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Understanding and Enhancing the Role of Business in International Development: A Conceptual Framework and Agenda for Research

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Business and Development Centre

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John Humphrey, Stephen Spratt, Jodie Thorpe and Spencer Henson

Summary

It is now commonplace for development policy makers to refer to the contributions of businesses to the achievement of development goals and the importance of collaborations between businesses and development agencies. Many businesses give greater attention to the development impacts of their activities. There has been relatively little systematic and critical thinking about where and how businesses can contribute most effectively to the achievement of development objectives and, accordingly, how development agents should prioritise and focus their collaborations with businesses. This paper initiates such a systematic and critical approach, starting from the question 'How can development policy work with and on businesses and the business environment so that the private goals of businesses contribute to most effectively to public development objectives?' It identifies three basic categories of business and development initiatives: increasing the overall level of business activity, addressing sustainability challenges and promoting business activities that are particular benefit to the poor. The paper considers three major challenges for maximising the contributions businesses to the achievement of development goals. The first is increasing the alignments between business and objectives and development objectives, and the paper considers both the different ways this can be achieved and when such alignments are overly difficult to achieve. The second is to prioritise interventions. When resources are scarce, it is essential to pursue interventions that have the biggest development impact. This implies choosing interventions with goals and approaches that are most likely to be successful; in so doing, examining issues of feasibility, effectiveness and efficiency. So that scarce resources are focused on the areas of greatest benefit. The third is to achieve scaling up and systemic change. There are many examples of business activities that have positive development impacts but which are being pursued at small-scale and/or in quite specific geographical or sectoral contexts. How can such initiatives be up-scaled, translated and/or replicated in order to enhance impacts on the poor in ways that endure beyond the specific interventions applied?

Keywords: Business and development; markets; inclusiveness; binding constraints; alignments of interest.

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List of Acronyms

BDC	Business and Development Centre at the Institute of Development Studies
CAADP	Comprehensive African Agriculture Development Policy
CDC	Commonwealth Development Corporation
CoST	Construction Sector Transparency Initiative
CSR	Corporate Social Responsibility
DCED	Donor Committee for Enterprise Development
DFI	Development Finance Institutions
DFID	Department for International Development
EITI	Extractive Industries Transparency Initiative
ETI	Ethical Trade Initiative
FAO	Food and Agriculture Organization
FDA	Food and Drug Administration
FSC	Forest Stewardship Council
GRI	Global Reporting Initiative
IDS	Institute of Development Studies
IFC	International Finance Corporation
IFI	International Finance Institution
MNCs	Multinational Companies
MSC	Marine Stewardship Council
M4P	Making Markets Work for the Poor
NGO	Non-Governmental Organisation
PPA	Power Purchase Agreements
PEFC	Programme for the Endorsement of Forest Certification
PIDG	Private Infrastructure Development Group
PRAI	Principles for Responsible Agricultural Investment
PRI	Principles for Responsible Investment
RCT	Randomised Control Trials
RSPO	Roundtable on Sustainable Palm Oil
UNGC	United Nations Global Compact
WBCSD	World Business Council for Sustainable Development

1 Introduction

'Business and development' is now a ubiquitous term within development policy and practice. In recent years leaders from the business and development communities have been stressing the centrality of business to the achievement of development goals, and a broad variety of approaches have been employed to promote business activities and focus them more effectively towards development objectives. These range from improving the business and investment environment aimed at getting 'more' business to specific changes in markets and business models that affect the lives of the poor.

The breadth of this endeavour brings its own problems. There are so many different interventions in the field of business and development that it is hard to say which should be prioritised and which have the greatest effects. Within the realm of possible interventions, what are the areas where business is best placed to contribute to achieving development objectives? How can (greater) impacts be leveraged, where do partnerships between business and development agencies and/or non-governmental organisations (NGOs) represent an opportunity? What are the points at which solutions to development challenges are better provided by non-business actors? To date, there has been relatively little systematic and critical thinking about where and how businesses can contribute most effectively to the achievement of development objectives and, accordingly, how development agents should be prioritising their attempts to work with businesses.

This paper, the first to be produced by the Business and Development Centre (BDC) at the Institute of Development Studies (IDS), addresses one fundamental question: 'How can development policy work with and on businesses and the business environment so that the private goals of businesses contribute most effectively to public development objectives?' In answering this question, the paper starts by arguing that despite the complexity of actors and initiatives in the field of business and development, the aims of these initiatives fall into three basic categories. The first is to increase the **quantity** of business activity. The second is to discourage businesses from undertaking activities which damage social welfare (the 'do no harm' agenda). The third is to encourage businesses to provide more of those activities that produce beneficial social effects, above all for the poorest (the 'do more good' agenda). In all of these cases, interventions by development actors are required because markets frequently do not work well enough to reflect social costs and benefits in the private costs and benefits facing economic agents. The paper then considers the multiple ways in which business behaviour can be influenced by policy initiatives and by collective initiatives by businesses themselves. Having established these basic points, the paper considers three fundamental issues. First, what are the ways that private goals and public interests can be better aligned, and what are the limits to such alignments? Second, given the enormous range of policies and initiatives currently being deployed, how do we identify those that would have the greatest impact, enabling business to make the biggest contributions to particular development objectives? Third, what are the most effective ways of increasing the scale of initiatives and the impact they have for development?

2 Business and the development agenda

Business has become integral to the narrative of development agendas. The 2012 FAO State of Food and Agriculture Report (FAO 2012) mentions 'business(es)' or 'private sector' 100 times. USAID's Feed the Future guide (USAID 2010) mentions the same terms more than 60 times in 42 pages of text, while the 2010 Human Development Report (UNDP 2010) has 35 mentions. Development policy statements now routinely make reference to the importance of private sector involvement. The Department for International Development's (DFID) 2011 private sector strategy document states that: 'Rising incomes and wealth are

driving poverty reduction, and investment in growing businesses is the primary driver of rising incomes and wealth' (Department for International Development 2011: 6). The World Bank has asserted that 'private firms are at the heart of the development process', in effect equating business with economic activity and characterising it as the driver of innovation, growth and prosperity (World Bank 2005: 1).

Development agencies seek to promote business activity and/or work with business to contribute to the achievement of development goals. In other words, they seek to promote private sector activity as a way to attain public good. There are many ways in which this can be done. If growing businesses are indeed the 'primary driver of rising incomes and wealth', (see above) and if, in turn, this leads to poverty reduction, then increasing the amount of business activity through such initiatives as creating a better environment for business, investment promotion and micro-finance could be seen as the primary, or only, focus of business and development activities.

However, development objectives can be drawn more broadly than this. One way of doing this is to define different development challenges. A recent report on private sector development and international finance institutions (IFIs) identified various development challenges:

Different IFIs focus on various development challenges, such as promotion of growth and job creation, poverty reduction, improved health and education and insurance systems, greater food security, climate change mitigation, and transitioning towards well-functioning markets.

(International Finance Corporation 2011: 4)

So, business and development programmes might be concerned with business responses to this broader range of issues. As important, broader conceptions of development are concerned with inclusiveness and sustainability: economic growth may be slow to benefit the most disadvantaged, and growth has to be sustainable if long-term development goals are to be achieved.

From this perspective, there are greater possibilities for private activity and public good to diverge. Business and development initiatives encompass interventions that are designed to influence where business invests and how activities are managed in order to increase the beneficial development effects of any given level of business investment. In other words, the 'quality' of business and economic activity becomes as important as the 'quantity'. Inclusiveness and sustainability can be translated into generating 'good quality' local jobs, promoting businesses in which the poor are engaged through appropriate ('pro-poor') procurement and distribution models, and safeguarding the environment. Interventions use a variety of tools, ranging from support for the development of innovative technologies that meet the needs of the poor to linkage schemes and challenge funds that aim to mobilise the resources of larger companies to the benefit of smaller companies and marginalised groups.

These interventions involve different types of business actors and development partners. On the development side, the agencies involved range from bilateral donors, national governments, regional development banks, international institutions and NGOs (national and international). On the business side, many high-profile initiatives involve multi-national companies (MNCs) and international finance. The scale at which such businesses operate means that their potential for affecting the lives of the poor, both positively and negatively, is substantial. But domestic companies in developing countries, small and medium-sized enterprises (SMEs) and social enterprises also employ many people and enabling these firms to function more effectively has very substantial development impacts.

As the ways and means through which business impacts the poor are examined in greater depth, the challenges associated with making a difference in practice become more complex.¹ In spite of this complexity, the reasons why interventions are necessary boil down to three key objectives:

1. **Generating more business activity:** There may be business opportunities that would provide private returns to business whilst also increasing the public good that are not being realised because of market and/or government failures. In such circumstances, development interventions aim to remove the barriers to the realisation of such opportunities.
2. **Preventing harm:** Some business activities create negative externalities such that the private costs incurred by the business do not reflect the full social costs. Markets fail to match private and social benefits in two circumstances. The first is when the full costs of activities are not reflected in the costs faced by the business. Pollution costs would be an example. The second is when markets are distorted by monopolies or oligopolies, such that businesses can exert power in the procurement of labour, sourcing of goods and services, and marketing to the detriment of workers, poor consumers and other businesses. Development interventions may regulate such activities, seek to reflect social costs in the costs facing businesses and/or compensate losers.
3. **Encouraging pro-poor business activity:** In some circumstances the benefits to private enterprises of particular activities do not reflect the full benefits to society, such that these activities are under-supplied. For example, it may be deemed desirable, on the basis of social impact for businesses, to procure from smallholders or to produce and market products directed at the needs and economic means of the poor. Whilst an increase in such activities would benefit society, lacking the necessary incentives, businesses underinvest. Here, development interventions aim to make investment in such activities more attractive to business.

These three motivations for development interventions are explored further in the remainder of this section.

Box 1: Private firms and development

‘Private firms – from farmers and microentrepreneurs to local manufacturing companies and MNCs – are at the heart of the development process. Driven by the quest for profits, they invest in new ideas and new facilities that strengthen the foundation of economic growth and prosperity. They provide more than 90 percent of jobs, creating opportunities for people to apply their talents and improve their situations. They provide the goods and services needed to sustain life and improve living standards. They are also the main source of tax revenues, contributing to public funding for health, education and other services. Firms are thus central actors in the quest for growth and poverty reduction.’
(World Bank 2005: 1)

2.1. More business

One of the basic objectives of business and development programmes is to promote more business activity. The logic behind this is stated clearly by the World Bank in Box 1. Economic growth is impossible without business growth and economic growth is at the very least a precondition for poverty reduction and broader improvements in livelihoods. Thus, the priority is to generate more business activity by removing obstacles to investment. Once such obstacles are removed and positive policies to encourage the growth of business are

¹ This broader approach to development challenges and industry response is reflected in the work of organisations such as Sedex (<http://www.sedexglobal.com/>), which works with businesses to support the development of responsible and sustainable supply chains.

put in place, then businesses will grow more rapidly and this will lead to economic growth, poverty reduction and improvements in public services through increased taxation.

But what is stopping business from taking up opportunities if they are, in principle, profitable? This comes down to the business environment. Businesses operate in a broader environment that impacts upon their costs, their capacity to invest, the uncertainties they face, and their ability to appropriate the benefits of the investments they make. Government have a big role in shaping this environment, and one diagnosis of the problem is that governments put obstacles in the way of business, as summarised succinctly by the Donor Committee for Enterprise Development (DCED):

...in many developing and transition countries, the business environment is hostile to market-led growth; private enterprises suffer excessive regulatory barriers and in most respects regulatory costs are higher than in developed economies.
(Donor Committee for Enterprise Development 2013)

Another way of putting this is that the role of government should be restricted to reducing costs by providing basic services efficiently, reducing the uncertainties facing business (particularly policy uncertainty) and protecting property rights. Beyond this, government should do as little as possible.²

But, such 'state failures' are not the only reason for investment opportunities to remain unrealised. Analyses of how businesses function within market context have highlighted just how dependent businesses are on their environment. The Making Markets Work for the Poor (M4P) approach characterised market systems as comprising three elements: the core business exchanges, the support functions that are essential to support these exchanges, and the system of rules shaping market behaviour, participation and outcomes (Elliott, Gibson and Hitchins 2008: 112-114). The support functions include infrastructure, information provision, legal services, banking services, labour market institutions, etc. Some of these are provided by governments, others are provided by businesses. The M4P approach also emphasises that markets function within a system of rules that includes laws, standards, codes and informal norms. Here, the state might have a more positive role to play, particularly with respect to issues such as contract law, intellectual property and product standards and labelling. In the absence of such rules, businesses face problems in enforcing contracts or seeking redress, and in protecting their intellectual property against problems such as counterfeiting. Equally, informal rules and codes of conduct are important in establishing trust between businesses and facilitating exchange.

Where markets are poorly developed and these complementary activities and systems of rules are weak or non-existent, the options for business growth tend to be more limited, given they have to work harder simply to survive. Gradl and Jenkins (2011) also emphasise the importance of the business environment, using James Moore's concept of a business ecosystem and quoting his observation that 'Even excellent businesses can be destroyed by the conditions around.'³ Such conditions may partly arise from weaknesses in state regulation and capacity. However they should also be viewed as a consequence of the rapid development of markets in developing countries in the context of pressing social needs and the emergence of a multiplicity of private sector actors, ranging from small firms in the informal sector to large, transnational companies. Many markets are complex and disordered. When developing strategies for such markets, businesses face the problem of 'bounded rationality'.⁴ Their capacity to acquire and process knowledge is limited, and any

² These points are taken from a summary by Moore and Schmitz of what they characterise as the orthodox view on improving the climate in developing countries (Moore and Schmitz 2008: 8-9).

³ Moore (1993) quoted in Gradl and Jenkins (2011: 8).

⁴ 'Bounded rationality' is the term used to denote the idea that information is not free. It takes people and organisations time and resources to acquire and process information. Decision-making almost inevitably takes place in situations of

effort to do so incurs costs. It takes time to acquire information about market opportunities and to develop the firm-level capabilities needed to take advantage of these opportunities. This is particularly true when businesses are exploring markets with new characteristics (for example, in low-income countries). Developing new products, new markets and new business models requires upfront investments, while the returns are not guaranteed.

Economists approach these problems through the lens of ‘market failures’. To remedy these failures, development agencies make interventions designed to spread knowledge about opportunities, facilitate business acquisitions of new capabilities and reduce the costs and/or risks associated with innovation. There are many policy interventions in this area. In health, efforts are put into the development of social and commercial franchises to deliver services and/or drugs to poor clients, developing new ways of linking people to health services (for example, mobile phone apps) and stimulating innovation in areas where the likely benefits are particularly important for the poor. In finance, bilateral and multilateral development finance institutions (DFIs) have promoted instruments and facilities to address different aspects of financial market failure. The Private Infrastructure Development Group (PIDG), for example, has a dedicated facility that identifies feasible projects and does the necessary preparation for these to be ‘investment ready’. Others, such as the Commonwealth Development Corporation (CDC) and International Finance Corporation (IFC), invest in developing country business ventures to prove that these are profitable. In so doing, they provide a demonstration effect of business opportunities that aims to attract private investors (Hausmann and Rodrik 2003).⁵ Other donors have supported innovation in areas such as micro-insurance, mobile and branchless banking and microfinance, funding pilots to test and demonstrate ‘proof of concept’.

2.2. Reducing negative impacts

The second area for intervention concerns situations in which business activities impose social costs that are not fully reflected in the costs facing the business itself. Economists refer to such situations as ‘negative externalities’; activities that maximise the returns to an individual or a business but do not lead to the best outcome in terms of the welfare of society as a whole: private benefits to businesses are offset by public losses. In the context of the environment, for example, water pollution from a manufacturing process can present health hazards to the surrounding population. Similarly, displacing indigenous peoples to facilitate natural resource extraction can contravene their land rights and erode their livelihoods. In both cases, social welfare would be maximised if these negative impacts were reflected in costs faced by the private beneficiaries of such actions.

Negative impacts also arise when imbalances in market power distort markets and inflate returns to monopolistic or oligopolistic firms, whilst reducing the welfare of other businesses, labour and/or consumers. This can occur due to information asymmetry, for example, when agricultural traders have more information about prevailing market prices and the quality of agricultural commodities than small-scale farmers. It can also take place where businesses are able to falsely differentiate their products on the basis of product attributes (for example nutritional value, safety, *etc.*) that are not directly observable to the buyer. Initiatives that seek to tackle issues associated with externalities and market abuse fall under the so-called ‘do no harm’ agenda.

One way of tackling these problems is regulation. Around the world, businesses face competition and fair trading laws, and other forms of regulation that are designed to prevent

incomplete information. See Simon (1992) and Arthur (1994) for the development of the concept. There is extensive discussion about how businesses make decisions in the context of bounded rationality. See for example, Casson and Rose (1998).

⁵ The significant public good aspects of such demonstration effects is now recognised as being a key element of economic development, and rationale for policy in developing countries.

market abuses or bring private and public costs more into line. In the United States, for example, the predecessor of the Food and Drug Administration (FDA) was brought into existence in 1906 because of problems with the quality and safety of food and drugs. Regulation was necessary because private companies were not bearing the costs that defective and dangerous products were imposing on consumers and society more widely. In some cases, the damage resulting from undesirable practices is sufficiently great for them to be made illegal. In other cases, the gap between the social cost and the private cost can be bridged through charges placed on business based on the 'polluter pays' principle. Carbon pricing is an example. It is not an option for businesses, and society as a whole, simply to stop emitting greenhouse gases. However, charges can be applied that aim to bring the private and the public costs associated with greenhouse gases more into line, in turn providing incentives for businesses to reduce their greenhouse gas emissions and to fund the development and introduction of low-carbon innovations.

In the field of business and development, initiatives around private or multi-stakeholder standards, labelling and codes of conduct have been created in order to influence and even 'discipline' company behaviour without resorting to regulation.⁶ Some such initiatives promote broad principles of good corporate behaviour (UN Global Compact, Principles for Responsible Investment (PRI), *etc.*). These are often complemented by sectoral initiatives that turn such general principles into rules and guidelines applicable in specific situations (for example the Principles for Responsible Agricultural Investment, Equator Principles, *etc.*). Sector standards have also been developed by coalitions of businesses and through multi-stakeholder initiatives covering issues such as environmental impact and natural resource use (Marine Stewardship Council (MSC), Forest Stewardship Council (FSC), Roundtable on Sustainable Plan Oil, Greenhouse Gas Protocol, *etc.*), social conditions (Ethical Trading Initiative (ETI), Clean Clothes, SA 8000, *etc.*), good governance (for example the Extractive Industries Transparency Initiative (EITI)) and the 'fair' sharing of economic returns between small-scale producers and large companies (for example Fair Trade).

Such non-regulatory initiatives are very diverse. In addition to having distinct objectives, they vary in their mode of operation. Some initiatives take the form of commitments to principles that are designed to promote improvements in practices over time through voluntary reporting and peer pressure. Others work through clear rules of performance backed up by third-party certification. Similarly, whilst initiatives have been developed by companies (individually as well as collectively), others are the outcome of multi-stakeholder initiatives involving alliances of companies and NGOs or much broader coalitions that also include governments and international agencies. Regardless of their specific form, however, these initiatives are designed to influence business behaviour. In some cases, they create benefits for the company by making their products more desirable and/or differentiating them in the eyes of (at least some) consumers. In others, they establish a level playing field of minimum company behaviour, creating pressure to reinforce or generate commitments by companies. The SA8000 standard on labour conditions is a good example of this.⁷ Finally, standards and codes can be imposed by one company on another, in effect penalising companies that do not comply. This is the case, for example, when buyers require compliance with certain standards as a prerequisite for inclusion in their supply chains.

⁶ For a discussion of private and multi-stakeholder standards and how they relate to public interventions, regulation, see Henson and Humphrey (2008; 2012)

⁷ Differences in approaches to adhering to standards on the part of management are discussed by van Tulder *et al.* (2009), who distinguish between in-active, re-active, active and pro-active approaches to corporate social responsibility. Of course, there may be a range of different approaches to these issues within the same company, with some parts of the company complying reluctantly, and others committed to the ethical principles behind codes and standards.

2.3. Encouraging pro-poor business activity

Alongside the 'do no harm' agenda, there is a focus on 'do more good'. The idea here is that there are business activities that contribute to patterns of economic growth which are of particular benefit to the poor and disadvantaged. These benefits remain unrealised, however, when businesses assess the private returns as being insufficient to justify the required investment.⁸ In such circumstances, interventions are required for these opportunities to be realised.

This issue, perhaps most often referred to as promoting 'pro-poor growth', is frequently emphasised by development agencies. Andrew Mitchell, Secretary Of State for International Development in the UK at the time, introduced the Department's 2011 private sector policy document with the statement:

Our new approach to working with the private sector will be to scale up the interventions that have proven most effective; to extend these approaches to new fields and unreached people – and to do both with increasing capability and effectiveness. (Department for International Development 2011: 4)

In other words, the challenge is not merely to create more businesses, but to reach the 'unreached' and to do this at scale. This introduces the issues of tackling inequality and promoting inclusiveness. This theme is taken up later in the same DFID document:

Through schemes like the Business Call to Action and the Business Innovation Facility – we will encourage companies to adopt inclusive business models to employ more poor people or to involve more local enterprises in their supply chains, procurement processes and distribution systems. (Department for International Development 2011: 12)

This theme of focusing economic activity and market development on providing benefits for the poor is at the root of the M4P approach, for example (Elliott *et al.* 2008; Tschumi and Hagen 2008). M4P focuses on markets as systems and on interventions that create lasting changes in these systems to better meet the needs of the poor. Micro-finance initiatives are a good example of such focused policies. Accelerated and sustainable economic growth requires effective financial institutions, but even when such institutions are in place, they may not be effective at providing finance to small enterprises and poor producers. They may suffer from inertia (slowness to realise new business opportunities), or lack relevant capabilities to exploit opportunities in low-income market segments (for example, an ability to work with communities, gain trust and mobilise local mechanisms to minimise default levels) and/or have sufficient lucrative opportunities in existing markets.⁹

Governments and donors can provide subsidies to enable the benefits of market development to reach the poor. Examples include training for small farmers so that businesses face lower costs when incorporating them into their value chains, or incentives for businesses to extend health care provision to low-income or difficult-to-reach communities. However, other strategies are available and may be more effective at inducing the systemic changes needed to produce substantive and sustained impacts on the poor:

First, efforts can be made to identify new business models that are profitable and also provide benefits for the poor and other disadvantaged groups. As is the case with the growth promotion agenda (see above), the argument here is that sustainable pro-poor business

⁸ More accurately, the private returns have to be equal to or greater than other investment opportunities that are competing for scarce capital and managerial resources.

⁹ Business theories about incumbents and disruptive innovations are relevant to this discussion.

opportunities exist that are not being taken up by businesses. The bottom of the pyramid argument advanced by Prahalad and Hart (2004) argues that global poverty could be alleviated (if not eliminated) by financially profitable activities, with the poor representing a vast untapped market, as well as a source of unleashed entrepreneurship (London and Hart 2004).

Second, development actors have a role in extending the impact of pro-poor business models by promoting their use and/or demonstrating their effectiveness. The importance of supporting business innovations is at the heart of the DFID-funded Business Innovation Facility.¹⁰ Part of the need to make such efforts is that businesses and development actors both have limited capacity to absorb and process information about business potential and development challenges. It can be argued that the development of the M-Pesa payment system by Vodafone in Kenya is a good example of an opportunity that required support from a donor in order to be realised. The idea of mobile phone payments was already being developed in Africa, but the support provided by DFID provided additional impetus for Vodafone to pursue what was, at the time, a venture whose success was far from being guaranteed.

Development actors also have a role to play in working with businesses to redefine their perspectives and timescales on business opportunities and the flow of benefits over time. This rethinking of business objectives and how they might be reframed is undertaken by Porter and Kramer in their work on creating 'shared value' (Porter and Kramer 2011). The idea here is that the entire ethos of business can (and should) be defined in terms of the creation of value within society as a whole. Furthermore, they consider that businesses can create and distribute significant value to others in society, whilst also appropriating value itself. This suggests significant win-win opportunities for business and development.

Beyond the development of new business models, there is scope to promote the development of new types of businesses altogether. Social enterprise, social finance and impact investing are examples of business organisations that constitute an entrepreneurial response to doing 'more good'. What distinguishes social enterprises is their motivation and their willingness to accept below market returns in order to achieve simultaneously declared social objectives, whilst securing commercial sustainability. Yunus *et al.* define the particular characteristics of a social business in the following terms:

[While] its primary purpose is to serve society, a social business has products, services, customers, markets, expenses and revenues like a 'regular' enterprise. It is a no-loss, no-dividend, self-sustaining company that repays its owners' investments. (Yunus, Moingeon and Lehmann-Ortega 2010: 311)

Whilst some businesses create positive development effects without expressly trying to, social enterprises start with the explicit aim of realising a particular social or environmental goal, and then establish an entrepreneurial approach that can achieve this. Impact investment is a relatively new area of development in financial markets which shares a similar approach to social enterprises:

Financial rates of return can be lower than commercial markets expect, but there is an explicit objective to generate tangible positive social impacts. (Department for International Development 2011: 27)

Finally, efforts can be made to change the costs faced by business through the development of new partnerships. Opening up new markets can be challenging; it requires new knowledge and new capabilities. Whilst theories on the international expansion of business focus on the

¹⁰ See <http://businessinnovationfacility.org/page/about-us-about-the-business-innovation-facility>.

challenges of entering new markets (see, for example, Keesing and Lall 1992); similar challenges are faced when entering a new market segment. The poor have distinct consumption preferences and behaviour and may be served by different distribution and retail systems to richer consumers. Small producers may face different challenges, but also provide differing opportunities for business value chains. Potentially, partnering between businesses and development actors, particularly NGOs, may provide capabilities that reduce the costs and risks of developing these new markets.

3 Influencing business behaviour

If the purpose of policy-making in the field of business and development is to enable and encourage business action to promote the wellbeing of society, and if the range of public goods that are goals of policy include addressing poverty, tackling deep-seated economic inequalities and providing appropriate goods and services to the poor, how can policy change the ways that businesses behave so that these complex goals are achieved? One dominant line of thinking in the social sciences has viewed this question in terms of calculated decisions in the pursuit of interests, as discussed by March and Olsen:

[M]odern political science has, for the most part, described political events as the consequences of calculated decisions. Not just in political science, but throughout modern theoretical work in the social sciences, the preeminent vision of human behaviour is a vision of choice. Life is characterised as deliberative decision making. (March and Olsen 1984: 736)

From this perspective, actors with well-defined and largely stable interests make choices in order to maximise the benefits they obtain. This applies equally to individuals and to businesses. Thus, in the context of invariant interests, it follows that the best way to affect business actions would be to alter the payoffs associated with different courses of action. But within a 'logic of interest' perspective, there are a large number of ways in which business behaviour can be changed. These include:

- Using government regulations, incentives and penalties to change the costs and benefits accruing to businesses from adopting particular courses of action. Such incentives and penalties can also come from the private sector and multi-stakeholder initiatives. Standards schemes, for example, also offer incentives to those that comply with them and possible negative publicity to those that do not.¹¹
- Making capital markets function more effectively should reduce the cost of investment funds, while improvements to the functioning of agricultural markets might lower the costs of inputs into the food industry.
- In the context of bounded rationality,¹² businesses will have imperfect knowledge about the opportunities open to them and the likely consequences of pursuing them. Programmes to support innovation remove some of the costs and risks of undertaking new activities. The development of pilot projects and the dissemination of information about new initiatives can also open up new opportunities for business.

¹¹ Pressures for adoption come in part from businesses themselves. Thus, standards help to 'level the playing field' and drive out bad practice, but in certain circumstances, can also be used to raise entry barriers and reduce competition (Mügge 2008).

¹² The bounded rationality assumption is essential here. Without bounded rationality, businesses would be able to acquire and process knowledge of all potential innovations at zero cost. Relaxing this assumption also allows for differences of information and priorities within businesses, which opens up further possibilities for engagement with business. For example, the evaluation by Barrientos and Smith (2006) of the ETI points to contradictions between companies' intentions towards suppliers expressed in their corporate social responsibility (CSR) practices and the pressures placed on suppliers by purchasing policies that emphasise rapid response and just-in-time delivery.

- The way in which businesses calculate costs and benefits can also be influenced. Many of the collective initiatives discussed in Section 2.2 provide businesses with new perspectives on the consequences of their actions for short-term and long-term performance. Sustainability and social responsibility, for example, have become strategic objectives of many businesses.
- Development agents can also promote or support the emergence of businesses that define their interests in different ways. Social enterprises and impact investors, for example, frame the core goals of their businesses to include social impacts; the interests of such businesses are explicitly aligned with those of development. Some public-private partnerships focus on the establishment of such enterprises.

Beyond the logic of interests, however, there is also a logic of appropriateness. All businesses operate within certain rules of behaviour. In fact, it has been argued that those rules have been changing in a way that favours short-term financial performance (Handy 2002). But alongside this, some businesses, and in particular senior managers, may redefine the responsibilities that they and their businesses have to society, reworking the scope of 'who counts' as stakeholders and accepting a broader view of what they should take responsibility for. Such rethinking is frequently achieved through external pressure and engagement with a broad range of business and non-business actions.

The recent submission by the UN Global Compact (UNGC) and the World Business Council for Sustainable Development (WBCSD) to the UN's high-level panel on the post-2015 UN development agenda (UNGC and WBCSD 2013) provides a good example of such approaches to business and development. One key part of the argument put forward in this submission is presented in Box 2. It makes the point very clearly that the potential for businesses to contribute to development objectives arises from two drivers. The first is a business logic (the logic of interests), also referred to as the 'business case'. Interpreted in a long-term context, it emphasises the need for responsible use of resources and alleviation of poverty in order to achieve sustainable, long-term growth and the development of market demand. It is argued that the degree of alignment between private action and public good increases as the logic of business interests is shaped by long-term strategic considerations, both on the supply side (for example, sustainable use of natural resources, continued existence of producers capable and willing to provide raw materials) and the demand-side (inclusive growth for broad-based demand). The calculation of what constitutes the best pursuit of company interests is shifted in ways that are favourable to sustainable development. The second logic derives from 'ethical imperatives' or 'moral imperatives' (*ibid.* page 2). It is argued that business leaders have been redefining what they regard as 'appropriate behaviour' in the light of new moral imperatives linked to 'social license to operate', 'moral liability' and brand value and reputation.

Finding reasons to be sceptical about these arguments is not difficult. First, the 'logic of interests' perspective suggests that, whatever justifications are provided for particular courses of action, they are fundamentally grounded in interests. From this perspective, whatever businesses do, the motivation must be the rational and calculated pursuit of the business's interests. Therefore, whatever the benefits to society of a business decision, the reasons for taking this decision will be attributed to a narrow calculation of the private interests of the business. Whatever a business claims about its motivations, the implication of the logic of interests' view of the world is that the 'real' reason must be self-interest. Second, this ambiguity of motives is often reinforced by advocates of business ethics themselves. Arguments that are derived from an ethical viewpoint may be reinforced by appeals to the direct benefits to business of taking a more ethical standards Third, while some businesses may be driven by the kinds of motivations highlighted in Box 2, adoption of such principles is inevitably uneven. There are many examples of businesses that pursue short-term interests or whose behaviour is, at best, questionable on moral grounds, or whose

Box 2: The Business Agenda for post-2015

'In recent years, increasing numbers of companies... Have come to understand that there are both commercial and ethical imperatives in relation to the global sustainability agenda, driven by the following considerations:

- Natural resources constraints and environmental degradation. Business cannot possibly prosper over the long run in a world of ever increasing pressures on natural resources and the environment...
- Sustainable economic growth.... Achieving this creates the markets of the future.
- Human rights and human welfare. Where human rights are violated and human suffering prevails, societies and economies are inherently unstable and crippled from reaching their full potential.
- Governance. Where corruption and other forms of poor governance reign, economies cannot function properly, efficiently, or fairly....
- Morality and ethics. In a world replete with human suffering and acute inequalities, business has a moral imperative not only to 'do no harm' but to act in the enlightened interest future generations and for the good of society.'

Source: UNGC and WBCSD (2013: 2)

morality and ethics differ somewhat from those defined in Box 2. If this were not the case, arguably businesses would not invest so much in the development of principles, codes and standards as means of influencing business behaviour. Finally, there is suspicion that, when short and long-term interests come into conflict or when business interests appear to dictate courses of action that are different from those derived from development imperatives, business interests will inevitably win out. This is likely to be particularly evident in large organisations, where general (longer-term) principles enunciated by senior management do not always find their way down to the day-to-day (shorter-term) decision-making of employees, or when policies adopted in the home country fail to be implemented evenly across the organisation. The lack of evidence of large-scale impact of policies and initiatives adopted in line with development imperatives also contributes to this scepticism.

In developing a research programme on business and development, addressing such scepticism is not simply a matter of asserting that some businesses are evidently motivated by the thinking summarised in Box 2. The challenge is to identify the conditions under which business and societal interests can be brought more into alignment, how business thinking on these issues can be changed, how to make sure that principles are turned into practice that has significant reach, impact and durability, and to understand the role of company leadership in defining and operationalising principles that narrow the gap between private action and public good.

4 Prioritising interventions and identifying solutions

It been established that there is scope for influencing business behaviour with respect to development impacts, and that influence can come from development agents, from businesses, or from a combination of the two. But influence to do what? There are very many areas where, in principle, development policy could enhance the development impacts of business activity, and there is no shortage of well-documented initiatives where businesses have had a positive effect on development indicators: sometimes acting independently; sometimes in conjunction with NGOs and development agencies; sometimes developing company-specific initiatives; sometimes acting collectively with other businesses and

stakeholders.¹³ Currently, initiatives in the field of business and development appear to face the same conundrum as that highlighted by Hausmann, Rodrik and Velasco with respect to growth policy:

The second strategy... [is] to simply go for whatever reforms seem to be feasible, practical, politically doable, or enforceable through conditionality. This is a laundry-list approach to reform that implicitly relies on the notions that (i) any reform is good; (ii) the more areas reformed, the better; and (iii) the deeper the reform in any area, the better.

(Hausmann, Rodrik and Velasco 2005: 5)

The challenge, therefore, is to make the best use of limited resources by maximising the positive outcomes of development interventions. This means identifying the development goals being sought and prioritising those interventions that are most effective in producing desired development outcomes. Establishing priorities and focusing efforts should matter for development agencies because they need to spend their limited funds to the greatest effect. So, for example, when development agencies say that they want to leverage private investment, the next question is 'leverage investment for what?' Priorities and focusing also matter to business. Without prioritisation, businesses are left trying to manage seemingly never-ending, complex and sometimes conflicting demands from development actors without a clear idea of precisely what would suffice to meet these demands. The implication is that business and development is to get much more strategic and specific about what it is seeking to achieve.

In seeking to prioritise potential impacts of business on development, both from the perspective of development agencies and businesses themselves, there are three critical questions:

- **How aligned are business and development goals, what drives the degree of alignment on the basis of the logics of interest and appropriateness, and what are the potential limits to increasing this alignment?** The issue of alignment of private action and public good is central to business and development. If mis-alignments occur because of the gap between public and private costs and benefits, then when are such alignments likely to occur, and how can they be changed by initiatives from development actors and/or businesses? Framing policies to change these alignments requires an understanding of the legitimacy and complexity of the motivations that drive business behaviour. At the same time, it is important to recognise that there will be situations in which the mis-alignments between public and private costs and benefits are large. In general, the greater the gap between business and development objectives, the more that efforts to create alignment will be difficult, time consuming and costly. In these cases, scarce resources may be better redeployed to offsetting the impacts of business or addressing development priorities directly. Further, social businesses, governments and other non-business actors, or partnerships between businesses and these actors, may provide more effective solutions.
- **What interventions are most likely to work under different conditions? How should such interventions be prioritised?** When resources are scarce, it is essential to pursue interventions that have the biggest development impact. This implies choosing interventions with goals and approaches that are most likely to be successful, and in so doing, examining issues of feasibility, effectiveness and efficiency. One approach is to examine those constraints that are 'binding' (see below) on business

¹³ For an examination of 'business for development' initiatives by the international development agencies of five countries, see Adam Smith International (2009).

actions – those factors that impede business having the desired development impact – and addressing these in a cost effective and cost-efficient manner. For example, if particular forms of business investment considered to be especially beneficial for the poor (expansion in good quality health services that reach the poorest would be one example) are lower than is desirable, attention needs to be given to the obstacles preventing sustainable growth in such investments. Critical here is the ability to be able to assess the impacts of business activities, and more specifically alternative interventions that aim to bring these about, on the poor in a rigorous manner. This is far from easy, both conceptually and methodologically (see below).

- **How to deliver large-scale and enduring impacts through these interventions?**
There are many examples of business activities that have positive development impacts but which are being pursued at small-scale and/or in quite specific geographical or sectoral contexts. This begs the question, how can such initiatives be up-scaled, translated and/or replicated in order to enhance impacts on the poor in ways that endure beyond the specific interventions applied? Addressing this issue involves a recognition that development challenges exist within broader economic, social, political and cultural systems made up of actors, institutions and structures that determine how the system works and the outcomes that can be achieved. Large-scale and long-term change through business and development interventions are likely to require approaches that extend beyond business operations to the wider institutional environment. Such a focus on systemic change requires carefully defined and adaptive interventions that complicate the assessment of impact but help focus limited resources on interventions with greater chances of achieving scale and durability.

These three issues are now considered in more detail.

5 Alignment of objectives

The idea of alignment is a frequent theme in discussions on business and development. Four different examples are presented in Box 3. The attraction of seeking alignments is obvious; they appear to offer a strong basis for positive collaborations between business and development actors. Where the alignment of business and development objectives is relatively close, we might expect the measures needed either to incentivise business to undertake desired activities or to promote new, innovative approaches that enhance development impacts, to be relatively manageable. Conversely, where these objectives are much further apart, or even in conflict, the measures needed to align them are likely to be more challenging.

There is ambiguity, however, over what needs to be aligned for private action to promote public good. The references from the business and development literature in Box 3 refer variously to alignments of interests, incentives, objectives, and activities/ investments. Furthermore, whilst the language of the first quote in Box 3 implies that alignment is a matter of interests that are predefined by the prevailing characteristics of businesses, the other quotes imply the scope for 'construction' of alignment, implicitly suggesting that interests and objectives are more malleable than 'given'.

Box 3: Alignment of interests and objectives

'Ultimately, the power of involving the private sector will lie in identifying where the **interests of all stakeholders are genuinely aligned**, and ensuring informed, wider stakeholder engagement within specific countries and sectors.' (Byiers and Rosengren 2012: 11)

'There have been a number of drivers underpinning this convergence, including new investment opportunities, protection from future shocks, safeguarding supply chains and developing new markets targeting the poor. This is serving to increasingly **align the incentives of companies with development objectives**' (Lucci 2012: 5)

'One of the golden rules of partnership is that to succeed, **the objectives of the partners must align**. It is equally true – but much less discussed – that the objectives of individuals and departments within the partners must align.' (Jenkins and Fries 2013: 36)

'Internationally, business supply chains are having an ever-growing impact on global biodiversity. Voluntary sustainability standards offer one valuable tool for ensuring that economic activity promotes biodiversity and sustainable development. The SSI Review provides critical information to the private sector and policy-makers on the characteristics and current market trends across voluntary initiatives so that **corporate and public investments can be aligned more effectively with sustainable development objectives**.'

Ahmed Djoghlaf, Executive Secretary, Convention on Biological Diversity, quoted in Potts *et al.* (2010: 161)

Businesses and development actors evidently face differing arrays of interests, such that the challenges for development agencies is to work with business in ways that lead to better development payoffs from their activities, whilst at the same time affording conditionality and value for money. In so doing, development actors face the well-recognised principal-agent problem; the principal (development actors) faces problems motivating the agent (businesses) to act according to the principal's interests, reflecting the fact that the two parties have different interests, whilst the agent has more information than the principal about its actions.¹⁴ The literature on the principal-agent problem highlights the role of mechanisms that aim to better align the interests of the principal and the agent.

The discussion above suggests different ways in which this might be achieved in the context of business and development. One route is to use regulation or positive incentives that change the payoffs for businesses of adopting particular courses of action. Four further strategies for changing alignments of objectives are listed in Table 5.1. These are changing the interests of business actors and/or how these are legitimately pursued, making markets more transparent and effective, facilitating the use of principles and standards of conduct, promoting innovations that alter the costs and benefits arising from alignment of objectives, and enabling businesses to acquire capabilities needed to pursue new objectives. These strategies not only change the direct costs and benefits to businesses of adopting certain actions, but may also serve to reduce the costs incurred by development actors (as the principal) observing the actions of business (as the agent).

¹⁴ This problem is most acute when the activities that the principle would like to see the agent perform are costly for the agent, whilst the principal incurs costs in observing what the agent does. On this issue, see, Stiglitz (1987), Shavell (1979) and Sappington (1991). There is also an extensive business literature on this issue relating to different mechanisms for controlling the behaviour of business partners. See, for example, Hennart (1993).

Table 5.1 Changing alignments of business and development objectives

Changes	Examples
Reducing the costs of doing good	<ul style="list-style-type: none"> • Building stable institutions to support market functioning. • Bringing about systemic change in markets such that they enable businesses to invest in activities that are identifiably pro-poor. • Alliances between businesses, donors and/or NGOs that create new capabilities and/or reduce the cost to business of linking to the poor.
Redefining interests and responsibilities	<ul style="list-style-type: none"> • CSR says that business should be concerned about people and the planet as well as profit, and could be damaged by not taking these factors into account. • Promoting the sustainability agenda which changes the calculus of business, for example by promoting longer-term planning, and by emphasising business responsibilities for what happens in their supply chains. • Promoting recognition amongst development actors of the potential for business to contribute to the achievement of development goals.
Changing the costs of creating and meeting principles and standards of conduct	<ul style="list-style-type: none"> • Developing principles and standards of good practice that make it easier for businesses and development actors to recognise and adopt good practice and provides assurances about legitimacy and recognition amongst businesses and consumers. • Providing support to businesses making efforts to comply with principles and standards. • Promoting the role of principles and standards amongst businesses, consumers, <i>etc.</i>
New innovations	<ul style="list-style-type: none"> • Promoting innovations in hard technologies and/or soft organisational strategies that open up new ways of aligning the interests of business and development, for example bottom of the pyramid strategies and use of mobile phone technologies for financial access for the poor. • Public-private partnerships that share the costs and risks associated with innovations and/or bring together the capabilities of business, government and NGOs.

5.1. Scope and limits of alignment

It seems likely that a greater degree of alignment between business and development objectives will exist when the latter are defined in fairly specific terms, such as growth and employment. Much mainstream business activity in developing countries, especially amongst the domestic enterprises across both the formal and informal sectors, would broadly meet these criteria. In such cases, the priority for development actors would be to promote more business, focusing on the enabling environment, infrastructure and financial support so that the benefits from business investment in these fields are maximised. This is the approach of ‘private sector development’ as discussed by Byiers and Rosengren (2012). Similarly, broad strategies to increase investment in developing countries through investor-friendly policies can be seen as adopting the perspective that more investment is good, without necessarily taking steps to direct investment in particular directions. Across both of these cases, there is a clear assumption that business activity is well aligned with the development objective of increasing incomes of the poor.

In practice, however, market forces do not necessarily create ‘equitable’, inclusive and/or sustainable growth. Part of an agenda for business and development, therefore, needs to focus on how to prevent the poor suffering from the adverse effects of economic growth, such as environmental degradation or loss of access to environmental resources. This is the ‘do no harm’ agenda. Furthermore, attention needs to be given to how to mobilise business so that the needs of the poor are met more effectively through market access, employment and/or the provision of appropriate products and services. This is the ‘do more good’ agenda. The challenges in these two areas are quite distinct.

Limits and potentials of 'do no harm'

Many of the 'principles' developed by, for and with businesses relate to the 'do no harm' agenda. There are many areas where there is substantial real or potential conflict between business activities and development objectives. An example is the unsustainable use of resources and the destruction of natural habitats that have significant effects on livelihoods. The Roundtable on Sustainable Palm Oil (RSPO) website provides an answer to the question – 'What is the impact of Palm oil cultivation on the environment?':

In some regions, oil palm cultivation has caused – and continues to cause – deforestation. This means that land which was once predominantly covered by primary forest (forest that has never been touched by man) or which housed protected species and biodiversity, was cleared in order to be converted into palm oil plantations. Likewise, some palm oil plantations were developed without consulting local communities over the use of their land. Some have even been responsible for forcibly displacing people from their land. Violations of workers' rights to fair payment and safe working conditions and other malpractices have also occurred. (Roundtable on Sustainable Palm Oil: What is the Impact of Oil Palm Cultivation on the Environment) www.rspo.org/en/PALM_OIL_AND_SUSTAINABLE_PALM_OIL_FAQ

The motivation for the RSPO could be characterised variously as to reduce the destructive impact on the environment of certain practices used in oil palm cultivation, or to reduce the negative impacts to businesses of being associated with such practices. Here, development agents, often working with businesses, focus on increasing the alignment between business activities and the broader development outcomes of these activities. This is achieved through mobilising multiple actors, including but not limited to businesses, with the intention of appealing both to the logic of interests (reducing market access for products and companies not conforming to 'good practice')¹⁵ and to the logic of appropriateness (raising awareness of deforestation and environmental responsibilities). Development agents such as NGOs and governments are often involved in such initiatives. However, companies complying with such schemes (or under pressure to do so) may have an incentive to extend adoption to other companies. This incentive arises when (i) compliance costs are significant, and/or (ii) the activities of non-compliant companies undermine the claims being made by the companies complying with standard. If relevant stakeholders (consumers, campaigners, *etc.*) cannot differentiate 'good' companies from 'bad' or do not understand that standards of behaviour differ between companies, then there are strong incentives to extend compliance to all companies.¹⁶

The effectiveness of such strategies for reducing undesirable behaviour very much depends on the nature of markets and the broader regulatory environment. The ability of a scheme such as the RSPO depends to a significant extent upon the ability of adherents to impose costs on non-compliers, by inflicting penalties and/or denying benefits to them¹⁷ (for a discussion of the nature of such standards schemes as club goods and the challenges involved, see Prakash and Potoski 2010). In the case of palm oil, rising demand in markets such as China where there is little or no demand for compliance with the principles of the RSPO provides alternative outlets for non-compliant companies. Governments also play a key role in determining the effectiveness of systems of standards (see Bartley (2010) on labour and forest standards in Indonesia), both as regulators and purchasers of goods and services. Thus, Newell (2005) argues that a significant limitation of many existing CSR

¹⁵ The RSPO system allows different supply chain models for companies to comply with the overall objective of promoting the use of sustainable Palm oil. Therefore, 'good practice' cannot be reduced to simply eliminating all non-certified Palm oil to sustain the programme from company supply chains.

¹⁶ Responsible Care in the chemical industry is an example of businesses being concerned about damage to the sector as a whole due to safety problems at select chemical plants (King and Lenox 2000; Moffet, Bregha and Middelkoop 2004).

¹⁷ For a discussion of the nature of such standards schemes as club goods and the challenges involved see Prakash and Potoski (2010).

approaches is that, while they may encourage 'responsible' business to go 'beyond compliance', they provide few checks and balances on the operations of 'irresponsible' businesses, for which strategies of regulation, sanction and protest continue to be key drivers of change. This is particularly of concern where prevailing regulatory systems are weak, as is the case in many developing countries.

Limits and potential of the 'do more good' agenda

A range of approaches are available to development agencies aimed at promoting the 'do more good' agenda. The different ways of influencing business highlighted in Section 3 can all be used to encourage businesses to undertake activities that are of particular benefit for the poor. Dissemination of opportunities, support for innovation, linking businesses with each other and to other organisations with specific relevant capabilities (such as NGOs), providing purchase advance commitments to reduce demand risk and low-cost finance can all contribute to provoking activities that would otherwise not be attractive enough to businesses to merit the risk of investment.

Good examples of efforts towards 'do more good' can be found in the health provision. Many low and middle-income countries have pluralistic systems in which poor people depend to a large extent on informal health service providers and drug sellers (Sudhinaraset, Ingram, Lofthouse and Montagu 2013). These are small businesses which operate outside the regulatory framework. There is evidence that these thriving health markets have played an important role in making basic drug treatment for common conditions widely available. However, they also encourage unnecessary use of drugs and inadequate treatment, including partial doses of antibiotics and delays in referrals (Peters and Bloom 2012). Attempts to improve the performance of informal providers through training, alone, have had little impact (Shah, Brieger and Peters 2011). This has led to a growing interest in interventions that both provide skills and realign incentives to encourage better practices. In some cases this has involved the establishment of partnerships between the informal providers and a large (for profit or not-for-profit) service delivery organisation, which plays a quality assurance role. Most of these initiatives are still relatively small scale and the future role of these informal providers remains a hotly contested issue in many countries.

In the field of nutrition, businesses are being mobilised as part of efforts to reduce micronutrient deficiencies. Given the significant role of the private sector in the distribution, processing and marketing of food, efforts to enhance the nutritional quality of foods and to make these available, affordable and acceptable to the poor have emphasised the role of business, even though the role of business in nutrition is controversial because of issues such as the promotion of infant formula and its impact on breastfeeding. In some areas, such as the fortification of staple products, business involvement is essential, although the work of the Global Alliance for Improved Nutrition (GAIN), a business-oriented NGO in the area of nutrition and development, in providing ready-prepared mixes of quality-guaranteed fortificants is a good illustration of the importance of tackling market failures (in this case, the costs of finding suppliers of fortificants and verifying the quality of the products).¹⁸ A further example of a business-driven approach to improve the nutritional status of the poor is the social enterprise Grameen Danone, which is a joint initiative of Groupe Danone (a multinational yogurt manufacturer) and Grameen Communities in Bangladesh (Ghalib, Hossain and Arun 2009; Yunus *et al.* 2010). Grameen Danone has developed and markets a fortified yogurt directed at meeting select nutrient requirements of youth, and has received support from GAIN.

Efforts to enhance the access of the poor to nutritious foods through business initiatives are fraught with difficulties. First, reaching the poor is costly, particularly in terms of distribution,

¹⁸ See <http://www.gainhealth.org/programs/gain-premix-facility>.

whilst at the same time price points have to be low. Businesses in developing countries, whether domestic or multinational, are engaged in the marketing of nutritious foods, but predominantly to higher-income consumers. There remains considerable uncertainty over whether bottom of the pyramid-type strategies are viable and, even if so, whether businesses have the required capabilities to implement these. Second, nutritional quality is a credence good: it is not possible for the consumer to determine whether a food is rich in particular nutrients at the point-of-sale or even after consumption. This makes it easy for fakes and counterfeits to flourish in the market. As a result, businesses that invest in nutrient-rich products may fail to appropriate the returns from their investment. Government capacity to control this problem through labelling and product inspections is very limited in most developing countries. Common responses to this credence problem include brand development and the use of high-cost marketing channels, which act to exclude the poor. This is seen, for example, with weaning foods in Ghana (Anim-Somuah, Henson, Humphrey and Robinson 2013). Finally, marketing safe, nutrient-rich foods requires good quality inputs, for example, that are free of anti-nutritionals (as in the case of groundnuts that need to be free of aflatoxins). Securing such inputs is also expensive. The result is that we see very few examples of nutrient-rich foods being targeted at the poor.¹⁹ This case shows very clearly how market failures present serious obstacles to business investments that would, if made, provide substantial benefits to the poor.

The discussion of sectoral examples shows very clearly that the nature and extent of constraints tend to differ sector to sector, reflecting variations in the potential for business activity and the objectives of development agents. For example, the challenges with mobilising businesses to improve capital flows to the poor are very different to those arising from the need to restructure health markets so that the poor gain access to quality health products and services and the quality and reach of privately-provided services (on which many poor people already depend) is improved. It follows therefore that the discussion of how to mobilise business resources will involve:

1. **A 'problem-oriented' approach.** It does not analyse 'business and development' in general, but rather develops a methodology to diagnose the obstacles to more effective business contributions to development objectives in specific circumstances and generate methods for identifying how these can best be overcome.
2. **Assessing business according to the different development objectives relevant for the problem or the sector.** The scope for alignment will depend in part on the definition of the development objectives to be achieved. The larger the gap between the development objectives and the existing business objectives of companies operating or potentially operating in the relevant field, the more difficult it will be to align objectives. This point is discussed further below.
3. **An initial focus on specific sectors.** The nature of development challenges and the ways in which business might be mobilised to address them are likely to vary considerably from sector to sector. Therefore, analysis of alignments and how they can be changed is likely to gain most traction through studies of particular sectors. This does not in any way preclude consideration of cross-sectoral initiatives such as the UNGC, or the related Global Reporting Initiative (GRI).²⁰ However, the detailed implementation of the general principles outlined in such initiatives is frequently realised through the work of sectoral groupings and approaches.

¹⁹ For more general discussion of these challenges, as discussed for the case of commercial marketing of lipid-based nutrient supplements designed for regular consumption, see Lybbert (2011).

²⁰ The UNGC has a number of sector supplements. It has published a 'sustainable agriculture' paper translating the Global Compact into principles for agriculture. The UNEP Finance Initiative (UNEPFI – www.unepfi.org/) works to develop standards in finance, and has also contributed to the Principles for Responsible Investment and Principles for Sustainable Insurance. Similarly, there are multiple transparency initiatives aimed at promoting good governance, such as the Extractive Industries Transparency Initiative (EITI) and the Construction Sector Transparency Initiative (CoST) is another.

6 Removing obstacles to the development impacts of business

Having identified specific development objectives and challenges, the question then arises as to what is preventing businesses from providing the jobs, or the goods and/or services in the places and for the people whose needs have been identified? What is stopping businesses investing? What is leading businesses to fail to create demand for inputs (goods and labour) that benefit the poor, or supply the poor with outputs (goods and services) that benefit them? What encourages businesses to provide products that undermine well-being rather than enhance it, or to create negative impacts upon the natural environment?

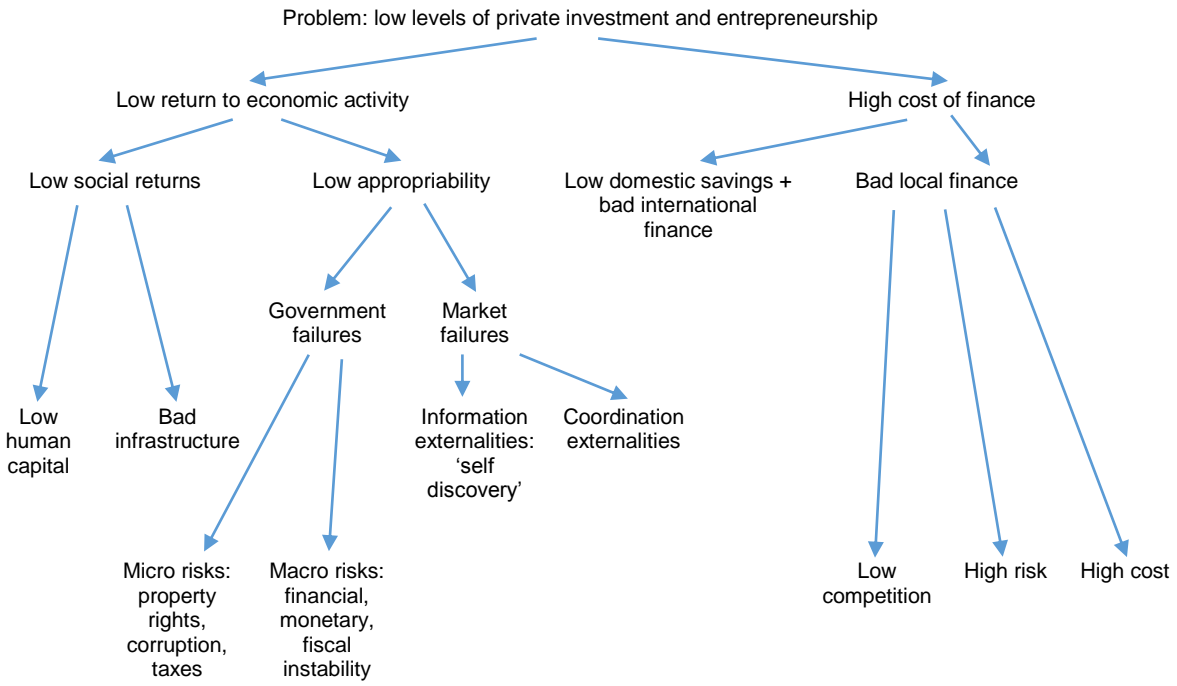
An effective business and development strategy should identify and address the obstacles that, if removed, would have the largest positive impact on development outcomes. Whilst this is easier said than done, we would argue that the approach to analysis of strategies for accelerating growth in developing countries developed by Hausmann *et al.* (Hausmann *et al.* 2005) can be adapted to the specific context of business and development.

Hausmann *et al.* (Hausmann *et al.* 2005: 5-7) provide guidance on how to design policies for business and development. First, it is important to avoid 'trying to do everything' in the form of wholesale reforms that aim to eliminate all distortions or constraints. Whilst such an approach may appear attractive at the conceptual level, in practice it is unrealistic. Second, drawing up a long list of policy recommendations is not helpful to policy-makers. Rather, the focus should be on a small number of select policy initiatives that are predicted to have the greatest impact. Third, often there is a tendency first to pursue policy initiatives that are most feasible, practical and/or politically doable. However, these might not necessarily bring better development impacts, or at least the greatest benefits given resources being spent. Finally, whilst it is perhaps natural to direct policy initiatives at the 'biggest distortions', these may be difficult to address and not deliver the biggest benefits.

The above suggests that the selection and design of business and development initiatives should focus on and be driven by the related *direct* effects. Thus, attention should focus on 'binding constraints'; the constraints which, if removed, are expected to have the greatest development impact. Given that available knowledge on constraints impeding the development impacts of business are limited, (Hausmann *et al.* 2005: 5-7), propose a two-stage approach to identifying these binding constraints. The first stage identifies the broad determinants of desired business and development impacts. The second aims systematically to identify where within these broad determinants the binding constraints lie, using the decision-tree method shown in Figure 6.1.

The key insight of the growth diagnostics approach, which enables the researcher to chart a route to the binding constraint, is that it will create observable symptoms. Other actors in the economy will be seen trying to avoid this constraint, for example, or firms that are not affected by the constraint will thrive, while those heavily reliant on it will not. If access to affordable finance is the main problem, for example, we would expect to see firms that generate a lot of cash flow doing better – relatively speaking – than those more reliant on external financing. If a lack of reliable energy is the binding constraint, disproportionate use by companies of their own generating facilities should be observed. As well as these behaviour 'symptoms', we might also observe (shadow) price effects. A lack of savings should be reflected in high real interest rates, while a lack of skilled workers should lead to high returns to education. Through careful assessment of such 'symptoms' the researcher can progress down the decision-tree through a process of trial and error, ruling out some options and narrowing down on the binding constraint.

Figure 6.1 Growth diagnostics decision tree



Adapted from: Hausmann, Klinger and Wagner (2008)

It is possible to sketch out how this approach, initially developed for analysing constraints on economic growth, could be applied to the analysis of policy initiatives to influence business behaviour. If the development challenge, for example, was how to increase private investment in renewable energy, the growth diagnostic approach described above could be adapted and applied. Starting at the top of the decision tree, we might begin by asking whether long-term finance on reasonable terms is available in the country, and test this by assessing the level and terms of finance to other infrastructure-type projects. If this is not the case we would then proceed to investigate the reasons for this shortfall, moving down the decision-tree, looking for symptoms as described above, and systematically rejecting some explanatory factors as we home in on the 'binding constraint'. Let's assume for the purposes of this example, however, that there is a good supply of finance of the type required. The diagnosis then switches to the left side of the decision-tree where we would investigate whether returns are sufficient to attract private investment. At first glance, perhaps potential returns look competitive with comparable investments in other sectors. It is not returns that investors are concerned with, however, but risk-adjusted returns. This shifts the focus to whether risks are too high to attract investment, given the level of nominal returns that is available. An investigation of risk factors in the renewable energy sector would identify a number of candidates. Perhaps the project is using relatively untested technologies, for example? An exploration of previous experience in this respect might soon rule this out. We might then turn to the role of government in providing policy support for the renewable energy sector in the form of a feed-in-tariff, and explore the possibility that investors do not trust that the government will maintain this support for the lifetime of the project, creating risks that the projected returns are not sufficiently reliable.

What 'symptoms' might help to test this proposition? One option would be to explore whether the government has a record of changing regulatory frameworks that impact negatively upon investments – power purchase agreements (PPAs) with energy providers, or reductions in permissible tariffs for water supply, for example. If some supporting evidence was found in this respect, we might look for 'symptoms' of other investors trying to get round this problem

– purchasing political risk insurance. As well as assessing whether insurance instruments were disproportionately likely to be used (compared with similar countries and investments), the premiums charged on these instruments might offer further support for the proposition that lack of faith in the government was the binding constraint. This proposition could be subjected to a direct empirical test by comparing insurance premiums with other comparable situations.

Assuming that sufficient evidence was found to identify lack of faith in government as the binding constraint to increasing renewable energy investment, targeted interventions could be designed to address this problem. As well as being more likely to succeed, this process would avoid wasting resources attempting to resolve other shortcomings, which are observable but not fundamental to the development challenge at hand.

The Business and Development Centre at IDS will investigate how to use this approach to deal with different types of business constraints, such as risk and uncertainty and innovation and market proving. Many bottom of the pyramid-type initiatives, as well as the microfinance industry, might face such problems. As with the previous case, the types of potential constraints that could be ‘binding’, and hence the interventions that might best remove these constraints, would be rather different to those considered under the growth diagnostics approach. This implies that decision-trees would have been constructed to represent different potential constraints and their likely causes. While the growth diagnostics approach offers real potential, therefore, it is a starting point for research, rather than a tool that could be directly applied to questions of business and development.

7 Achieving enduring impact at scale

Having identified specific development objectives and challenges, and the constraints that are holding back pro-poor investments, the final question is whether and how interventions to tackle constraints can result in enduring development impacts at scale. Despite many interventions to pilot new approaches and demonstrate their viability, and case studies showing where business seems to be doing well, there is a general sense of not having achieved substantial impact over the long term. This is repeatedly expressed as the failure to ‘scale up’ (e.g. Jenkins and Ishikawa 2010; Gradl *et al.* 2011; WBCSD 2013a; Newnham 2013). Given the magnitude of development challenges and the substantial energy currently being directed at business and development initiatives, there is both a need and an expectation that these will deliver more than piecemeal interventions and lead to wider change.

Discussions around impact often refer to two related but separate concepts – ‘scaling up’ and ‘systemic change’ (Box 4). Scaling up is fundamentally about the overall size of impact achieved – including more poor producers, with greater impacts on their productivity, higher turnover and/or more poor customers reached. Systemic change focuses more on whether and how interventions tackle root causes of a problem, such that solutions become institutionalised and endure beyond immediate interventions. It involves identifying the interacting institutions, actors, activities, policies, resources, power structures, values and norms that make up a system and collectively influence or are affected by a given problem, as well as where potential levers of change lie.

Box 4: Systemic Change vs Scaling Up

The terms 'systemic change' and 'scaling up' both carry the sense of achieving development interventions with broad impacts. However, systemic change implies durability while scale implies breadth or depth of impact, as follows:

Scale up: significantly increase impact in size, amount or extent, reaching beyond what can be achieved through the direct intervention alone. Interventions usually require explicit mechanisms for replicating, extending or multiplying results.

Systemic change: Transformations in the structure or dynamics of a system that lead to impacts on the material conditions or behaviours of large numbers of people. Approaches to systemic change delve behind immediate problems or symptoms and tackle underlying causes to deliver tangible and enduring benefits.

Adapted from Ruffer and Wach (2013).

Systemic change is linked to scale since it can help identify and remove systemic barriers that are preventing scale from being achieved, leading to greater impacts for more people. The Harvard Kennedy School Corporate Social Responsibility Initiative finds that inclusive business projects have failed to reach their full potential because they have generally been carried out in isolation from broader efforts by other stakeholders to tackle deep problems or 'systemic barriers':

it has become clear that for companies to maximize their contributions to development, they need to engage in a combination of both business model innovation with the potential for long-term sustainability and broad, multi-stakeholder collaboration to remove systemic barriers to scale and impact.
(Gradl and Jenkins 2011)

In the agricultural sector, for example, business model innovation within agricultural companies may lead to more sourcing from small-scale farmers, providing farmers with greater access to more lucrative markets that result in higher incomes. However the ability of small-scale farmers to benefit from the opportunity may be constrained by a number of factors, including the farmers' inability to consistently meet company quality standards. In this case, interventions to train farmers to produce to the required standard may be a solution. However, depending on the company's resources, they may only be able to provide direct training to a few hundred or a few thousand farmers, limiting the scale of the impact. On the other hand, if the company works with 'lead farmers', who learn the new techniques and are provided with the skills and resources to train others, such that each can train 20 or 30 farmers in the local community, the scale of the impact becomes many times greater.

If, however, the root cause of farmers' inconsistent quality is not so much about training and knowledge, but about (lack of) access to inputs and labour, e.g. for weeding of crops, at particular moments in the growing cycle when interventions are needed to achieve the desired quality, then training will be of limited use. Overcoming these challenges may require new financing to be available for farmers to invest in their operations. One option is for credit to be made available by the company procuring the produce, or by a partner NGO or donor. However, even with a good repayment rate on these loans, there may not be sufficient rationale or ability for these actors to provide credit in the long term. The alternative is to focus on the local financial system and work with others in the system to identify barriers to farmers' access to credit and levers to incentivise changes (by changing laws and regulations, tax incentives for local banks to lend to farmers or measures to reduce transaction costs of this lending).

Systems are not straightforward. They are dynamic and non-linear with multiple, interdependent parts and feedback loops²¹ such that a small shift in one part of the system could catalyse a substantive change in the entire system (Ruffer *et al.* 2013). Foster-Fishman *et al.* (2007) suggest that most systems change efforts have not fully attended to the dynamics and properties of the contexts they are attempting to shift, and that the mental models that guide most efforts still see the relationship between intervention and outcome as predictable, uni-directional, and sequential, when in reality most systems contain a complex web of interdependent parts. Although addressing scale and systemic change is at the heart of the M4P approach described earlier, evaluations of M4P projects have similarly been found to be weak in consideration of systemic, sustainable changes, and are often based on linear theories of change (Ruffer *et al.* 2013).

7.1 Tracking scale and systemic change

Achieving scale and systemic change require moving beyond a laundry list approach (section 5). It also means going beyond just focusing on piloting innovative business models to 'demonstrate what is possible', under the assumption that once awareness is raised about alternative approaches, broader change will follow. As Utting (2003) put it, in the context of labour rights issues, despite all the 'learning by doing', the CSR agenda and activism have made only a slight dent in the problem of poor and repressive working conditions. This failure of efforts to bring about broad improvements in working conditions was harshly illustrated by the collapse of the Rana Plaza garment factory in Bangladesh in 2013, killing more than 1,000 people. Learning from systems theory also suggests that the problem analysis as well as solution identification needs to go beyond the apparently obvious to understand different aspects interacting within the system.

Understanding system functioning and identifying potential levers for systemic change requires:

1. **Clarity regarding the problem to be addressed**, including developing mutual understanding of different perspectives concerning the situation, given that each actor has only a partial understanding of the complex reality (as well as a particular concern with its own interests);
2. **A systems view**, identifying stakeholders and their interests as well as system parts – the norms, resources, regulations and operations that determine the patterns of interdependency within the system;
3. **Strategies to change or disrupt the system**, including realigning interests, affecting power structures and relations, creating new organisations and identifying niche innovations compatible with change; and
4. **Learning and adaptation**, since system change is as much of a process as an end state, and should be shaped by emergent arrangements and solutions.

(Adapted from Foster-Fishman *et al.* (2007); Gradl and Jenkins (2011) and Bloom *et al.* (2014).

Many elements that are relevant for systemic change are already covered in this paper, including 'prioritising' and 'alignment of objectives'. However, systems thinking points to the need to incorporate multiple and diverse perspectives in defining the system and the problems to be addressed, through dialogue with system actors especially those generally marginalised within the system. Each actor has only a partial understanding of the behaviour of the system as a whole, and experiences and understands the system differently

²¹ Feedback is a process of partially returning output back into a system so that when one parameter changes value, it forces a change in a second system parameter, which in turn forces a change in the first parameter. Feedback loops can either be reinforcing/positive loops that escalate outcomes and create virtuous or vicious cycles; or balancing/negative loops that stifle or counter-balance an interaction, creating stability or stagnation.

(Checkland 1981). Joining different perspectives can build mutual understanding and provide important insights into the problem and potential solutions.

Systems thinking also emphasises mapping and understanding the different component parts of the system. The system includes agents, institutions, relationships, resources and norms that explain how it functions, and where there may be levers for change. Power relations are central, given that powerlessness is a key aspect of poverty (Narayan, Chambers, Shah and Petesch 2000). Also important for business and development interventions is the awareness that the system boundary may be beyond the market and include household, political, cultural or environmental aspects (Sahan and Fischer-Mackey 2011). Positive and negative feedback loops can escalate outcomes and create virtuous or vicious cycles, or counter-balance and thereby stifle change.

Finally, systemic approaches emphasise the dynamic and adaptive nature of change. This means approaching the challenge in an iterative way to capture system adaptations, react to unintended consequences and refine the analysis and understanding of opportunities over time. System change is difficult to achieve consciously, especially at a large scale. Most major shifts that have occurred in the past have resulted from the interaction of both conscious actions and unexpected discontinuities. However, a systemic approach builds a more complete picture of challenges, opportunities and potential levers for change. It both avoids expending valuable resources on interventions with little chance of enduring, and ensures there is a greater chance of seizing windows of opportunity when they do arise.

8 Impact assessment

Business and development interventions aim to make an impact on development outcomes – to make a difference to the welfare of citizens around the globe. One message repeated throughout this working paper is that scarce resources have to be deployed to maximum effect. Without a way of addressing the impact question, it would be impossible to move beyond the theory and generate concrete evidence of the relative merits of different courses of action, or establish the limits of business action.

If this is the case, how do we assess what the impacts of particular business and development initiatives have been? This issue is being debated extensively by development actors and by businesses and business groupings concerned with development impact. However, businesses and development actors usually approach the question of impact with quite different objectives in mind.

In a recent review of approaches to assessing the development impacts of business, the WBCSD identifies four reasons for businesses to have an interest in assessing their impact on development (2013b). These four reasons arise from two distinct business motivations for assessing impact:

1. On the one hand, businesses look to assess impact in order to inform stakeholders about what they are doing. The WBCSD paper refers to ‘obtaining or maintaining a licence to operate’ and showing that ‘their activities create net benefits for the economies and societies in which they operate’. It also argues that, ‘Measuring socio-economic impact can help companies show policymakers what and how they contribute to public policy goals through profitable business activity – helping those policymakers develop the right mix of rules, incentives and public services needed to maximise the business contribution’ (WBCSD 2013b: 8). The prime audience is external (although businesses will also want to know themselves how they rate on these indicators), and the impact measured is that of a particular set of business activities.

2. On the other hand, the WBCSD points to the uses of measuring socio-economic impact for identifying performance questions, particularly as they relate to value chain relationships – ‘the loyalty, performance, stability, and capacities for growth of suppliers, distributors, and retail partners’ – and for helping ‘companies understand the needs, aspirations, resources and incentives of their customers’ (WBCSD 2013b: 8-9). Here, the main audience includes the prime business itself, firms in its value chain and its customers. The information provided enables the company and its value chain to perform more efficiently and provide products more suited to the needs of its customers.

Assessments have to be fit for purpose. If the purpose of the assessment is to show that businesses contribute to public policy goals, then the focus will be on what a business contributes in terms of employment creation (direct and indirect), supply chain development,²² tax payments, *etc.* How far there is follow-through from business outcomes to development impact is a matter of cost and returns: ‘Resources are limited, in business and the development community alike. The cost and complexity of measuring must be proportional to the value that measuring it helps to create. As a result, prioritisation is key’ (WBCSD 2013b: 17). The paper goes on to suggest that ‘organisations choose to measure ‘outcomes’ and even ‘outputs’ as proxies for ‘impact’ (WBCSD 2013b: 17).²³

Development agencies have different purposes for impact assessments. Development agencies fund interventions that are designed to achieve development impacts – reductions in incidence of disease, increased incomes for poor farmers, better management of natural resources, *etc.* It is now widely argued that impact assessments need to establish clearly that positive impacts have been achieved and that these can be attributed to the intervention. This is far from easy. Beyond the routine issues with achieving effective measurement of development impacts (in the case of employment, for example, what counts as a job, how are part-time and/or seasonal jobs accounted for, *etc.*), attribution is a big challenge (see for example Ruffer *et al.* 2013) – even if changes are observed, can they be attributed to a particular intervention? As the assessment moves from outputs and outcomes to impacts, the attribution challenge increases.

It is widely accepted that rigorous quantitative approaches are the best way to solve this problem. It has been argued that wherever possible rigorous quantitative techniques should be applied to assess the impact of interventions directed at enhancing the development impacts of business (McKenzie 2009). Thus, there is great interest in the application of randomised control trials (RCTs) and quasi-experimental methods (for example based on difference-in-difference), that resolve the attribution problem. There are technical questions about how to implement such approaches, the conditions under which they are appropriate and whether they are sufficient to capture all the information required about impact. There is debate among development specialists about the utility of such approaches. Ruffer and Wach (2013), for example, argue for the use of mixed methods in assessing business and development interventions.

Considered, however, from the perspective of the alignment of business and development objectives with respect to assessment, the issues look very different. If cost and complexity have to be proportional to value, what is the value of RCTs? Their value lies not in the assessment of the outcome of a particular intervention, but rather through establishing whether or not an intervention should be repeated in the future. The true value to a

²² For example, analysis of the employment created by SABMiller’s Nile Brewery operations in Nigeria indicate that, whilst only 430 people are employed directly by the company, when activities along the value chain and the multiplier effects of additional household spending are taken into account, total additional employment is estimated at 44,000 (Kapstein, Kim and Ruster 2009). Analysis of direct and indirect employment and for Unilever’s operations in Indonesia shares a similar ratio between direct employment and overall employment impact (Clay 2005).

²³ It should be noted that many development initiatives also focus on outputs and outcomes when assessing their achievements.

development agency of an RCT is not to establish that a project has a particular impact, but rather to establish the validity of a particular type of intervention. The assessment identifies where to put resources for future interventions. This is a value for development agencies. Businesses are unlikely to be able to appropriate this value. First, the returns to the business are more closely linked to the outputs and outcomes of interventions, not the development impacts. Second, businesses would only be able to fully appropriate the value of the assessment if they replicated the intervention and prevented others from doing the same. As well as being difficult, this would be counter-productive for development. For this reason, impact assessments are better considered as a public good.

While businesses are rightly concerned with immediate and tangible impacts of their business activities, as reflected in statements about job creation, supply chains and distribution systems, development agencies need to pay particular attention to the benefits that flow into the poor, and to the **increase** in benefits to the poor that can be attributed to particular initiatives that they have financed. It is these differences in purpose and use that lead to differences in measurement. Certainly, there is much work to be done in developing more consistent and rigorous empirical approaches to the assessment of business and development initiatives, but the onus is on development agencies to do this and to use this information to be much more selective about the interventions they support.

9 Conclusions

This Working Paper, the first to be produced by the Business and Development Centre at IDS, has focused predominantly on the development side of the business and development relationship. Starting from an understanding of 'business' as a broad term including firms that range from farmers and microentrepreneurs to local manufacturing companies and MNCs, it has highlighted challenges facing development agencies in mobilising business resources for development objectives and becoming effective partners for business. First, it has noted the multiplicity of objectives pursued by development agencies, reflecting the many different factors that affect the lives of poor people in developing countries. Second, it has emphasised the need to move beyond the 'laundry-list' approach to business and development initiatives and to focus efforts in this field on the areas that provide the greatest returns. Third, it has been argued that while there are many areas where there is a good alignment between business interests and development objectives, as well as various ways in which this alignment can be increased, there are also many challenges where focusing on a business or market response is ineffective in delivering development objectives. Development actors must be selective and discriminating about when they seek to mobilise business resources for development objectives. Fourth, the paper has also noted the continuing need to extend good business practices to the many companies that have not yet adopted them, through regulation as well as through private and public-private initiatives, and this points to the continuing importance of the 'do no harm' agenda.

The paper has identified three strategic themes for taking the business and development agenda forward: identifying the areas where business is best placed to contribute to development objectives and the conditions under which business and societal interests can be brought more into alignment; identifying priorities in terms of key obstacles that, if removed, would have the largest positive impact on development outcomes; and achieving greater impact through scaling up and promoting systemic change. These are all areas where development agencies need to be more strategic in their business and development programmes.

The paper has prioritised changes on the part of development agencies as a first step to increasing the effectiveness of business and development initiatives, but it has not neglected business. It has discussed what motivates business and introduced the distinction between

the logic of interests and the logic of appropriateness. It has also emphasised the many challenges that businesses face when operating within developing countries. In particular, it has suggested that businesses frequently face complex and disordered markets that increase costs, reduce predictability and limit the capacity to appropriate returns on investments. The implication of this is that there is an important role for market ordering initiatives to facilitate business activities for development objectives. Such initiatives would certainly involve State action, but may also emerge from private and public-private initiatives.

This first paper from the Business and Development Centre is, in part, a ground clearing exercise. It establishes some basic principles and priorities. However, making further progress requires much more focus on specifics since the complexity of these challenges and the actors involved are great. There are many different types of businesses in developing countries, ranging from informal, small-scale firms, to larger domestic enterprises and transnational companies, which have different potential contributions to make. Frequently, the value chains that deliver goods and services involve many types of companies that work together with varying degrees of efficiency. The development objectives pursued by business and development initiatives also vary considerably, even within the same sector. In health, for example, working with businesses to reduce the global threat of antimicrobial resistance requires a very different set of relationships and initiatives to, for example, recognising that many poor people rely on informal health care providers and thus working to improve the quality of service that such providers give (although noting that the two challenges are not entirely unrelated). The challenges in a different sector, such as working on mobilising businesses to invest in green growth initiatives that benefit the poor, would be very different again.

Being specific around the challenges also allows for a prioritisation of issues and responses. For example, an initiative to improve the quality of complementary foods for young children in sub-Saharan Africa would have to consider the following non-exhaustive list of potential issues: international regulations (for example, FAO guidelines on advertising foods directed at children under the age of two, as well as possible national legislation in this area); national and international initiatives in agriculture (for example, the Comprehensive African Agriculture Development Policy (CAADP), and the New Alliance for Food Security and Nutrition, launched by the G8 and adopted by various African countries); national policies in areas such as agriculture, labelling, consumer protection and small business development; and the availability of fortificants to food processors of various sizes, both formal and informal. Specific analysis is required to understand the most effective divisions of labour and forms of partnership between public and private actors in this field, and to identify the key obstacles whose removal would provide the greatest benefit.

For this reason, the next three publications from the Business and Development Centre will be focused on sectoral challenges, looking at issues in the fields of health, green growth and food and nutrition. In each of these sectors, researchers at IDS have been engaging with both businesses and development actors to identify challenges and consider how they might best be met. These papers will focus on these specific challenges, which may arise from both state and market failures, and identify specific ways in which they might be addressed to contribute to the achievement of broader development objectives.

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