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What do we know about private sector contributions to development?

By Margaret Callan
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In international development discourse, the private sector is increasingly seen as a development partner and international aid agencies are required to have private sector engagement policies. According to Recommendation 21 of the recent Independent Review of Aid Effectiveness for the Australian Government: 'The power of business should be harnessed and business innovation should be encouraged …'. The Review also suggested that the aid program consider 'establishing a mechanism to assist businesses seeking corporate social responsibility and/or inclusive business opportunities in developing countries'.

Given this enthusiasm for engaging the private sector in the development business, you would expect that we know a lot about what companies contribute to development and have a good idea about the resources they bring to the table. In fact, we know quite a bit about some of their contributions from annual reports and national accounts, especially their economic contributions in terms of investment and production, taxes paid and employment created.

The MDG Scan, a methodology to measure company contributions to the MDGs [pdf] (developed by Dutch Sustainability Research and NCDO, the Dutch national committee for international cooperation and sustainable development) goes a step further. It applied generic poverty rates, employment multipliers and dependency ratios to the core business data of 20 multinational companies in order to assess their poverty impact. The MDG Scan estimated that in 2010, 2.5 million poor people (using MDG1 indicators) benefited from these companies' commercial activities. While this sounds impressive, it's impossible to judge how significant it is because we don't know what the yardstick is – did the companies have a target for their MDG1 contributions, did host countries or the UN have a target for private sector contributions to MDG1?

Beyond core business activities, many companies undertake a range of programs as part of their commitment to corporate social and environmental responsibility and sustainability. Companies with operations in developing countries usually describe these programs as contributions to national development. Therefore development researchers would expect to find references to national development goals or MDGs in the annual responsibility and sustainability reports of companies. Unfortunately, with a few notable exceptions, there are practically no such references in company reporting.

Corporate responsibility and sustainability reports are full of interesting information and insights into company policies and practices. They indicate the commitment and effort by many companies in developing countries to make a valuable contribution to the wellbeing of their host societies. Many companies report significant amounts of expenditure on community programs or corporate social responsibility programs and present case studies of some of their programs.

However, there is very little uniformity in the reporting, despite the fact that many companies subscribe to the same models or standards for reporting: the Global Reporting Initiative (GRI) and London Benchmarking Group appear to be the most widely used models. According to research [pdf] on reporting of community programs initiated by GRI in 2008, only one-half of companies reported the policies or goals of their programs and most focused the reporting on their own inputs with little information on the benefits or beneficiaries. Reporting also tends to have poor geographic and sectoral attribution for community programs and rarely links activities to national development goals or targets.

If a particular developing country or its international donors or business leaders wanted to know how much the private sector was contributing to development, what information would they need? I would suggest, as a minimum, all companies should provide the same set of data, using common definitions and valuation methods, so that it could be aggregated. Second, the data set should be consistent with national development goals, by sector, gender and geographic location.

Fortunately, existing global models and standards for corporate responsibility and sustainability reporting already provide guidance suitable for a research project to estimate the private sector's contribution to development in a particular country. But company reports are not prepared with this objective in mind – they are prepared to satisfy commercial needs such as enhancing the company's reputation and attractiveness to investors and strengthening relationships and trust with stakeholders such as human rights and environmental groups. Reporting would need to be reoriented if companies wanted it to serve as an account of their contributions to development.

In the accompanying Discussion Paper, *What do we know about private sector contributions to development?*, we propose a framework for companies to use in reporting on their development contributions that is consistent with the most frequently used existing frameworks. At the same time, our framework provides information useful to companies to assess their own performance, and valuable for development partners to assess potential opportunities for collaboration and cooperation to improve development outcomes.

We propose using this framework for a case study on the private sector in Papua New Guinea, and meanwhile would welcome your comments on the discussion paper and the proposed framework.

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