TITOLO

The Private Sector and the Sustainable Development Goals
Business engagement for the post-2015 development agenda

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The PRIVATE SECTOR and the SUSTAINABLE DEVELOPMENT GOALS

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INTRODUCTION

At the end of September, the UN General Assembly will ratify the adoption of the 17 Sustainable Development Goals (SDGs) that will represent the objectives of the international community for the next fifteen years. With the Millennium Development Goals (MDGs) expired, and development challenges still a reality, this agenda required changes in the structure and mindset.

The last fifteen years of MDGs implementation, in fact, has mainly seen government-led initiatives, with business involvement limited to an *ad hoc* basis. A structured framework for engagement of the private sector with the MDGs has never been on offer, and roughly speaking, its role was rather vague.

Nevertheless, the private sector, in the form of both external and domestic companies, has significantly increased its impact on the growth of developing countries during the last decade, often demonstrating capacities and interest in the addressment of development challenges.

Times have changed and, from both sides, awareness concerning the potential role and contribution of the private sector to the addressment of global problems and the achievement of development objectives has significantly evolved.

So, there is foundation in the growing reference made by many stakeholders regarding the opportunity of increasingly involving and engaging the private sector in the post-2015 development framework.

Indeed, after the Rio+20 United Nations Conference on Sustainable Development, the call for the creation of a framework that would be able to guide and facilitate an enhanced business involvement has grown. Experts, business organizations, prime ministers and representatives of multilateral institutions have increasingly expressed the necessity of reshaping the companies role.
Nonetheless, there remains a reasonable scepticism, with a range of views on the relative merits and risks of having commercially-minded actors participating in development processes.

Hence, the SDGs adoption has been called to address the private sector matter in a more systematic and comprehensive way than the MDGs. They have come to represent (among others) the opportunity for reshaping the business role and for strategically involving and engaging the private sector for development.

The implications of an enhanced business involvement and engagement are a lot and, therefore, the issue is undoubtedly a controversial one. Indeed, it is characterized by an intense debate.

So far a broad variety of reflections have been produced around the business and development relationship and a number of approaches have been proposed to turn business action towards development objectives.

Hence, being the new development agenda about to enter into force, it is interesting and useful to assess the debate about the private sector potential for development, to verify if the SDGs provide for a private sector contribution (as wished for by many stakeholders), and in case to analyze the way business is expected to support sustainable development.

There remains the need for getting the configuration right in order to appreciate pros and cons and individuate the best practical solutions for an effective cooperation.

The work tries to understand if an enhanced business contribution is necessary, the possible reasons for that and how business can drive sustainable development. Hence, broadly speaking, I will attempt to provide an answer to the question regarding the role of the private sector in the post-2015 development framework.

The complexity of the issue is significant. There are different actors involved and many challenges to be addressed, for which sophisticated solutions are required. Hence, in
order to provide a realistic and credible assessment of the issue it has been necessary to 
simplify the outline of the situation.

The present work addresses the private sector engagement for development, particularly 
its potential in helping the developing countries and the poor to sustainably improve 
their conditions through adapted core activities and pursuant to the post-2015 
development framework.

The private sector is to be intended to comprise essentially companies and firms. Thus, 
this work refers to big companies able to transcend national boundaries and invest in 
developing countries, but also local enterprises that operate in such a way as to 
contribute to the addressment of local development problems. It focuses also on 
initiatives promoted by multilateral or international institutions involving the private 
sector as a direct actor or a partner in delivering development objectives.

The attempt to assess and sketch processes and mechanisms for a general engagement of 
companies (what I am trying to do here, among other things) is complicated by their 
cross-sectoral and multilevel nature. This is why, in order to showcase the business 
potential, I opted for two case studies in two different and specific sectors. It does not 
want to be a comparative analysis of case studies, but rather the provision of factual 
evidence of the business potential in two different sectors. Through their analysis I will 
try to demonstrate the positive impact that companies adopting specific approaches and 
strategies can have on poor communities in developing countries, bearing in mind a 
context- and sector-related perspective.

Finally, I am aware of the fact that international economic policies regarding 
macroeconomic coordination, financial, tax and trade regulation can make a difference 
in the context of business action for development, but these issues go beyond the 
specific scope of this work, so they will not be particularly deepened.

With regard to the structure of the research, I opted for a tripartite solution. At a first 
stage, the work analyzes the issue from a very general point of view, introducing the
topic and trying to bring its most relevant aspects and implications out. In the second part, once established the critical dimensions of the issue, they will be deepened going through the most important, interesting and useful reflections and experiences that have been taking place over the last years. Thirdly, the practical implications of the issue will be highlighted through the description and analysis of two case studies, in an attempt to be not too speculative.

It has to be noted that the SDGs adoption will occur at the end of September 2015 (22nd-25th), along with the conclusion of the present work.

The references encompass the documentation produced by the relevant multilateral organizations and international institutions involved in the process, and the related academic literature and journal articles. The starting point of the research was the Open Working Group proposal for the Sustainable Development Goals.
PART I - Background

Chapter 1

Need for a Global Partnership

Global development is turning to a critical juncture. Despite progresses in the framework of the MDGs, there remain crucial development challenges: poverty, inequality, climate change, environmental safeguard, lack of quality education are just some of the important concerns of the current globalized world. At the same time, there is a wide range of possibilities for development. The operational changes necessary for moving towards a sustainable development trajectory are significant, but feasible (thanks also to the MDGs results and the lessons that can be drawn from this experience), and the SDGs have come to represent a crucial step in this sense.

As stated in the follow up of Rio+20 United Nations Conference for Sustainable Development, the SDGs are a universal agenda, they will entail a broad range of means of implementation, and they will involve a hugely diverse range of actors. Well-grounded SDGs can help guide all the actors’ and stakeholders’ in understanding the complexity of sustainable development challenges, and inspiring their action. The difficulties concerning the implementation and the effectiveness of multilateral agreements on such complex issues are real. Yet, the management of public goods requires comprehensive international agreements.

The challenges at stake are inherently interrelated and the Goals have to be pursued in combination. Hence, the SDGs need to provide a shared normative and operational

1 Broadly speaking, actors and stakeholders in the development field are: developed and developing countries, multilateral, regional and bilateral development and financial institutions, parliaments, local and regional authorities, private sector entities, philanthropic foundations, trade unions and civil society organizations, but also scientific community and academia
framework in order to address the sustainable development priorities, requiring a pragmatic approach for the design of goals, targets and indicators.

One of the most important aspects in this sense is to gather political will for action and commit all the stakeholders for a more effective development cooperation aimed at implementing the new global agenda.

While economic, environmental and social progress ultimately depends on the implementation of appropriate domestic policies, the international environment can play a critical role in inspiring and facilitating national development efforts.²

In this sense, a real Global Partnership, aiming at gathering all the actors to work with transparency, accountability and responsiveness is more than ever necessary. Through the involvement and the engagement of every resource, providing for integrated and coherent policies, challenges are more likely to be overcome.

As stated in the outcome of the First High-Level Meeting of the Global Partnership for Effective Development Co-operation³ held in Mexico in April 16th 2014:

There is an increasing need for effective development cooperation in order to better support the long-term and broad developmental impact of a strengthened mobilization of domestic resources and the convergence of efforts of all public and private development stakeholders at all levels on the basis of common goals and shared principles.⁴

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³ It is a forum for shared advice, shared learning and shared action to support the implementation of principles that form the foundation of effective development co-operation. It brings governments, the private sector, civil society and others together to ensure funding, knowledge and policy produce maximum impact for development

All stands and perspectives are to be duly acknowledged and space is to be given and expanded to every stakeholder, in a spirit of inclusiveness, democratic ownership of the agenda, trust and mutual consideration for a concerted and complementary effort towards development objectives.

However, in an age of globalization, governance within and between countries is becoming more complex and problematic. Whereas in the past, national governments made most decisions in autonomy, today they must coordinate with a broad spectrum of actors, including businesses, local governments, regional and international bodies, and civil society organizations. We witness a growing demand for participation in key decisions from all segments of society.

The Sustainable Development Solutions Network (SDSN) in its Report for the UN Secretary-General argues that

> the world needs an operational sustainable development framework that can mobilize all key actors in every country to move away from the Business-as-Usual (BAU) trajectory towards a Sustainable Development (SD) path. […] The BAU trajectory is marked by a failure of international coordination and cooperation, as well as inadequate policies in developed and developing countries that do not address the challenges of sustainable development. […] A central reason for the poor outcomes of

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5 Launched by UN Secretary-General Ban Ki-moon in August 2012, the Sustainable Development Solutions Network (SDSN) mobilizes scientific and technical expertise from academia, civil society, and the private sector in support of sustainable development problem solving at local, national, and global scales.

6 BAU is about keeping the same system without changing internal dynamics and mechanisms: maintaining things as they always do, notwithstanding all their limitations and failures
the BAU trajectory is the failure of global cooperation around a framework for sustainable development and inadequate national policy frameworks.⁷

It is showed that global efforts to assist the poorer and more vulnerable countries will continue to fail, the declining trends of official development assistance (ODA) will intensify, vulnerable regions will not be able to overcome endemic poverty and fragility, young people will not have equal opportunities, women and girls will remain disempowered, environmental degradation⁸ will continue, and the world will be unable to deal with the rise of population.

A sustainable development path, instead, based on normative concepts like ‘the right to development’, ‘human rights and social inclusion’, ‘convergence’, and ‘shared responsibilities and opportunities’, is by far more likely to address all the current development challenges adequately.

Thanks to rising incomes, unprecedented scientific and technological progress, the information revolution, a growing political awareness of the need for Sustainable Development pathways, and the positive lessons from the MDGs […] the world has the tools to end extreme poverty in all its forms and to combine economic growth, social inclusion, and environmental sustainability.⁹

The SDGs represent the opportunity to identify the main objectives and strategies needed to address the challenges and make this shift, but concerted action involving governments, businesses, civil society, science, and academia is necessary.

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⁸ For an overview regarding the state of art of the world nature see Wijkman, A. and J. Rockström (2012), Bankrupting Nature: Denying our Planetary Boundaries, London: Routledge

Governments must ensure necessary resources and equitably redistribute the positive outcomes. Moreover, they might launch discussions on long-term development pathways involving all key stakeholders in both decision-making and implementation phases.

Good corporate governance calls on all companies, from multinational corporations (MNCs) to small and medium enterprises (SMEs), both at the international and domestic level, to internalize the development objectives, work with and for the poor and hold themselves accountable for their related performances.

Civil society, including non-governmental organizations, universities and research institutions, can play a critical role in ensuring transparency, spreading findings, holding public administration as well as the private sector accountable for their commitments.

Global institutions are necessary to face global challenges and retain the job started by the MDGs. But they will need to broaden their services and skills to address the full spectrum of sustainable development challenges and to become agents of global change. In order to win the legitimacy for these expanded roles, they will also need to correct their internal imbalances and governance structures.

I recognize, as pointed out by Martins and Lucci, that international economic policies regarding macroeconomic coordination, financial regulation, and trade regulation can make a difference, but they go beyond the specific scope of this work, so they will not be particularly deepened.

Most importantly for this work, “for the world to follow a sustainable development trajectory, all countries and businesses must agree to a set of rules and values, and then

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live up to their responsibilities under a system of transparency, monitoring, and accountability”.

In this framework, in fact, the private sector deserves special notes. Multinational corporations have become key players in fields of the global economy such as global trade, finance, production, and technological change. Both their positive and negative behaviors significantly affect the effectiveness of global and national policies. Small and medium-size enterprises as well play a critical role in economic growth, employment and service provision in all countries.

Hence, being the principal engine for economic growth and job creation, entrepreneurship, productivity and innovation, knowledge sharing and technology transfer, and for expanding access to finance and goods and services, the importance of businesses\footnote{Sustainable Development Solutions Network (2013), *An Action Agenda for Sustainable Development*, Report for the UN Secretary-General, \url{http://www.unfoundation.org/assets/pdf/sustainable-development.pdf}, (22/4/2015)} for this shift towards a sustainable development path has been increasingly recognized by many stakeholders in recent years.

In short, the specific potentialities the private sector enjoys, as we will see throughout this work, are increasingly considered to be crucial for the achievement of sustainable development objectives. Collectively, businesses can develop and deliver many of the new technologies, organizational models, and management systems necessary for such a leap, and this has to be acknowledged and to be given wide consideration in the post-2015 development system.

\footnote{In the present work, the term ‘private sector’ and ‘business’ are interchangeable. They comprise a great diversity of entities, from financial institutions to firms and small shops. In the present work, the private sector/business is to be intended to encompass essentially companies and firms. Thus, this work refers to big companies able to transcend national boundaries and invest in developing countries, but also local enterprises that operate in such a way as to contribute to the addressment of local development problems. It focuses also on initiatives promoted by multilateral or international institutions involving these organizations as a direct actor or a partner in delivering development objectives.}
Chapter 2

Financing the post-2015 development agenda

It is evident how, in the context of this research, the financial implications of the post-2015 development framework are relevant. The financing needs of an ambitious and truly transformational agenda will require a significant increase in financial resources. The UN has estimated that the new goals could cost as much as $172.5 trillion over the next fifteen years.\(^\text{13}\)

With the world economic growth on a slower path, in particular donors’ growth, and Official Development Aid (ODA) decreasing, it is realized that the bulk of sustainable development finance will have to come from the private sector, which controls and manages an important amount of potential funds and investments.

As crucial part of a credible governance transformation for sustainable development, a fair and viable financing strategy to tackle development problems is needed. Clear criteria are required for increased resource mobilization and graduation from ODA.

First of all, every high-income country should respect its commitments.\(^\text{14}\) Moreover, domestic resource mobilization have to be ensured and enhanced by developing countries. All states have also to lead a process to curtail abusive transfer pricing and work to close “havens” that encourage tax evasion and capital flight. Finally, innovative financing mechanisms\(^\text{15}\) are to be developed and applied.


\(^\text{14}\) The reference here being to the commitment that developed countries have taken in Monterrey (2002) to provide the 0.7 of their GNI for development assistance

\(^\text{15}\) Innovative financing refers to a range of non-traditional mechanisms to raise additional funds for development aid through new creative projects such as: taxes, dues or other obligatory charges on
But, significantly, although donor assistance still remains the largest external flow (with some significant exceptions), Foreign Direct Investment is already a key contributor to capital formation in developing countries (See Exhibit 1). The latter are increasingly attracting FDI.\textsuperscript{16} Even though it is largely concentrated in the BRICS, investment in Africa is rising as well, and it is expected to continue growing.\textsuperscript{17}

Evidence on the impact of FDI shows a mixed record: where used strategically and under the right conditions, Multi-National Companies can help to grow the economy and alleviate poverty.\textsuperscript{18} But here, as detailed in Part III, a sectoral analysis is necessary. Generally speaking, according to the UNCTAD World Investment Report 2014, FDI has made a positive contribution to development in developing countries and it could increase greatly in the coming decade if appropriate strategies and policies are put in place.

However, my assessment of the private sector potential role in the development field does not focus just on the financial issue. It is more about the specific knowledge and expertise that the private sector can provide, which, in combination with the other stakeholders’ capabilities, can deliver better development results.

globalized activities; frontloading and debt-based instruments; state guarantees, public-private incentives, insurance and other market-based mechanisms.


\textsuperscript{17} Ernst & Young (2015), "EY’s attractiveness survey, Africa 2015, Making Choices", \textit{EY Publications}, London: Ernst & Young, \url{file:///I:/EY_Africa%20attractiveness%20survey%202015.pdf}, (20/7/2015)

Graph 1 – FDI inflows, global and by group of economies, 1995–2012
(Billions of dollars)

Source: UNCTAD FDI-TNC-GVC Information System, FDI database
(www.unctad.org/fdistatistics).
Chapter 3

Private sector engagement so far

Notwithstanding the rather exclusive MDGs focus on the social sectors, that actually has helped to achieve necessary improvements in human development (See Annex 1), but which has side-lined the productive sectors, private sector engagement in development cooperation has been increasing over the last fifteen years. As said above, the private sector consists of a diverse set of actors, which are all far more active development actors than just one decade ago.

During the drafting process of the MDGs, the international business community was essentially absent from the deliberation and the act of creation. This due to the fact that the United Nations, the governments, and the broad international development community discounted – and, in some instances, felt hostile towards – the role of the business in global geo-socio-economic issues.

The MDGs were primarily a result of intergovernmental agreement, and as such they were concerned with an increased cooperation between development agencies and governments, or among governments. The private sector was not really mentioned and its role was not clearly and explicitly clarified.

It appeared just in the Target 8.F: “In cooperation with the private sector, make available the benefits of new technologies, especially information and communications”. Officially business role was limited to improving access to affordable essential drugs and information and communication technology (ICT).
Another element is that business itself, generally speaking, in those years did not demonstrate any real interest in broad development issues – seeing this domain as the preserve of multilateral organizations, the public sector, aid agencies, and civil society.\(^{19}\)

However, the private sector, in the form of both external and domestic companies, has significantly increased its impact on the growth of developing countries during the last decade, often demonstrating capacities and interest in the addressment of development challenges. As we have seen, Foreign Direct Investment, for example, have become an important feature of capital formation in developing countries. The private sector has emerged as a potential contributor. It has actually been involved in the delivery and financing of the MDGs across a number of areas and fields through a series of initiatives (see Part III, Chapter 3).

Indeed, during the past decade much has changed on both sides of the equation. On the one hand, the UN and the development community have come to appreciate the positive contributions that business can make. On the other hand, business has shown a growing willingness to contribute and to be part of the solution.

Ultimately, awareness concerning the potential role and contribution of the private sector to the addressment of global problems and the achievement of development objectives has significantly evolved.

**3.1 What has driven engagement?**

For long time, proactive private sector engagement in development was limited. Business was mostly relying on philanthropy or focusing on Corporate Social Responsibility (CSR).

Today, it is generally accepted the idea that companies can have a greater impact on development by adapting their core business practice, rather than through philanthropy or CSR initiatives alone (See Box 1). Thinking around these dimensions has evolved considerably in recent decades\(^{20}\) and it is going to be analyzed further on.

Regarding CSR evolution, external pressure has played a key role. Civil society scrutiny and media inspection have alerted businesses and stimulated them to act more responsibly. Corporate responsibility agenda then evolved focusing on agreeing and meeting acceptable standards\(^{21}\) to mitigate the risks from negative externalities.

According to Fortin and Jolly, there are some concerns regarding the possibility that the corporate responsibility agenda emerged as a way of getting a ‘license to operate’ in a foreign setting, just a way of acquiring public legitimacy, without any real intention to commit.\(^{22}\) That is to say that operating responsibly is just a matter of reputation to businesses.

As said, the idea that in some areas very core commercial objectives can complement development goals has gained traction more recently. Genuine engagement can be explained as the recognition that development targets can represent commercial imperatives, that alignment is in businesses’ interest, i.e. the safeguard and the responsible management of natural resources is a development concern, but at the same time it makes business sense because ensures factories with long-term supply of raw


\(^{21}\) See, for example, ISO 26000, RSPO or RTRS, Fairtrade, ILO Core Labor Standards

New investment opportunities, protection from future shocks, safeguarding supply chains and developing new markets targeting the poor are increasing companies’ interest in engaging more explicitly with the development agenda. Hence, developing countries are increasingly seen as attractive investment opportunities for MNCs. As such, accelerating development in these economies becomes an issue of interest for businesses investing in these countries.

In addition, reasons internal to companies help explain business engagement in development. Some organizations, for a wide range of ethical reasons, are simply more inclined to behave responsibly and make it part of their core mission.

In short, for these reasons business engagement is broader and more aware today, covering a number of issues. There is an array of approaches descending from the general idea that the private sector can benefit poor people in developing countries and protect the environment through core business practice, alongside with philanthropy and CSR, and they will be described in Part II.

At the bottom of this, there is the recognition that the synergy between commercial value and social value should be further explored through the collaboration among the private sector, non-profit organizations and governments.

So far we have seen businesses’ motivations for engaging and committing, but many initiatives often involve the private sector as partner rather than main actor. Philanthropic organizations, NGOs, donors and governments have experienced different ways of partnering with the private sector. Why? In the case of donors and NGOs, fiscal constrains in developed countries translate in tighter resources for aid and development.

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So, cooperation with business results in less pressure on budgets, the private sector representing another source of funding.

But, most interesting and significant for the present work, there is also the growing awareness that complex global problems require the combined capabilities of a range of stakeholders, including the private sector. This is particularly true for specific fields. Firms comparative advantage in technical and innovative capacity, supplemented with NGOs and donors knowledge of local stakeholders and their needs, can deliver better solutions.

Finally, some political space may be opening up for a more ambitious systemic change, which might call the current economic model into question and seek for a more just and equitable world. The current economic and political system has led to and keeps nurturing important and increasing disequilibria across and within countries and societies. Inequalities raise and feed dramatic social and humanitarian crisis throughout the world. The sustainable development path imply respect, justice and equality. If adopted and supported it would deal with these important challenges in a more effective way, scaling up impacts and addressing the systemic dimension as well.
**BOX 1 – Three areas through which companies can make a contribution**

1 - **Core business operations and value chains:** Creating positive shared value for host countries and communities by mobilising the innovative technologies, processes and skills on the private sector through “inclusive business models”, “base of the pyramid” models and “creative capitalism”. Such systems might take different shapes. At a minimum companies should aim to avoid any negative impacts by internalizing principles and codes into core business activities. Different key “development multipliers” from core business operations.

2 - **Social investments and philanthropic contributions:** Contributing different types of non-commercial financial support (traditional philanthropy, social venture funds, hybrid financing mechanisms, employee volunteers and expertise, product donation, and in-kind contributions).

3 - **Public advocacy, policy dialogue and institution strengthening:** Companies and business associations engaging in advocacy, public policy dialogue, joint regulation, and efforts to build or strengthen public institutions and administrative capacity in order to bridge governance gaps, improve the enabling environment, and support more systemic change.

Chapter 4

Private sector engagement for a post-2015 development agenda

The MDGs are expiring and the SDGs are going to be officially adopted at the end of September.  

We have already underlined that since the MDGs were conceived, the development landscape has significantly changed and business involvement in development initiatives and its role in the pursuance of international development goals have increased importantly. So, references to the opportunity of involving the private sector in the post-2015 development agenda have been made very often at different levels over the last decade. “Private firms […] are at the heart of the development process” states the World Bank adding that they are “central actors in the quest for growth and poverty reduction.”  Indeed, the new normal in the international development community is to emphasize action with and through the private sector.

The UN has for long time not involved the private sector in a common strategy for coordinating the action and aligning the objectives. The place of business in the UN system has always been somewhat ambiguous. The international community has only sporadically tapped the power that can be drawn from engaging the private sector in the work of development.

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25 The SDGs will be adopted by the UN General Assembly in New York from 25th-27th September


The SDGs represent the opportunity for a “revolution” in this sense and for strategically engaging business within the framework of the new development agenda. Indeed, simply screening the proposal of the Open Working Group for the SDGs (See Box 2), we witness a clearer and more explicit reference to the private sector.\textsuperscript{28}

In the general spirit of the plan, throughout the whole set of goals and targets, the business presence is much more tangible. Goals 8-9-12-17 either indirectly provide for the involvement of the private sector or directly call business to action. Also some targets\textsuperscript{29} clearly envisage a more active role for the private sector. There appear for the first time terms like “multi-stakeholder partnership”\textsuperscript{30} and “public-private partnership.”\textsuperscript{31}

In general, business is conceived as an actor for development, something the MDGs did not imply.

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\textsuperscript{28} Point 14 of the Introduction to the Open Working Group proposal for SDGs: The implementation of the sustainable development goals will depend on a global partnership for sustainable development with the active engagement of Governments, as well as civil society, the private sector and the United Nations system. A robust mechanism to review implementation will be essential for the success of the goals. The General Assembly, the Economic and Social Council and the high-level political forum will play a key role in this regard.

\textsuperscript{29} For example, Target 12.6 provides for encouraging “companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.”

\textsuperscript{30} Target 17.16 provides for an enhanced global partnership for sustainable development “complemented by multi-stakeholders partnerships that mobilize and share knowledge, expertise, technologies and financial resources to support the achievement of sustainable development goals in all countries, particularly developing countries.”

\textsuperscript{31} Target 17.17 provides for encouraging and promoting “effective public, public-private, and civil society partnerships, building on the experience and resourcing strategies of partnerships.”
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<td>Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture</td>
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<td>Goal 3. Ensure healthy lives and promote well-being for all at all ages</td>
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<td>Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</td>
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<td>Goal 5. Achieve gender equality and empower all women and girls</td>
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<td>Goal 6. Ensure availability and sustainable management of water and sanitation for all</td>
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<td>Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all</td>
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<td>Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</td>
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<td>Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development</td>
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<td>Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</td>
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<td>Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</td>
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<tr>
<td>Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development</td>
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</table>

* Acknowledging that the United Nations Framework Convention on Climate Change is the primary international, intergovernmental forum for negotiating the global response to climate change.
Governments, in the framework of the UN General Assembly, are clearly still the entitled subjects to define universal development policies. But for the SDGs it has been conducted the largest consultation programme in the UN history, aimed at gauging other actors’ and stakeholders’ opinion. A series of “global conversations” were set up, including 11 thematic and 83 national consultations, and many other surveys. In this respect the process has been very different to that which generated the MDGs.

As highlighted, business action for sustainable development is growing. The UN Global Compact and the World Business Council on Sustainable Development have expressed an explicit commitment to engaging with the post-2015 development objectives, and different initiatives, i.e. Business Fights Poverty, show increasing sensitiveness regarding development challenges.

When consulted, the business sector has shown awareness regarding its potentialities and responsibilities in the framework of sustainable development and it has demonstrated increasing interest in contributing to both the formulation of post-2015 development objectives, and the realization of related goals.

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32 The UN Global Compact (UNGC) is the world's largest voluntary corporate sustainability initiative created in 2000 by former Secretary-General Kofi Annan with the mandate of “promoting responsible business practices and UN values among global business community and the UN system”. It call companies to align their operations and strategies with ten universally-accepted principles in the area of human rights, labour, environment, and anti-corruption, and to take action in support of UN goals (UNGC Principles can be found in Annex 3): https://www.unglobalcompact.org/

33 The World Business Council for Sustainable Development (WBCSD) is a CEO-led organization of forward-thinking companies that galvanizes the global business community to create a sustainable future for business, society and the environment: http://www.wbcsd.org/home.aspx

34 Business Fights Poverty is the world's largest network of professionals harnessing business for social impact: http://businessfightspoverty.org/#sthash.Z2GJv7eL.dpuf

4.1 What kind of engagement?

In the attempt to identify the dimensions most relevant for an addressment of the potential private sector role, my starting point was the assessment of the Open Working Group proposal for the Sustainable Development Goals, which is the basis of the document that is going to be ratified soon. At the same time, also through an analysis of trends, reflections and debates, I tried to understand along which paths such an engagement is likely and expected to occur, and by which elements and principles is being characterized.

The implications of the relationship between business and development and those of an enhanced engagement of the private sector in the new development framework are clearly a lot and problematic. Moreover, there is plenty of theories and approaches addressing them.

In this respect, a quick reading of the Open Working Group Proposal reveals that when the SDGs address sectors which are clearly within the business arena and where companies can provide a significant contribution, they distinguish between three highly interrelated dimensions:

- inclusiveness
- sustainability
- partnering

Goals 8, 9 and 12 underline the importance of inclusive and sustainable approaches:

- Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- Goal 12: Ensure sustainable consumption and production patterns
These are two broad concepts that imply a wide range of meanings, and have been addressed in many different ways and under several points of view.

Moreover, the last goal, through the concept of global partnership, underlines the importance of an issue that, on the one hand, characterizes the whole set of goals as a means of decision-making and implementation, and on the other hand, it is a goal in itself:

- **Goal 17: Strengthen the mean of implementation and revitalize the global partnership for sustainable development**

The outcome of the Rio+20 UN Conference on Sustainable Development itself stated that implementation of sustainable development depends on “the active engagement of both the public and private sectors.”

Hence, inclusiveness, sustainability, and cooperation are the three dimensions that, define the issue of the private sector role in the post-2015 development system.

These are three very broad and interrelated concepts, entailing a lot of implications. Hereunder, I introduce the elements and aspects characterizing such dimensions, which will be deepened further in the next part of the work:

1- **Inclusiveness**

As emerges from the very text of the SDGs, such a dimension is closely related to the economic one, providing for a different way of making business.

Indeed, many commentators have for long time been arguing that economic growth and employment are important elements in any sets of development goals.\(^6\) Clearly, any

broad and comprehensive understanding and addressment of development cannot
disregard the importance of strong productive capacity of a country. Moreover, many
surveys prove that poor people’s main concern is lack of job.\textsuperscript{37}

The focus on growth depends basically on the recognition that securing a sustainable
economic growth trajectory in developing countries through the mobilisation of
domestic resources and the reduction of reliance on volatile aid flows is becoming more
and more important. While employment is a key dimension of wellbeing and human
development being the main mechanism through which economic growth translates into
poverty reduction (although an automatic link between growth and poverty reduction is
not to be taken for granted\textsuperscript{38}).

It has to be recognized that economic growth and employment are clearly business
territory, and that private sector investment, both domestic and external, can make a
difference in this sense.

So, there is increasing consensus that the new framework for development should focus
on an economic dimension alongside a more traditional social focus. The MDGs had a
target for ‘full and productive employment and decent work for all’ (Target 1.B), added in
2005, which has proved ineffective in galvanising action in this area.\textsuperscript{39} But, as we have
just seen, the SDGs provide for an entire specific goal (SDG 8) to address the economic


\textsuperscript{38} The Economist “Jobless growth: The economy is doing nicely—but at least one person in three is
out of work”, 3 June 2010, The Economist. Available at: \url{http://www.economist.com/node/16248641},
(25/7/2015)

\textsuperscript{39} A UN survey of 112 stakeholders from 32 African countries shows that most of them felt inclusive
growth and jobs have been marginal in the MDGs: \url{http://www.beyond2015.org/sites/default/files/COM12Note-for-theHighLevelPanelDiscussion-
onArticulating-aPost-2015MDG-Agenda.pdf}

- 27 -
dimension, complemented with the two goals (9 and 12) requiring industrialization, innovation and viable consumption and production patterns.\textsuperscript{40}

Of course, it is not a matter of quantity. It is much more about the quality of growth and jobs, the quality of goods and services offered by companies to the poor, as well as the involvement of the latter in the economic processes. It is not about returning to the days of ‘growth’ being the sole objective of development policy.\textsuperscript{41} Generating productive employment while ensuring that vulnerable people are able to enjoy opportunities and to access wealth is fundamental. Making growth ‘green’ as well as inclusive, while tackling inequalities, is the recognized main challenge.\textsuperscript{42}

Recently, new theories and practices have been developed, in an attempt to bring about important changes in business perspectives and models. References to concepts like inclusive growth, inclusive business, bottom of the pyramid, social business, creative capitalism, and so on abound in debates about the economic dimension of global challenges. Indeed, here the implications are a lot and regard different aspects of business activity.

\textbf{2 – Sustainability (and accountability)}

In addition to business requested to be more inclusive, during the past decade, the private sector has been called for placing responsible practices and sustainability objectives at the heart of its strategies.

\textsuperscript{40} A significant parenthesis: economic growth and employment are means rather than ends in themselves, something that actually determined their exclusion from the MDGs. Their inclusion in the SDGs implies also a shift in methodology, abandoning the exclusive focus on results that characterized the MDGs

\textsuperscript{41} See the description of the different approaches regarding the relationship between the state and the market in Part II - Chapter 1.1

Central to a more effective engagement of the private sector is a new orientation – “a values- and principles-based management and operational approach to corporate management, strategy and culture” – expressed by the concept of ‘corporate sustainability’, encouraging businesses to commit to longer-range sustainability objectives and goals. This is the outcome of a reflection that has been going on recently, in an attempt to rethink the role of the private sector confronted with the challenges of the 21st century.43

Business is increasingly embracing and integrating principles to lead it to deliver sustainable development results. UNGC signatories, for example, are steadily growing in number. This improves and expands companies activities from ‘do-no-harm’ approaches to ‘doing good’ – that is to say, to the deliberate production of positive outcomes – driving them towards more positive and coherent behaviors.

Such a perspective implies profound reformulation of business models and practices, and in particular has to be backed up by serious accountability mechanisms. This is an aspect I want to underline because transparency and non-financial disclosure are crucial elements for a credible proposal envisaging an enhanced and more proactive role for the private sector in the development field.

Some suggest that the post-2015 system should cover the liability dimension of the private sector, under a more general goal on transparency and accountability. As George Kell, the Executive Director of the UN Global Compact, wrote:

Building on more than a decade of experience of engaging business around UN priorities, it is clear that the [post-2015 development system] must incorporate a set

of robust accountability measures in order to make business commitments transparent and to ensure that progress towards them is real.44

Unfortunately, this is not exactly the case. There is no specific goal throughout the SDGs addressing the issue, which is rather reduced to Target 12.6, providing for “encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.” A rather soft invitation instead of a clear and strong incentive for businesses to commit and report.

The logic of enhancing the non-financial disclosure of businesses is that it provides governments and civil society organisations with information to hold these actors to account. This way, it incentivises responsible behaviour and showcase those companies that decide to go the extra mile, seeking to maximise their positive impact.

During the last decade, interest in reporting has actually grown and increasing social and environmental concerns have generated pressures for companies to move towards a more systematic disclosure. But it remains limited and confined to only a portion of the private sector. At present, the issue of disclosure concerns mostly large companies.

Nevertheless, we witness a proliferation of guidelines on reporting, the most important being the Global Reporting Initiative (GRI). But probably the lack of a single generally-accepted framework setting out the minimum core indicators to allow for comparability makes widespread adoption more difficult. Moreover, it has to be considered the voluntary nature of most reporting frameworks, another aspect that might explain the lack of broad use.

3 - Partnering

As it has emerged so far, and as *The Future We Want* and Goal 17 confirms, a crucial dimension regarding the new agenda is represented by the necessity of an enhanced partnership, a robust cooperation, between actors and stakeholders. The Global Partnership is a crucial means, but also an end in itself, as MDG 8 and SDG 17 state.

Beyond the general assumption that for obtaining results a proper international environment – to which each stakeholders’ contribution is necessary – has to be developed, there is the recognition that specific practical solutions may require efforts sourcing from every actor. The rationale for this is that dialogue and collaboration will increase the likelihood to achieve tangible and positive results.

I am referring to inter-stakeholder cooperation rather than intergovernmental, an issue that the SDGs, unlike the previous set of goals, mention and address. Again, it is not only a matter of financing, it is much more about the opportunity of bringing different and complementary resources and expertise to work together for tackling challenges that are cross-sectoral and multi-level.

The private sector has been increasingly coopted as partner by the other development actors over the last decade. Several public-private partnerships (PPPs) and UN-led initiatives have been established to bring the private sector to commit and provide its specific contribution to the effort. Such an enhanced cooperation with business is

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45 MDG 8: “Develop a Global Partnership for Development”

46 SDG 17: “Strengthen the means of implementation and revitalise the global partnership for sustainable development”

47 See Targets 17.16 and 17.17

explained by different reasons and it has developed into a wide array of typologies, raising, as we will see, a number concerns.

An important aspect is the fact that businesses enter partnerships and join initiatives as they see convergence between their interests and development priorities, maintaining their for-profit nature as well.

But, at present, this agenda speaks only to a small group of large companies. Furthermore, to date, little is the evidence regarding their performance.

To sum up, it is widely recognized that global challenges require global efforts to be tackled. Although the private sector was left out of consideration during the process that led to the Millennium Declaration, over the MDGs period of implementation “times have changed” and the perception of business potential and place in the system of cooperation for development has completely changed. New perspectives and opportunities have emerged regarding the possible role of business in the achievement of development goals. This is demonstrated by the frequent reference to the necessity and opportunity to involve the private sector in the post-2015 development framework made by several development agencies and actors, and the intense debate around its potential and place in the new system. Indeed, the SDGs, that can really represent a milestone in this sense, acknowledge a greater part for business. However, the implications of a new role for business in such a framework are many and problematic. I categorized them in three different broad dimensions. Through an analysis of relevant reflections and experiences regarding these issues, I will try to get the configuration right in an attempt to provide an assessment of the future of business and development, and to imagine how to make their interrelation more effective.
PART II – Definition of concepts

We will now deepen the abovementioned dimensions going through the most innovative perspectives about their addressment. Finally, through the description and the analysis of some case studies we will try to highlight their practical meaning and relevance.

Chapter 1

Inclusiveness

As underlined, there is a shared concern for a new set of development goals to provide for economic growth, jobs, industrialization, and consumption and production patterns that are inclusive and sustainable. These are all areas where the private sector can and have to play a crucial role. Hence, this is to say that the post-2015 development framework require business models to be inclusive and sustainable.

There is a wide array of theories and reflections around these dimensions, proposing different approaches and perspectives.

1.1 The state and the market: new perspectives in business and development

As a preliminary analysis, I think it is interesting and useful to focus the attention on the different perspectives regarding the possible relationships among the state and the market, being two crucial dimensions for understanding the new approaches about business and development.

This issue has a long history, and has experienced different phases, ranging from perspectives that used to see markets and business as opposed to development, to current attitudes that perceive them as more interlinked, potentially coexistent, or even complementary.
Hence, approaches regarding specific roles, potential and responsibilities may diverge significantly. According to Wach and Thorpe\textsuperscript{49} it is possible to distinguish three different approaches:

1 – **Growth-focused approach**: here the emphasis is on economic growth as the main drive to development and poverty reduction. The absolute priority is the creation by governments of the right environment to foster ‘more business’. Government has to create an enabling environment for a competitive private sector to develop. Its role is reduced to ‘fix the market’ (providing basic infrastructure, protecting property rights, and support a favoring investment climate), removing and correcting the obstacles that lead to failures (transaction costs, coordination failures, imperfect competition, and imperfect information). Evidently it is assumed that the private sector and the market are efficient on their own, with the attention being paid to the quantity of investments, jobs, growth rather than their quality, under the assumption that economic growth is the only pathway to development. In these terms, business becomes a crucial part of the solution to the global sustainable development challenges, the message being unleashing more business activity leads to leave poverty behind.

2 – **Strong ‘market fixing’ approach**: here economic growth is perceived as necessary but not sufficient on its own to address development challenges. Business is even perceived as part of the problem due to inherent divergences among private interests and public goods, and it is seen in a bad light. In this context the state has to be more active. The market is not necessarily efficient and has to be controlled and regulated in order to serve development objectives. Governments have to defend collective interests through strict regulation and high level of taxation, with the aim of reinvesting the revenues for collective interests. The qualitative dimension of economic activity (jobs safety, fair wages, transparency) is emphasized.

3 – Inclusive market-based approaches: here we witness an attempt to go beyond approaches that consider business as the solution to or the cause of the problem. Quoting Wach and Thorpe we could say that such approaches provide for a “more ‘inclusive’ version of ‘more is better’”.

It is not denied the relevance of ‘classical’ business activity for addressing development problems. It is acknowledged the broader nature of development challenges and the related potentialities and responsibilities of business to contribute to their addressment. So, these approaches are concerned with business responses to all the spectrum of challenges, and recognize the importance of inclusiveness and sustainability. ‘Quantity’ and ‘quality’ here are important the same.

Parallel to generating more business activity, it is necessary to lead business to prevent harm (‘do no harm’ agenda)\textsuperscript{50} and prefer pro-poor activities (‘do more good’)\textsuperscript{51}. Governments need to set the competitive market context in which private sector growth generates the most positive development outcomes. Parallel, businesses have to adapt their core activities to improve and scale their positive impact on development, and hold themselves accountable for their behaviors.\textsuperscript{52}

Such approaches are based on the modification of businesses’ operations towards models that involve the poor either as consumers (promoting the access to goods and services),

\textsuperscript{50} The ‘do-no-harm’ agenda is about discouraging businesses from undertaking activities which damage social welfare, and reducing their negative impacts; it is about preventing situations in which business activities impose social costs that are not fully reflected in the costs they face.

\textsuperscript{51} The ‘do-more-good’ agenda is about pro-poor business activities, encouraging businesses to deliberately provide more of those activities that produce beneficial social effects; it is about preferring and supporting business activities that are of particular benefit to the poor and disadvantaged, although they do not offer sufficient private returns. Usually, public supporting interventions are necessary.

producers (promoting access to end markets), and possibly employees (promoting the access to better jobs).

Market-ordering interventions are aimed at influencing where business invests and how activities are managed, and they do this through a variety of means and involving different actors from both sides. There are different ways of engaging business: public-private partnerships, collaborations, value chain development initiatives, market systems models.

In short, it is recognized the necessity of a more proactive role for both state and business to order and shape the market in an inclusive and “poor-friendly” manner.

Anyway, to date, the implementation of these inclusive approaches has been rather limited to individual cases, whereas to produce significant development impact it would be necessary to scale them up. That is a reason why multi-stakeholder initiatives, global alliances, and the implementation of market-centered models have recently increased. Probably it is too early to attempt an assessment of their effectiveness.

As said, in this framework, thinking has evolved considerably in recent decades. From the fundamental proposition of a private sector that through inclusive core business operations can benefit poor people in developing countries descend several different approaches. Among the ‘myriad’ of concepts that have been developed regarding inclusive growth I have decided to deepen a couple, the most relevant ones with regard to the scope of this work.


54 See the Roundtable on Sustainable Palm Oil, the Ethical Trading Initiative

55 See the Global Alliance for Improved Nutrition (GAIN)

56 See the Making Markets Work for the Poor (M4P), Market System Development
1.1.1 Bottom of the Pyramid Theory

In this framework of a more inclusive capitalism, one of the most important reflections and analysis has been conducted by Prahalad and Stuart more than ten years ago, when they developed the theory of the ‘bottom of the pyramid’.  

The basic assumption regards the fact that the world’s poor are a lot (See Exhibit 1), and they represent a huge untapped market. Billions of poor potential consumers living in high-cost economies and purchasing substandard goods, missing the advantages of economies of scale and scope. According to the authors, they would represent a huge business opportunity, an unexplored market that, if rightly approached, could turn out to be an important source of profit. “The real source of market promise,” the authors say “[…] is the billions of aspiring poor who are joining the market economy for the first time.”


58 At the time of the article the so called ‘bottom of the pyramid’ amounted to 4 billion people earning less than $1,500 per year
But what is even more important in such a perspective is that an inclusive and responsible business action – in particular by Multi-National Corporations – can facilitate making billions of people better off. Empowering poor people by providing them with a wider choice of goods and services at less cost definitely improves the quality of life. Moreover, greater interaction between those at the base of the pyramid and the private sector creates more opportunities for direct involvement in the market economy. Also facilitating the access to credit for the poor, historically unavailable to them, can allow people start income generating activities and make profitable investments. These are all opportunities crucial to the poor that business can realize improving significantly the life of billions of people and safeguarding at the same time its for-profit nature.

So, the point is that challenges and problems suffered by the poor can prove to be relevant investment opportunities, which in turn will alleviate billions of people pain, promoting social cohesion, citizen empowerment, and personal dignity as well. Furthermore, the use of commercial development to lead people out of poverty is critical to the stability and health of the global economy.

The authors blame the prevailing economic system that fails to perceive and interpret the opportunities and value of this market. But addressing this market requires important changes in conventional business approaches and assumptions. Innovation and flexibility are indeed two pivotal requirements for investing in this dimension: changes in technology, new business models, innovative management processes, enlightened leadership and cooperation are necessary. It would be a tremendous and dangerous failure to replicate here the same mechanisms and dynamics that apply to that part of the world already involved in market economy.

Quoting the authors:

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The poorest populations raise a prodigious new managerial challenge for the world’s wealthiest companies: selling to the poor and helping them improve their lives by producing and distributing products and services in culturally sensitive, environmentally, sustainable, and economically profitable ways.\(^{60}\)

First of all, managers have to imagine feasible “commercial infrastructures tailored to the needs and challenges” of the ‘bottom of the pyramid’. Creating buying power, shaping aspirations, improving access to goods and services, and tailoring local solutions are the drives for an effective commercial and organizational infrastructure able to address challenges and opportunities of this dimension. And finally, other stakeholders, mostly locally-based, have to be involved to develop a functioning investment strategy.

There are several reasons for MNCs to take the lead and make this revolution. In the authors’ opinion, it is a matter of resources, global knowledge, position in the economic system, and possibility of transferring innovations that only the MNCs enjoy.

The key message is that addressing the problems of the poor represents a great business opportunity. Many case studies and different experiences\(^ {61}\) show the several ways in which companies can elevate the world’s poor above desperation line, while making good profits.

Such a perspective introduces a potentially revolutionary way of looking at globalization and business and development, and the potential rewards of its implementation “include growth, profits, and incalculable contributions to humankind.”

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\(^{61}\) See, for example, the Hindustan Level Ltd. case in India, the Grameen Bank Ltd. case in Bangladesh, Arvind Mills case in India.
1.1.2 Inclusive Business

From this premises descend the concepts of inclusive business and markets, which in turn provide for proposals aimed at making companies ‘work for the poor’.

It is evident that the poor actually participate in the private sector: all are consumers and many are employees or self-employed. Yet, fragmented and informal markets prevent them from obtaining the resources they need, from using resources productively, and competition from lowering prices of goods and services.

Moreover, as highlighted by the International Business Leaders Forum, ‘business as usual’ excludes the poor as inefficient and inconvenient from a supply and distribution side, as lacking in education and skills on the employment side, lacking purchasing power at the consumer side and as simply lacking the potential to be successful business partners.\(^{62}\)

Finally, for long time, the poor have been seen as an unattractive market for business given their low purchasing power.

But these assumptions have been called into question and it is being increasingly demonstrated their inappropriateness for a system called to make a leap. Hence, the UNDP argues, inclusive business models have to “include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain.”\(^{63}\)

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Indeed, grasping the opportunities that the poor offer begins with a change in perception. The poor are more and more recognized as value and brand conscious consumers; it is highlighted the entrepreneurship and creativity of small and medium enterprises; finally, it is realized that the poor can be built up as a source of labour both as part of these processes and on their own terms.

So, inclusive business models build bridges between business and the poor for mutual benefit. Here the focus is not on the obstacles, but rather on the opportunities the poor present. It is all about a new relationship with local communities built on a “win-win” mentality of mutual success. Indeed, the opportunities for both sides are vast and they go beyond immediate profits and higher incomes.

Business with the poor can be interesting and useful in many ways for companies. Opportunities range from generating profits and developing new markets to driving innovation, expanding the labour pool, and strengthening value chains. From here the idea that working with and for the poor is business, it can be part of businesses operational plan. This is known as the ‘business case’, highlighting the incentives that drive business to increasingly engage with the poor.

Businesses can also improve the lives of poor people, contributing broadly to what the UN terms ‘human development’ – expanding people’s opportunities to lead lives they value. This is about meeting people’s basic needs, enabling the poor to become more productive, empowering them, and increasing their incomes.

The UNDP addressment of inclusive business models and its Growing Inclusive Markets Initiative distinguish a number of crucial constraints to ‘making business with the poor’, and some strategies to overcome such obstacles and implement effective business plans.64

64 Idem
Doing business with the poor in developing countries is challenging, rural villages and urban slums are hostile environments. Limited knowledge of the market - what poor consumers prefer, what they can afford and what products and capabilities they have to offer as employees, producers and business owners – is the initial obstacle. The absence of clear and reliable regulatory frameworks and the uncertainty about legal systems discourage people and enterprises from investing. Essential physical market infrastructure is often limited or non-existent, complicating the very basic business activities. Moreover, poor consumers and suppliers may miss knowledge and skills to appreciate and deliver new goods and services. Finally, investments and purchases become risky and costly without working financial systems, credit, insurances and banking services.

Due to all these challenges, the poor around the world miss access to necessary and quality goods and services at reasonable prices, do not enjoy the benefits of competition and market economy. This is known as “poverty penalty”. Breaking down this penalty is the ultimate goal and at the same time represents a business opportunity. In fact, despite these challenges, a growing number of businesses are operating successfully in poor markets across a wide range of countries and in different sectors. And they do it through new strategies and innovative processes, often combining them. Basically, “entrepreneurs respond to constraints by working around them or by removing them.” Hence, for most firms, business with the poor is not business-as-usual.

As starting point, any inclusive business model has to be consistent with local context, local needs, and objectives of each business. Common patterns can be detected and effective strategies and areas of intervention can be highlighted:\(^{65}\)

- **Offer tailored products and services:** paradoxically, the poor are often forced to pay higher prices for basic goods and services due to local monopolies and inefficient social/physical infrastructure that prevents competition. In this

\(^{65}\) Idem
context, companies have to restructure their processes, adapt their products and services and leverage innovative technology to meet the needs of local poor. A poor-oriented business model requires products and services to be (i) affordable, meaning that companies have to provide the same product not only at a lower cost with comparable or better quality, but also adapted to the consumption pattern of the poor; (ii) accessible, meaning that innovative distribution networks have to be built, and that goods and services reflect local needs and aspirations. In addition to competing with existing products, new ones can be developed and introduced according to needs, aspirations and consumption patterns of the targeted market.

- **Remove market constraints:** we know that the absence of infrastructure is one of the main limitations to the opportunities for private investments in developing countries. Despite the fact that removing market constraints might normally be thought to be territory of government, companies with inclusive business approach often can assume this task themselves. Investing to remove market constraints can ensure private value as well as leverage social value. The latter opening up room for cost-sharing with socially-minded stakeholders.

- **Leverage the strengths of the poor:** perhaps the poor are an inclusive business model’s most important partner. By engaging the poor as intermediaries and building on existing social networks, a company can increase information, access, trust and accountability in specific contexts, which in turn help businesses to expand and improve their activities. Generally, when the poor are entrusted some tasks in a business process, costs for the company fall – while the poor benefit from rising income, knowledge and skills and social standing. “Firms can leverage local knowledge and trust by employing the poor to gather market information, to deliver, collect and service products and to train others” the UNDP advices. Furthermore, poor people themselves often provide the best ideas for developing most appropriate products and services to meet local needs. Crucial to leveraging the strengths of the poor is building on their social networks. In a poor community, formal laws and regulations are often less
effective than informal. The latter can make inclusive business models viable and companies can rely on these communal dynamics and mechanisms to fill gaps in the markets.

• **Combine resources and capabilities with others**: often a business alone cannot provide necessary capabilities and resources to meet specific needs. Combining complementary capabilities and pooling resources from other stakeholders (both other businesses and ‘non-traditional’ actors) often result in better outcomes and mutual benefits.

• **Engage in policy dialogue with governments**: this is an important aspect of inclusive business models, where companies are usually first movers and much of an enabling environment has yet to be built. In fact, all market constraints are typically in the domain of public policy. It often proves difficult to work around or remove constraints through exclusive individual private initiatives. An effective strategy is to commit to policy dialogue. Businesses, in fact, can provide good information about and possible solutions to the problems, while encouraging and assisting government to provide “the public goods and services they need to operate.” Business can engage individually, through demonstration effects, or collectively to inform public policy. Since business engagement in policymaking can be controversial, companies and policymakers need to establish a transparent dialogue about how to improve the business environment.

• **Foster chain inclusivity**: establishing new relationships with small local suppliers, improving existing supply chains, and including SMMEs within the distribution chain can offer greater flexibility and stability, reduce costs for business, while offering large economic opportunities to SMMEs. Engaging the latter as business partners, sourcing input locally, involving local distributors, and even building a new product or service in partnership, is a way of more closely matching the needs of the different parts. Such stronger relationships can bring benefits to both sides: technical assistance/knowledge related to production, methods and management systems for the suppliers; a way of putting quality control closer to the source, of ensuring the supply of inputs
needed for production, and of acquiring the essential local knowledge for the buyer. Moreover, this process help strengthen bonds between businesses and communities, with all the subsequent advantages for both.

In conclusion, the poor conceal a potential for consumption, production, innovation and entrepreneurial activity that is largely untapped. Inclusive business models can lead the poor out of poverty by bringing them into the marketplace. Firms can serve the poor as clients and customers and can also involve them as producers, employees and business owners. This way, firms can generate profits, create new growth opportunity and, most importantly, make poor better off. As stated by the UNDP, “business with the poor can create value for all.”

Of course the core business approach and inclusive business perspective do not exclude conventional CSR. They both go beyond that, but there remain an important role for corporate responsibility, which have actually evolved itself in recent years. In particular, when it comes to practice, the distinctions become not so neat.  

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Chapter 2

Sustainability (and accountability)

Companies have been increasingly encouraged to publicly commit to longer-range sustainability objectives and goals – to the delivery of long-term value in financial, environmental, social, and ethical terms – in order to better align their efforts and strategies in relation to the broad global sustainable development agenda.

The adoption of such a values- or principles-based approach to corporate management, strategy and culture, articulated in the concept of ‘corporate sustainability’, is one of the most profound developments in the evolution of the business and development relationships.

Such an orientation carries with it both responsibilities and opportunities and, as argued by the UNGC in its report *Architects of a Better World: Building the Post-2015 Business Engagement Architecture*, is based on three fundamental dimensions:

**i)** respecting and integrating universal principles (i.e. UN Global Compact) into corporate strategies, policies and procedures: in addition to the obvious compliance with international and national law, companies have to ensure prevention, mitigation and accounting for any negative impacts they may produce on society and the environment;

**ii)** taking action to support broader UN goals: business are called for committing to the achievement of universally-set development objectives;

**iii)** engaging in partnerships and collective action at the global and local levels: companies can benefit from and improve their delivery of value through participating in

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platforms, initiatives and networks both at local and global level. Partnering and cooperation can accelerate and improve the efforts for the achievement of sustainability goals.

The concept of corporate sustainability is broader than CSR. While the latter is an “added-on” policy, the previous builds business activities around development considerations. This trend, which began in earnest perhaps 10 years ago, is leading to fundamental changes in the ways in which businesses are overseen, operate, and account.

This is business re-tooled for being up to the challenges of the 21st century, requiring a number of changes at different levels. We have already seen the relevance of a proper environment for making business and the importance of adapting core business operations in an inclusive way in order to empower and benefit the poor. But another crucial building-block of the structure of a new business engagement is represented by the aspects of transparency and accountability: they are pivotal elements for increased and enhanced sustainability.

Corporate boards and governance entities are called for improving companies disclosure and adopting non-financial reporting standards (i.e. GRI). In recent years, growing numbers of companies are making public commitments in relation to accountability, responsibility, and transparency. Businesses are increasing their own reporting efforts not only for financial capital, but also for natural (resources and ecosystems) and social (human impacts). Indeed, important social and environmental concerns have generated pressures for companies to move towards sustainability and a more systematic disclosure.

Yet, this is something that at the moment still regards a small portion of the private sector, and mostly big companies, which have the resources to and the major interests in behaving so.
Member States acknowledged the importance of corporate sustainability reporting in the outcome document of the Rio+20 UN Conference on Sustainable Development, which encourages companies to integrate sustainability information into their reporting cycles. A similar impulse is contained within the proposals of the Open Working Group (the abovementioned Target 12.6).

Also businesses participating in consultations on developing the new development agenda underlined the need to increase the number of companies that publicly commit to integrating sustainable development principles and objectives into their strategies and operations, and then report on their progress.

The number of firms participating in the UN Global Compact has grown steadily, exceeding 8,000 now. Similarly, the number of companies utilizing the sustainability reporting framework developed by the GRI has increased significantly.

It is realized that enhanced transparency, accountability and reporting bring about positive outcomes under different points of view and benefits to all stakeholders.

As highlighted by the GRI, specifically for companies, sustainability reporting provides for the benefits shown below:

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68 §47 of The Future We Want: “We acknowledge the importance of corporate sustainability reporting, and encourage companies, where appropriate, especially publicly listed and large companies, to consider integrating sustainability information into their reporting cycle. We encourage industry, interested governments and relevant stakeholders, with the support of the United Nations system, as appropriate, to develop models for best practice and facilitate action for the integration of sustainability reporting, taking into account experiences from already existing frameworks and paying particular attention to the needs of developing countries, including for capacity building.”


70 Participants of the UN Global Compact have made public commitments to the Global Compact’s ten principles and are required to report annually on their sustainability efforts through a Communication on Progress (COP) report. Generally speaking, the UN Global Compact organizes its companies into three categories based on the level of COPs submitted. These levels – Learner, Active and Advanced – allow the UN Global Compact to encourage and challenge participants to use more sophisticated methodology and release more detailed COPs.
• **Building trust:** Transparency about non-financial performance can help reduce reputational risks, open up dialogue with stakeholders such as customers, communities and investors, and demonstrate leadership, openness and accountability.

• **Improved processes and systems:** Internal management and decision-making processes can be examined and improved, leading to cost reductions by measuring and monitoring such issues as energy consumption, materials use, and waste.

• **Progressing vision and strategy:** Comprehensive analysis of strengths and weaknesses, and the engagement with stakeholders that is necessary for sustainability reporting, can lead to more robust and wide-ranging organizational visions and strategies. Importantly, companies can make sustainability an integral part of their strategies.

• **Reducing compliance costs:** Measuring sustainability performance can help companies to meet regulatory requirements effectively, avoid costly breaches, and gather necessary data in a more efficient and cost-effective way.

• **Competitive advantage:** Companies seen as leaders and innovators can be in a stronger bargaining position when it comes to attracting investment, initiating new activities, entering new markets, and negotiating contracts.

Outwards, sustainability reporting, enhancing companies’ accountability and trust, facilitates the sharing of values on which to build a more cohesive society. Widespread sustainability reporting practices, creating transparency, can help markets function more efficiently and indicate the health of the economy. Furthermore, it helps drive progress by all organizations towards a smart, sustainable and inclusive growth. Moreover, standardized terms of measurement can allow for benchmarking across companies, allowing stakeholders to appreciate the impact of a company or industrial or commercial

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sector on global sustainable development priorities. Finally, governments and civil society can verify and evaluate companies' activities, holding them accountable for their behavior.

Hence, the issue of transparency and accountability is practically one of communication and information. It is basically about the duty and opportunity for businesses to demonstrate their real engagement and their commitment to other stakeholders, and on the other hand the possibility for stakeholders to grasp the contribution that companies are making to support development goals. Both aspects play a crucial role in the effort to build a cohesive, efficient and credible system of cooperation for development.

We witness a proliferation of guidelines on reporting, the most important being the Global Reporting Initiative (GRI). It can be argued that the lack of a generally-accepted reporting framework that sets out the minimum core indicators to allow for comparability makes widespread adoption more difficult. In addition, to be noted is the voluntary nature of most reporting frameworks, something that might explain the lack of their widespread use.

Hence, the main issue around the transparency and accountability dimension regards its broader implementation and its harmonization. The vast diversity in international reporting frameworks indicates that producers and users struggle with its systematization, suggesting problems for international harmonization. Such a variety in measurement and reporting models also indicates ambiguity about their content, reinforcing doubts as to how to consolidate them. For the moment, being its implementation limited (although increasing), there is probably not sufficient practical evidence regarding its implications and usefulness. So, greater visibility needs to be given to such practices and further research about the barriers to and consequences of harmonization needs to be conducted.

To sum up, corporate sustainability represents a new mindset that, if enhanced and increasingly adopted, is likely to turn around business governance, strategies and models towards approaches favorable to the private sector engagement and the achievement of
sustainable development objectives. In this framework, transparency and accountability play a crucial role, guaranteeing trust and reliability. Hence, disclosure and non-financial reporting appear to be more and more important and necessary as a measure of companies commitment and credibility.

The SDGs represent the opportunity and the framework for, among others, stimulating an even higher order of magnitude of companies committing to achieve sustainable development objectives and reporting on them.
Chapter 3

Partnering

Since the ‘90’s there have been significant efforts on the part of the UN to involve the development stakeholders in official platforms, initiatives and partnerships with the aim of inspiring behaviors, systematizing relationships and ultimately shaping a more effective cooperation system.

This multi-stakeholder rather than inter-governmental approach is pivotal and it is actually recognized and addressed by the SDGs.\textsuperscript{72}

In recent years we witness a proliferation of networks and initiatives (not exclusively UN-led) designed to creatively support collaboration among different actors, in particular the business sector. Virtually all UN funds, programs and agencies have engaged in these kinds of mechanisms in different areas.

A broad definition provided by the UN General Assembly for principle-based partnerships framing cooperation between the UN and all relevant partners define them as

\begin{quote}
voluntary and collaborative relationships between various partners, both public and non-public, in which participants agree to work together to achieve a common purpose or undertake a specific task, and to share risks, responsibilities, resources and benefits.\textsuperscript{73}
\end{quote}

Cooperation involving businesses can take on jobs that are very specific (i.e. building particular infrastructures) or very broad and complex (principles on doing business in

\textsuperscript{72} Targets 17.16 and 17.17

conflict zones, or management of cross-border water basins). Hence, broadly speaking, we can distinguish multilateral platforms aimed at engaging the business sector towards sustainable development objectives and more specific initiatives for the realization of specific development targets.

Examples of the first kind, such as the UN Global Compact, Global Reporting Initiative, World Business Council for Sustainable Development, World Economic Forum, and Business for Social Responsibility aim at “educating” business and providing it with ideal frameworks of principles and guidelines. Each of these organizations have had a deep influence on corporate thinking and action.

But cooperation can take the form of initiatives or partnerships, that tend to promote and facilitate collaboration among companies and other stakeholders based on particular issue, sector, and/or geography (See Box 3). There are many reasons for the emergence of these types of partnerships over recent years, including a declined confidence in traditional aid and business models, and effective advocacy on single issues by non-governmental organizations that can also suit donors’ political constituencies.74

The main rationale behind enhanced cooperation with different stakeholders is that complex, cross-country and cross-sectoral challenges can be more easily tackled through integrated action. Connecting funding and expertise with local resources, implementation capacities and ownership, public opinion and long-term interest facilitates the identification of priorities and solutions. Partners will typically leverage their respective core knowledge, skills, resources and assets to develop solutions that could not have been obtained singly. Approaches that create platforms of actors are more likely to understand challenges and develop solutions that are systemic and sustainable in the long term than individual business.

**Issue Platforms:** Recent years have witnessed the growth of global platforms and initiatives that focus on a particular sustainability challenge. Examples of such issue platforms include the United Nations, Caring for Climate, Sustainable Energy for All, CEO Water Mandate, and Women’s Empowerment Principles initiatives; the World Business Council for Sustainable Development’s Global Electricity Initiative; the World Economic Forum’s Partnering Against Corruption Initiative; WWF’s Water Stewardship Programme; The Solidaridad Network; the MDG Health Alliance; and the UNEP Finance Initiative, the United Nations-supported Principles for Responsible Investment and the Equator Principles. These platforms allow the establishment of standards and norms, help define best practice, and facilitate learning and sharing among participating companies and organizations. In addition, they spur innovation and provide recognition to companies that are leading efforts to tackle the issue, thus mitigating the first-mover disadvantage that may still exist with respect to certain practices. Issue platforms also facilitate matchmaking for partnerships, both among like-minded businesses and other stakeholders. Finally, they can help organize the business community around an issue in order to improve the enabling environment for making systemic changes. Issue platforms represent one of the key means by which companies can together collaborate with relevant stakeholders, address systemic challenges, and truly scale up their efforts. With the launch of new global business engagement initiatives on education and peace in September 2013, platforms exist today to support companies in aligning their activities on all of the likely Post-2015 issues. The Post-2015 development agenda presents an opportunity to further engage issue platforms in global solutions-delivery and encouraging the creation of new initiatives – while also finding ways for different initiatives to coordinate learning and activities for even greater impact.

**Business Sector Initiatives:** Companies in various industries or sectors are increasingly working together to jointly tackle sustainability issues specific to their sector. The emergence of some of these sector initiatives has demonstrated the potential of lifting up the entire sector, for instance through Responsible Care (chemicals), Global Mining Initiative, Electronic Industry Citizenship Initiative, Fair Labour Association (apparel and textiles), Extractive Industries Transparency Initiative, Global Sustainable Tourism Council and the BSR Guiding Principles on Access to Healthcare.

Business sector initiatives are critical parts of the Architecture for several reasons. For any given company, the most practical examples for how to improve corporate sustainability are likely to come from companies in the same industry. Some industries are systematically important to development and sustainability in lower-income countries; examples include agri-business, extractive industries and banking/financial services. In cases where there are trade-offs between short-term financial goals and taking actions to support sustainable development, resulting in high first-mover costs, collective “pre-competitive” action by all companies in an industry may be the only option for levelling the playing field and implementing important changes. Sector initiatives can play a significant role in helping to deliver widespread sustainability solutions. Through their direct activities, as well as their often extensive global supply chains, industry groups can begin to more firmly connect their strategies, standards and targets to broader development objectives – ensuring that they play an integral part of the international effort to achieve global sustainable development.
Local Initiatives and Networks: The vast majority of business decisions and actions take place at the local level, dealing with local challenges and involving local stakeholders. Sustainable development requirements and priorities will vary by location. Hence, country and local-level initiatives and networks (such as Global Compact Local Networks) are an essential component of the Business Engagement Architecture. Local initiatives and networks can offer significant opportunities and support for companies, including understanding local challenges and opportunities that may require business model adaptation and translating universal principles to the local context. Additionally, Local Networks can facilitate dialogue with community stakeholders and between Governments and the business community about national and local sustainable development priorities, and the role of corporate sustainability in addressing them. Such networks also provide a platform for networking and partnering with like-minded peers, and for dialoguing with key stakeholders including civil society and Government. Many local initiatives and networks are already operational, some associated with national and local business associations and some associated with global corporate sustainability organizations (e.g., Global Compact Local Networks). Where multiple local corporate sustainability networks exist, they should coordinate closely and perhaps even consider merging (while continuing to affiliate with multiple global organizations). In light of the magnitude of global challenges, local networks will need to increase their capacity to create and facilitate partnerships between corporations and the public sector that are capable of systemic changes across a country or industry sector.

It is expected that Member States of the United Nations will develop national objectives and related targets for the Post-2015 era. National strategies should be developed with an eye towards actively involving the business community, and nurturing and leveraging local initiatives that can assist in the realization of sustainable development goals in the coming years and decades.

Technology-Powered Partnership Hubs: Partnerships can rely on technology to deliver significant multiplier effects. With the Internet penetrating every part of the world as an indispensable communication and information channel, technology-powered platforms – typically online initiatives – unite parties around specific projects and solutions that can be rapidly scaled up. In general, technology platforms can be sector, issue and/or geography focused, and they enable companies to share knowledge, partner and scale-up efforts while reducing transaction costs. One example is the UN Global Compact Business Partnership Hub, launched in September 2013. Utilizing digital technology and map-based analytics, the Hub is an online platform that unites parties around specific projects and solutions on issues such as water and sanitation, climate change, anti-corruption and social enterprise concepts. The goal is to achieve positive outcomes at the local level that can be rapidly scaled up. Two additional examples of technology-driven platforms include the UN-supported Principles for Responsible Investment’s Engagement Clearinghouse, an online tool designed to unite investors with respect to incorporating and implementing key environmental and social considerations, and business.un.org, a website that matches business resources with needs from UN organizations.

Successful partnerships bring each partner’s core competence and experience to the table, building synergies to co-create something new and impactful for sustainable development. Such partnerships have not only integrated the efforts of the UN system to achieve its objectives, but also supported its renewal by introducing new methods of work. Indeed, while governments cannot give up their responsibilities and commitments, these partnership continue to be instrumental in the implementation of the outcomes of the UN conferences and summits.

New patterns of development necessitates of coherent partnerships and alliances shaped by common interests and shared purpose, and bounded by clear principles. Ambitious goals imply significant obstacles in terms of achieving the necessary scale and systemic impact. The potential realization of a truly transformative system ultimately depends on the existence of such multi-actor and multi-sector arrangements, that can help produce the necessary scaling up of results.\(^75\)

Typically, partnerships involving the private sector takes place in areas ranging from marketing to research, production, service delivery and investment.

Companies participating in these partnerships can be: large-scale private and state companies; small and medium sized enterprises; smallholder farmers and people selling services and products via the informal sector.

As we have already underlined, companies increasingly see convergence between their interests and development priorities and this explains a growing involvement in such a kind of partnerships. But, at present, this agenda speaks only to a small group of large companies. Furthermore, to date, little is the evidence regarding their performance.\(^76\)


Indeed, one of the main weaknesses of such arrangements has been the lack of mechanisms for performance assessment, limiting the available information for an evaluation of the progress made so far.

Moreover, the UN and business continue to mistrust each other’s motives for entering into partnerships.\textsuperscript{77} Strong management and reporting mechanisms should be developed, including guidelines and indicators with the aim of enhancing transparency and accountability.\textsuperscript{78}

As said, normally, partnerships are cross-sector, involving more stakeholders in various combinations. These are players coming from differing backgrounds, including ethnic, religious, cultural, national or economic differences. An effective cooperation among so various actors necessitate first of all good communication mechanisms in order to facilitate dialogue and synthesis.

\subsection*{3.1 Doubts and concerns}

Generally speaking, beyond the strictly partnering dimension, the UN-business relationships clearly raise concerns. Having commercially-minded actors within the system that is expected to address global challenges and regulate global interests can produce skepticism. As explained by Fortin and Jolly in their article for IDS, worries relate to “the possible instrumentalisation of the relationship to gain public legitimacy or as a vehicle for business to influence United Nations policies and actions”.\textsuperscript{79}


The authors distinguish four issues raised by an enhanced business engagement in the
development field and closer UN-business relationships.

1 – how to measure the impact of engagement: depending on the desired
ultimate effect taken into consideration (whether it is ‘promoting inclusive
globalization’ or ‘influencing the actual behavior of business in strategic fundamental
areas’, ‘participating in activities’, etc.) the impact of partnerships and initiatives on
business engagement is variable, but also difficult to assess. Notwithstanding a general
positive impression if activities and outputs are scrutinized, whereas the evaluation
becomes more vague when outcomes or impacts are investigated, generally speaking, it
does not exist a reliable assessment mechanisms yet.

2 – the ‘self-regulation’ issue: it is about the voluntary nature of the engagement
and the related absence of enforcement and compliance monitoring mechanisms. Such a
“freedom of maneuver”, this governance scheme, is believed to diminish the possibility
of the system having real impact. Some believe that this mechanisms might even be
counterproductive “inasmuch as it might provide argument against the adoption of
binding, monitorable and enforceable international commitments.” Others, instead,
have confidence in the governance of civil regulation, which is more likely to bring
transparency and involve stakeholders outside the firms, and which is not going to be
less effective than many intergovernmental treaties and agreements.

3 – the ‘bluewash’ issue: it deals with the view according to which companies could
exploit their relationship with the UN to protect and enhance their reputation without,
however, adapting their behavior. Some critics have pointed out the “potential danger of
companies joining [platforms] solely for purposes of acquiring public legitimacy, without
serious intention to implement [their principles].” The issue is clearly a problematic one

Changing Perspectives, Roles and Approaches in Development”, Brighton: IDS,
and it seems a pretty realistic fear, being addressed by some organizations, i.e. the UN Global Compact.

4 – the ‘capture’ issue: the fear that business participation in UN initiatives could lead to the private sector influencing UN policy thinking. Hence, here the question is about the possibility that closer UN-business relationships and enhanced business presence and role within UN schemes could offer the private sector with the opportunity of distorting global priorities and practices. Such an issue has emerged in relation to the development of technical standards, i.e. the Codex Alimentarius.

Evidently, the UN efforts to involve and engage the private sector hide some dangerous pitfalls. However, it does not mean that endeavors have to stop and that progress cannot be achieved. The public sector has the possibilities for maintaining its necessarily prominent role and control, while at the same time reinforcing its likewise necessary openness to other stakeholders. Going on with business engagement without forcing the pace is the way. Providing remedies to individuals for violations on the part of businesses, the introduction of stronger monitoring mechanisms and transparency, fostering third parties supervision, building closer links with regional and sub-regional organizations are all possible ways forward.

As we have repeatedly highlighted throughout the present work, business engagement and UN-business relationships are still rather limited. Once more evidence about business engagement is available, a more robust assessment will be possible.
PART III – Case studies analysis

Chapter 1

A sectoral perspective

The private sector involvement in the delivery and financing of development targets occurs across a number of areas. This high differentiation and variety of contribution complicates the attempt to produce a detailed assessment of the general role of the whole business spectrum. Differences between areas are so many that a general evaluation of the issue becomes challenging.

In addition, as Lucci explains,

\[\text{The implementation of the goals is context-specific, so it is not particularly useful to be over-prescriptive at the global level. Ultimately, implementation will be carried out at the domestic level, in line with national priorities and specific settings.}^{61}\]

This is to say that questions and challenges are often common at a global level, but answers and solutions are to be context-specific, depending on local needs, local settings and environment.

According to the sector related to a goal, companies’ possibilities to influence and contribute to the achievement of the targets can differ significantly. In some sectors, the specific relevant business expertise and resources could add value to the delivery of the goals more than in others. As pointed out by the UNCTAD in its last World Investment Report, the potential for increased private sector contribution is significant especially in some sectors: infrastructure, food security and climate change mitigation. Whereas,

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other areas are less likely to generate significantly higher amounts of private sector interest,

*either because it is difficult to design risk-return models attractive to private investors (e.g. climate change adaptation), or because they are at the core of public service responsibilities and highly sensitive to private sector involvement (e.g. education and health care).*

Hence, there are gaps that the private sector is likely to fill, others it can contribute to, and yet others it is unlikely to. Indeed, there are specific patterns of growth according to the industry area involved, and so the private sector potential role changes consequently.

This aspect is widely recognized and, for example, sectoral templates have been added in the GRI models in order to allow for specific issues of relevance to different sectors. Moreover, there is a number of specific sectoral initiatives confirming the importance of the issue, i.e. the Extractive Industries Transparency Initiative.

Hence, an assessment of the business potential regarding the achievement of development goals is necessarily context- and sector-specific. It makes sense, then, to adopt a sectoral perspective in order to appreciate the specific contribution that the private sector might provide to different challenges and related goals.

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83 The Extractive Industries Transparency Initiative (EITI) is a global standard regarding the oil, gas and mining industries with the aim to promote open and accountable management of natural resources. See more at: [https://eiti.org/](https://eiti.org/)
Chapter 2

Case studies analysis

As said, the political, economic and cultural context where business action takes place plays an important role in the determination of what type of intervention can be implemented and the way it can be done. The case studies are two initiatives that take place in Mali: “A private-community partnership: the case of Mali Biocarburant SA” and “Rural Electrification in Mali: Improving Energy Accessibility to the Rural Poor”, respectively in the agricultural and energy sector.

The choice of Mali basically depended on these reasons: it is a very poor and problematic country, classified as a Low Human Development Country according to the Human Development Index, that, however, has performed well regarding the MDGs over the last years. According to the 2013 MDGs Progress Index, in fact, Mali has scored 6 out of 8 showing also a steady increasing performance over the last years.

The reasons for the case studies are twofold: firstly, I want to underline the potential role of business in these two particular areas, and secondly to provide examples of ways in which companies have practically contributed to the achievement of development objectives. As anticipated, it does not want to be a comparative analysis of case studies, but rather the provision of factual evidence of the business potential in two different sectors.

We have learned that the private sector is both actor and partner in development activities. We can then distinguish among individual companies deliberate interventions with the aim of delivering development objectives, and multilateral initiatives involving businesses as part of the implementation mechanism. While both typologies are relevant in the framework of the present work, in this part I opted for focusing on company-led activities. It seemed to me that this choice would better demonstrate the rationale of my assumption regarding the positive potential of a responsible private sector in the achievement of development objectives.
2.1 – Case 1. A private-community partnership: The case of Mali
Biocarburant SA

Regarding the agricultural sector

“Extreme poverty has declined significantly over the last two decades” says the last Report on the MDGs. Progress has, however, been uneven. The rate of poverty reduction has been much slower in low-income countries, especially in sub-Saharan Africa where the absolute number of poor has continued to increase.

FAO estimated that 1.2 billion people in developing countries still live in extreme poverty. Moreover, it underlines that both extreme and moderate poverty remain primarily rural phenomena, with 78 percent of the world’s poor living in rural areas and most dependent on agriculture. In fact, the majority of the

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85 In 1990, nearly half of the population in the developing world lived on less than $1.25 a day; that proportion dropped to 14 per cent in 2015. Globally, the number of people living in extreme poverty has declined by more than half, falling from 1.9 billion in 1990 to 836 million in 2015.


rural poor are smallholder farmers. Here there are few decent work opportunities, as the area productivity is low, local economic activity is inadequately diversified, underemployment rates are high and jobs are insecure.


This means that rural development and agricultural productivity growth, through increased incomes, job opportunities and reduction of food prices, translates into substantial poverty reduction. Those data suggest that the participation of poor smallholders in growth processes is leading to significant benefits.

There remain a lot of challenges, as Mrs. Thorpe affirms (see Annex 2):

The agricultural sector is a risky one, in the sense that you can have weather failures and crops failures that can entirely wipe out a year’s income. You also have a lot of people who are underemployed in agriculture, being a seasonal work. […] Moreover, the size of farms in poor communities is quite small and so they do not necessarily provide enough, whether it is direct food for consumption or food to sell in the market.

Mrs. Jodie Thorpe is a Research Fellow in the Business and Development Centre at the Institute of Development Studies of the University of Sussex (Brighton, UK), with over 13 years’ experience in research and advisory work. Her current projects include public-private partnerships in agriculture, inclusive business, making markets work for the poor approaches and systemic change in business and development initiatives. Prior to enter IDS, she was a Private Sector Adviser at Oxfam GB, undertaking research and analysis, developing policy positions and lobbying companies and governments on business and poverty issues, particularly related to agricultural investment and markets, small-scale farmers, climate change and natural resource use. She was also a Director at SustainAbility, a global think-tank and strategy consultancy on business risk and opportunities for sustainable development. She led the Emerging Economies programme and advised companies and organisations including Anglo American, Aracruz Celulose, Banco Real, Ford, Hindustan Unilever, the International Finance Corporation, Natura, Nestle, Tata Power and WWF.
Access to markets and productive resources, to basic services for financial and risk management, and increased and improved jobs are some of the needs that the World Bank and FAO identify as necessary for pro-poor agricultural growth in rural areas. As we have seen in Part II, these are clearly within business arena. It appears clear that a well-structured policy environment, able to attract and boost a respectful, inclusive and sustainable business engagement in agricultural activities in rural areas is then needed to scale impacts and lift more people from poverty.

In the framework of Part III, agriculture is considered as an activity that offers a number of opportunities to poor communities in developing countries. This is why I focused on a case study that could show that business interventions aiming at boosting agricultural productivity, or financing agricultural activities, or facilitating access to markets could make poor farmers better off.

The description of the case is based on the Report prepared by Moussa Djiré with Amadou Kéita and Alfousseyni Diawara for the Food and Agriculture Organization and the International Institute for Environment and Development. Moreover, adding information was taken from interviews released by the entrepreneur.

**Context analysis**

Mali is a vast landlocked West African country with a population of more than 15 million inhabitants and is constantly ranking among the poorest countries in the world.

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90 From the interview to Mrs. Jodie Thorpe. See Annex 2

Around 74% of its population lives in the rural areas, while more than 50% of the total population live below the poverty line of USD 1.25 ppp (purchasing power parity) per day, relying heavily on barely mechanized agricultural activities for their livelihoods. The Malian energy mix is highly dominated by traditional biomass that is seldom used for productive uses, while the most of the modern energy consumption is from imported fossil fuels.

**The institutional context for biofuels in Mali**

The common steep rise and instability of oil prices on the international market, combined with environmental concerns, have stimulated new interest in biofuels throughout the world. Mali, an agro-pastoral country heavily dependent on oil imports to meet its energy needs, has caught the fever and has been exploring production of several biofuel feed stocks, including jatropha. The choice to explore the production of biofuel through jatropha derives from the economic structure of the country, rural-based and energy-dependent.

Even before the widespread interest in biofuels, jatropha was already known in Mali under the local name ‘bagani’ and used as live hedging. Over the period 1990-2000, the German co-operation supported projects to plant jatropha, with the nuts being used to produce oil to power mills and generators in several villages in the Koulikoro Region. In its quest for alternative energy sources, the government became interested in the sector.

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92 *Jatropha curcas* is a species of flowering plant in the spurge family, Euphorbiaceae, that is native to the American tropics, most likely Mexico and Central America. It is cultivated in tropical and subtropical regions around the world, becoming naturalized in some areas. The specific epithet, *"curcas*", was first used by Portuguese doctor Garcia de Orta more than 400 years ago and is of uncertain origin. Common names include Barbados nut, purging nut, physic nut, or JCL (abbreviation of *Jatropha curcas* Linnaeus). *J. curcas* is a poisonous, semi-evergreen shrub or small tree, reaching a height of 6 m (20 ft). It is resistant to a high degree of aridity, allowing it to be grown in deserts. The seeds contain 27-40% oil (average: 34.4%) that can be processed to produce a high-quality biodiesel fuel, usable in a standard diesel engine. The seeds are also a source of the highly poisonous toxalbumin curcin or jatrophin.
Within this context of policy and institutional support for the development of the biofuel sector, and in the absence of significant public funding to promote operational projects, several private initiatives started, including both development projects and business ventures. Mali Biocarburant SA (MBSA) is a prime example of the latter.

**Origin of the initiative**

MBSA is the result of a not entirely accidental encounter between a private company and local producers in Koulikoro Region who, against a backdrop of energy crisis and renewed interest in biofuels, were looking for a partnership.

Koulikoro is the second administrative region of Mali, straddling the Sudanian and Sahelian agro-climatic zones, known as Western Sahel (See Figure 1). Millet, maize and sesame form the mainstay of its agro-pastoral economy.

The project developer and MBSA manager, a Dutch researcher and agro-economist, has worked in Africa for a long time, initially in East Africa (five years) and then in Mali (four years), focusing on the development of value chains. In an interview given to a UNDP representative he argued that he has always been interested in setting up a ‘win-win enterprise’ in which both farmers and the investor would benefit, and that could contribute to poverty alleviation.⁹³ This concern led him to study various investment models adopted in both East and South Africa. He

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⁹³ Interview given to a UNDP representative in September 2009, https://www.youtube.com/watch?v=9Sd8OoMREqU
found that none of these models ensured genuine producer representation or provided them with worthwhile benefits. He concluded that only a model where producers have an equity stake in the business and where mechanisms exist to ensure a transparent relationship between the parties can ensure such a win-win. This thinking fed directly into the concept of MBSA.

The Koulikoro Region of Mali appeared promising, as the Dutch development agency SNV had been working there for a while. Technical and socio-economic studies were carried out. According to the MBSA manager, the studies found that the production of the main staple crop, millet, in the Koulikoro Region did not provide farmers with adequate income and could not always even keep them fed all year round (50% of the households covered by the studies were unable to feed themselves throughout the year). It was thought that, since growing jatropha does not, in principle, require great effort, combining it with food crops (e.g. peanut, cotton, maize, sorghum) could help to bridge the gap.

One of the key guiding principles of MBSA’s approach is the reluctance to possess and operate large-scale monocrop jatropha plantations, but rather to focus on experimentation and seedling nurseries to provide adequate support (sound nurding and pruning techniques) to local farmers. In that respect, the company has employed 30 field agents to promote intercropping and land reclamation activities, and agronomic production.

In February 2007, MBSA was established and registered as a company, with the production and marketing of jatropha oil and its by-products as its primary purpose. The Malian partners were initially the Koulikoro Chamber of Agriculture, and then the local union of jatropha producers’ co-operatives in Koulikoro (Union Locale des Sociétés Coopératives de Producteurs de Pourghére de Koulikoro, ULSPP).94

94 The Dutch developer got in touch through SNV with the Regional Chamber of Agriculture to present the project. The Chamber of Agriculture had a fund available, which was provided by the Royal Dutch Embassy in Mali in connection with the Koulikoro Rural Development Programme. The Chamber used
The ULSPP was set up on 9 February 2007 and registered in Koulikoro. It had 15 co-operative society members in Koulikoro District, five co-operative society and four group members in Dioila District and one cooperative society member in Kolokani District, covering a total of 2500 producers comprising 500 women and 2000 men.

Jatropha planting started in the rural municipalities of Dinandougou, Doumba, Koula, Meguetan and Sirakorola, all in Koulikoro District, in 2007, and expanded in 2008 to cover the municipalities of Tougouni, Tienfala and Nyamina in Koulikoro and Dioila Districts.

**Project design and business strategy**

Having started with a relatively simple initial structure, MBSA then turned into a transnational enterprise, with several international public and private partners and activities in both Mali and Burkina Faso.

The initial shareholders in MBSA were the Dutch developer, who was also the managing director of the company, the Dutch Royal Tropical Institute (KIT); the Dutch railway company pension fund Spoorwegen Pensioenfonds (SPF); and the private companies Power Packs Plus (PPP) and Interagro.

Together, these shareholders held 80% of the company’s capital, while the ULSPP held the remaining 20%. So from the beginning, the union of farmer co-operatives held a significant equity stake in the company. As per standard practice, the company is run by annual general shareholders' meetings; a board of directors comprising representatives of the various shareholders; and a general manager.

The co-operatives produce jatropha seeds that the co-operatives union buys and then sells on to MBSA. MBSA processes the seeds to produce biodiesel and sells the end
product. The purchase price of the jatropha seeds is set by mutual agreement between the ULSPP and MBSA.

According to the MBSA manager, the biodiesel produced is sold to HUICOMA and Grands Moulins du Mali, two industrial enterprises based in Koulikoro, and to the ‘dourounis’ (public transport minibuses) in the town. The company is also canvassing for business from Air France and other enterprises interested in biofuels.

Apart from biodiesel, MBSA produces glycerine, which is used by a women's co-operative belonging to the ULSPP to produce soap, and also ‘press-cakes’ through production residues which are used as organic fertilizer by the farmers.

In addition to income from sales of biodiesel, MBSA generates revenues through the carbon credit market. For example, MBSA signed a contract for carbon credits with KIA Motors Netherlands. 80% of all revenues from carbon credits are to be passed on to the member co-operatives in the form of equipment.

Technical support is also provided to farmers by MBSA and the ULSPP with the aid of the government technical services and extension workers trained for this purpose.

While the key features of this initial set-up remain valid to this day, some important changes have occurred as a result of a corporate restructuring in 2011. Indeed, the first few years of operation revealed that the model had some limitations: jatropha production was not sufficient to supply the processing plant; and some Dutch shareholders began to ask questions about the sustainability of the scheme. The risk of side-selling, whereby farmers receive training and technical support from the company and then sell to other buyers offering higher prices, was seen as a particular concern. According to the MBSA manager, governance challenges within the ULSPP heightened the partners' concerns. Meanwhile, the company was initiating operations in Burkina Faso, thereby losing its original exclusive focus on Mali’s Koulikoro Region.

In light of these considerations, the company was restructured along the following lines:
- Mali Biocarburant SA was transformed into a holding company controlling two subsidiaries, one in Mali (Koulikoro Biocarburant) and one in Burkina Faso (Faso Biocarburant);
- Two foundations were established - Fondation Mali Biocarburant in Mali and Fondation Faso Biocarburant in Burkina Faso;
- The equity stake held by ULSPP in MBSA was converted into shares of Koulikoro Biocarburant – in other words, ULSPP now holds shares in the local subsidiary, not in MBSA itself;
- Measures were adopted to clarify relations between the producer cooperatives, the MBSA subsidiaries and the foundations.

As a result of this corporate restructuring, the set-up is now as follows. At the centre of the venture is the holding company, MBSA Holding. Its shareholders are KIT (48%), SPF (30%), PPP (12%), the company’s manager (9%) and Interagro (1%). MBSA Holding finances the subsidiaries and facilitates funding of the foundations. It owns the processing facilities. MBSA runs operations in both Burkina Faso and Mali through the two national subsidiaries. Activities in Burkina Faso are beyond the scope of this research. In Mali, activities are led by Koulikoro Biocarburant. Ownership of this subsidiary is as follows: MBSA Holding 79%; ULSPP 20%; and a Koulikoro Biocarburant executive 1%.

Farmers produce the jatropha seeds and sell them to the ULSPP, which they are members of, and which sells the seeds on to Koulikoro Biocarburant, which extracts the oil to produce biodiesel and markets the product. Producers also receive support from the Koulikoro Regional Chamber of Agriculture and from the government’s technical services.

The Fondation Mali Biocarburant was established as an association under Malian law in 2010. Its registered office is in Bamako. The foundation is a non-profit organisation. Its members are MBSA, which holds the presidency, TFT (Trees for Travel), KIA Motors and the ULSPP, together with two other jatropha co-operatives – the Bagani Nafabo
Ton co-operative of Kita and the Ouéléssébougou jatropha producers' co-operative. The foundation supervises producers and helps the farmer co-operatives to integrate jatropha in production systems without compromising food security. In addition, it is called to promote and support the education of the producers at farmer field schools. Moreover, it is responsible for managing carbon credit revenues, most of which are used for the operational activities it conducts, with the balance allocated to the producer co-operatives in the form of equipment.

Both MBSA and Fondation Malibiocarburant have various partners and funding sources. The foundation has received financing from the KIA Motors Company, which is linked to the enterprise by carbon credit contracts negotiated before corporate the restructuring; by TFT, which acted as an intermediary between KIA Motors and the foundation, of which it is also a member; and through development aid funding, for example from USAID. Similarly, in addition to contributions from the shareholders identified above, MBSA has received investment subsidies from the Dutch Ministry of Cooperation and loan sureties or long-term loans granted by KIT and the French Development Agency (AFD).

Finally, as part of its efforts to promote sustainable development of the jatropha production chain, MBSA has pursued assiduous co-operation with various research institutes (see Box 4).

**Outcomes, advantages and limitations**

Since jatropha takes 3-4 years to reach maturity, it took some time to see important positive contributions, increasing year by year.

Most importantly, MBSA has created an entire jatropha inclusive value chain in Koulikoro Region where previously none existed. The company has established an entire industrial jatropha oil production unit, catalyzing the organisation of rural producers. The company is producing more than 2,000 liter of biodiesel per day in a continuous process. Today, the ULSPP has more than 5000 members that can enjoy
new income from the sale of their nuts, amounting to USD 3 per day. Compared to laboring on the land, farmers earn 50% more by selling jatropha nuts.95

Box 4 – Promotion of the sustainability of the jatropha value chain

MBSA is a member of a research consortium led by Forest & Landscape in Denmark with Copenhagen University. Begun in January 2009, the project is mainly concerned with research; assessment; conservation; and sustainable production and use of the genetic resources of Jatropha curcas to produce biodiesel in Mali and discover any other species that could meet the same objectives.

MBSA is taking part together with Mali’s Rural Economics Institute in research funded by USAID to assess the potential of inter-cropping jatropha with drought-resistant maize varieties. It is also taking part in research led by the Earth and Environmental Sciences Department of Leuven University.

In June 2010, with support from the FACT Foundation, Mali Biocarburant launched an innovative project combining ethanol and biodiesel production. The project aims to produce fatty acid ethyl esters at MBSA’s biodiesel production unit in Koulikoro, using anhydrous ethanol produced in Mali.

In co-operation with FACT Foundation and ANADEB, Mali Biocarburant has also begun a project designed to produce rural energy in the form of biogas from crop residues, jatropha seedcake (a by-product of jatropha after extracting the oil) and cow dung.

Finally, mention should be made of the toxicity assessment and neutralisation of phorbol esters in the jatropha seedcake by-product and processing flow project, developed with Michigan State University.


95 Interview given to UNDP representative in September 2009, https://www.youtube.com/watch?v=9SdBOoMREqU
The producers benefit also from the dividends as shareholders of the company. Moreover, they enjoy an indirect benefit by way of production facilities from the carbon credit system. Finally, we witness increased yields of associated food crops. Producers are also supported and empower through the activity of the foundation, that assists and gives them advice on a number of issues.

The company has paid particular attention to gender, actively promoting women's participation in the process. A soap factory has been created using the glycerine obtained during processing. The soap factory is managed by a women's group and 55 permanent jobs have been created. A large number of farmers have received support through the farmer field schools and producer training. As a result of the publicity generated around the biofuels sector and the success of the farmer field schools, the number of producers is growing year on year and several co-operatives have submitted applications for UILSPP membership.

The iterative approach to the business, reflected in the various changes made to the original set-up, and the extensive collaboration with research institutions underlie a genuine commitment to learning and innovation. Generally speaking, the venture also contributes to realising Mali’s aspiration to tap into renewable energy sources and reduce its reliance on imported oil.96

Planting activities and the carbon credit scheme can provide a contribution to mitigating climate change, and jatropha has been shown to produce benefits in terms of soil improvement and regeneration.

The innovative nature of MBSA’s business model has attracted considerable international interest, as reflected in the company’s international partnerships and in direct mentions in several international research reports and United Nations documents.

96 Reference here is made to the Poverty Reduction Strategy Paper (PRSP), that is deepened in the framework of the second case study
At the beginning, however, challenges have also emerged, highlighting the difficulties of making company-community partnerships work on the ground even in the presence of innovative and committed private sector players. Due to the technical period needed to achieve the ideal production capacity it took time to significantly raise income for smallholders. Moreover, productivity was hampered by several factors. One of the underlying assumptions in jatropha production projects in general is that the plant can be grown successfully on marginal land with limited water. But in the arid or semi-arid zones of Koulikoro Region, producers need to water the crop during the dry season. Lack of equipment was also a constraint on productivity, and so were the white termites which destroyed the seedlings in many areas and seriously compromise production. Moreover, it took some time to generate profits and consequently redistribute dividends. The initial revenues received from the carbon credit scheme were used to dig wells and provide basic equipment such as carts or tanks for a small number of farmers, selected on the basis of their production. Some farmer field schools had also been set up. In the longer term, these activities may result in higher productivity and hence incomes, but did not provide a direct contribution to raising those incomes in the shorter term and at scale. Some of the beneficiary producers expressed dissatisfaction about the support received. Some producers claim to have received carts with no animals to draw them. More fundamentally, some farmers felt that these interventions did not address one of the most critical issues, white termites. Farmers do not have the means to purchase the insecticides necessary to deal with this problem. Given the income challenges faced by the farmers, some of the carbon credit revenue might have perhaps been distributed directly to producers, rather than invested in equipment.

Another challenge that emerged during the fieldwork relates to the functioning of the institutional set-up. Although the venture reflects a partnership between a company and local communities, the fact remains that the interests of the two parties have not always coincide. Avenues for communication and negotiation are therefore critical. Both MBSA and ULSPP have a general meeting of members / shareholders, a board of directors and management staff. These bodies do periodically hold their statutory meetings. But there appear to be problems in communications among the multiple stakeholders.
Despite these limitations, MBSA still offers much potential. The cooperatives union has plenty of competent members who have gradually built their negotiating and management skills and whose commitment guarantees that the process will be taken further. The manager is a socially committed businessman who retains a marked research bent and is continually looking for innovations. The model's chances of success are boosted by the manager’s in-depth knowledge of biofuel marketing circuits and networks and of the carbon markets. The manager’s ability to mobilise the numerous partnerships described above holds promise for MBSA’s ability to overcome its challenges. And despite their initial disillusionment, producers say they are ready to continue involvement with the venture because they have put in a great deal of effort from which they are still hoping to get benefits.

In conclusion, due to the shortcomings of the Malian agricultural and energy systems, investments in the production of biodiesel from jatropha seeds is a great opportunity to stimulate rural development. Additionally, it greatly diversifies the country energy mix and positively impacts the economy by enhancing the jatropha oil and biodiesel value chain.

2.2 – Case 2. Rural Electrification in Mali: Improving Energy Accessibility to the Rural Poor

Regarding the energy sector

It is widely known that the largest segment of the world's poor are the women, children and men who live in rural environments. These are the subsistence farmers and herders, the fishers and migrant workers, the artisans and indigenous peoples. Historically, the great majority of the rural poor live in sub-Saharan Africa (See Box 8). Hence, empowering rural people is an essential first step to eradicating poverty.

As far as the energy sector is concerned, the area of interest is restricted to ‘access to energy’. Although there is no single definition, according to the International Energy Agency, we can refer to this concept as the access to a minimum, safe and sustainable level of electricity and cooking and heating fuels and stoves, enabling productive economic activity and supporting public services. 

Exhibit 2 – Rural share of total poverty

Rural people as percentage of those living on less than USD 1.25/day in 1988, 1998 and 2008

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(1/9/2015)
As One\textsuperscript{99} affirms in The 2015 Data Report, “access to safe and reliable electricity at competitive costs is essential to economic development”.\textsuperscript{100} The provision of electricity to poor communities empowers them positively affecting the productivity of any activity and ultimately improving their wellbeing.

\begin{quote}
It is now well-established that not having energy for example restricts the time that children have to do their homework after school in the evening, but also it impedes the improvement of people’s productivity. Improvements in economic development require specialization. If you are entirely limited to hand-tools the advances you can make are very limited. It includes in particular the possibility of being able to improve productivity in areas which suffer from great scarcity of materials, which is a typical situation of places like Mali. […] What matters is not having access to energy occasionally, but very regularly. Not having it regularly does not allow to apply any of the technologies that we have. The lack of access to energy is a major impediment to economic development.\textsuperscript{101}
\end{quote}

Many developing and transition economies suffer from poor energy services (See Exhibit 3). Since a few years ago almost 1.5 billion people had no access to electricity and around 2.7 billion people used traditional biomass for cooking and heating.\textsuperscript{102} Almost 45 per cent of those who lacked access to energy lived in Sub-Saharan Africa, making up 69 per cent of the region’s population. They numbered 585 million people. Seventy eight

\begin{flushleft}
\textsuperscript{99} ONE is an international campaigning and advocacy organization of nearly 7 million people taking action to end extreme poverty and preventable disease, particularly in Africa. See more at: http://www.one.org/international/ (28/08/2015)


\textsuperscript{101} From the interview to Hubert Schmitz. See Annex 4

\end{flushleft}
per cent of those living in Sub-Saharan Africa used traditional biomass for cooking and heating (650 million).

Exhibit 3

As Helen Clark, UNDP Administrator, underlines:

*Energy needs extend well beyond electricity reticulated to homes. On this continent where so many depend on rain-fed agriculture for their livelihood, expanding access to energy for irrigation and food production and processing is vital. It can boost agricultural productivity and rural incomes, and empower women who make up a significant proportion of the continent’s farmers.*

She also affirms that for UNDP access to sustainable energy was crucial for making societies more equitable and inclusive, and for encouraging green growth and sustainable development overall.

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Energy is indeed fundamental to poverty reduction and a critical enabler of development. It supports people providing the poor with a number of benefits, ranging from cleaner, safer homes to lives of greater dignity and less drudgery, and from better livelihoods to better quality health and education. Moreover, it guarantees a more involvement of the poor (particularly for girls and women) in a number of activities. Finally, it helps combat climate change offering cleaner cooking and heating fuels and motor power for productive activities.

Hence, addressing the lack of access to clean, reliable and affordable energy services for billions of people is one of the world’s most critical development challenges. Indeed, this is recognized by the SDGs.\textsuperscript{104}

The International Energy Agency estimates that Sub-Saharan Africa will need cumulative investment of $US 389 billion to achieve universal electricity access by 2030 and $US 22 billion for clean fuels and devices for cooking and heating by 2030.\textsuperscript{105}

Clearly, public funding alone will not be enough to cover these costs and different sources of finance are necessary.

In Helen Clarks’ opinion:

\begin{quote}
The public funding available needs to be used as a catalyst for private sources of finance. For example, it could be deployed to create the enabling conditions which encourage markets and private investment flows into renewable energy.
\end{quote}

Business can be the primary facilitator of access to energy, bringing to the table innovative products and services, efficient delivery, essential technologies, management and technical capabilities, and financial resources.

\begin{itemize}
\item\textsuperscript{104} Goal 7: “Ensure access to affordable, reliable, sustainable and modern energy for all”
\end{itemize}
In this sense, the research is directed to find an example of business intervention enhancing and improving the access of poor communities to energy, with the aim of analysing its social impact and the productive use of electricity.

The description of the case is based on the research made by Mamadou Gaye on behalf of the UNDP in the framework of the Growing Inclusive Markets programme.¹⁰⁶

**Context analysis**

Energy needs in Africa are real and even greater in rural and informal areas around the periphery of cities. Electrification is a necessary precondition for socioeconomic development and poverty reduction strategies.

Only 10 percent of Malian inhabitants had access to electricity, dropping up to 2 percent in rural areas where the vast majority (around 80 percent) of the population lives. Most of the electricity in Mali is still generated either by coal or through hydro-turbines (Manantali, Sélingué, Felou, etc). The remaining part is provided by diesel-operated power generators. Households in rural areas use car batteries, kerosene lamps, and candles to light their homes and operate appliances, which often prove expensive and time-wasting.

Household demand for electricity is directed towards four main elements: electric lighting of the household, refrigerating and food freezing, pumping water and powering motors for income-generating activities.

For the small proportion of people with access to electricity, the price is higher than other countries in the region. The relatively high cost of electricity in Mali is due to structural aspects: its neighboring countries are globally more developed, and the Ivory Coast produces energy based on its own gas fields while Senegal has an interconnected

network benefiting from the hydraulic energy provided by Mali. Mali has developed a number of dams, but the coverage remains insufficient.

In this context, in 2002, the Malian government adopted a Poverty Reduction Strategy Paper (PRSP) outlining key areas requiring attention in order to enhance economic growth. The government concluded that electricity – for its role in household electrification as well as in water procurement through wells – should be prioritized. Moreover, it set the country’s target of achieving five percent annual economic growth through three priority areas: education, water and development of the productive sector. Energy of Mali (EDM) is the historical provider of water and electricity in Mali and the only one until Electricité de France entered the market.

The project

Structure and main partners
Electricité de France (EDF), the French electricity utility, in the mid-‘90’s decided to explore the possibility of bringing electricity to rural areas of developing countries as Mali through the development of Rural Energy Services Companies (RESCOs). These feasibility studies were conducted in partnership with the French Environmental Agency ADEME (Agency for the Environment and Energy Efficiency) and its partners Total and Nuon in 1996-1997.

In 1999 it partnered with Dutch energy company NUON and French energy company Total to form Mali’s first RESCO, called Koraye Kurumba, with support from the French Agency for the Environment and Energy Efficiency. At the request of a group of Malian immigrants living in Paris, the joint RESCO sought to provide energy to clients in Western Mali. In 2001, EDF and NUON formed a second RESCO called Yeelen Kura. This one sought to provide low-cost electricity to two rural regions through solar home systems or small, low-voltage village micro-networks supplied by diesel generators.
EDF initiated the cooperation in Mali according to three key criteria which orient its strategy: profitability, sustainability, replicability of the project, including the fact that the companies it would have contributed to and created with local partners should be ultimately owned and run by local actors. In the RESCO model, as designed by EDF, the companies install and manage local electricity generating systems to help stimulate local economic activity and reduce poverty. The RESCOs are independent Malian companies and make all the decisions autonomously. They have a link with the shareholders through the Board of Directors. Therefore, EDF brings strong support to its subsidiaries through training programmes, development of appropriate equipment (customer interfaces for example) and support to management.

The RESCOs’ main public interlocutor is the Malian Agency for the Development of Household Energy and Rural Electrification (AMADER). Amader contributes to the development of electrification in Mali through the use of subsidies and it is also responsible for setting up an adequate legal, regulatory and fiscal environment for rural electrification by private operators, and helps to arbitrate any disputes between the operators and communities.

**KORAYE KURUMBA:** The first RESCO, Koraye Kurumba (meaning “New Light” in the Soninké language), was created in 1999 by EDF (shareholder at 70 percent) and Total (30 percent), a major French oil company. This RESCO operates in the Kayes region, in the west of the country (See Figure 2) along the border with Senegal and Mauritania. It started providing energy to 510 clients in four villages selected by request of the Malian immigrants in Paris. In addition
to providing electricity for domestic uses, Koraye Kurumba also provides public street lighting, water pumping, schools, health centres, and productive uses. Initially, Koraye Kurumba employed 15 people, distributed between the villages and the headquarters. All the employees are Malian, including the director.

**YEELEN KURA:** The second RESCO, Yeelen Kura (meaning “New Light” in the Bambara language) was created in 2001. Its shareholders are EDF (50 percent) and NUON, a Dutch energy company (50 percent). The two partners had the same objectives - to supply modern energy to rural population to contribute to the eradication of poverty. The idea, beyond the creation of Yeelen Kura, was to commit electricity services to a local company. The French Agency ADEME (with a background in sustainable energy in developing countries) also joined the partnership to train and support local operators in the operation of electricity infrastructure.

Yeelen Kura operates in the cotton area, in southeastern Mali, on the border with Burkina Faso (See Figure 2). This area was chosen because it is the most economically active, which would attenuate somehow the numerous barriers and risks faced by the RESCOs in addressing low-income markets in rural areas. Yeelen Kura started providing modern energy to 1,700 clients in a dozens of villages. As for Koraye Kurumba, its client base represents about 60 to 70 percent of the population living in those villages.

At the beginning, Yeelen Kura counted over 15 decentralized offices and 33 employees, 25 of whom lived in the villages. For the first three years of the company’s operation, a Dutch director managed Yeelen Kura, but operation management was soon passed to a Malian director.

In terms of financing, Koraye Kurumba originally relied on Malian immigrants in Paris to support the costs of the operation. Most of the financing for Yeelen Kura came from EDF and NUON. The Dutch government provided 760,000 Euros (over US$1 million), which covered around 30 percent of the cost of installing 1,500 solar home systems and allowed tariff rates to remain affordable for many customers.
Business model

The clients are households, which in rural Mali comprises an average of 15 to 20 people (up to 80), with an average monthly income of US$40 to $68. Thus, initially, with 510 clients, Koraye Kurumba benefited 10,200 people, while Yeelen Kura benefited more than 30,000 (1,700 clients). Clients can also include groups of civil servants, craftsmen, farmers, business owners, schools, as well as medical centres and local community centres.

In terms of services, Koraye Kurumba offers a wide range of domestic services, both small (two lamps) and large (18 lamps and two electrical sockets), and provides public street lighting (about 75 lamps in total) in the villages it operates. Ninety percent of the electricity provided by Koraye Kurumba is based on small low-voltage village micro-networks supplied by diesel generators, and ten percent is based on solar kits.

At the beginning of the programme, one hundred percent of the electricity provided by Yeelen Kura was based on solar home systems (PV kits).\textsuperscript{107} Yeelen Kura up to 2007 had set up approximately 15 local energy stores in the villages within a 300 kilometer radius from Yeelen Kura’s head office in the town of Koutiala. In each store, one or two employees are responsible for installing, maintaining and repairing the systems in their area, as well as collecting fees and keeping track of the accounts. Additional staff in the head office coordinates the company’s overall operations, as well as marketing and liaising with various partners.

\textsuperscript{107} Solar home systems are stand-alone, household-sized, photo-voltaic electricity generation systems comprised of a solar panel, battery, controller and related wiring. The solar systems have panels ranging in capacity from 43 Wp to 120 Wp. This resulted from an agreement with the Dutch government, which agreed to subsidize Yeelen Kura for connecting 1,500 clients only if solar kits were to be used. Under this agreement, the Dutch government directly granted Yeelen Kura with material, supporting 30 percent of the real costs, while the remaining 70 percent was supported by EDF and NUON. However, under this agreement, the material provider was imposed with no bidding process and could therefore charge high prices. In addition, the regulators that make the solar kits operate were of poor quality, resulting in short-lasting batteries and higher costs for Yeelen Kura.
Regarding the fee, according to the contract with the Malian government, the RESCOs are free to set their own electricity tariff rates. The tariffs are computed with the aim to make the service as affordable as possible, while ensuring that the company will be able to cover its operating costs and remain economically viable. In many cases, family expenditures on electricity are the same or less than they would previously spend for traditional sources of light and energy (oil lamps, batteries, candles, etc).

The fees are collected periodically (at a payment frequency chosen by the customer), generally on a monthly basis, directly by clients. The RESCOs allow some flexibility, such as annual payments, for customers whose resources are received once a year (e.g. farmers). In addition, the largest clients have had individual meters installed. Public electricity provided by Koraye Kurumba is reflected in customers’ invoices, in accordance with a decision from Amader.

Originally, the Malian immigrants living Paris recovered Koraye Kurumba’s, but the collection system was too complex and the collection rates too low to be sustainable. Therefore, since 2005, the collection is withheld (i.e. directly recovered in Mali) from resources coming from remittances, increasing of almost 100 percent.

Two factors explain the RESCOs low fees. Firstly, the supply is adapted to the demand: as the demand is modest, so are the installations. Secondly, the RESCOs’ simplified management and operation procedures by applying fixed fees instead of having individual meters for each client. In addition, the new institutional framework, which

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108 At the beginning, the fee structure was composed of (VAT – 18 percent included):

(i) fixed fee based on the size and capacity of the system, ranging from US$11.8 (5,900 FCFA) to $96 (48,380 FCFA) for Koraye Kurumba, and from US$11.8 (5,900 FCFA) to $23.6 (11,800 FCFA) for Yeelen Kura.

(ii) guarantee deposit and a connection fee, charged once, ranging from US$62.5 (31,240 FCFA) to $378 (189,320 FCFA) for Koraye Kurumba, and from US$45 (33,040 FCFA) to $132 (66,080 FCFA) for Yeelen Kura.
will provide the RESCOs with investment aid, will enable the RESCOs to offer even lower fees.

**Financial viability**

Originally, the RESCOs did not have the necessary conditions to be profitable, but EDF involved itself knowing that a new institutional framework was being prepared that would enable the RESCOs to profit.

The expansion of Yeelen Kura’s and Koraye Kurumba’s coverage was dependent on donor grants to cover the costs of additional generating systems.

With the planned expansion, the RESCOs started being profitable by the year 2008. The RESCOs expansion was financially supported by Amader - up to 70 percent of the investment. The profitability for both RESCOs is around 12 to 15 percent (up to 20 percent), a high rate due to the high-risk investment.

**Expansion Plans**

After the success of both companies, EDF has been seeking additional funds to allow them to expand and, in July 2006, EDF started signing financing conventions with Amader. Under the expansion plan, Koraye Kurumba’s and Yeelen Kura’s customer bases were multiplied by ten and four respectively. As both RESCOs benefited from international donors’ subsidies (through Amader), their tariffs were divided by two, which increased the access to 80/90 percent of the population living in those villages.

The first beneficiary of the new Amader financing conventions was Yeelen Kura, which expanded its coverage to cover 5,000 customers in 24 villages by 2008. Following a pragmatic approach based on local needs, 60 percent of these expanded services depends on the use of low-voltage micro-networks powered by small diesel generators, and the other 40 percent depends on solar home systems.
Koraye Kurumba also expanded its programme thanks to Amader financial assistance, with the aim of covering public and domestic electrification, health care centres, schools and community centres.

In the framework of these expansion plans, the two RESCOs were able to decrease their tariffs in order to facilitate access to electricity services for the customers.\textsuperscript{109}

**Challenges**

Some of the challenges Yeelen Kura and Koraye Kurumba have faced include:

- **Accessibility for the poorest**: The limited donor funding required a tariff structure which meant that initially not all poor people could access electricity services.

- **Legal and regulatory issues**: Before the establishment of the two rural energy service companies by EDF and its partners, the public electrical utility (EDM) had maintained a monopoly in the country. The initial establishment of the companies required the need for authorizations at various levels of the government and the Ministry of Mining and Energy, and this necessitated bureaucratic processes. It also required the companies to work with the government to implement local judicial, fiscal and regulatory frameworks with well-established rules that would allow for the proper functioning of the companies (e.g. allowing them to collect electricity bills). This institutional framework has been worked out by the Malian government with the strong support of the World Bank.

\textsuperscript{109} The new tariffs, based on the size and capacity of the systems, range from US$4 (2,000 FCFA) to $18 (9,000 FCFA) for Koraye Kurumba, and from US$5.6 (2,800 FCFA) to $11.8 (5,900 FCFA) for Yeelen Kura,\textsuperscript{8} which means a division by two for equivalent service. For bigger customers, energy can be sold by kWh through meters at 175 FCFA/kWh. Connection fees and guarantee deposit decrease in the same way.
- Technical and operational issues: The low population density and the remoteness of villages in rural areas translated into relatively high transaction costs and costs of installing electrical systems.

- Clients: Current and potential clients often have high expectations of the performance of their systems that had to be managed given the necessity for usual repair and maintenance of the systems. Clients also have to be trained on the use of their systems and measures that can be taken to prevent theft of valuable components. Furthermore, the company's clients remained located in areas with a fragile economy and limited income generating opportunities.

- Human capacity issues: With low levels of literacy and business management capacity in the rural areas, the training of employees (as well as the senior management of the companies) was a challenge to overcome. The mayors and other village representatives had to be convinced that the tariff rates and charges were necessary for the sustainable functioning of the business and were not subject to political favors or interference.

- Future competition: Future challenges include potential international competition as the energy sector in Mali is becoming more liberalized, although, at the moment, the agreement with the Malian government guarantees monopoly of the RESCOs on their areas of operations. In addition, it is possible that other sources of energy, either imported from the Ivory Coast or Ghana or developed by the Markala electric dam, may create additional competitive pressure on the companies over time.

- Lack of customer resources: As a consequence of the raise of the VAT (from 10 to 18 percent), the economic difficulties of the cotton area and the closing of the borders with the Ivory Coast, Yeelen Kura’s customer base had very meager resources, and the company had to lower its fees and appeal to public subsidies. Another challenge related to the connection fees, because the clients tended to undertake the installation themselves to avoid this additional cost, which often resulted in unsafe installations. The RESCOs are able to overcome this challenge.
offering micro-credit solutions in order to spread installation fees over several months.

**Innovations and Success Factors**

The main technological innovation is not on the technical side, as the main sources of energy used by the RESCOs are existing ones. However, once the fees were fixed, the RESCOs had to find an innovative mechanism in order to ensure that the client did not add more lamps to the network and thus did not overcome 50 or 100 watts, for example (as defined in the customer contract). There were existing devices that could limit the power and sometimes the energy used, but originally, they were conceived for developed countries’ needs and were unable to limit the consumed energy to such the small amounts needed in this case. As a result, EDF had to develop its own devices appropriate for developing countries.

From an institutional point of view, when the RESCOs were created, there was no regulation of energy provision in Mali, and their success, together with the support of the World Bank, convinced the government to set up a new legal framework in 2006.

Thanks to this new policy, Amader was able to sign a considerable number of new contracts with small operators.

**Flexibility and local ownership**

Koraye Kurumba and Yeelen Kura offer a wide range of services (over 20) and allow some flexibility in terms of payment modalities, based on customers’ needs and preferences. Furthermore, the RESCOs have been designed with the intention to favor local ownership as much as possible. Indeed, all the employees are Malian and both companies take a participatory approach to involving local authorities, including mayors and representatives of the communities in which they operate. Furthermore, EDF’s objective is to gradually transfer its shares to Malian companies in order to guarantee local ownership once the companies are mature and their viability is ensured.
**Partnerships**

One of the unique features of Koraye Kurumba is that the company was created in partnership with Malian immigrants in France, who paid both the connection fees and monthly tariffs from Paris. These fees were collected quarterly with the support of the Malian village associations in the Parisian region, federated within the Sahel Development Immigration Association. However, due to some difficulties in ensuring an efficient collection in Paris, this collection has been transferred in Kayes’s area in the year 2005 and works much better.

The French Environmental Agency ADEME (Agency for the Environment and Energy Efficiency) has played an important role with both companies and ensuring that the businesses were benefitting the poor and the environment to the greatest extent possible.

**Development Impacts**

**Access to electricity**

The provision of electricity by the RESCOs provides many benefits including improving people’s ability to pump water for livestock and to electrify healthcare centres, schools and small businesses – a small business zone provided with electricity access was established in the village of Tambacara in 2004.

Yeelen Kura and Koraye Kurumba brought electricity to customers in rural Mali that would not otherwise have had access to modern energy services. This activity is aligned with the Poverty Reduction Strategy and economic growth plans of the Malian government. Provision of electricity in rural Mali provides a number of social and financial benefits and reduces the costs, risks and negative health impacts of traditional lighting and electricity sources.

Standards of living are enhanced as electricity is available for studying at night and other productive activities that can boost livelihoods and the local economy. In addition, electricity can be less expensive than traditional sources of energy, and the quality of services is proved to be much better than their alternatives.
Schools and community centres can be lit at night for socializing or community gatherings. Health centres can stay open later, be lit at night to provide urgent medical services and can conserve vaccines and other medicines in refrigerators. With greater access to electricity to power cell phones, radio, televisions and internet enabled computers, people in remote rural areas can follow the news and feel more closely connected to their countrymen and the rest of the world. Electric pumps can also pump water for drinking, irrigation and watering livestock.

**Employment and capacity building**

Up to 2010, Yeelen Kura and Koraye Kurumba have created approximately 100 jobs. Both companies hire and train local workers, thus providing a variety of valued job skills and experience. There are also local economic spin-off benefits such as the creation of different local equipment and services suppliers, especially for the recycling of used batteries. EDS also provides training and competences support.

**Environmental impacts**

Indoor air quality is also improved through the elimination of kerosene lamps, and safety is improved due to the reduced risk of fires from candles and lanterns. Furthermore, the environmental impact of the diesel generators is taken into account. Indeed, compared to traditional sources of energy, generators save 80 to 90 percent of CO2 emissions, i.e. only 10-15 percent less than sources of renewable energy. In addition, EDF conducted research and development studies with a view to replace the diesel used in generators by biofuels. There are also global environmental benefits to Yeelen Kura’s activities, because it is estimated that each household using a solar home system saves 350 kg of CO2 annually. Yeelen Kura won EDF an award from the European Commission for Best Renewable Energy Partnerships with Developing Countries in 2002.

**Opportunity for Replication and Scaling Up**

EDF wants to go beyond relying on local companies, by gradually transferring its shares to Malian companies. EDF’s will is to create the conditions for a sustainable business model undertaking the beginning risks but envisaging to sell its shares to local companies
once the sustainability of the company is ensured, thus enabling local ownership while recovering at least the investment costs. Besides, rather than accumulating profits and electrifying the entire country, EDF foresees reinvesting the funds into similar activities, in order to prove that local ownership and financial sustainability are possible. As a result, EDF will not start any future operations without preliminary partnerships with local operators, whose ownership should gradually rise to 100 percent over time.

In 2001, EDF created a permanent institutional programme for developing rural energy service companies in isolated areas of less developed countries called “Access to Energy and Services” or ACCESS. EDF’s ACCESS programme is currently studying the feasibility of similar initiatives in Africa and Southeast Asia. Two other RESCOs were created under this programme: Temasol in Morocco (objective- 58,500 customers) and KES in South Africa (objective- 15,000 customers in the first phase, extended to 45,000 in a second phase).

In addition to EDF’s projects, the Malian government is currently attributing rural concessions to private operators, and Amader signed over fifty contracts with small operators only in 2006.

### 2.3 Conclusions about the case studies

The two proposed case studies demonstrate the assumption of the present work: the private sector, if strategic for its part and/or strategically engaged by other actors, has a critical role to play in the achievement of development objectives.

In both cases we can appreciate the positive results delivered by the implementation of some business approaches and behaviours described in Part II, confirming the plausibility of the framework developed in the present work.

In the case of the Mali Biocarburatnt SA, for example, it is confirmed the importance of value chains inclusivity. It is demonstrated that an inclusive business approach, focused on the opportunity of involving local communities, of sourcing resources and processing
locally and selling necessary products on the same territory triggers a virtuous cycle that can significantly impact the life of an entire rural community. Smallholders are guaranteed an extra-income, they are empowered by their presence in the board of directors of the company and their ownership of shares of the firms that buys their nuts and process them. They also enjoy representation in the Foundation that takes care of their needs and education.

Moreover, in this context it has to be highlighted the importance of the partnering dimension, that is a founding feature of the described case. The business is a partnership between a private investor and a community of farmers, entitled of a part of the company’s share. This close relationship makes both sides more accountable and committed in the realization of the project. Moreover, it should guarantee a better relationship between the parties and enhanced communications.

Besides, jatropha is integrated in existing production systems, it is planted in between local food crops, thus ensuring food security. Furthermore, the increased soil quality due to the press cake is expected to benefit future profits of local food crops.

The involvement of women through the creation of a cooperative that produces soap out of the waste of the production is an important step for addressing the important gender issue. They are, in fact, guaranteed a job and an income, elements that, as it has been demonstrated, improve their role in the society.

In the agricultural sector, a responsible and forward-thinking company that actively includes the poor at all levels of its activities (as producers, consumers and owners) creates a lot of opportunities, providing employment and income, education, empowerment and ownership, services and eventually improves the living conditions of entire communities. At the same time, it makes profits, and enjoys trust and gratitude for the same reasons.
In this respect, significant are the words of the entrepreneur in the interview he gave to a UNDP representative: “It is not a development project, it is business. First of all it is a company, that has to make a profit.”

The case at stake creates economic growth, empowers as much poor people as possible and protects the environment. It addresses and positively impacts all the dimensions of sustainable development. Employment, rural and agricultural development, women empowerment, environmental protection, inclusiveness are all issue that can be found in the context of the post-2015 agenda and that are innovatively and positively addressed by the Mali Biocarburant SA approach.

In the case of the EDF and RESCOs we can recognize approaches and attitudes identified as characterizing element of a virtuous business involvement and engagement.

The provision of electricity in rural areas helps create economic opportunities and supports local self-reliance. Because the provision of electricity is a prerequisite to development on many levels, Koraye Kurumba and Yeelen Kura enable progress towards the attainment of development goals by facilitating improved health, education and livelihoods, while taking into account the prevention of climate change. Furthermore, the value added aspects of the RESCO model is that it guarantees local ownership and can therefore be easily replicated.

In this case it is highlighted the relevance of the provision of necessary and productive services at affordable costs. In many cases they can significantly empower poor communities enabling them to be more productive and protecting them. More specifically, we have learned about the importance of energy access for poor rural communities, often isolated and with very limited not only productive opportunities, but also limited access to several devices that simplify our lives.

The EDF (and its partners’) initiative addresses exactly this crucial aspect providing the possibilities for a series of activities that are likely to significantly improve the economic and living conditions of poor rural communities.
By granting access to electricity to small farmers in such areas the agricultural productivity can increase thanks to the use of pumps to water the fields, children can study after sunset, women can cook using safer and more efficient tools, saving time furthermore, having the opportunity to make additional productive activities. These are just some of the positive impacts that the access to energy at low costs brings about in poor rural communities.

Moreover, the EDF supported dynamics of local ownership of development processes through the training and the employment of local people at all levels of management. The foreseen gradual transfer of the property of the companies to the local administration is a very important element, since it empowers the local authorities.

The contribution from the part of EDF to the development of a new national legal framework is another important step towards the creation of a more favourable environment that is likely to attract new investments and facilitates the local development.

In conclusion, both agricultural development that increases small farmers income and access to energy that helps create new opportunities are critical development goals (as demonstrated by the SDGs). In these two fields, through specific approaches and strategies, business can deliver good development results and make profit. Attracting and enabling business investments and interventions in these fields makes sense in the framework of the post-2015 development agenda.
CONCLUSIONS

At the end of September, the UN General Assembly will ratify the adoption of the 17 Sustainable Development Goals (SDGs) that will represent the objectives of the international community for the next fifteen years. With the Millennium Development Goals (MDGs) expired, and development challenges still a reality, this agenda required changes in the structure and mindset.

The last fifteen years of MDGs implementation have primarily been based on government-led initiatives, with business involvement limited to an ad hoc basis.

Misgivings, lack of interest or of awareness regarding the potentialities and the opportunity of an enhanced and improved engagement of the private sector in the achievement of development targets characterized the relationship between governments and donors on the one hand, and companies on the other.

The MDGs were mostly focused on social problems, placing the economic dimension on a secondary level, and the private sector was not conceived as a main actor of the development cooperation system.

Nevertheless, the private sector, in the form of both external and domestic companies, has significantly increased its impact on the growth of developing countries during the last decade, often demonstrating capacities and interest in the addressment of development challenges. FDI, for example, have become an important feature of capital formation in developing countries.

So, times have changed and awareness regarding the potential role and contribution of the private sector in addressing some of global challenges we face and the achievement of development objectives has significantly evolved. The relevance of companies comparative advantages and specific resources has been increasingly recognized.

Importantly, the whole discourse around the role of private sector is not solely centered on financing and investment. It is increasingly recognized that in order to tackle global,
multilevel and cross-sectoral problems, the resources and the expertise of all the stakeholders are needed.

In particular after Rio+20 United Nations Conference on Sustainable Development, the call for the creation of a framework that would be able to guide and facilitate an enhanced business involvement has grown. Experts, business organizations, prime ministers and representatives of multilateral institutions have increasingly expressed the necessity of reshaping the companies role.

Nonetheless, there remains a reasonable scepticism regarding the effective opportunity of involving and engaging commercially-minded actors in the development cooperation system. Worries regarding the possibility that business takes advantage of the relationship with the UN system and the development area to gain public legitimacy or exploits it as a vehicle to influence developmental policies are real.

Hence, the SDGs have come to represent a great opportunity for the development community to engage strategically with the private sector.

I recognized that agreements, even more at a global level, are inherently complicated and cannot adequately address specific issues like those addressed by the present work. Indeed, it is realized that the biggest implications and challenges for a positive business and development relationship regard the implementation phase of the new development agenda, rather than its drafting. Nevertheless, it is not to be denied or underestimated the practical relevance that official and written provisions can have in such a field. In the end, the SDGs declaration has been expected to be (among others) the context where countries and business could agree to a set of rules and values for an enhanced cooperation system.

In this respect, a quick reading of the Open Working Group Proposal for the Millennium Development Goals, which is the basis of the document that is going to be ratified soon, reveals that when the SDGs address sectors which are clearly within the
business arena and where companies can provide a significant contribution, they
distinguish between three highly interrelated dimensions:

- Inclusiveness
- Sustainability
- Partnering

Goals 8, 9 and 12, which deal with economic growth, employment, industrialization,
innovation, and production and consumption patterns, underline the importance of
inclusive and sustainable approaches, encouraging their application.

**Inclusiveness**

Inclusiveness means that business can directly benefit the poor, addressing them and the
problems they face in the different contexts. Companies can involve local poor in
business processes as producers, consumers and even owners, offering, for example,
income opportunities or providing necessary goods and services. Beyond benefitting
local communities, it is argued and demonstrated that such an approach also makes
business sense. The UNDP Growing Inclusive Markets Initiative lists a number of
strategies and case studies regarding the effectiveness of this approach.

**Sustainability**

Furthermore, during the past decade, companies have been increasingly encouraged to
place responsible practices and sustainability objectives at the heart of their strategies in
order to better align their efforts with the broad global development agenda.

Central to a more effective engagement of the private sector is a new orientation
articulated by the UNGC and the WBCSD in the concept of ‘corporate sustainability’
and defined as “a values- and principles-based management and operational approach to
corporate management, strategy and culture”. In particular, transparency and
accountability are considered as crucial principles for the improvement of business
performance. Significantly, the number of firms participating in the UN Global
Compact and joining the Global Reporting Initiative has grown steadily.
This is business re-tooled for being up to the challenges of the 21st century, requiring the realization of a number of changes not only internal, but also systemic.

**Partnerships**

A crucial means for supporting change, but also an end in itself is cooperation. The last goal of the SDGs provides for the revitalization of “the global partnership for sustainable development”, recognizing that complex challenges require integrated responses, picking resources and know-how from all the stakeholders.

The two case studies, the first regarding a private-community partnership for the creation of a value-chain for the production of biodiesel, and the second concerning the access to energy by poor rural communities, both taking place in Mali, proved the efficacy of certain approaches and perspectives including the abovementioned dimension. Moreover, they demonstrated that the business potential contribution varies according to the sector concerned.

As we have said, in the SDGs framework, as it was in the MDGs, the biggest challenge is with the implementation phase. Quoting Mr. Schmitz, it is useful to realize that implementation requires five resources to make progress:

- 1 – money
- 2 – expertise
- 3 – organizational capacity
- 4 – legitimacy
- 5 – leadership

No single actor can guarantee all of them. So, it is increasingly necessary to bring all the actors together for integrated and comprehensive responses to global challenges.

Inclusion, involvement and engagement are much more effective than exclusion and rejection.
Governments and multilateral international institutions have to take the initiative to convene all the stakeholders and favor dialogue and alignment.

It has to be payed attention on and reinforced the so-called co-benefit dimension, the recognition that the addressment of global challenges can, for different reasons and in different ways, be in everyone’s interest and offer opportunities.

So, focusing companies attention on the benefits that they will get by investing in action facilitating sustainable development can be an effective strategy for the improvement of cooperation. The point here is then with the results of action and not with the reasons for it. The companies’ internal reasons are inherently and inevitably profit-oriented, but regardless to that, the simple fact of companies investing and contributing to the addressment of developmental problems is enough.

We cannot expect the private sector to take the initiative. But a favourable environment is likely to facilitate this process with the aim of scaling impacts and eventually reaching a systemic change.

Governments and companies have different but complementary responsibilities, and at the same time efforts have to be made from both sides.

If businesses embrace the SDGs and are supported by clear government policies and rules that align private incentives with sustainable development, then rapid positive change will become possible.

In conclusion, it is clear that global challenges require global efforts. The SDGs have opened new opportunities for businesses to shift in the achievement of development goals. They also offer a unique opportunity for development actors to be strategic about their collaboration with the private sector and to demand everything that they expect from the private sector. If done properly, in particular in the implementation phase, businesses can become real levers of change, while also maintaining their profitability.
ANNEXES

Annex 1 – Millennium Development Goals: 2015 Progress Chart

Source: UN (2015), Millennium Development Goals: 2015 Progress Chart
Annex 2 – Interview to Mrs. Jodie Thorpe

What is the role of business, the relationship of business and development, in particular in the post-2015 framework?

It is a difficult question, a wide question, and I do not think there is just one simple answer. It depends very much on what issue you are talking about, what type of business, what type of private sector, whether you are talking about multinational-companies, SMEs, individual organizations. They are all quite different.

Let’s try to narrow the question. I am referring to for-profit entities, foreign companies. What kind of contribution these entities can provide in the post-2015 framework, in particular in developing countries?

Still I think there is no just one simple answer, depending on a number of factors. Generally speaking, the opportunity for foreign companies can be related in part to financial investments, so bringing money, capital, but also creating jobs, opportunities for tax revenues. In particular I think it can be related to bringing new technologies, and/or new ways of doing things, so innovation but in a very broad sense, not only technologies but also processes. I think there are some examples where companies can bring good practices, such as labor issues or human rights issues, I mean how you manage these issues as a company.

Mrs. Jodie Thorpe is a Research Fellow in the Business and Development Centre at the Institute of Development Studies of the University of Sussex (Brighton, UK), with over 13 years’ experience in research and advisory work. Her current projects include public-private partnerships in agriculture, inclusive business, making markets work for the poor approaches and systemic change in business and development initiatives. Prior to enter IDS, she was a Private Sector Adviser at Oxfam GB, undertaking research and analysis, developing policy positions and lobbying companies and governments on business and poverty issues, particularly related to agricultural investment and markets, small-scale farmers, climate change and natural resource use. She was also a Director at SustainAbility, a global think-tank and strategy consultancy on business risk and opportunities for sustainable development. She led the Emerging Economies programme and advised companies and organisations including Anglo American, Aracruz Celulose, Banco Real, Ford, Hindustan Unilever, the International Finance Corporation, Natura, Nestle, Tata Power and WWF.
But the fact of being a foreign multinational in a developing country not necessarily and automatically brings positive impacts. We know about tax evasion, transfer pricing; we know that the way multinational are structured means that often the potential for new tax revenues does not match the reality, similarly in terms of jobs we know that many firms create jobs, but these jobs are not necessarily delivering the sort of broader development impact that governments are hoping because they are poor-quality jobs or there are very few highly-specialized jobs that are not available to the majority of the population.

What is fair to say is that in recent years, since the MDGs, the potential role of companies in bringing positive change that would support the achievement of the SDGs is different than it was fifteen years ago. This is both because the nature of the challenges that we are facing is more complex, more globalized, and therefore even well-resourced and sophisticated governments would not be able to address them on their own. So, more collaborative approaches, which involve not just the private sector but also other non-state actors like civil society, NGOs, are important not just in developing countries, but in general reality. Also I think the scrutiny of multinational companies and the information available through modern technologies mean that companies can’t get away with abuses that might happen fifteen years ago, at least not as easily. Companies are being held more accountable for their action. So these two factors, both the opportunity and the benefit of including companies in development solutions, but also the ability to hold them to account means that there is a more positive potential for foreign companies investing in developing countries on social goals as well as economic goals.

This links us to the next question. Since it is widely recognized that the role of the private sector has changes over the last fifteen years, and it has done so in a more positive way, could the SDGs be the opportunity for involving and engaging the private sector in a more strategic way? Since the private sector was not very much considered in the framework of the MDGs, and since ‘things have changed now’ and there is more recognition
and awareness from both sides, is there a reason and a way for engaging the private sector in a better way, in a more effective way in the post-2015 framework?

Are you talking about the development of the framework itself (the process that is coming to an end) or the implementation phase that will be launched soon?

I would say more in the implementation phase. The drafting of the SDGs cannot address in details, in a comprehensive way all the implications that such an issue brings.

I can somehow see this as an opportunity for the SDGs. Let me first say that inevitably achieving the SDGs is not going to be done by governments on their own. Even if we were in a different world where there was much more state-directed economies. The reality is that the governments can set the direction, but actually those who make the investments are businesses. So, at one level it is clear that the private sector needs to have some sort of role, but I think that the opportunity of the SDGs is to provide a strategic framework to align government and business collaboration, not necessarily collaboration in the sense of direct public-private partnerships but some engagement between the state and the private sector that is being experimented in many countries developed or developing anyway. Now the SDGs can give a concrete framework to articulate what goals need to be translated to the country context, but once that happens there can be a clear strategy for businesses and governments to work together, a clear way to prioritize collaborations, and also a framework for measuring impacts. So I think that business wants to show that it has a positive role and this would provide an incentive in a way for business because it would provide an objective framework against which they could show their progress and their collaboration.

So, I guess, turning to your question, I think business inevitably does have a role, but the SDGs provide the framework to make it more strategic and I think there are reasons to believe that at least for some businesses there will be an interest in trying to contribute to that framework cause I think that especially in post-economic crisis phase, where the
reputation of business is being questioned, this is a way to show that they can make a positive contribution.

That said about the relevance of the private sector and the strategic framework, I think there are a couple of considerations regarding how this kind of collaboration works in practice. Since the simple involvement of business does not guarantee in itself positive results, some form of transparency and accountability within these forms of collaborations about what the agreements are being made, what contributions are being made in terms of resources, what outcomes are being achieved is necessary. Information are to be made publicly available, and also the direct involvement of other actors to counterweight, to balance the business involvement could be necessary. Another key point, which is actually trickier, regards the risks implied by providing for an enhanced business role. Businesses as any other actor has its own objectives, and in its case these are related to profit. There is a risk that societal interests can somehow be undermined or changed because of the role of business. For example in the field of food security and nutrition, business sector has been quite active trying to address some of the challenges, but there is also a sense that big MNCs are shifting, influencing or at least trying to influence the prioritization of issues to focus on under-nutrition as something where they see themselves as part of the solution in providing food, and shifting the debate away from over-nutrition and issues like diabetes or obesity related to sugar-fat content of food, particularly processed food. Any time you have business involved there is a risk that it influences priorities not reflecting what is most important from a societal perspective.

So, I see the opportunity for business but there are a couple of quite important issues that do not have simple solutions.

Let’s talk now about the agricultural sector, which in this case has to be considered as an income-generating activity. What’s the relevance of the agricultural sector for development?
Agriculture is arguably a critical sector when it comes to SDGs and poverty reduction. The majority of those living in extreme poverty are living in rural areas and are dependent to some degree on agriculture. It’s the main source of livelihoods in underdeveloped economies. And so there is evidence to suggest that improvements in agriculture have a bigger impact on development than similar improvements in other sectors because of the number of the extremely poor, and because of the livelihood and job creation potential that has. But there are a lot of challenges, there are a lot of people dependent on agriculture in very precarious livelihoods. Agriculture is quite a risky sector in the sense that you have weather failures, crops failures that can entirely wipe out a year’s income. You also have a lot of people who are underemployed in agriculture, it is a seasonal work. Especially those who do not have land and are dependent on agriculture as wage-laborer of other people’s farms have seasonal works, so some months of the year they have work, but other months they do not have enough work. Moreover, the size of farms in poor communities is quite small and so they do not necessarily provide enough, whether it is direct food for consumption or food to sell in the market to create income, and do not provide enough to meet the family needs for the entire year. I guess that, concerning the debates around agriculture, some would say that the challenge or the focus is about how to increase the productivity of agriculture, because the more productive the land is, the more income and the more job-creation potential. But also others would argue that actually the transition the most developed countries have gone through has involved people moving off the land and into the city and into more industrial sectors, and that this inevitably is the way development should go. But there is slightly a disconnect between those who would say to support poor families farms, make them to work better, and those who would say that what we need to be doing is to create employment for underemployed people in rural areas. So, again, slightly contradictory but I think that the simple answer is that there is a huge amount of people who depend on agriculture who are extremely poor and by improving that sector there is a great potential for income generation both for improving the livelihoods of those who have land in terms of small-scale farmers and also for opportunities for wage-laborers in these farms.
Since the adoption of a sectoral perspective is necessary when assessing the potential role of the private sector in development, what is then the specific contribution that the private sector can provide in the field of agriculture?

I guess there are three broad areas of private sector activity that are seen to support family farms:

- one is around input provision (seeds, fertilizers, etc.) and make it more available and useful for small-scale farmers, something that is also quite controversial cause we have seen that the seeds sector has been one where the private sector has been most abusive towards farmers;

- the second is around the market, which is usually seen as the system having the most potential. So, how large companies can involve more small-scale farmers in their supply chains, providing them with a market and a livelihood opportunity. You get a lot of examples of inclusive value chains, inclusive models. I think it does not work in every crop, depending on its characteristics of production. In a way companies have to involve small-scale producers, probably not directly but through their value chains. The question here is how they can make those relationships more inclusive in a sense of farmers benefiting more from these relationships. It is not purely about prices but also something about security of the market. So, companies making some commitments about where they go to source their material. Also here a lot depends on the type of crop.

- The third area is around finance: agriculture is a business and like in any business you need to invest upfront in order to have a return later and often you see barriers to farmers in terms of lack of access to finance. It’s often hard to get the input they need at the beginning of the season to have a really good crop produced at the end. So they either do not use fertilizer and their productivity is low because they cannot afford to buy that upfront, or they take credit at unfavorable terms and then they are blocked into such a vicious cycle that when they have to sell their crops a lot of their profits goes on paying back the loan.
So, access to finance on reasonable terms is another area where the private sector can have positive benefits related to agriculture and livelihoods. It is about micro and medium finance. But there are other ways the private sector can support access to finance, for example, a company that is going to buy the produce at the end, by providing a contract to the farmers showing that they will definitely go to get a return at the end of the season can improve the terms in which they can access finance from a bank.

These are the three main areas through which the private sector can make a contribution to support poverty reduction through agriculture.
What’s the importance of energy access for development?

There are many purposes. It is now well-established that not having energy for example restricts the time that children have to do their homework after school in the evening, but also it impedes the improvement of people’s productivity. Improvements in economic development require specialization. If you are entirely limited to hand tools the advances you can make are very limited. It includes in particular the possibility of being able to improve productivity in areas which suffer from great scarcity of materials, which is a typical situation of places like Mali. Think of repairing things. If you do not have access to a wieldy you cannot in fact repair what you already have or you cannot build or create new things out of reused materials. Then of course this is multiplied if you think of how important electricity is to use new information technologies. Of course now everything is facilitated by the fact that you can get electricity and store it in batteries for a few hours, but that is not enough. What matters is not having access to energy occasionally, but very regularly. Not having it regularly does not allow to apply any of the technologies that we have.

The lack of access to energy is a major impediment to economic development. I do not think there is anyone in the world that would disagree with this. This is one area where there is consensus, and there is also consensus around the recognition that the state plays a major role as facilitator and that the private sector role is then to invest in that but this requires a legal framework, an incentive framework that encourages this.

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Moreover, the more dispersed the population is, the more expensive it is to provide energy to people. And this is of course the biggest headache for the private sector. Providing access to energy is interesting where you have a high concentration of people, but the more dispersed it is, the more difficult it is. The question then is whether the new technologies make it easier to reach people also in distant regions. The answer is yes, it facilitates it, but the technological progress that has been made in providing access to energy in agglomerations is very much faster than the one for providing energy in decentralized off grids.

Why, if at all, the private sector should be involved and engaged in the post-2015 development framework?

The MDGs agenda was mainly a donor-driven agenda, and donors themselves of course cannot make a difference. They need to work with the public sector and with the private sector.

I think it is useful to realize that in the SDGs framework, as it was in the MDGs, the biggest challenge is with the implementation phase. And implementation requires five resources to make progress:

1 – money

2 – expertise

3 – organizational capacity

4 – legitimacy

5 – leadership

No single actor has all of that. The private sector has some of these, usually money to invest and expertise, lesser legitimacy, organizational capacity typically only on the ground. The public sector has other resources. The civil society others again. Donors for example do not score high on legitimacy because they are often felt as coming from
outside, but they might have a huge pocket of resources that they can throw at the problem. So, it is really a matter of bringing actors together because different actors can bring different resources to the table. This is really the crux of the matter.

The thing we do not know enough about is: who can do the convening? Who can bring these various parties together successfully?

What’s your opinion?

Well, in principle, governments should do that. There government is where they should come in. The problem is that government itself is often fragmented. The talk about different government departments all contributing to a particular objective, being nutrition, being education, being infrastructure, but not actually working together. And then donors who focus on the problem and that actually see all these connections and despair because governments are not connecting. They themselves are trying to bring them together and induce cooperation, but they lack legitimacy for doing that. Why should a ministry responsible for public work, or enterprises, or energy listen to the donors?

So, there are huge tensions in this issue. I think ultimately though the initiative has to come from governments. They are the key player. If governments leaders, at all levels can do this, then progress will be made, because the private sector, even though it loves complaining about governments, it always actually look for governments to take the action. And if governments actually bring the various actors together, they will respond. So they are the key facilitator. The key party that broker that if it wishes to bring the parties together. And they enjoy legitimacy. It is the public sector that has to take the leadership.

Once, you clearly told me that the SDGs are not going to be achieved unless the private sector is involved and engaged in their implementation. Can you argue this opinion?
The SDGs deal with huge fields. It is now widely recognized, in particular in my field, the environmental sustainability field, that in order to really secure the survival of the human being on our planet the investments required are huge.

It is widely recognized as well that the public sector plays an important role in incentivizing investments. But 80% approximately of the required investments need to come from the private sector. This is the sort of figure. So, this is the number one contribution that the private sector has to make.

But then of course with that it comes the expertise as to how to do things, what makes sense and what does not. The private sector of course is always trying to argue for particular cases depending on where it sees the greatest feasibility for itself and its own private objectives might not be necessarily aligned with those of governments. But if governments actually concentrate on getting this process on the way good results will be achieved. The best mind-set for government officials to do this is not “how do we stop the private sector from wanting to make profit?”, this is a useless approach. What is a useful question is “how can we make sure that the private objectives are aligned with those of the public sector?.” This way the private sector would not necessarily invest to secure the continuation of human life on this planet, but if as a result of these investments they also contribute to less climate change, better nutrition, they will be pleased. And some people in the business sector are in fact committed to this. But that does not drive that.

So, the concept of ‘co-benefit’ is the important idea to get the private sector to contribute to the implementation. This is a very debated issue indeed.

Again, no single party can bring about change in any particular area, whether it works on nutrition, or climate change. You need all the interested parties coming together. They do not need to do it for the same reason. They can have different objectives, but what matters are not the motives, what matters is what they actually do. And what the private sector needs to do is to invest. The fact that they do it in order to generate their profits is acceptable. But if you adopt the ‘co-benefit’ approach and see that the private
sector objectives can be aligned with societal needs, then we are on a more productive path.

**So, in your opinion the private sector has to be incentivized to invest on the basis of this co-benefit perspective?**

Yes. And to use this co-benefit dimension framework in negotiations and discussions with business. For governments to be effective they cannot be totally distant from the private sector. There is a school of thought according to which a close relationship between governments and business automatically boosts corruption. Indeed it can. In extreme cases government is in the pocket of companies. But being too distant means that businesses do not understand what the government needs and wants. So, it is a question of being close enough using the co-benefit framework as a basis for discussion.

In fact, business do things for a lot of reasons. If we can align one reason to what we need then we are winning. It is a liberating approach. In my own field, that of green sustainability, my line is that the green movement, consisting of people who are convinced to have green convictions, is not going to bring about the changes on its own. They need to work with others who do not have green convictions but who would benefit from making particular investments, lobbying for certain purposes or advising, for their own reasons, but actually contributing to development goals. It is a liberating approach and it is increasing the potential for alliance.

It might be less pure, but it means that we have to change the way of thinking around business and development. It is very frequent that we pitch the public sector against the private sector, the NGOs against the financial sector, donors against local governments, this is not helpful. The whole question then is to bring all these forces together within the various sectors and bring about change. That is the difficulty.

If governments were united behind that, it would be fantastic. If they were united in driving the way of a particular reform that contributes to the implementation of the SDGs, it would be a great achievement. But often different departments of the same
government want different things because they might have different views of the world. The same for the private sector. And so we need to split the public sector, split the private sector, split the civil society organizations, split the donors and see which forces in all of these are contributing. The moment we do that we become a little beat more realistic and hopeful regarding what we can achieve.

How actually we bring all these key actors together, that is the main question. Who has the convening task is the difficult aspect because it may mean that you are neglecting to work with your “neighbor” in the government and you prefer to work with people in other organizations.

Perhaps for different reasons, but we can join forces. If we applied this analytic perspective also for our political and implementation work, then I think we have a greater chance of making progress.
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