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The Private Sector and Development: Key Concepts

Development cooperation actors are looking to the private sector as a key partner for achieving sustainable development results, recognizing private firms as sources of innovation, expertise, and finance to be harnessed in addressing development challenges. At the same time, many private sector actors are increasingly going beyond their regular business operations to actively pursue inclusive, sustainable business models aimed at maximizing profits while contributing to development. They are seeing a convergence between their business interests and development priorities, such as improving the social and environmental sustainability of supply chains, and developing products and services for new markets, including populations living in poverty.

The increasing role of the private sector in development presents new opportunities for collaboration between the public and the private sectors. However, different actors, including the private sector, donors, and civil society, have varied understandings of private sector engagements in development. They often lack a shared language on and understanding of the roles of the private sector in development. As such there are different views on what partnerships with the private sector entail.

Based on a longer NSI report – *Mapping Private Sector Engagements in Development* – this policy brief provides an overview of key concepts relating to the role of the private sector in development. The brief seeks to provide greater clarity on key terms to help inform and improve policy debates and engagements amongst key stakeholders.

This policy brief provides an overview of key concepts and terms as they relate to the private sector and development, synthesized from a review of existing literature (Box 1). In doing so, it serves as a useful source of information for policy-makers concerned with gaining a better understanding of the role of the private sector in development. The brief aims to help inform and improve policy dialogues and engagements amongst key stakeholders by offering clarification on key concepts.

Private Sector

The private sector refers to organizations that have a core strategy and mission to engage in profit-seeking activities, whether by production of goods, provision of services, and/or commercialization. This includes financial institutions and intermediaries, small and medium-sized enterprises (SMEs), individual entrepreneurs, farmers, co-operatives, and large corporations, which operate in the formal and informal sectors. This definition excludes independent foundations, non-governmental organizations (NGOs), and civil society organizations (including business associations).

Box 1. Key concepts

Development Cooperation Actors: Organizations and government departments and agencies that operate at the international, national and local levels and are linked by flows of aid and technical expertise. These include international financial institutions, bilateral development finance institutions, United Nations agencies, the Organisation for Economic Co-operation and Development, bilateral providers of official development assistance, South-South development cooperation providers, and civil society organizations.

Private sector: Organizations that have a core strategy and mission to engage in profit-seeking activities through the production of goods, provision of services, and/or commercialization. Includes financial institutions and intermediaries, large corporations, micro, small, and medium-sized enterprises, co-operatives, individual entrepreneurs, and farmers which operate in the formal and informal sectors.

Private sector in development: The roles of and activities carried out by the private sector as part of its regular core business operations that affect development outcomes and economic growth through positive impacts such as job creation, provision of goods and services, and taxation, and negative impacts such as environmental degredation and poor labour practices.

Private sector development: Activities carried out by governments and development organizations geared toward creating an enabling environment for business to flourish. Includes activities by development cooperation actors aimed at increasing private sector investment in developing countries.

Private sector engagements for development: Instances when engagements with the private sector go beyond the traditional impacts of the private sector *in* development. Private sector engagements for development include firms' active pursuit of positive development outcomes.

It does, however, include foundations established by many major corporations which function as either branches of companies or have links in terms of their mandates and governing structures to carry out corporate social responsibility activities on behalf of companies. Given that clear linkages exist between these types of foundations and companies, their activities can be seen as part of regular business operations embedded in companies' core profit-seeking activities, although the activities that they carry out or support may be similar to those of other independent foundations and NGOs.

Private sector *in* development

The private sector plays an important role in development through its regular business operations. It contributes to economic growth through investment-related activities, job creation, and the provision of goods and services. Through regular business operations, firms can support the local private sector by sourcing from SMEs, promoting environmental sustainability, and tackling bribery and corruption, for example.

Jane Nelson (2011, 84–90) provides a succinct review of how different private sector actors contribute to development.

In addition to capital markets and financial institutions, large domestic firms employing over 250 people are key drivers of private investment in developing countries. Multinational corporations also contribute substantially to flows of private capital from developed to developing countries. It is also widely recognized that micro firms and SMEs play crucial roles in furthering growth, innovation, and prosperity in developing countries. SMEs typically account for more than 95 per cent of all firms outside the primary agriculture sector and generate significant domestic and export earnings (OECD 2004). They also account for the bulk of employment in developing countries (World Bank 2012, 105).

Although private sector actors often produce positive development results, their operations can also have negative impacts on development through, for instance, environmental degradation, corruption, tax avoidance, poor labour standards, and human rights abuses (Nelson 2011). In response to the actual and potential negative impacts that the private sector has on development, several initiatives have been established at the global level for the promotion of better corporate practices. For example, the UN Global Compact, which is a voluntary corporate social resposiblity initiative, includes 10 principles in areas related to human rights, labour, the environment and anti-corruption.

In many cases, private sector actors can improve their development impacts by changing key aspects of their business practices. For example, firms can improve access to supply chains for local producers, and reduce greenhouse gas emissions and waste.

Private sector development

Private sector development refers to the activities traditionally supported by development cooperation actors, national and local governments, and the private sector itself.

The objective of private sector development is to promote an environment conducive to the establishment and growth of the private sector in developing countries.

Typically, activities related to private sector development have included interventions at the macro, meso, and micro levels (Kurokawa, Tembo, and te Velde 2008; Kindornay and Reilly-King 2013). Macro-level interventions focus on creating a business-enabling environment by building economic, legal and regulatory foundations. It includes activities to improve financial regulations, governance frameworks, and public financial management. Meso-level interventions are those that target market failures and imperfections to enhance competitiveness and integrate all actors into national, regional, and international markets. Such interventions include aid for trade, building value chains, and transfering technological innovations. Finally, micro-level interventions include investments in firms and people and entail building support services to enhance longer-term private sector development and growth. Examples include technical and financial support for SMEs and investments in health, education, and vocational skills training to foster a thriving workforce (Kindornay and Reilly-King 2013).

Private sector engagements *for* development

Private sector engagements for development refers to instances when private sector actors go beyond traditional business practices to achieve sustainable development outcomes. Unlike private sector development, which focuses on supporting the private sector in developing countries, private sector engagements for development is about the *active participation* of the private sector in achieving development goals in areas including and beyond private sector development, such as health and education. For example, advanced market commitments have been used to promote the creation of vaccines in health and further research in agriculture.

In addition to funding or carrying out development projects, for many private sector actors engaging for development has meant incorporating development-related activities into core business strategies and models (Box 2). Development cooperation actors are supporting these activities. They are also encouraging private sector participation in policy dialogues aimed at informing international development cooperation agendas. A number of development cooperation actors are also supporting or participating in knowledge platforms aimed at better understanding the potential roles of the private sector for development and generating best practices. Donors are using challenge and innovation funds to encourage the private sector to develop products and services that will benefit the poor.

Box 2. Examples of development-friendly changes to core business

- Incorporating climate sensitivity, implementing human rights principles, or improving accountability and transparency in business operations
- Targeting the transfer of technologies to host communities
- Adopting and supporting the widespread use of responsible business practices
- Adopting and implementing inclusive business models
- Aligning core activities to contribute to the achievement of development outcomes (including health and education objectives)

Conclusion

This policy brief has sought to provide key stakeholders, including the private sector, governments, inter-governmental organizations and civil society, with an overview of key concepts and terms on the private sector and development. It seeks to provide clarity on key concepts with the aim of contributing to a shared language as the basis for improved policy dialogue and engagements between development cooperation actors and the private sector.

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