

The Private Sector & Development

Scan of Activities & Research

For the attention of:

Private Sector Development Task Force
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Executive Summary

Sustainable and equitable economic growth is central to poverty reduction and this economic growth is best achieved through the private sector. Never before has the consensus been greater about the potential private sector contribution to poverty alleviation and sustainable development.

In this context the IDRC's Private Sector Development Task Force has been struck to chart a course for future IDRC research and programming in this field. This report is designed to assist in that process.

Private sector organizations are becoming increasingly engaged with development issues, development NGOs are increasingly adopting entrepreneurial market-based approaches, bilateral and multilateral agencies are developing private sector strategies and governments are increasingly looking to private sector creativity and efficiency to address socio-economic challenges. As a result, many novel ventures, partnership arrangements and innovative programs are emerging from the interface between the private sector and development.

This report follows the OECD definition of the private sector as a *basic organizing principle* for structuring productive activity, with the important elements being *private ownership, markets, competition, private initiative* and *risk-taking*. These elements can be at work in the millions of microenterprises around the world and in major foreign investments.

The report's introduction provides a number of frameworks and a model for thinking about various aspects of the private sector in development. The "Private Sector Development" framework is primarily focused on the business enabling environment in developing countries. The "Private Sector Contribution to Development" framework considers the various ways that the private sector (usually large and medium sized companies) contributes to development. With increasing emphasis on unleashing entrepreneurship and the role of developing country entrepreneurs, the "Sustainable Local Enterprise Network" framework is also introduced. An integrating 2x2 model is presented that contextualizes the frameworks with respect to each other.

The remainder of the report is comprised of a scan and literature review of a variety of private sector and development activities and publications organized by several sectors and areas of focus. These include entrepreneurs, NGOs, public opinion surveys, governments, multinational corporations, multilaterals, bilaterals, the UN system, international financial institutions, Bottom of the Pyramid initiatives and foundations, among others.

With every opportunity, the scan highlights innovative approaches and new models of entrepreneurship, private sector development, novel partnership arrangements and approaches to maximize the potential private sector contribution to development.

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1.0 PREFACE

1.1 Objectives

This scan is being prepared to assist the IDRC's Private Sector Development Task Force in considering strategic options. It is designed to provide an accessible survey of major frameworks, activities and research in this area and assist the Task Force in identifying niche areas where IDRC could add value to this emerging and dynamic field.

1.2 IRIS

The research is being undertaken by the York Institute for Research and Innovation in Sustainability (IRIS), a new interdisciplinary university-wide research institute at York University that focuses on multi-sectoral collaborative research on issues of sustainability locally and globally. IRIS builds on the expertise and experience of the Erivan K. Haub Program in Business and Sustainability at the Schulich School of Business, the Faculty of Environmental Studies, and the sustainability-related research in all other science and social science faculties at York.

1.3 Structure and Approach

This scan begins with an introductory overview outlining some major frameworks and models that define the principal dimensions of this area of development intervention. More detailed information on important activities, key concepts and related information and publications is organized into subsequent sections. This structure aims to provide a broad overview of activities and an exploration from a variety of perspectives. Wherever possible, preference is given to the most innovative, interesting and high-leverage initiatives in this field.

The document has been designed to be used in both hard-copy and electronic formats. The electronic version contains numerous links to documents, reports, and organizational web sites with further information on each section.

This scan was designed with the understanding that the Task Force would, in an iterative way, narrow its focus through a number of steps and meetings. This current scan and accompanying presentation on October 25th is designed to provide an overview that will assist the first meeting of the Task Force to begin the process of narrowing its focus.

1.4 Methodology

A panel of eight IRIS researchers and expert advisors was convened to prepare this report. Together, they draw on considerable experience in the various sectors being analyzed, including the UN, World Bank, development NGOs, progressive multinational companies, government agencies, leading academic institutes and foundations. For each of the sections, an initial foundation of information was established from the knowledge of the research team and secondary sources. Telephone interviews were conducted with selected organizational representatives and other experts where further information was required and time permitted. As this report was compiled in a short time frame (four weeks), expert interviews were not as extensive as they otherwise might have been.

1.5 List of Acronyms

BOP	Bottom (or Base) of the Pyramid
CSO	Civil Society Organization
FDI	Foreign Direct Investment
IBLF	International Business Leaders Forum
IDRC	International Development Research Centre
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PSD	Private Sector Development
SLEN	Sustainable Local Enterprise Network
UN	United Nations

2.0 INTRODUCTION: THE PRIVATE SECTOR AND DEVELOPMENT

For most of the second half of the last century, international development policy was driven by two world views. On one hand, the development community, led by the United Nations, pursued a path toward global equity and social justice. On the other, the Bretton Woods institutions pursued pro-market, private sector oriented approaches to development.

Although there has been a long history of misunderstanding between these two approaches, a period of rapprochement began in the mid-1990s with each approach beginning to discover value in the other.

The launch of the UN Global Compact by Secretary General Kofi Annan in 2000 and the World Summit on Sustainable Development in 2002 marked significant milestones for recognizing the important role that the private sector can play in contributing to sustainable development and achieving the Millennium Development Goals.

The 2004 Report of the UN Commission on the Private Sector and Development, *Unleashing Entrepreneurship*, emphasized the essential role that developing country entrepreneurs play in growing dynamic, sustainable and competitive economies that create sustainable livelihoods, put people to work and raise standards of living. The report also called for new and more creative models of engagement from a number of partners to accomplish these goals.

2.1 Private Sector and Development Consensus

In the late 1990s, a consensus began to emerge among bilateral and multilateral development agencies around the role of the private sector in development.¹ This consensus recognized that economic growth is essential for poverty reduction and that economic growth is best reached through the private sector and open competitive markets. The ability of the private sector to create economic growth that leads to increased income for the poor is, according to the World Bank, “one of the reasons we can even consider international development targets such as halving poverty by 2015.”² The text of the Millennium Development Goals themselves also recognizes that “economies need to grow to provide jobs and more incomes for poor people.”

Yet this emerging consensus was not without its critics and challenges. Private sector development efforts and market reforms by some countries (e.g. many in Latin America and the former Soviet Union) have yet to show significant positive results. In some cases, privatization efforts have been abused by vested interests and powerful elites. Some blame open markets for not lifting more poor people out of poverty or for making them more vulnerable. Others blame globalization, open markets and increased economic growth for continued global environmental degradation.

Joseph Stiglitz, former Chief Economist and Senior Vice President of the World Bank, declared that “Globalization today is not working for many of the world’s poor. It is not working for much of the environment. It is not working for the stability of the global economy.”³ And with this assessment, Stiglitz also proposes a solution: “What we need is a policy for sustainable, equitable and democratic growth.” As with any multi-dimensional challenge in a complex system, poverty

¹ Schulpen, Lau & Gibbon, Peter (2001). *Private Sector Development - Policies, Practices and Problems*. Copenhagen: Centre for Development Research, p. 16.

² Klein, Michael and Hadjimichael, Bitu. (2003). *The Private Sector in Development*. Washington: World Bank, page 6.

³ Stiglitz, Joseph. (2002). *Globalization and its Discontents*. New York: W.W. Norton & Company.

alleviation and sustainable development cannot be achieved by a narrow focus on private sector development that is disconnected from its broader social and environmental context. It is the innovative activities and research of the early adopters of this vision of sustainable growth, stakeholder-inclusive private sector approaches and pro-poor business development that this report aims to capture.

2.2 A Way Forward

In *The Private Sector and Development*, Klein and Hadjimichael of the World Bank summarize some of the tensions and opportunities surrounding the role of the private sector in development: *“The key to a sound private sector that contributes to development is tapping entrepreneurial spirit through the profit motive while embedding that spirit in disciplines that can harness private initiative for socially useful purposes.”*⁴

This sentiment was captured by UN Secretary General Kofi Annan in 2000 when he urged the private sector and all institutions of society: *“Let us chose to unite the power of markets with the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations. Let us ensure that prosperity reaches the poor. Let us choose an enlightened way forward towards our ultimate, shared goal: a global marketplace that is open to all and benefits all.”*⁵ This is the motivation behind the UN Global Compact, social enterprises launched by NGOs and entrepreneurs, ‘Bottom of the Pyramid’ initiatives by large companies, the work of sustainable development industry associations and many other initiatives profiled in the follow pages that are being undertaken by organizations in many sectors.

2.3 History and Context

Over the last 15 years, some major shifts have taken place that have lead to a deepening role for the private sector, entrepreneurs and market-based approaches in developing countries. These shifts are underpinned by deeply rooted changes in the global economy and associated shifts in governance processes which are leading governments, the private sector and civil society to redefine their roles and responsibilities.⁶ These shifts include:

- The collapse of the Soviet Union signalled the failure of centrally-planned approaches to economic development (as well as their failure to protect the natural environment). There is now a general consensus that some form of market economy is the most desirable for both economic development and poverty alleviation.
- Market liberalization in both trade and investment has formed a central part of national and international policy making by governments around the world. Within the past 15 years, more than three billion people have moved to economies operating on market principles.⁷
- Political and economic reforms in the last two decades (in both industrialized and developing countries) have resulted in a massive transfer of assets to private ownership (both domestic and foreign). After the wave of nationalizations in the 1960s and 1970s, privatization

⁴ Klein, Michael and Hadjimichael, Bitu. (2003). *The Private Sector in Development*. Washington: World Bank, page 4.

⁵ Annan, Kofi. (2000). *In A Decade of Difference*. London: International Business Leaders Forum.

⁶ For further elaboration see World Bank. (2002). *Putting Partnering to Work*. Washington: World Bank, and Nelson, Jane. (1996). *Business as Partners in Development*. London: IBLF.

⁷ Prahalad, C.K. and Hart, S.L. (2002). “The Fortune at the Bottom of the Pyramid,” *Strategy + Business Magazine*, issue 26.

experiments have more recently been undertaken by almost every government in the world with more than 100,000 state-owned enterprises privatized in the last twenty years (see *Section 14.5*).⁸

- Foreign Direct Investment (FDI) quadrupled to a record US\$241 billion in 2000, outweighing the approximate US\$50 billion of annual Official Development Assistance (ODA) investments by approximately five to one (see *Section 14.3*).
- Bilateral aid agencies and entrepreneurial civil society organizations are increasingly experimenting with market-driven solutions to development challenges (see *Section 13.0* and *Section 4.0*).
- Developing country governments are articulating a prominent role for private sector development in their Poverty Reduction Strategy Papers (*Section 14.1*).
- Private sector companies (from multinational companies to large and medium sized domestic firms) are increasingly engaged with sustainable development and poverty alleviation through individual initiatives and member organizations, such as the World Business Council for Sustainable Development, the Global Compact, the International Business Leaders Forum and others (see *Sections 7.0, 8.0, & 9.0*).
- The success of the global microfinance revolution has highlighted the untapped entrepreneurial potential of the poor that can be unleashed with innovative approaches and new models of “bottom-up” economic empowerment (*Section 3.0*).

All actors in society concerned with sustainable development and poverty alleviation are recognizing the complex and interdependent linkages between issues of human development, private sector development, economic growth, social equity and environmental protection. Governments, bilateral development agencies, leading companies and NGOs are also increasingly realizing the importance of entrepreneurs, open markets and engaging large companies to achieving global development objectives.

The World Summit on Sustainable Development in Johannesburg recognized the need for multi-sector collaboration between governments, civil society organizations, the private sector and local communities as one of the most promising means to achieve sustainable development and poverty alleviation. The necessity of a collaborative approach to development is also reflected in the eighth goal of the Millennium Development Goals, which calls for building a global partnership for development with the private sector. This sentiment was echoed in *Unleashing Entrepreneurship*, in which the report authors emphasize that “*the savings, investment and innovation that lead to development are undertaken largely by private individuals, corporations and communities.*”

Although engaging and supporting the private sector is critical to reducing poverty, it remains clear that this is only part of a complex, holistic task. Poverty has many social and political dimensions in addition to economic ones. The World Bank’s *Voices of the Poor* surveys emphasize the many dimensions of poverty in addition to income poverty including: material deprivation, troubled gender relations, discriminating social relations, lack of security, ineffective institutions and lack of information, education and health.⁹ However, there is now a greater consensus than at any time in the past that sustainable private sector development remains a powerful tool to improve the lives of the poor.

⁸ WBCSD. (2002). *Sustainable Livelihoods: The Business Connection*. Geneva: World Business Council for Sustainable Development, p. 2.

⁹ Narayan D. et al. (2000). *Voices of the Poor: Crying Out for Change*. New York: Published for the World Bank by Oxford University Press.

2.4 Definition of the Private Sector

In the discourse around the private sector and development, the concept of the private sector has often been loosely defined and has meant different things to different people at different times. For some, discourse on the private sector and development represents a belief in market-based solutions to most socio-economic problems. Others associate the discussion of the role of the private sector in development with privatization of formerly state-owned assets and infrastructure. The term ‘Private Sector Development’ is often associated with supporting the growth of small and medium sized enterprises. In instances when the term ‘The Role of the Private Sector in Development’ is used, there is often an assumption that the private sector is composed of large multinational companies based in the developed world.

In order to help clarify the discourse around the private sector and development, the OECD Development Assistance Committee produced a definition to assist the activities of their member countries. The OECD defines the private sector as “*a basic organizing principle for economic activity where private ownership is important, markets and competition drive production, and private initiative and risk-taking motivate economic activity.*”¹⁰ This definition is broad enough to encompass many of the various meanings mentioned above.

It is interesting to note, however, that the OECD definition focuses on the private sector as a *basic organizing principle*. This indicates that the ‘private sector’ is not confined to companies and enterprises, but can be considered as a way of organizing and structuring productive activities in society.¹¹ The important elements for this principle to work are therefore, *private ownership, markets, competition, private initiative and risk-taking*. These elements can be equally at work in a one-woman microenterprise, a major foreign investment, a medium sized national firm, a cooperative, an NGO social enterprise or some combination of these with other government or civil society partners.

2.5 Major Frameworks

We will now provide further clarification of the many facets of the private sector and development discourse, by describing the two dominant frameworks which we describe as: ‘Private Sector Development’ and the ‘Private Sector Contribution to Development.’ After an overview of these two dominant frameworks, a model is presented that contextualizes them and opens up the possibility of a new space to ‘unleash entrepreneurship’ consistent with an asset-based, bottom-up approach led by developing country entrepreneurs themselves. First we will begin with the Private Sector Development framework.

2.5.1 Private Sector Development

The ‘Private Sector Development’ (PSD) framework most commonly referred to by bilateral and multilateral development agencies and developing country governments relates to the enabling environment for business. This PSD framework can be broken down into elements at the national and international levels as well as elements at the micro and meso levels, as illustrated in *Figure 1*.

Private sector enabling environment elements at the international level include issues such as trade rules, debt cancellation and access to international markets and investment. This level is sometimes referred to as the international enabling environment and is concerned with integrating

¹⁰ OECD. (1994). *DAC Orientations for Development Cooperation in Support of Private Sector Development*. Paris: OECD Development Assistance Committee. p. 4.

¹¹ For a further discussion see Schulpen, Lau & Gibbon, Peter (2001). *Private Sector Development- Policies, Practices and Problems*. Copenhagen: Centre for Development Research.

developing countries into the world marketplace. The national or macro level enabling environment includes issues such as macroeconomic policies, physical infrastructure, human capital development and good governance. The meso or institutional level includes institutional infrastructure such as research and development centres, financial institutions, educational institutes, labour unions and chambers of commerce. These institutional elements often have the possibility of facilitating dialogue between the major actors in society such as government, the private sector, civil society, labour unions, etc.

In addition to the distinctions based on level of scale as described above, this Private Sector Development framework also distinguishes between elements that are primarily the responsibility of government, and those that relate directly to firms and enterprises themselves. Generally, international and macro-level elements relate to governments (or can relate to the outcomes of international negotiations). The meso level consists of institutions that bridge government and private sector organizations (and involves civil society organizations and other partners), and the micro level is related directly to the private sector.

Figure 1: Private Sector Development (Enabling Environment)

Level	International	Macro	Meso	Micro
	Countries	State	Institutional	Companies
Elements	<ul style="list-style-type: none"> ▪ Free and rule-governed international trade ▪ Access to international markets ▪ Debt reduction ▪ Aid, donor policies and coordination 	<p><i>Macroeconomic policies</i></p> <ul style="list-style-type: none"> ▪ Trade policy ▪ Privatization ▪ Exchange rate and monetary policies ▪ Efficient financial markets ▪ Inflation reduction ▪ Balance of payments regulation <p><i>Formalization of the Economy</i></p> <ul style="list-style-type: none"> ▪ Reforming business regulations and laws <p><i>Physical infrastructure and human capital</i></p> <ul style="list-style-type: none"> ▪ Education and skill training ▪ Health ▪ Roads, railways, harbours, electricity, telecommunications <p><i>Good governance</i></p> <ul style="list-style-type: none"> ▪ Fight against corruption ▪ Transparency ▪ Legal system and rule of law 	<p><i>Institutional infrastructure</i></p> <ul style="list-style-type: none"> ▪ Chambers of commerce ▪ Labour unions ▪ Financial institutions: accessible & sustainable ▪ Training institutions ▪ Sustainable development and CSR initiatives ▪ Entrepreneur & investor networks 	<ul style="list-style-type: none"> ▪ Access to financing ▪ Human capital/ entrepreneurship skills ▪ Access to technology and expertise ▪ Access to markets and information

Adapted from Schulpen, Lau & Gibbon, Peter (2001). Private Sector Development - Policies, Practices and Problems. Copenhagen: Centre for Development Research.

This PSD enabling environment framework is broad and encompasses a wide range of elements at various levels. Governments and multilateral and bilateral development agencies have, for many years, faced the challenge of prioritizing which interventions and levels to focus on to improve the private sector enabling environment. Important recent development in this area include the World Bank's *Doing Business* series of reports and the work of C.K. Prahalad on his concept of Transaction Governance Capacity, profiled in *Section 6.0*.

2.5.2 Private Sector Contribution to Development

The second dominant framework and set of assumptions relating to the discourse on the private sector and development is based on the contributions private sector firms make to development. Traditionally this framework has been focused on the role and contribution of large multinational corporations to development, although a number of the contributions (employment, investment, etc.) may relate equally or more strongly to SMEs and microenterprises.

According to models developed by Jane Nelson and her colleagues at the International Business Leaders Forum (IBLF), the potential corporate contribution to development in developing countries can be organized into three main categories: contributions arising from core business activities; the contribution from companies engaging in policy dialogue and institution building; and the benefits of social investment and philanthropy.¹²

According to the IBLF framework, the primary corporate contribution to development is related to a company's core business activities. This includes a company's potential to create jobs, generate tax revenue, increase employee skills, support supplier firms and the local economy, share best practices, transfer technologies and contribute to basic infrastructure development. Large companies also have the potential to work with the government to support institutions and government policies that fight corruption, encourage transparency, support a vibrant civil society and create an enabling environment for private sector development, especially for local entrepreneurs and SMEs. The IBLF framework also recognizes that companies can contribute to development through philanthropic donations to host communities or countries.

In addition to these three categories identified by the PWBLF framework, the more recent discourse and experimentation with Bottom of the Pyramid¹³ initiatives by large companies introduces a fourth category of potential private sector contribution – that of innovation and facilitating openness to new ideas. This contribution refers to the potential for companies to create innovative new business models and novel partnership arrangements to deliver products and services to meet the basic needs of the poor in environmentally sustainable ways. This combined framework for the corporate contribution to development is illustrated below in *Figure 2*.

Different companies will, of course, be able to make different contributions depending on many factors including their organizational cultures, capabilities and their industry sectors. It is recognized that the productive and value creating activities of companies have both positive and negative impacts on the environment, the poor and the wider society. Companies with long-term outlooks and organizational cultures engaged with sustainable development and poverty alleviation agendas seek to continually maximize the social, economic and environmental value they create while minimizing any negative impacts. A further discussion of the response of different organizational cultures to the challenges of sustainability is given in the section on multinational corporations. These companies will tend to more actively explore all of the types of contributions described in *Figure 2*.

¹² Early work on this framework was done by Jane Nelson in *Business as Partners for Development* (1996) and *Building Competitiveness and Communities* (1998); both publications were collaborations between the World Bank and the PWBLF. The current framework was adapted from the PWBLF's insert in the *Financial Times* in June 1999 entitled "Responsible Business: A Financial Times Guide."

¹³ See *Section 7* for further information on base of the pyramid initiatives.

Figure 2: Private Sector Contribution to Development

<p>Core Business Activities</p>	<p>Consistent with profitable performance and investing in new business:</p> <p><i>Generating investment and income</i></p> <ul style="list-style-type: none"> ▪ Taxes, wages, business partners, communities <p><i>Creating Jobs</i></p> <ul style="list-style-type: none"> ▪ Direct and indirect jobs <p><i>Developing Human Capital</i></p> <ul style="list-style-type: none"> ▪ Human skill development ▪ Building human capital along the value chain and in local communities <p><i>Providing appropriate and valuable products and services</i></p> <ul style="list-style-type: none"> ▪ From a full life cycle perspective <p><i>Building Local Business Ecosystems</i></p> <ul style="list-style-type: none"> ▪ SME supply chain development and building networks of suppliers and business partners <p><i>Sharing international standards and business practices</i></p> <ul style="list-style-type: none"> ▪ Health, safety and environmental standards; workers rights and human rights standards; quality standards; world class management practices <p><i>Supporting Technology Development and Transfer</i></p> <ul style="list-style-type: none"> ▪ Research and development; adoption of efficient and environmentally friendly technologies and pro-poor business models <p><i>Establishing Physical and Institutional Infrastructure</i></p> <ul style="list-style-type: none"> ▪ Roads, water and sanitation, energy, telecommunications; and legal and financial systems standards
<p>Innovation</p>	<ul style="list-style-type: none"> ▪ Openness to new ideas ▪ Innovative business models fostering local entrepreneurship ▪ Adapting products and services to Bottom of the Pyramid (BOP) markets ▪ Novel organizational forms and capabilities for cross-sector partnership
<p>Policy Dialogue and Institution Building</p>	<p>Engaging with government and civil society organizations in:</p> <ul style="list-style-type: none"> ▪ Creating an enabling environment for private enterprise and investment ▪ Promoting good business practices ▪ Supporting good governance, i.e. helping improve efficiency and accountability of public administration ▪ Fighting corruption ▪ Supporting an active and open civil society ▪ Contributing to economic, social and environmental policies and institutions for the good of the host country as a whole ▪ Ensuring that the voice of the private sector includes SMEs & microenterprise
<p>Social Investment and Philanthropy</p>	<p>With a high leverage approach by giving:</p> <ul style="list-style-type: none"> ▪ Money ▪ In-kind support ▪ Mentoring, volunteer time, training local entrepreneurs ▪ Help for longer-term community capacity building ▪ Emergency and Disaster Relief (helping in natural and man-made disasters, such as earthquakes, famine, war)

Adapted from The International Business Leaders Forum, (1999). *Responsible Business A Financial Times Guide*, Financial Times Supplement, June 1999.

Private sector contributions to development will also vary with industry sectors. The extractive industries (oil, gas, mining) have different impacts and contributions to developing country economies and communities than retail companies sourcing goods internationally or local SMEs or consumer product companies selling food, beverages, pharmaceuticals and other products to low-income markets.

As we have argued, this “Private Sector Contribution to Development” framework and the preceding “Private Sector Development” framework are the two dominant frameworks discussed in the discourse of the private sector and development. We will now turn to a model that contextualizes these two dominant frameworks and opens up the possibility for further focus on unleashing entrepreneurship in developing countries with more asset-based and bottom-up approaches.

2.6 Unleashing Entrepreneurship with ‘Bottom-up’ Approaches

To contextualize the current private sector and development frameworks discussed above and the emerging unleashing entrepreneurship approach, we introduce the model in *Figure 3*. The model offers a historically grounded way of thinking about the current discourse on the private sector and development.

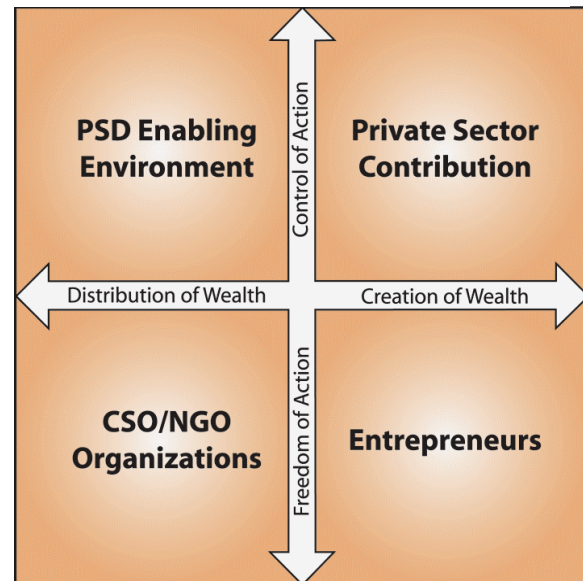
The upper left quadrant is the space primarily occupied by the “Private Sector Development” framework. Activity in this space is focused on normative and regulatory approaches by governments and development agencies to determining the private sector enabling environment. The upper right quadrant is focused on the space occupied by private sector firms and their contribution to development.

The horizontal axis provides a continuum where organizations on the right are more oriented to the creation of wealth (i.e. corporations and entrepreneurs). Organizations on the left (i.e. governments and civil society organizations) are more oriented to the distribution of wealth.

The vertical axis is intended to show a distinction between initiatives, organizations and organizational cultures oriented towards normative and prescriptive approaches (such as control of enabling environments and markets) at the top, and those oriented towards entrepreneurship and bottom-up approaches to development (such as entrepreneurs and entrepreneurial development NGOs) at the bottom.

This 2x2 model is helpful in illustrating that much of the debate around the private sector and development is currently focused on the two upper quadrants. Some of the discourse focused on the two upper quadrants assumes a certain amount of ‘trickle down’ to benefit the poorest that in turn may be only weakly connected to local and global economies.

Figure 3: 2x2 Model of the Discourse on the Private Sector and Development



The bottom half of the model helps identify a space for local entrepreneurs and action-oriented civil society organizations and their partners to collaborate for a more entrepreneurial “bottom-up” approach to development. These approaches place poor and marginalized people closer to the centre of their own self-reliance, economic empowerment and self-determination.

Developing country entrepreneurs are represented in the bottom right quadrant of the model. The bottom left quadrant is a space occupied by entrepreneurial civil society organizations and others that have a primary mission to address poverty and sustainable development issues, but recognize the importance of entrepreneurship and market-based approaches in partnership with corporations, microenterprises, SMEs governments and other actors.

The bottom half of this model may therefore be a promising space for further exploration consistent with the UN’s recent *Unleashing Entrepreneurship* report and previous work by Wheeler and McKague on Sustainable Local Enterprise Networks.¹⁴

2.6.1 Sustainable Local Enterprise Networks

The “Sustainable Local Enterprise Network” framework is the third major framework to be reviewed here. It was developed from case study and theoretical analysis of 40 leading examples of enterprises (primarily developing country entrepreneurs and their partners) that demonstrate innovative market-based ways to alleviate poverty while protecting the natural environment. Ten examples of Sustainable Local Enterprise Networks are summarized in *Section 3.0*.

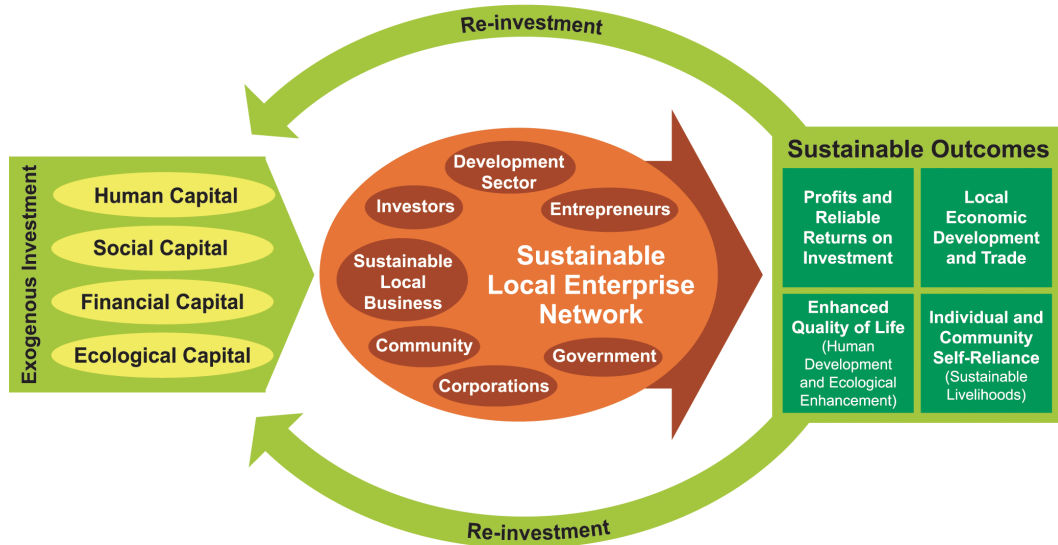
Analysis of these and other examples revealed that, typically, successful ventures involve relatively dense networks of for-profit businesses, communities, not-for-profit organizations and other actors that work synergistically together to create value in social, ecological and economic terms. Often, successful Sustainable Local Enterprise (SLE) Networks require at least one for-profit business to anchor the network and ensure that it is financially sustainable. Businesses with an overt sustainable development mission are frequently an integral part of these Networks and they can be microenterprises, small or medium sized businesses or, in some cases, multinational enterprises. Co-ops or profitable social enterprises spun off from NGOs can also perform the role of generating the economic value that ensures the financial sustainability of the Sustainable Local Enterprise Network.

At the centre of the model, as shown in *Figure 4*, the various types of organizations and collaborating partners in a possible SLE network are represented. The various sustainable outcome categories are depicted on the right of the model. They include profits or reliable returns on investment, local economic development and trade, enhanced quality of life and individual and community self-reliance. Many assets associated with these outcomes are reinvested in the network, creating a self-reinforcing virtuous cycle. These self-generated assets are often further enhanced with additional external exogenous investments in human, social, financial and ecological capital.

In all cases, it was found that robust SLE Networks depend on simultaneous synergistic support for mobilizing four key assets: human capital, social capital, financial capital and ecological (natural) capital. Mobilizing investments and re-investments in these four key assets were observed to create a virtuous cycle leading to the growth and replication of the Network, which in turn lead to sustainable benefits and outcomes for all participants. Typically the four capitals are synergistic and are not traded off. The assets may be primed or nurtured through external investments made by bilateral and multilateral development agencies, financial institutions or large companies, but their ultimate manifestation should be within a self-reliant, self-reinforcing, virtuous cycle of local economic development – the only really effective remedy for poverty.

¹⁴ Wheeler, David and McKague, Kevin. (forthcoming). The Business of Development: Self Reliance through Sustainable Local Enterprise Networks. Manuscript submitted to MIT Sloan Management Review.

Figure 4: Sustainable Local Enterprise Network Framework



One of the most significant aspects of the Sustainable Local Enterprise Network framework is that it is not necessary for all participants in the Network to agree on the primary purpose of the Network. It is also not necessary for supporters of the network (including external commercial and non-commercial investors) to agree on the ultimate purpose of development. Because of this, SLE Networks can transcend, or at least avoid, ideological constraints to co-operation.

2.7 Summary

To summarize, we have explained:

- the history, context and consensus about the private sector and development;
- the Private Sector Development enabling environment framework;
- the Private Sector Contribution to Development framework;
- the 2x2 Model of the discourse around the private sector and development; and we have offered an integrating conceptual framework;
- the Sustainable Local Enterprise Network framework;

the remainder of this scan is dedicated to providing a further foundation of important and innovative initiatives, organizational activities, reports, publications and research on the topic. In some cases the sections that follow elaborate on key elements of the major frameworks already presented. Other sections provide mini case studies or review the activities of the IDRC's core reference group of funders and potential partners.

This scan is intended to provide a broad foundation of information for the first meeting of the IDRC Private Sector Development Task Force. Further focusing on specific areas can allow the scan to be revised and updated to drill down further in these areas.