

Understanding and Enhancing the Role of Business in International Development

Political, private sector and development leaders broadly agree that business has a critical role to play in driving innovation, promoting inclusive and sustainable economic growth and improving human wellbeing. Foreign Direct Investment (FDI) flows to developing economies now account for over half of all FDI flows worldwide and developing countries' national investment policies are increasingly driven by their development strategies. This is reflected in an upsurge in the promotion of business activities specifically targeted at achieving development objectives. However, more needs to be done to ensure that these activities are strategic and that donor, business, government and NGO efforts are informed by a more detailed understanding of where and how business can make the most effective contributions.

Developing a more coordinated approach

Development agencies and national governments are increasingly seeking opportunities to work with businesses or promote private sector activities in order to achieve development goals and provide public goods. However, with the recent increase in the volume and range of business and development interventions, a pressing question has emerged around how they work most effectively together towards public development objectives? Stronger business contributions to development can come from increasing the quantity of business activity or from improving its quality, either by discouraging activities which damage social welfare or by encouraging efforts to maximise the long-term development impacts of business investments, such as the generation of 'good quality' local jobs and protecting the environment.

Aligning private goals and public goods

Donors, governments, NGOs and businesses themselves need to understand where business is best placed to contribute to development objectives and the conditions under which core business and societal interests can be better aligned. Greater focus is required on key obstacles that, if removed, would have the largest positive

impact on development outcomes, and promote broader systemic change. Achieving greater alignment remains a complex challenge which needs a more problem- or sector-oriented approach. This would involve assessing the contribution that business could make in relation to a specific problem or sector such as health or nutrition, how action could be incentivised and then using this information to underpin a future course of action involving business, donors, governments and civil society as appropriate.

A deeper understanding of the impact of business activities on development outcomes will also be vital to making sure that business and development interventions make best use of the scarce resources available. In considering the impact question, it is important to recognise that how businesses and development agencies define and measure success, and over what time frame, inevitably differs. Businesses often prioritise demonstrating social benefits and learning to improve performance, while development actors focus more on attribution (linking particular outcomes to specific policy interventions) and the longer term benefits of a particular initiative. Collaborations on impact assessment need to reflect these legitimate differences in purpose. ➔

Case study: The role of business in tackling undernutrition in Nigeria

Tackling undernutrition involves complex challenges relating to nutritional awareness, the signalling of nutritional benefits to potential consumers, the costs of distribution in rural areas, and the targeting of those most at risk of undernutrition. More needs to be done to understand where and how business and markets are most effective at delivering solutions to such complex challenges, and identifying policies suitable for the many different types of businesses – ranging from informal and small-scale firms to large companies. In some situations social businesses or impact investors will be required, and the most effective interventions are likely to involve both public and private actors.

In Nigeria, policymakers are currently working with businesses to try to tackle the persistent challenge of undernutrition which affects more than 11 million children in the country. However, business efforts to deliver safe, nutritious and affordable food to the poor have been severely hampered by weaknesses in the market ecosystem in which food businesses operate. Poor quality supplies, lack of nutritional awareness, counterfeiting and high distribution costs all present significant challenges.

Clearly this complex set of obstacles cannot be overcome by business alone. Sustained political momentum, better regulation, heightened public awareness and a more secure investment environment are necessary, and this requires engagement and action not only from food businesses, but also government, donors and civil society.

Policy recommendations

- Much greater clarity is needed in both the business and development sectors around the specific objectives of partnerships and interventions.
- Achieving positive development outcomes requires greater leadership and focus from the development sector, and an understanding of how alignment between business and development objectives can be constructed and incentivised by donors, governments and NGOs.
- A more targeted approach to business and development intervention is needed, emphasising specific problems within specific sectors. This will also be instrumental in helping to realise better alignment of efforts.
- There is a need for donors to develop more consistent and rigorous empirical methods of assessing the impact of business and development which better evaluate interventions against objectives.



IDS Policy Briefings are published by the Institute of Development Studies and aim to provide high quality analysis and practical recommendations for policymakers on important development issues.

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Further reading

IDS Business and Development Centre. (2014) *Understanding and enhancing the role of business in international development: A conceptual framework and agenda for research*, IDS Working Paper 440, Brighton: IDS

Robinson, E. and Humphrey, J., *IDS Policy Briefing 50* (2014), Working with Businesses to Reduce Undernutrition in Nigeria

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Spratt, S. (2013) 'How Does Financial Regulation in Low-Income Countries Affect Growth and Financial Stability?' in te Velde, D.W. and Griffith-Jones, S. (eds) *Sustaining Growth and Structural Transformation in Africa: How Can a Stable and Efficient Financial Sector Help?* London: DFID-ESRC Growth Research Programme (DEGRP)

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ISSN 1479-974X