oil, gas and mining company CSR efforts there:

1. ineffective government development plans for remote communities, and therefore a reliance on multi-national corporations for community development;
2. a corporate focus on public relations, aimed at improving reputation only, and which doesn't focus on community needs; and
3. lack of engagement with local governments on improving the long-term sustainability of CSR initiatives.

You don't have to look very hard to see the niches for donor engagement here.

The potential for improved development through engagement with CSR is unlikely to be news to AusAID — its own recent background research [pdf] by Bruce Jenks for the Independent Review of Aid Effectiveness suggested there are opportunities in CSR for strengthening engagement between the aid community and the private sector. But neither the Review — nor AusAID's response — ran with it. At this point, one begins to wonder who is going to take forward a potentially game-changing private-public sector CSR agenda — if not to win back some legitimacy for business and government, then at least to better engage the region's poor in the wealth-creation processes going on around them.

As Jenks points out, most western donors are making some effort to reach out to business.

Among its other private sector engagement initiatives, for example, DFID has established a Business Innovation Facility to help companies link their core business to development priorities, match finance for initiatives that scale up local development, and measure the impact of local partnership efforts. Australian natural resource companies could no doubt use similar encouragement — Jenks estimates their current and prospective investment in Africa (where development needs are, as we know, acute) at about AUD$20 billion.

To be fair, AusAID is doing some good work to engage directly with business. Examples include the Enterprise Challenge Fund (which supports small businesses in developing countries), and, of particular relevance to this discussion, AusAID's strong support for the Extractive Industries Transparency Initiative (which requires participating extractives and governments to be transparent about payments they make to each other). AusAID is also contributing significant funds to the multi-donor Rural Primary Health Services Delivery Project in PNG, which includes engagement with the private sector to improve the supply and distribution of medical supplies for rural health services.

But as noted earlier, there is significant scope for a much greater donor engagement in the CSR agenda.

To this end, you'd be hoping to see an AusAID private sector engagement policy that includes some outreach and assistance to corporate players. It would have a sizeable budget attached, and commission, consider and consult on a range of good practice research (some already available) identifying where donors can add value to, or shape, private sector development efforts. AusAID may then begin to convince big business how and why it should partner with it.

Gates' focus on harnessing more money for innovative development from the private sector is important and necessary. But to date, it elides the enormous potential of multinationals, in partnership with donors, to work developmentally in poor communities.

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