The Business Case for Development

How Companies Can Drive Sustainable Development—and How Governments and Donors Can Leverage Their Impact

Working Paper
July 2012
The Initiative for Global Development

The Initiative for Global Development (IGD) drives large-scale poverty reduction by advancing vital business growth and investment in the developing world. We bring together an influential network of CEOs and senior executives with the interest and capacity to make strategic, catalytic investments in high-need, high-potential regions, with a current focus on Africa. Working together, we foster global connections, share frontier market knowledge and insight, and promote business-driven development to create economic growth and opportunity that can lift generations from poverty.

Business for Better Development

Business for Better Development, an IGD project co-chaired by Chevron and IBM, is working to advance sustainable development outcomes by aligning business, government, and donor priorities. The project brings together companies interested in highlighting the private sector’s potential for contributing to more effective development through core business activities and encourages business engagement throughout the U.S. government development process.

THE FOLLOWING COMPANIES CONTRIBUTED TO THIS PAPER:

Chevron Corporation
   Co-Chair
IBM Corporation
   Co-Chair
AICO Africa Limited
The Boeing Company
Cummins Inc.
Diageo plc
Export Trading Group
General Electric Company
Land O’Lakes, Inc.
Nestlé
PepsiCo, Inc.
Quality Chemical Industries Ltd.
Symbion Power, LLC
Standard Bank Group Limited

The views expressed in this report are solely the views of the Initiative for Global Development. Nothing should be construed to represent the formal policy positions of the companies listed.
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>The Business Case for Development</td>
<td>3</td>
</tr>
<tr>
<td>Improving Development Outcomes through Greater Business-Government Alignment</td>
<td>8</td>
</tr>
<tr>
<td>Endnotes</td>
<td>16</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>17</td>
</tr>
</tbody>
</table>

### Company Examples

- Chevron Corporation                                            3
- Quality Chemical Industries Ltd.                               4
- Rabobank Group                                                4
- AICO Africa Limited                                           6
- Nestlé                                                        7
- The Coca-Cola Company                                          8
- Unilever PLC                                                  8
- Diageo plc                                                    9
- PepsiCo, Inc.                                                 10
- IBM Corporation                                               10
- Standard Bank Group Limited                                   11
- Cummins Inc.                                                  12
- Ecobank Transnational Incorporated                            13
- The Boeing Company                                            14
- Export Trading Group                                          15
Business imperatives are driving companies to make strategic, sustainable investments in frontier markets that enhance the human, social, and economic capital of communities where they operate. Companies increasingly recognize the contribution of these activities to their long-term, strategic growth, whether focused on supply chain management, workforce development, or product innovation, distribution, and access.

These strategies are stimulated by a company’s fundamental business needs: achieving growth, increasing efficiency, and enhancing the operating environment. While precise measurement of the bottom-line benefits of development activities can be challenging, it is increasingly evident that business-driven solutions can generate effective, robust, and sustainable development outcomes.

The business case for development presents real opportunities for large-scale development impact, particularly where there is alignment between corporate interests and donor initiatives. This alignment is most likely when projects are business-driven, which suggests a different paradigm for donors.

Donors can increase their effectiveness and extend their resources by identifying how to leverage well-aligned corporate strategies. By engaging companies throughout the lifespan of a project and using development finance and other tools to buy down the additional risk often associated with engaging in development, donors can tip the balance to induce more business investment with greater development impact. This is increasingly important in an era of scarce budget resources.
Economic growth is one of the most powerful drivers of poverty reduction in the world, and business is the most reliable engine powering that growth. As companies expand their operations in frontier markets, businesses from developed and developing economies alike are having a profound, positive impact through employment, training and education, supply chain linkages, and the provision of life-enhancing goods and services—all of which are strongly correlated to improved standards of living and broad-based development.

Today, approximately 82 percent of capital flowing to the developing world comes from the private sector, dwarfing the level of funding from governments or development institutions. In 2011, Africa received $7 billion more in foreign direct investment than foreign aid, reflecting what has been the trend for over a decade. Those investments in Africa also enjoy a higher rate of return than in any other developing region. This flow of capital, technology, and expertise presents a huge opportunity to forge a more strategic relationship between business investment and government assistance, catalyzing development where there is the greatest need and therefore the greatest potential for impact.

The public sector—including U.S. development agencies and other donor institutions—is increasingly recognizing the importance of harnessing business as an engine of growth to achieve more successful and sustainable development outcomes. In particular, U.S. government programs such as Feed the Future, Partnership for Growth, and Millennium Challenge Corporation (MCC) compacts prioritize partnerships that leverage increased private investment and business engagement to advance development objectives in specific sectors and countries.

These two trends—the increasing interest of business in opportunities presented by economic development and the increasing interest of donors in harnessing the tools of the private sector—provide tremendous unmet potential to achieve more effective, sustainable outcomes, especially when those interests are optimally aligned around a business-driven agenda.
The business case for development is based on the understanding that business and social value are inextricably linked and that corporate efforts to improve lives and strengthen local communities can also have long-term, bottom-line benefits. Most companies operating in frontier markets realize that their future competitiveness depends in part on their ability to understand—and to help address—the needs of local economies and key stakeholders, and that investing in approaches that benefit low-income consumers, employees, producers, and suppliers is an effective means of generating sustainable growth.

Both macro and microeconomic factors are driving companies’ interest in developing countries and strengthening the business case for development. Slower growth in mature markets, coupled with a growing demand in the developing world—especially in consumer-facing sectors—is focusing company strategies on those frontier markets where growth is expected to be sustained and robust, rather than incremental.

A recent McKinsey and Company report found that consumer-facing sectors such as telecommunications, financial services, and retail are growing two to three times faster in Africa than in OECD countries and estimated that consumer spending on the continent would reach $1.4 trillion by 2020. For companies in the technology sector, the business case is strengthened in high-need markets as technology becomes a solution for more development-related problems and as demand grows in response to the falling cost of broadband and new fiber optic networks.

The investment picture in many frontier markets, however, is more complicated than this robust and growing demand would imply. Companies pursuing entry or expansion in these markets can face unique challenges due to a lack of human and infrastructure capacity. In response—as the examples cited in this paper demonstrate—businesses looking to regions like Sub-Saharan Africa for expansion and adapting to local challenges and opportunities are driving a wave of innovation with significant development impact.

**Chevron Corporation**

While the Niger Delta of Nigeria is responsible for more than 75 percent of the country’s export revenue through petroleum exports, the region itself remains mired in poverty and conflict. A majority of the 30 million people in the region are under 30 and some 70 percent are living in poverty. To leverage donor resources to strengthen the local economy, Chevron established the Niger Delta Partnership Initiative (NDPI), successfully challenging other donors (e.g., GIZ, USAID, UNDP, state governments, and private sector donors) to leverage Chevron’s $50 million in seed funding and establish new paradigms for development cooperation. The multi-sectoral partnership, primarily focused on agriculture, will strengthen the capacity of implementing partners, align business and economic development objectives, and identify key constraints and opportunities for economic growth around supply chains that will have the greatest impact on reducing poverty. By significantly increasing income levels and employment in the Niger Delta and providing a range of opportunities in a number of sectors, including skills development, the initiative expects to achieve both a more enabling operating environment for Chevron and a path for growth of the local economy.6
The Business Case for Development Defined

Business has tremendous power to improve the lives of the poor. In order to understand the impacts that companies deliver to their communities, it is helpful to take a holistic view to determine the development outcomes that can result from key business imperatives, which include the desire to achieve growth, improve efficiency, and enhance the operating environment. By looking beyond financial performance to an assessment of their broader social impact—both direct and indirect—companies can make crucial decisions that affect not only the bottom line, but also the lives of those in the communities where they operate.

Achieving Growth

In order to achieve growth in high-need, high-potential regions, companies across a range of sectors—including financial services, telecommunications, consumer goods, and agriculture—are pioneering innovative approaches that enhance access and distribution, resulting in better products and services for low-income communities. While some companies are adapting existing products to address the needs of low-income consumers, others are creating innovative new offerings. Given the inadequate transportation infrastructure in many frontier markets, some companies are also developing new ways to deliver their products to “the last mile” in order to reach low-income and rural consumers, often creating local employment opportunities in the process.

Quality Chemical Industries Ltd.

Quality Chemical Industries Ltd. (QCIL) has built a profitable business while addressing Uganda’s demand for locally produced, lower-cost pharmaceuticals to address its most pressing health issues: malaria and HIV/AIDS. With 90 percent of Uganda’s pharmaceutical drugs imported, QCIL focused on developing products that could be manufactured locally using locally available inputs. Not only is QCIL providing generic anti-retroviral and anti-malarial drugs, but it is also employing more than 350 employees and training them to build their technical skills. It has obtained World Health Organization (WHO) certification and is now expanding into East Africa.

Rabobank Group

Rabobank is a full-range financial services provider that has integrated sustainable approaches into its core business in frontier markets. As part of its strategy to establish branches in rural areas and serve smallholder farmers through a commercially sustainable model, it has taken a holistic approach by providing financing along the value chain, recognizing that until the entire value chain is functioning, financing any part of it is risky. Rabobank intends to launch a lending facility in West Africa that could provide up to $135 million in loans over five years to small and medium-size agricultural companies in the region, ranging from production, processing, and logistics to services and technology. Rabobank also recognizes that it cannot sustainably finance small and medium enterprises (SMEs) in frontier markets without a pool of domestically-generated savings. Consequently, it has launched initiatives in five countries to provide financial literacy to encourage savings by rural farmers. The company expects the model to be the basis of its growth in Africa, encouraging further branches in areas without financial services and providing financing across entire value chains.7, 8
Achieving Operational Efficiency

The pursuit of increased operational efficiency by companies can also have a positive impact in a number of key areas, in particular supply chain management, workforce expansion, and capacity building. Businesses need reliable, efficient supply chains that keep costs low and predictable, reduce time to market, and minimize exchange rate risk. From both a business and development perspective, building local supply chains and backward linkages into the local economy can strengthen the skills and increase the earnings of low-income people, as well as increase employment and contribute to broad-based economic growth at a macro level. With competitiveness increasingly determined by access to a talented, motivated workforce, companies have put a premium on training and skills cultivation—a real boon for development. And in order to achieve economies of scale and lower the significant costs associated with supply chain development, many companies are looking to coordinate efforts, even across sectors.

Enhancing Operating Environment

An operating environment that enables business growth and investment is critical to most companies, and promoting development is one of a range of strategic alternatives to increase the security and stability of operations. Helping build the capacity of stakeholder institutions—both public and nonprofit—where the bureaucratic and human infrastructure is weak can serve the long-term interests of both national economies and business, as can advocating for changes in the regulatory environment that will unlock investment and spur the growth of the private sector, including small businesses and entrepreneurs.

<table>
<thead>
<tr>
<th>Business Imperatives</th>
<th>Key Areas</th>
<th>Development Impact</th>
<th>Company Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving growth</td>
<td>Innovative, relevant product development</td>
<td>New or reconceived products that better serve low-income consumers</td>
<td>Ecobank, Standard Bank, Quality Chemical Industries, Unilever</td>
</tr>
<tr>
<td></td>
<td>Marketing and delivery</td>
<td>Increased product access despite poor infrastructure and related new employment opportunities</td>
<td>Rabobank, Coca-Cola</td>
</tr>
<tr>
<td>Achieving operational efficiency</td>
<td>Reliable, sustainable, cost-effective supply chains</td>
<td>Local suppliers benefit from a new, predictable market as well as associated capacity-building</td>
<td>AICO Africa Limited, Diageo, PepsiCo, Export Trading Group</td>
</tr>
<tr>
<td></td>
<td>Recruiting and retaining a talented, healthy workforce</td>
<td>Employees benefit from targeted workforce development</td>
<td>Cummins, IBM</td>
</tr>
<tr>
<td>Enhancing operating environment</td>
<td>Sustainable security, broad support from key stakeholders</td>
<td>A more stable environment that enables additional investment and provides new employment and growth</td>
<td>Nestlé, Chevron</td>
</tr>
<tr>
<td></td>
<td>Creating institutional capacity and addressing regulatory constraints</td>
<td>Increased public and nonprofit capacity enabling additional investment</td>
<td>Chevron, Boeing</td>
</tr>
</tbody>
</table>
A Broad Spectrum of Corporate Approaches to Measuring and Valuing Development

A range of motivations drive corporate development efforts, resulting in a variety of approaches. While some initiatives are driven by corporate foundations, others are driven by business units. Some incorporate government or nonprofit partners in their efforts. While some initiatives rely heavily on impact measurement to support their business planning, others are just beginning to set a measurement baseline.

Regardless of the model, companies often encounter challenges, both external and internal, when trying to integrate sustainable development into their core business strategies.

A key challenge for some businesses is the greater up-front costs and longer horizon to profitability required to build capacity in high-need, high-growth markets. Companies that have developed reporting frameworks that look beyond quarterly earnings and are able to reduce fluctuations in company share price have additional flexibility to look favorably on longer-term investment prospects. Interestingly, some European and African companies, such as Nestlé, Unilever, and AICO Africa Limited, are more easily able to integrate development-focused approaches into their overall corporate strategies—possibly because they are less driven by quarterly profits than their U.S. counterparts.

An important tool in establishing a clear, strategic framework for considering the business case for development can be found in the evolving field of impact measurement. By continuously analyzing the impact a company has on the communities in which it operates—and how that impact correlates to successful business outcomes such as growth, employment and retention, and greater efficiency—business leaders are able to make more informed decisions and communicate this value to both internal and external stakeholders.

Companies that focus on the intersection between their core business and the economic needs of AICO Africa Limited

AICO is a diversified agro-industrial conglomerate focused on cotton, maize, wheat, soya, and other commodities with operations in over 10 African countries. Its primary businesses, Seedco and Cottco, employ business models centered entirely on smallholder farmers. As an African-owned and managed company, AICO’s fundamental premise is that value must be created in the economies where the company operates to create long-term shareholder value. The business imperative is simple: the success of the smallholder farmer determines the success of AICO. The more successful the smallholder in increasing the productivity of his crop through use of AICO hybrid seeds, the greater his income and potential to purchase increased land to plant further seed and continue the cycle of growth in income for both smallholder and company.

AICO, through Seedco, sells improved seeds to over 3 million smallholders, which increases their productivity. Cottco provides inputs to 150,000 small-scale cotton farmers, including technologies such as cell phone, GPS, and satellite systems to improve communication and crop management skills, payments, and field measurement. The more successful the smallholder is in producing a high-quality volume of cotton, the more successful Cottco is as it buys back the cotton from the farmers, processes it, and sells to global customers.
communities in which they operate often have less difficulty making the business case for development. For example, Nestlé has concluded that rural development is the greatest area of intersection for its company. Coca-Cola and Diageo have understood that access to water is fundamental to both their businesses and the health of their customers and communities. Cummins, IBM, PepsiCo, and others have identified workforce development and access to training as key. Companies as diverse as AICO Africa Limited, Export Trading Group, Chevron, and Diageo are focused on supply chain development and the integration of smallholder farmers.

While approaches vary greatly, companies of all sizes, geographies, and sectors have undertaken development efforts that improve their core business. Many African companies, having integrated capacity building, innovative product development, and distribution into their core business strategies out of necessity, have played a leadership role. European companies, especially those in the financial and consumer goods sectors, have also been pioneers, as have a diverse range of U.S. companies.

All development impact is valuable, whether driven by a corporate foundation, corporate social responsibility team, or business unit. The fact that an increasing number of companies of all sizes and across multiple sectors are tying their business outcomes to development outcomes is a positive trend for communities in need. As companies increase their capacity to measure development outcomes, and tie those outcomes back to the overall corporate bottom line, this trend will likely increase and become more sustainable over time.12

Nestlé
Nestlé, a corporate pioneer in the concept of shared value, has almost half of its investments in developing countries. It employs a unique corporate profit and loss (P&L) framework suited for investments in developing economies that allows up to 20-year time horizons for return on investment. Significantly, profits are reported annually, not quarterly, and shareholders have been convinced of the benefits of a different set of expectations in terms of long-term opportunities and impact. The mindset of the company is focused on generating its profit and market share by maximizing its developmental impact or “shared value.” Specifically, Nestlé includes social value when determining where to invest—meaning the cost of training employees and building infrastructure is considered an addition to a project.

This framework has led Nestlé to work directly with farmers in frontier markets instead of simply shipping the materials for processing in another country. For example, as one of the top three purchasers of cocoa in the world in a market where consumption will likely rise significantly with new demand from China and India, Nestlé was able to apply a long-term methodology to a decision to diversify and develop new supply chains in Rwanda, Kenya, and Uganda. Although there were significant up-front capacity building costs associated with building a source of supply from the ground up, with more than 200,000 farmers trained in 2011, the company was able to justify those costs with a long-term framework. That framework took into account the likelihood of instability around other supplies and the need to mitigate risk, as well as the ability of Nestlé to produce the product at low cost and benefit strategically over the long term.
While companies are eager to pursue growth in frontier markets, they will not necessarily seek to invest where the social need is greatest unless there is a clear business case for doing so. In instances where the commercial justification for projects with significant development impact is difficult to ascertain in the near term, companies may have difficulty making a major investment without additional help. For those projects where the potential for large-scale development benefit is high, one strategy is for companies to look to U.S. development agencies and other donors to lower transaction costs or otherwise mitigate the investment risk.

For example, a recent Coca-Cola project sourcing fruit from smallholder farmers would not have made economic sense for several years, but was able to proceed with donor and nonprofit support given the clear training and income benefits for targeted farmers. Through Project Nurture—an $11.5 million partnership with TechnoServe and the Bill & Melinda Gates Foundation to source juice ingredients from 50,000 smallholder farmers in Kenya and Uganda—mango and passion fruit farmers receive training and financing to join the supply chain, generating a new market for their fruits while providing a local fruit procurement source for Coca-Cola.

**The Coca-Cola Company**
Coca-Cola is a pioneer in developing two innovative models that achieve sustainable outcomes. The micro distribution center (MDC) model identifies and engages independent entrepreneurs, many of whom are women, to distribute and sell Coca-Cola beverages in small, specific rural areas previously out of reach of traditional distribution networks. MDCs typically reach areas without stable roads and infrastructure, employing entrepreneurs who sell and distribute beverage products to retailers, often by bicycle or pushcart. As mentioned above, Coca-Cola has also launched an $11.5 million pilot project to source fruit from 50,000 smallholder farmers in Kenya and Uganda.

**Unilever PLC**
Composed of over 400 brands sold in more than 190 countries, Unilever is a leader in consumer goods. It is also a recognized leader in integrating a long-term perspective in its corporate planning to achieve sustainable growth. In 2010, Unilever launched its 10-year Sustainable Living Plan. Incorporating environmental, social, and economic factors, the plan would double the company’s sales while halving the environmental impact of its products. CEO Paul Polman has recently focused on attracting only investors willing to assess Unilever’s performance on a multi-year basis and has adopted a strategy that encourages long-term investment in preference to hedge funds to reduce share price fluctuations. Unilever no longer releases financial reports quarterly, and, in the past three years, hedge fund holdings have been reduced from 15 percent to less than 5.13
Some companies have found that business-driven development programs that effectively flip the traditional model by asking the government to leverage business investment strategies (rather than the reverse) are more successful in achieving optimal alignment between corporate and donor strategies. For example:

- Chevron was able to attract more than $30 million in additional funding to a total $50 million investment for the Niger Delta Partnership Initiative from USAID and other donors that were attracted by its holistic approach to long-term capacity building, strengthening supply chains and removing systemic constraints to reducing poverty and stimulating growth.

- Nestlé has led successful partnerships, including aligning with the Bill & Melinda Gates Foundation and other donors to strengthen cocoa supply chains in countries throughout Africa, building upon its existing strategy.

- In Ethiopia, Diageo was able to “look ahead of the business case” by investing in the capacity of smallholder barley farmers with the help of the Ethiopian Ministry of Agriculture and the Agricultural Transformation Agency.

- In order to address aviation safety regulatory deficiencies and remain the preferred aerospace supplier in Africa, Boeing is leveraging the resources of two U.S. government programs to implement the regulatory changes necessary for key markets—such as Angola, Kenya, Nigeria, and Rwanda—to meet international safety standards and encourage African airlines to purchase Boeing aircraft.

These cases show that business drivers such as long-term market demand, security of supply, and increasing operating efficiency can be key elements of project success. They suggest the most effective alignment between public and private development strategies comes when projects are business- and demand-driven, or when government initiatives are designed to build upon and enhance the development impact of existing corporate strategies.

To enhance the development impact of private investment, especially in high-need and potentially higher-risk areas, donor agencies would benefit from drawing on these examples as they consider strategies for expanding and deepening their engagement with the business community through the recommendations outlined on the following pages.

**Diageo plc**

Diageo is the world’s largest premium beverage company. Diageo Africa’s brands are sold in more than 40 African countries and are responsible for the majority of alcohol consumed in the East African region. In addition to producing and selling a range of local beer brands, including Tusker, Senator Keg, Premium Serengeti Lager, Harp, and Bell, providing an alternative to traditional homebrews that are often toxic, Diageo has developed a new, scalable contract farming model that connects smallholder farmers with large, dependable commercial markets. In partnership with Ethiopia’s Ministry of Agriculture and the Agricultural Transformation Agency, the project will sustainably cultivate barley and source the product for its Meta brewery locally. The project will support the entire supply chain, providing training for small-scale farmers and local procurement while stimulating small businesses and other opportunities for operators.
Better Strategies for Leveraging Business Growth and Investment

Business executives and government officials have a common interest in seeking more sustainable development outcomes, yet too often this shared interest has not been effectively leveraged. While a business-led approach is one way to increase the likelihood of optimal alignment, donors can create the same dynamic by ensuring that projects address the specific constraints faced by the investors they want to attract—a paradigm shift that catalyzes investment where it can have the most transformative impact. In addition to the clear benefits of sustainable solutions to development challenges, this approach also addresses an increasing imperative for governments to rely more heavily on company resources and expertise as public resources for development programs continue to remain flat or even decline.

Companies interested in making sustainable investments are often looking for two key factors: identified opportunities that allow them to combine their resources with donor initiatives to increase a project’s commercial viability, and development finance tools that mitigate their project risk over time. Donors can work to “crowd in” the private sector through a more systematic conversation with potential investors and by using donor development finance tools and other initiatives to bring down the transaction costs of sustainable investment.

To this end, donors should consider several changes to better harness the private sector’s contribution as an engine of growth and driver of development in light of the demonstrated capability, interest, and success of companies that are engaging in development activities.

PepsiCo, Inc.

PepsiCo is working in Ethiopia with a variety of stakeholders to improve agricultural production and yields. PepsiCo has partnered with USAID, the United Nations World Food Programme (WFP), and the Government of Ethiopia through Enterprise EthioPEA, a program to increase the yield and quality of chickpeas. With support from PepsiCo Foundation, WFP is developing a chickpea-based ready-to-use supplementary food as a nutritive supplement essential for early childhood development.

IBM Corporation

IBM has recognized that most of its future growth will come from markets in Africa, where its primary constraint to growth is the limited size of the workforce trained to use IBM products. IBM’s corporate strategy calls for a tripling of their workforce over the next three years in Africa to meet the growth needs of the company. IBM is developing a sustainable business model to drive its skills training program in Africa, designed to create trained middle management, as well as entrepreneurs that might purchase IBM products. IBM’s Corporate Service Corps has also been successful in tapping senior and mid-level IBM managers to train small business owners and entrepreneurs, with the unexpected benefit of employees returning with new insights into how products can be made more relevant to African consumers. The program is based on employee volunteers, and is primarily designed to prepare employees to work in high-growth markets like Africa and to encourage new businesses that understand the benefit of IBM products.
Identifying High-Potential Corporate Partners and Integrating Sustainable Outcomes at the Front End of Projects

When designing projects where private sector involvement is a key objective, development professionals could increase their effectiveness by identifying businesses with the most potential to enhance a project’s success and sustainability—for example, by connecting beneficiaries to global supply chains or investing in long-term entrepreneurial capacity—and determining what incentives are necessary to secure their participation.

Companies are much more likely to see the potential for aligning their core business with donor development priorities when their long-term business needs and existing strategies are the starting point for collaboration. In many instances, this will result in donors enhancing the impact of business investment by providing incentives to target a specific population (e.g., smallholder farmers) or geography (e.g., Ghana’s northern states) as the beneficiary. Once potential investors are identified and made aware of the opportunity to leverage their investment with donor resources, a more effective, strategic collaboration based on shared interest can develop that might not have otherwise occurred.

Standard Bank Group Limited

Standard Bank, the largest bank in Africa, realized that to fully serve its customers on the continent, it would need to develop products relevant to small and medium enterprises (SMEs). Especially in Africa, most SMEs do not have the collateral, financial statements, or credit history to qualify for more traditional loans, and are too large to utilize microfinance services. In response, it developed a new approach to SME lending over the past 18 months which included deploying innovative technology to overcome the traditional challenges of assessing risk in the SME market. Standard Bank launched an unsecured short-term working capital facility, named SME Quick Loan, across eight countries in Africa aimed at serving unbanked and underserved SMEs, with a particular focus on female entrepreneurs. In so doing, the Bank reduced its loan disbursement process from weeks to less than three days, reduced application forms from 19 pages to two, and disbursed more than 11,000 loans.

SME Quick Loans also enabled the Bank to access informal trader markets and offer a differentiated proposition to the wholesale and retail trade sector across many African countries.

Standard Bank determined up-front that a key measure of success would be growing small businesses into bigger businesses as a result of greater access to finance. It launched a business skills training intervention touching 2,000 SMEs across Africa in support of this goal. The Bank made a unique promise to clients—the quicker clients repay their loans, the quicker they can get access to a larger facility at a lower rate. To date, more than 1,100 SMEs have already successfully repaid their loans and received a second or third facility to grow their business to the next level with some SMEs graduating into traditional lending solutions. These innovative products are growing the market for the Bank and have become commercially viable.
Providing Meaningful Opportunities to Engage throughout the Project Lifespan

Once business partners have been identified, successful alignment occurs when companies are given ongoing opportunities to provide input to project design, implementation, and evaluation. While not impossible, it is difficult to attract private capital and expertise to a project that is already being implemented. Convening potential investors through informal advisory processes can help align corporate strategies with development priorities and strengthen development outcomes in a number of ways.16

For example, donor agencies can establish an ongoing process through which companies can highlight the specific policy changes necessary in order for potential investments to become commercially viable in key sectors. With potential private investors in tow, donors are generally more successful in engaging partner countries to make the policy changes needed to unlock private investment.

MCC has made progress with this approach in the power sector in Africa; USAID and other U.S. government agencies are exploring this approach with Partnership for Growth and Feed the Future initiatives. In another example, the International Finance Corporation (IFC) has partnered with the Bill & Melinda Gates Foundation and country representatives to support the private health sector in Africa by convening workshops with public and private stakeholders to debate issues, provide analysis, and help enact policy reforms.

Cummins Inc.

Like other engineering and manufacturing companies around the world, Cummins faces a growing shortage of skilled technical workers: it estimates it will need 37 percent more technical workers in the next three years. Worldwide, a recent report by the World Economic Forum (WEF) estimates that some 10 million manufacturing jobs cannot be filled due to existing skills gaps.17 Because the hiring pools in frontier markets where Cummins operates often lack sufficient basic education levels, as well as basic technical skills, Cummins is launching a new effort to build and invest in local education programs to increase the number of people with industry-relevant training that are ready to work in skilled jobs. In six test sites—Brazil, China, India, Turkey, Morocco, and Nigeria—Cummins is working to identify and engage other companies with similar technical skills needs as well as local partners and stakeholders to build new programs and commit additional resources to support enhanced vocational training and education within those communities.

In addition, Cummins employees’ technical skills and industrial experience are converging to help address the societal need for access to power. Cummins and the Cummins Foundation have launched a rural electrification program aimed at working with partners to develop sustainable models for implementing electrification projects focused on income generation that benefit underserved rural populations in Sub-Saharan Africa and India.
Addressing Constraints with Targeted Tools

One of the most important ways donors can enhance the alignment between core business strategies and development priorities is to provide timely, targeted tools that address the most significant constraints to specific investments. These constraints fall into three main categories: capacity building, development financing, and procurement.

**Capacity building:** For a company considering an investment, social capital or technical assistance is often the missing link. For example, a company interested in sourcing from a Feed the Future value chain might need “behind the farmer’s gate” capacity-building assistance to help solve the quality or volume issues that often prevent global companies from sourcing from smallholder farmers.

If development organizations provided targeted farmer training, organizational assistance, and access to finance to mitigate the risk of sourcing from smallholders, they could spur investment that would not otherwise occur. The key to success is focusing resources on the most significant constraint inhibiting company participation, rather than generic capacity building that is likely to be less successful (at least in the short-term) at attracting private capital.

**Development financing:** Many companies are willing to enter riskier markets and accept lower profits as part of a long-term strategy—particularly if they can mitigate their risk with donor funding and financing tools. For instance, companies would welcome government donors to provide first loss guarantees to buy down the risk of new projects, or use of grant funding as patient capital to encourage first movers in demonstration projects that could, for example, test a new, more productive seed variety.

The World Bank has undertaken an initiative to update its suite of guarantee products, and is now providing partial risk, partial credit, and partial bond guarantees. Demand for these products among potential investors in Africa is high, particularly in the power sector where sovereign guarantees are increasingly scarce. In addition, the UK’s Department for International Development (DFID) utilizes smart grants under its Challenge Funds Program to help companies overcome obstacles to entry into frontier markets. The Challenge Funds are one-time grants for targeted sectors, regions, and countries with the intention of creating private-public partnerships between large international and domestic firms and small to medium local companies. They can also serve as patient capital to reduce the cost for first-movers in the most challenging markets.

---

**Ecobank Transnational Incorporated**

Ecobank Transnational Incorporated is the parent company of the leading independent pan-African banking group. It currently has a presence in 33 African countries and is a leading provider of supply chain finance across Africa. Ecobank recognizes that a strong agricultural sector is key to the continent’s future growth and the creation of a bankable middle class. Fundamental to its strategy is providing support at critical junctures in high-impact value chains by financing inputs, such as seeds, fertilizer, irrigation, and chemicals, as well as post-harvest infrastructure, such as solar pumps and refrigerated storage. It also has an array of innovative finance products specifically targeted to small and medium enterprises (SMEs) and low-income individuals, and provides a number of working capital products for entrepreneurs to scale their operations.
Procurement: Once projects are conceptualized, donors can take additional steps to increase the developmental impact of their procurements. For example, though companies often recognize the importance of providing long-term capacity building and training as part of a major development project, most donors do not reward companies for integrated training proposals or allow such proposals to be taken into consideration when evaluating bids. This absence of flexibility often misses an opportunity to use procurement procedure as a powerful development tool that could strengthen the competitiveness of companies most interested in local economic development. Procurements should be structured to provide incentives for companies to develop local capacity, which is often good business, and to encourage donors to make procurement decisions based on an array of factors in addition to lowest cost.

Companies interested in local procurement opportunities often find insufficient capacity within both the private and public sectors of a target country. Particularly for major infrastructure projects, which will increasingly be a priority for developing countries, the absence of capacity to manage procurements is a key impediment. To help address this issue, government donors and the World Bank have created the Private Infrastructure Development Group (PIDG) to catalyze capacity in emerging market infrastructure, including service delivery around procurement. The program also addresses high project development costs and variable local currencies. PIDG has completed 78 projects in 35 countries, ranging from port construction and operation to telecom privatization, leveraging over $25 of private commitments for every $1 of donor funding.20

In addition to accessing tools that specifically address key constraints to investment, companies would benefit greatly if donors had greater flexibility in combining resources. For example, if U.S. agencies were able to provide some combination of technical assistance, investment products, debt financing, and feasibility studies, they would be more able to attract private capital to participate in specific investment opportunities and fill the gaps companies face when investing in or sourcing from areas with low capacity (e.g., extension services, management/operations training, and coordination of smallholder output).

The Boeing Company

After Boeing made a strategic assessment that African markets held long-term sales potential for commercial aircraft, it reached out to the U.S. Department of Transportation (DOT), Federal Aviation Administration (FAA), and the U.S. Trade and Development Agency (USTDA) to work together in addressing aviation safety issues on the continent. This partnership leverages DOT’s “Safe Skies for Africa” resources and Boeing’s resources to help countries in Africa meet international aviation safety standards and attain FAA Category 1 status. USTDA is also looking to support these efforts through de minimis training grants. Business and government alignment provides a stronger rationale and greater resources brought to bear to implement regulatory changes. This, in turn, generates both direct and indirect economic growth around a catalytic sector in countries where air transport offers rapid and efficient movement of both goods and people as road, port, and rail infrastructure are still under development. By working together, the combined efforts of DOT, FAA, and Boeing successfully resulted in helping Nigeria meet the FAA’s Category 1 safety rating in 2010, which allows Nigerian carriers to fly non-stop to the United States. Current focus countries include Rwanda and Kenya.
Creating Incentives that Encourage and Reward Engagement with Business

At present, there are few incentives within development organizations to encourage and reward staff for successfully leveraging business investment or advancing business-driven solutions to development problems. Indeed, the labor-intensive work of identifying business-focused opportunities and shepherding them to a successful conclusion is often the responsibility of a small group of staff with limited resources, rather than being a central focus of development initiatives in general.

In order to address this, donors should consider:

- Strengthening the role of field investment officers trained and rewarded on the basis of transactions with the local and international private sector.21
- Creating performance metrics that reflect the importance of leveraging private sector resources and coordinating tools across agencies.
- Establishing incentives and expectations for countries to leverage donor resources with the private sector (and enabling countries with the resources they need to attract investment to development projects).
- Providing funding flexibility on the ground so that missions can take advantage of company initiatives at any time during donor funding cycles.

The Shared Challenge of Building Prosperity

Businesses, development agencies, and global donors have a shared interest in working with local governments and other key stakeholders to help develop successful and thriving communities in the world’s highest-need areas. The business case for development presents real opportunities for large-scale development impact, particularly where there is alignment between corporate interests and donor initiatives.

Export Trading Group

Based in Tanzania, Export Trading Group (ETG) is a leading integrated agricultural supply chain manager with operations across Sub-Saharan Africa, India, China, and Southeast Asia. ETG originates and distributes numerous commodities, including fertilizer, maize, rice, soya beans, cashew nuts, sesame seeds, pulses, wheat, coffee, and sugar. The company has operations in procurement, processing, warehousing, logistics, distribution, and merchandising and in FY2012 channeled nearly 1.4 million metric tons of agricultural commodities to 45 destination markets around the world. ETG sources 80 percent of its African-originated commodities from smallholder farmers through a network of procurement and distribution centers strategically located in agriculturally-rich areas. ETG is seeking to expand its geographic coverage by replicating its business model in new jurisdictions and adding new businesses, including new agricultural commodity product lines that can leverage the company’s operations, intellectual capital, and experience in emerging and developed markets.

The next generation of development opportunities—including MCC’s second compact in Ghana, with its emphasis on unlocking the power sector to private investment, the incentives provided by more coordinated U.S. government tools in Partnership for Growth countries, and newly identified priority value chains across Africa under the Feed the Future/Grow Africa initiative—provide the occasion to apply new approaches that acknowledge the potential for donors and businesses to generate the ingredients of sustainable growth together that neither are likely to accomplish alone.

2. Charles Kenny, “Get an MBA, Save the World,” Foreign Policy, May/June 2012.


10. 14 out of 20 CEOs surveyed by IGD identified a long-term framework as necessary to allow for a long-term perspective in overall corporate strategy to integrate the higher initial cost of investing in high need, high-growth markets.


13. Confino, “Unilever’s Paul Polman.”


15. Some might argue that having the private sector as a full partner in development project design and implementation risks sullying the important principle of country ownership. Supplementing the country partner dialogue with a more robust private sector role is not inconsistent with—and could potentially strengthen—a country ownership model. Taking an approach where the private sector is more integrally involved can provide effective “ground truth” in an assessment of project choice and constraints to investment, when partner government programs, lack of competition or vested interests in an economy are key impediments to economic growth.

16. Congressman Chabot has proposed legislation that calls for the private sector to be “given a seat at the development programming table.” (Economic Growth and Development Act, draft House Resolution, July 2012)


18. Donors can strengthen the conversation with potential investors on the key constraints to investment which often drive the focus of development projects. This conversation—particularly with the international private sector—has not been a focus of most donor processes to date, which has resulted in project choice on the part of U.S. donors being exclusively based on an academic macroeconomic constraints analysis, without the benefit of the “road test” that can be provided by real-time, potential investors. While the macro constraints analysis has served as an useful guide in focusing the country/donor discussion on sectors that could have the greatest impact on macroeconomic growth, it can also steer project choices toward those that only have an impact on the macro economy, like major public works, and away from commercially viable projects that are most likely to attract private capital and expertise. Levett and Chandler, Maximizing Development of Local Content; Ricardo Hausmann, Dani Rodrik and Andrés Velasco, “Growth Diagnostics,” in The Washington Consensus Reconsidered, ed. Narcis Serra and Joseph E. Stiglitz. (New York: Oxford University Press, 2008).


Acknowledgements

We are grateful to the many companies who provided comments and shared their experiences during the writing of this paper. IGD’s Jeri Jensen led the preparation of this report, in close consultation with Business for Better Development’s co-chairs Tam Nguyen (Chevron) and Tim Docking (IBM). Also contributing from IGD were Megan Bowman, Jessica Ernst, Matthew Harman, Helen Mant, Jenna Swalin, and Katherine Switz.

About This Paper

This working paper is the first in a series of publications and case studies generated by IGD’s Business for Better Development, an IGD project co-chaired by Chevron and IBM that is working to advance sustainable development outcomes by aligning business, government, and donor priorities. This paper is meant to encourage and illustrate the growing role of business in driving sustainable development outcomes and to highlight recommendations for development agencies in the United States and elsewhere. We hope the analysis begun here will be strengthened over time by more in-depth corporate examples of the business case for development, including successful engagement with public stakeholders, and that it will serve as a resource for businesses and donors alike.