Who’s invited to the wedding in private sector engagement?

Private sector engagement. In development, it’s buzzer than a wasp in a jam factory. For the ever growing number of ‘systems thinkers’, of which I am one, it is indubitable that the private sector must be considered in addressing development problems. But who or what is the private sector? Well, it’s many things, in many places, of many sizes, but it’s important to know the differences between these private sectors and how they can influence development. It’s useful to think of it as the function it performs and the impact it can have in alleviating development challenges rather than the badge on its shirt, and a lot of recent development work seems to have this confused.

Many of the programmes of NGOs and donor agencies, and the corporate social responsibility initiatives that they partner with, view the groom in the private sector engagement affair as private sector enterprises or corporations in their home countries. (I’m casting donors in the role of bride due to the tradition of the bride’s side footing the bill). They come with highly developed products with global demand, significant financial backing, and often with a corporate incentive to portray an interest in developing countries. There’s also the potential for accessing huge markets and gaining first mover advantage at a lower risk. For donors, there is an appreciation of the potential gains in sustainability of private sector involvement, but their interest is more mixed. Undoubtedly, image is a factor – they want an attractive spouse to show off to their friends (or voters). Aid is often a hard sell to the public, particularly in times of austerity, but a Coca-Cola or GE logo alongside a financial contribution is a good story. Development programmes have more money at their disposal now than at any time in history and so this is not principally a fundraising enterprise. This apparently calculated display of public relations is, contrary to expectations, fairly well documented.

But what’s in it for poor people in developing countries? Well, sometimes, quite a lot, particularly with regard to access to improved technology. If poor farmers can acquire drought resistant, affordable seed varieties – while leaving the local ecosystem and choice in cropping patterns unharmed - then the impact on their quality of life can be significant. They benefit from the huge amounts of time and money invested in the development of such products by these multinationals. But, crucially, this isn’t necessarily the case. There is no inherent value in the presence of or buy-in from internationally successful businesses.

Systemic approaches to development are analysis-led, not ideologically driven. Private, public, civil society – it’s about function not form. As such, systemic analysis looks at who’s involved in a system and why it’s not working better. Take Monsanto maize to Mekele, but Tigray won’t be Tuscany, and nor should it be. Systemic approaches don’t find a plug and look for a hole to put it in. They don’t introduce external actors from other systems and then look for a role they could play. Nor do they look for a function and look for where it might be deployed or adapted. It is demand (what’s needed) and not supply (what’s available) led, and this is where much of what is included under the term private sector engagement parts company with a systemic approach to development.

The worst of private sector engagement can have pernicious effects on poor people. Nestle’s 40 year history of aggressive marketing of breast milk substitutes to poor people, taking advantage of the ‘fortune at the bottom of the pyramid’, has had disastrous impacts on children’s health and nutrition. During this time it has continued to receive financial and non-financial support from donors to engage in developing countries. Less extreme examples include huge investments from aid agencies to pay down risk for multinationals such as SAB Miller, Unilever and Monsanto, aimed at including poor people in global value chains. As well as financial support, donors will lobby for tax breaks in return for the investment from multinationals. In terms of the impact of these partnerships, in USAID’s New Alliance Programme just 65 of the 227 companies involved had reported against some poverty indicators – it’s about the splash not the ripple. It is possible that
some of these investments will be positive for poor people, and indeed many have been. However, the way in which these investments were arrived at was not based on an assessment of constraints and the best way to sustainably address them. These grooms are not averse to divorce. Donor supported ‘leg-ups’ for corporate engagement in developing countries can, in some cases, lead to more severe unemployment due to the capital being footloose, or create monopolies through unfair competition.

This courting of corporate celebrities is symptomatic of a simplistic approach to development. A change, for example encouraging farmers to switch to maize production for beer, may be beneficial for smallholders, having accounted for tax losses (and resultant public spending), biodiversity losses, input and market price fluctuations, and vulnerability from specialisation. However, the question must be asked to what degree the change could have been achieved in a way that is more closely embedded in a local system, or indeed whether this change would have happened anyway, without external support? Could local or regional produce aggregators have facilitated a switch in production and integration into high value markets with support from financial providers? Why do the three companies given here as examples, between them valued at over $100Bn, require donor funding to source from these markets if their long-term incentives are aligned with doing so?

Samsung is a multinational valued at almost $200Bn and employing almost half a million people, founded at a time when South Korea was considered a developing country. The company started by engaging in various forms of agro-processing before eventually beginning to manufacture technology products for the market, and by the 1980s, it had begun to export these products to a world market. Similar stories are repeated with Cemex, Tenaris, CP Group, and Orsacom amongst a host of others. Contentiously, the same could be said of the textile giants of Bangladesh who’ve created an internationally competitive offer and export to the world, creating huge local employment and revenue raising opportunities. Conversely, cases where integration into a global value chain of firms in developing countries through the direct investment of developed country multinationals are rare. Technology transfer through developing country subsidiaries has not led to internationally competitive spin-offs. There is a strong possibility of this donor support to corporations resulting in destructive destruction.

This is not a manifesto to get multinationals out of development. Multinational FDI has created jobs and raised incomes, but the embeddedness of these increases and the opportunities for endogenous growth created by this FDI are more questionable. In considering the many advantages of the private sector as an agent of development, we must be demand and not supply driven. The chief advantages of private sector engagement where incentives align with improving conditions for poor people – long-term incentives for growth and innovation – are reflected more closely at a local level and so it is with this element of the private sector that analysis must begin. If the capacity for change – through lack of information, finance, coordination etc. - does not exist to perform a function which will lead to long-term benefits, then the analysis must continue to find out where it does. This may be through an innovation of a firm with certain core capacities. It may be through the geographical expansion of a firm performing the function in other regions. It does not have to mean that we seek industry leaders to come in and subsidise their market entry to perform that function.

The private sector is heterogeneous, from the smallest farmer trading surplus crops with a neighbour to the multinational corporation with a presence in every country. In engaging with the private sector we must consider this array and select the partners with the greatest potential to deliver long-term change at scale. In this marriage, donor brides must select the right grooms in order to live happily ever after.