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CORPORATE SOCIAL RESPONSIBILITY AND PUBLIC PRIVATE PARTNERSHIPS IN INTERNATIONAL DEVELOPMENT COOPERATION - EVALUATING THE IMPACT OF CORPORATE MOTIVATIONS

Development partnerships are meant to include the private sector in order to increase the impact of development activities by allocating financial resources, skills and expertise. Additionally, international businesses increasingly gain opportunities to address their stakeholders in developing countries and include them into their Corporate Social Responsibility (CSR) strategies. The paper differentiates CSR activities and Public Private Partnerships (PPP) as forms of private engagement, whereby PPPs from a company perspective can be motivated by profit goals or goals of Corporate Social Responsibility. Existing partnership programmes of development agencies can be allocated towards this classification. The paper analyses institutional potentials and obstacles of these partnership models, compares them to purely private engagement in developing countries and examines their potentials for aid effectiveness. It constitutes that the realization of aspired synergies depends strongly on contractual agreements, transaction costs and trust, which are influenced by motivations. For reaching aid effectiveness a stronger integration into development plans will be necessary.

1 CSR and PPP in International Development – A Critical Assessment Needed?

Partnership appears to be a major theme in current development cooperation, not only between governments. Multilateral and bilateral development agencies have developed anew while strengthening already existing programmes for public private partnerships: projects for mutual benefit, developed and conducted in cooperation of public and private actors. Additionally international businesses increasingly take a global perspective and show interest in managing their impact in developing countries. This voluntary commitment to include social and environmental concerns into their operations has become popular in recent times under the label of Corporate Social Responsibility (CSR). But not all persons concerned view this idea with benevolence; critical voices arise from diverse sides. While some doubt the legitimacy, honesty and efficacy of business engagement in development in general, others challenge the impact on development of certain partnerships and projects, and therefore the enthusiastic reception of these ideas in development strategies. Nevertheless, economic analysis of possibilities and limitations of these concepts is missing.

The first chapter illustrates the concepts of Corporate Social Responsibility and Public Private Partnerships in development. In the second chapter criteria for analyzing PPPs are developed. A classification will be made following the motivations of both partners, private and public. Second, institutional potentials and limitations will be developed by assessing PPPs in the perspective of new institutional economics. Third, a comparison to purely private

sector activities for development is prepared. Therefore the potentials and especially the limitations of foreign direct investment (FDI) and CSR are illustrated. Fourth, principles for assessing the aid effectiveness of PPPs are described.

In chapters three and four these criteria are applied for assessing the potentials and limitations of two different forms of partnerships: Fostering Sustainable Business Partnerships (FSB) and Corporate Development Partnerships (CDR). The analysis draws on results from internet research and interviews. In chapter five a short summary and final conclusions are given.

1.1 The Concept of Corporate Social Responsibility

As companies increasingly act on an international and global scale, they influence economies and societies in developing countries by their investment, but also the shape of their acting. Responses from management can be seen in the stakeholder approach substituting a multidimensional responsibility towards stakeholders for the one towards shareholders (Freeman: 1984, 24-25). The European Commission defines Corporate Social Responsibility as voluntary integration of social and environmental concerns into business operations (European Commission Directorate-General for Employment and Social Affairs: 2001, 8).

The interest of civil society and development agencies towards CSR is the orientation of management towards economic, environmental and social issues, which constitutes the triple bottom line of sustainable development. Development agencies now realize the overlapping of CSR projects and development objectives and support CSR due to its close connection to sustainable development.

The impact of corporate contributions depends on the motivation of the company to engage in social and environmental issues. On the one hand, CSR can be strategically motivated to maximize benefits by the business case. This aspect assumes a positive correlation of social activities and especially long-term profits, win-win situations for company and society can be reached. CSR has an influence i.e. on reputation, consumer loyalty, employees motivation and license-to-operate (UNEP: 2001, 5). Acting in developing countries, responsible behavior can furthermore positively influence operational efficiency, since incomplete preconditions often require investments into the business environment, such as infrastructure, education of the work force and HIV/Aids treatment (Visser: 2008, 493). Nevertheless, in practice, the long-term perspective often stands in a trade-off to short-term profit and costs interests (Nelson, Prescott: 2003, p. 4). On the other hand, CSR projects can also be motivated by altruism. These expenses are not connected to the benefits to the company, which might be one reason for critics and an accusation of conducting greenwashing. But it also can be seen as an expression of the company as a part of society. In general, the motivations might not always be clearly separable, since every investment to take responsibility will, to a certain degree, also be led by ethical thoughts (Hansen, Schrader: 2005, 387).

The motivation plays an important role for the implementation of CSR activities towards improving global public goods. It decides about the arrangement of activities and the allocation towards certain stakeholders. Activities are organized following three different spheres of business impact (Nelson, Prescott: 2003, 6). In a first sphere the company fulfils its responsibility towards its closest stakeholders and conducts its core business operations and investments in a profitable, productive and responsible way. The implementation of responsible business operations is often led by compliance with internationally recognized principles such as the labour standards of the International Labour Organization (ILO; BMZ: 2004, 3). In a second sphere of philanthropy and community investment, resources of the company are delivered to social and environmental projects in local communities. The third sphere constitutes the company's effort to engage in policy dialogues, advocacy and institution building for positive impact on society and environment. The three spheres are illustrated in figure 1.

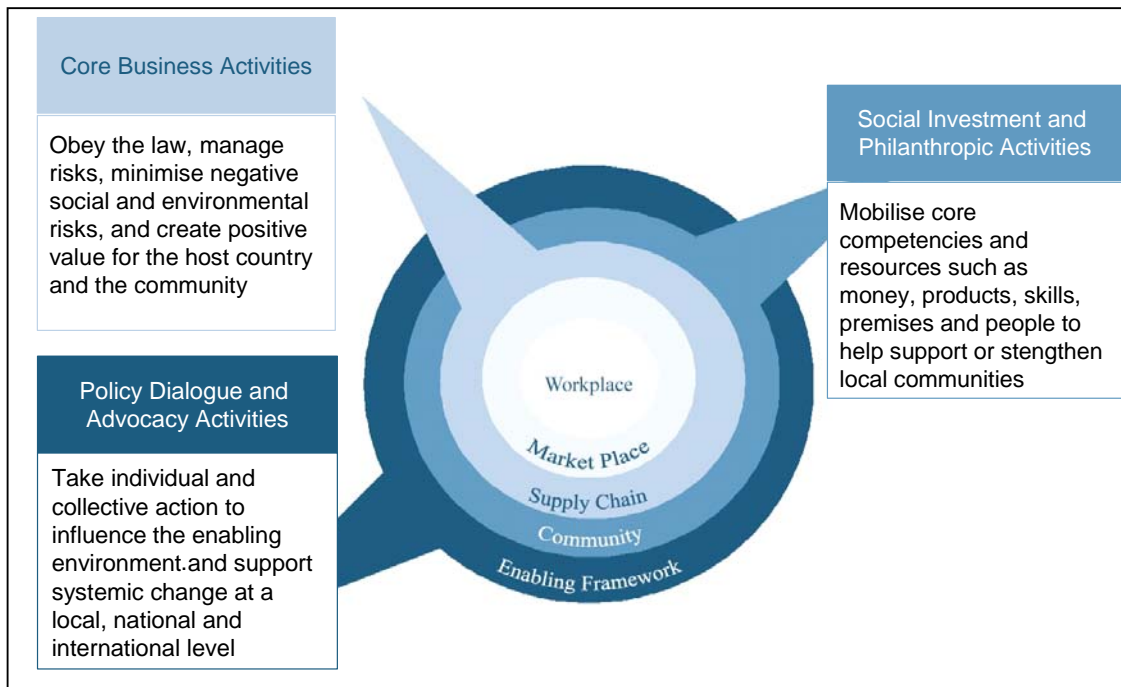


Figure 1: Spheres of CSR
(Adopted from Nelson, Prescott: 2003, 6)

1.1 The Concept of Public Private Partnerships

Public Private Partnerships (PPPs) are used in various areas of public services and concerns. Although it is a widely discussed concept, the quest for a precise but inclusive definition is still unsatisfactory (Weihe: 2006, 1). To embrace all (or most) practises that carry the label of PPPs, existing definitions are open-ended. PPPs therefore can be described as a “cooperation of some sort of durability between public and private actors in which they jointly develop products and services and share risks, costs and resources” (Van Ham, Koppenjahn: 2001, 598).

Originally, PPPs relate to infrastructure provision (Owen, Merna: 1997, 163). But PPPs are increasingly also adopted for development: infrastructure projects, basic needs such as water and sanitation, investment into research or human resources such as education and health, or economic development (Steward-Smith: 1995, 987-988). The partnerships involve various partners: local governments, development agencies of bilateral and multilateral assistance, local companies with increasingly globalised supply chains, also multinational companies and local and civil organizations. Development agencies have launched partnership programmes. These are characterized by different motivations, contents, purposes, outcomes they seek (Binder et al. 2007, 8).

2 Criteria for Evaluating Public Private Partnership Models

In the following, criteria will be developed to

- Classify projects and programmes building on motivations of the partners
- Examine whether projects implement potentials arising from PPPs,
- attenuate limitations of comparable private sector activities (FDI and CSR) and
- meet the conditions of effective aid.

2.1 Classification by Motivations

Partnerships do not constitute a homogenous kind of projects, analysis of potentials and limitation for partnerships in general is restricted. A systematic classification is offered by Binder et al. 2007. They relate partnerships to the motivations that are the driving force for the partners. These determine potentials and limitations of cooperation, as they affect contents, contracts, power and contact of the partners. The classification is illustrated in figure 2.

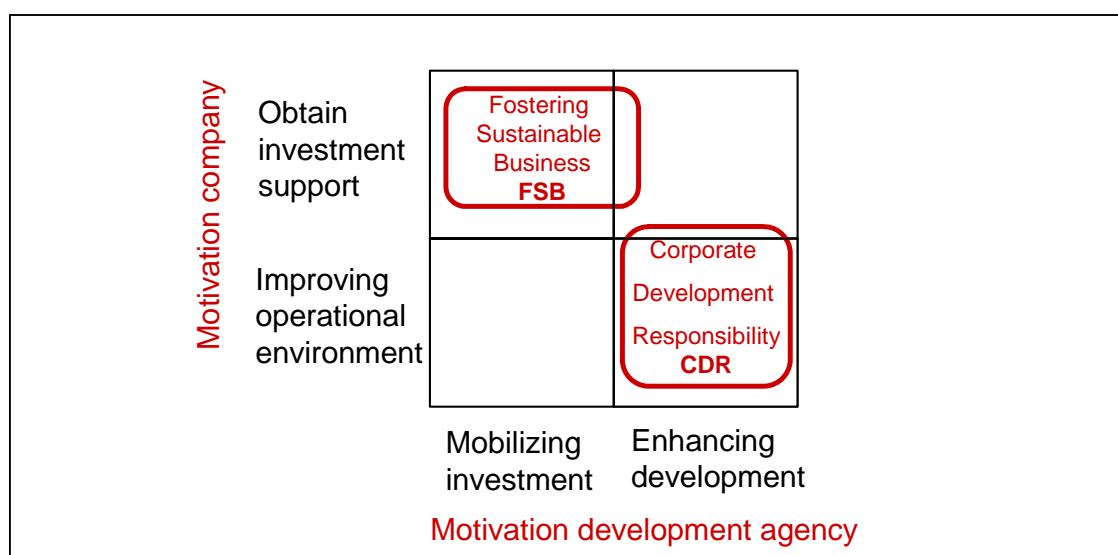


Figure 2: Motivations in Public Private Partnerships for Development
(Adopted from Binder et al.: 2007, 14)

Following this classification companies will engage in development aid, if they expect a positive rate of return on their investment. *Investment support* enables them to invest into a product or technology that normally would be seen as unsuitable for investment refused. *Improvement of the operational environment* is often related to CSR activities. Development agencies are interested in reaching development goals, either by spill-over effects of *additionally mobilized investments* or directly by enhanced *development impact* of existing projects. From the opposing motivations of public and private partners different models of partnership programmes can be derived. Opportunities for cooperation arise where motivations intersect. This can mainly be found in two different situations: *Fostering Sustainable Business (FSB)* partnerships provide investment support for mobilizing investment and reaching spill-over effects on sustainable development, and *Corporate Development Responsibility (CDR)* partnerships enhance development impact by improving the operating environment in cooperation. Existing partnership programmes of development agencies can be allocated to these models, as illustrated in table 1. This allocation demonstrates the focus that is set by the programmes, the classification is not always distinct and overlaps occur.

Table 1: Analysed programmes for PPPs in Development
(Based on Binder et al.: 2007, 14)*

	Fostering Sustainable Business	Corporate Development Responsibility
Canada (CIDA)	CIDA-INC	
Denmark (Danida)	B2B	DANIDA PPP
Germany (BMZ/GTZ)		GTZ PPP
Netherlands (DGIS)	PSOM	PPP-Program
United Kingdom (DFID)	BLCF	
USA (USAID)		GDA
United Nations		UN-Business Partnerships

*The table builds on Binder et al.: 2007, 14 and internet research of 2008. Up to now, changes in might have occurred, i.e. the PSOM programme was ended in 2008.

“Institutions do matter” is the underlying idea of new institutional economics (NIE; Furubotn, Richter: 2005, 1). Coase (1988), as one of the founders of NIE, identified institutions as the trinity of the firm (as hierarchic system), the market, and the law (as enforcement mechanism). More general they can be defined as rules and norms and their enforcement (Furubotn, Richter: 2005, 7).¹

The public character of development assistance inhibits its efficient provision by the market; it leads to market failure and provides a potential role for the state (Blankart: 2008, 51). The study of PPPs as institutions between markets and hierarchies within the framework of NIE will gain insights on their efficiency in development assistance. Productive efficiency can be characterised by an optimal relation of input and output. But especially regarding the undersupply of public goods, the decision on the production level in respect to social preferences has to be included and is described by allocative efficiency, the maximization of social welfare (Stiglitz: 2000, 63).

Two main potentials explain a stable existence of PPPs. First, a partnership is motivated by a possible increase of productive efficiency through team production without being bound in hierarchical structures. PPPs allow for synergies from team production using comparative advantages by combining scarce resources, such as knowledge or finance, economics of scale and scope, and risk sharing (Garibaldi: 2006, 291).

¹ The concept of NIE is built on realistic assumptions of incomplete markets. These include on the one hand methodological individualism with bounded rationality and opportunistic behavior resulting in information asymmetries and behavioural uncertainty, on the other hand the existence of transaction costs for explaining the use (and evolution) of different institutions within an economy (Erlei, Leschke, Sauerland: 2007, 43-46).

Second, heterogeneity of cooperation partners allows to increase allocative and productive efficiency by including different incentive structures of public and private partners. Composed from state and private companies, PPPs describe a coordination that is neither market nor hierarchy. They constitute an attempt to combine the public interest with private incentives and locate an optimal level of the trade-off. Allocative efficiency can be secured through control of the public sector, while the involvement of a private company accounts for a “move towards private property” (De Alessi: 1987, p. 24) and therefore higher productive efficiency.

But hybrid provision of development within PPPs also faces obstacles. First, PPPs describe a reciprocal principal agent situation. Problems arise from an information deficit of one of the two partners. This offers space for opportunistic behavior, leading to moral hazard and hold-up. Incentives have to be provided by contracts through rewards and shared risk (Spremann: 1990, 571). In New Institutional Economics contracts are incomplete as consequence of transaction costs and bounded rationality. Relational contracting offers possibilities to improve efficiency further, since contracts within PPPs are reciprocally committing and the partners depend on each other. Credibility of commitments and mutual trust are in this case decisive in order to constrain opportunism (Martinsen: 2000, 438-439).

Second, transaction costs constitute a second obstacle. In NIE they act as a general measure to assess organizational arrangements regarding productive efficiency. For reaching efficient allocation of resources these transaction costs have to be reduced by choosing the institution with the lowest transaction costs while having the same production costs (Williamson: 1985, 22). In PPPs transaction costs arise for preparing, concluding and enforcing contracts. Certain factors from the project, including frequency and uncertainty, have an influence on these transaction costs. The leading question for efficiency is whether the higher transaction costs can be compensated by lower production costs. A summary of the main potentials, obstacles and success factors is given in table 2.

Table 2: Mechanisms of Public Private Partnerships

	Private Partner	Public Partner
Potentials from PPP	Synergies from team production <ul style="list-style-type: none"> - resources (financial, knowledge..) - scale and scope economies - risk economies 	Synergies from team production <ul style="list-style-type: none"> - resources (financial, knowledge..) - scale and scope economies - risk economies - productive efficiency, flexibility and innovation
Obstacles from PPP	Transaction costs <ul style="list-style-type: none"> - preparing contracts - concluding contracts - monitoring and enforcement Diseconomies of bureaucracy	Transaction costs <ul style="list-style-type: none"> - preparing contracts - concluding contracts - monitoring and enforcement Diseconomies of bureaucracy Moral hazard (Trade-off allocative & productive efficiency)
Success factors from project	Frequency (→ transaction costs) Constricted uncertainty (→ transaction costs)	Frequency (→ transaction costs) Constricted uncertainty (→ transaction costs) Limited opportunistic space: similar objectives
Success factors from contract	Clear definition of objectives and responsibilities Trust	Clear definition of objectives and responsibilities Trust Possibility to control effort

2.3 Comparison to Private Sector Activities for Development

Analogous to the corporate motivations in FSB and CDR partnerships, purely private activities with influence on development can be observed. These are foreign direct investment (FDI)² with a profit motivation on the one hand and CSR engagement on the other. Comparing the limitations of these activities with the particular partnership models allows for an evaluation of the efficiency of PPPs.

2.3.1 Limitations of Foreign Direct Investment

Foreign direct investment accounts for large financial flows to developing countries and is regarded as one important factor for development as it catalyzes and stimulates economic growth (Haan: 2001, 5). Nevertheless, the objectives of governments competing to attract FDI and those of multinational companies willing to invest differ (UNCTD: 1999, 149). This leads to two different limitations of FDI for development.

First, investments are not spread evenly across countries and regions; they follow decisions of private companies. Two thirds of investments from OECD countries to non-OECD countries go to Asia, especially China and Singapore, and Latin America; only a small share goes to Africa (OECD: 2002, 7-8). Reasons can be found in the business climate of these countries. Where preconditions, including i.e. rule of law, infrastructure, and political stability are not favorable, risk of investment is high and investment therefore not attractive (UNCTD: 1999, 158).³

Second, not all FDI programmes have a positive impact on development. Economic growth reached by FDI can lead to distributional changes towards inequality. (OECD: 2002, 22). For pro-poor effects, not only the pace, but also the quality of growth is decisive, and the poor need to be empowered to gain access to markets, diversify their income and they rely on safety nets (UNDP Commission on Private Sector and Development: 2004, 7). Policies and programmes therefore not only have to attract FDI, but also have to maximize its positive influence on development (UNCTD: 1999, 155).

2.3.2 Limitations of Corporate Social Responsibility

The possible contribution of multinational businesses to development via CSR can be detected within the three spheres of CSR, and results from the overlap of content between CSR and international development. The MDGs offer one framework for comparison. In the following table 3 potential ways for companies to engage in development are illustrated.

² Since FDI is not the focus of this paper, limitations are only drafted.

³ Investments of the extractive industry, which describe a major part of FDI to Africa in recent years, are an exception, since the decision where to invest depends on natural resources.

Table 3: Possible Contributions of CSR to the MDGs
(Based on GRI: 2004, 5-14; Nelson, Prescott: 2003, 7-21)

MDG	Sphere of activity	Possible contribution
MDG1: Eradicate extreme poverty and hunger	Core business Community investment Policy dialogue	Build local business linkages and employment Support local NGOs Advocate for better access to OECD markets
MDG2: Achieve universal primary education	Core business Community investment Policy dialogue	Support tackling of child labour Invest in the education of employee's children Engage in business associations that promote education
MDG3: Promote gender equality, empower women	Core business Community investment Policy dialogue	Create employment opportunities for women Support women's issues through NGOs Engage in initiatives for public awareness
MDG4: Reduce child mortality	Core business Community investment Policy dialogue	Provide affordable products and services Support programmes for AIDS orphans Advocate to support rights of the Child
MDG5: Improve maternal health	Core business Community investment Policy dialogue e	Improve working conditions for women Support women's NGOs Raise public awareness
MDG6: Combat HIV/Aids, malaria and other diseases	Core business Community investment Policy dialogue	Implement HIV/Aids workplace programmes Expand programmes to the community Establish business coalitions
MDG7: Ensure environmental sustainability	Core business Community investment Policy dialogue	Invest in environment friendly technology Support environmental initiatives in communities Change market frameworks
MGD8: Develop a global partnership for development	Core business Community investment Policy dialogue	Engage in public private partnership Engage in public private partnership Engage in public private partnership

Although topics of corporate responsibility and international development are closely linked, the actual impact of CSR initiatives in developing countries is often doubted. *Specific limitations* evolve by divergence from best practice and describe a deficient implementation of CSR strategies. *Systemic limitations* on the other hand describe a failure of CSR as a concept to meet development needs. This differentiation can be made by analyzing CSR strategy and implementation of single companies (*single project impact*), and by assessing the *summarized impact* of CSR activities in general. The limitations are illustrated in table 4.

Table 4: Limitations of CSR for Development

	Specific limitations	Systemic limitations
Single Project Impact	<i>Selection and implementation of projects</i> - no strategic approach - greenwashing	<i>Business case and requirements for development do not overlap</i> - missing preconditions - wrong targeting
Summarized Impact	<i>Lacking scale of CSR activities</i>	<i>Diverging objectives of companies and development policy</i> - no integration into development strategies

Specific limitations of single projects mostly inherit the selection and implementation of projects. In practice, many companies do neither use a strategic approach nor core business models; CSR activities remain single projects. Furthermore directing activities towards stakeholders is difficult, as these have to be identified, their concerns assessed and conflicts of interest evaluated (Weiss: 2003, 35-47). Even if companies have an appropriate strategy, implementation is often incomplete.⁴ Furthermore, companies often lack know-how on development issues, resulting in an inefficient use of resources (Prieto-Carrón et al.: 2006, 984).

Systemic limitations of single projects mainly address situations, where the business case for CSR and requirements for development do not overlap. Because preconditions for investment are often not favorable in least developed countries, as well as in remote rural regions of emerging markets, even responsibly acting companies are not able to operate in these areas. Investment in these countries implies risks and requires certain knowledge which companies are often missing (Reed, Reed: 2006, 13). Furthermore, assessment of development impacts, and, building on this, improvements towards a higher impact and efficiency of projects are not usual in CSR (Prieto-Carrón et al.: 2006, 982).

Specific limitations of summarized project impact result from a lack of consideration of CSR within many companies. While best practice strategies are only adopted by a “small but growing number of bold and visionary companies” (SustainAbility, UN Global Compact: 2004, 3), most companies do not or only insufficiently engage in order to achieve development.

Systemic limitations of summarized project impact mainly result from diverging objectives of companies and development policy in general. CSR activities are not integrated into any larger development plan, they are not aligned with any guidelines for development assistance. Choice for projects is led by the corporate culture and the needs of consumers from developed countries (Blowfield, Frynas: 2005, 510). Strategic determination of the agenda by the business case and not by MDGs will not lead to efficient development effects.

In order to increase the positive effects of CSR on international development, the implementation of CSR activities has to be improved, in quality and quantity. How a “new generation” of CSR activities could be shaped has been elaborated on by the Corporate Social Responsibility Initiative of Harvard’s Kennedy School of Government (Nelson: 2004, 47). They illustrate a third generation of CSR necessary to improve the effects for all stakeholders, building on already existent developments in CSR, as illustrated in table 5. The foundation of responsibility is legal compliance, which cannot be taken as self evident where

⁴ 92 % of US companies and 85 % of European companies do have codes of conduct, but only few have implementation mechanisms (SustainAbility, UN Global Compact: 2004, 11)

enforcing institutions are weak (Prieto-Carrón et al.: 2006, 978). A first generation of CSR is characterized by non-strategic short-term and philanthropic engagement, which is constitutional for many shortcomings of actual CSR engagement. The second describes strategic approaches, which nevertheless still implies limitations for international development. As within international development strategies, a focus in the new, third generation is set on cooperation and institution building; a convergence of CSR and development policy is therefore observable (Nelson: 2004, 47). The transformation of generations thereby is fluent, and already initiated.

Table 5: Generations of CSR
(Adopted from Nelson: 2004, 47)

	Tools and Processes
3 rd Generation Competitive Responsibility	Multi-stakeholder standards and partnerships, institution building, CSR oriented advocacy and public policy
2 nd Generation Strategic CSR	Sustainability management, auditing and reporting, stakeholder dialogue, social investment
1 st Generation Non-strategic CSR	Philanthropy, short-term risk management, industry standards
Legal Compliance	Regulation covering tax, health and safety, workers' rights, consumer rights, environmental regulations

2.4 Aid Effectiveness

Since public resources for development assistance are scarce, a high quality has to be aspired in order to reach the MDGs. In 2005 the OECD developed a framework to improve quality and effectiveness of aid, the Paris Declaration.⁵ Following the principles, countries receiving aid should take the lead of projects and policies. Donors support the national development strategies of recipient countries and strengthen the recipients' capacity to build own institutions (ownership). Harmonization as a second principle stands for a closer cooperation between the partners, coordinating aid by using comparative advantages and labour division. The Paris Declaration also emphasizes the need to concentrate on cost-effectiveness and monitoring. Contents of development strategies should be adjusted towards the MDGs, projects should have a strong sustainable development impact (UN: 2008).

⁵ These principles are similar to the ideas presented in the World Bank comprehensive development framework.

3. Fostering Sustainable Business Partnerships

In the following two chapters potentials and limitations of PPPs are analysed using the criteria developed in chapter 2. The analysis draws on information from internet research on PPP-programmes⁶ as well as on interviews with the Danish and German Development agencies conducted in 2008.

3.1 Motivations in FSB Partnerships

Partnerships for fostering sustainable business often are organized as the cooperation between a contractor, private partner from a developed country, a local private partner from a developing country and the supporting public partner. The impact these partnerships can have depends on the overlapping interests that are determining common goals and objectives. Motivations of the contractor to engage within a FSB partnership stem from the investment itself and support for planning and implementation. Through the support of the development agency the contractor wants to attenuate investment risks in order to gain a profitable investment possibility (Jenkins et al.: 2007, 5).

The cooperation with the private sector is *reducing poverty* and a *sustainable economic development*. A common interest is a sustainable private sector development for poverty alleviation. The development impact in FSB partnership does not occur through the purposeful influence of companies on development, but due to spill-over effects of the investment (Dunning, Fortanier: 2007, 36).

3.2 Institutional Potentials and Obstacles in FSB Partnerships

Potentials

In respect to business technology and knowledge, companies will have a strong comparative advantage over development agencies. All PPP programmes with focus on FSB motivations therefore emphasize on reaching a sustainable impact on poverty by *capacity building*, a transfer of knowledge and technology. This increases productivity and market access for the local company and constitutes a prerequisite for growth and productivity of the firm, leading to the creation of new employment opportunities (UNDP Commission on the Private Sector and Development: 2004, 19). The programmes are mainly directed at formal small and medium sized enterprises, which have a high potential to stimulate growth, efficiency and economic development (UNDP Commission on the Private Sector and Development: 2004, p.13). The financial burden is shared; private partners contribute - depending on the programme -between 50% and 90% of the investment, important resources for development. Financial support to one company can imply positive follow-on investments and financial opportunities. To gain support, the aspired cooperation must be not feasible without support (principle of additionality), commercially viable in the long-term, and continue after the ending of financial support. Here another comparative advantage of the private sector is observable. Through the private interest coupled with investment and risk, effort for economic sustainability is given. Furthermore, to increase effects on development, the programmes prefer projects that include CSR activities, although the focus is directed on the mobilization of investments.

Obstacles

⁶ Included programmes have been illustrated in table 1. The internet research included Agency for International Business and Cooperation: 2008; BLCF: 2007; BLCF: 2008; BLCF: 2008b; BMZ : 2005; CIDA: 2005; Klaassens et al: 2005; Klaassens et al: 2002, 8-22; Ministry of Foreign Affairs of Denmark, Danida: 2008; Ministry of Foreign Affairs of Denmark, Danida: 2006; USAID: 2008; USAID: 2007; USAID: 2006,14-34

With engaging in partnerships institutional obstacles arise. All FSB oriented programmes are demand-driven, proposals must be made by the private sector (Binder et al. 2007, 37). To successfully file a proposal, companies therefore have to take ex ante expenditures, demonstrating a financial risk. FSB partnerships should be built on strong contractual agreements, since interests differ and common goals lie mainly within spill-over effects of investments on poverty. Since situations are complex, and spill-over effects difficult to measure, contracts will be incomplete and imply high transaction costs (WEF: 2005, p. 37). Low flexibility and high bureaucracy will negatively influence trust and satisfaction of private sector with projects and constrain relational contracting. From the public sector point of view, a decision on efficiency must be made for every single project.

Success Factors

The realization of advantages and disadvantages is mainly influenced by success factors given by the project and contract. Due to a small project size in general risk is manageable for the development agencies, but the project size also implies a need for upscaling, as a higher frequency lowers transaction costs and improves the impact. Contracts should have a clear definition of objectives and responsibilities (UN Global Compact: 2007b). Through reporting activities, transparent processes and control of efforts are aspired to in all programmes.

3.3. Comparison to Foreign Direct Investment

Since FSB projects are for the company motivated by the investment itself, a comparison is made to the limitations of foreign direct investment. FSB partnerships offer an additional incentive to invest in regions and sectors, where preconditions are not given, risk is higher, often accompanied by higher poverty. Current project portfolios show a high concentration of projects in Africa. 63% of British, 75% of Dutch and 45% of Danish FSB projects took place in Africa. This shows a stronger concentration of FSB projects towards poorer regions than received by FDI.⁷ Also the sectoral allocation accounts for stronger impact on poverty. Agriculture, important for rural development, accounts for 37% (Britain) and 63.8% (Netherlands) of projects of the programmes for which portfolios are provided. Nevertheless, FSB partnerships will mainly concentrate on commercially attractive countries, and neglect the poorest regions. Of 69 reported Dutch projects in 2002 only 12 took place in low developed countries, while 40 more projects in Africa were located at medium developed countries. Furthermore, channeling aid through FSB project can not adjust for FDI shortcomings to target people in informal and micro enterprises. The increase of the impact on poverty depends on the integration of supplementary social means, such as the integration of employment opportunities for vulnerable groups. One challenge arising by the partnership grounded on subsidising additional investments are possible market distortions (Binder et al.: 2007, 39).

3.4 Aid Effectiveness in FSB Partnerships

For assessing PPPs as instrument in development assistance the aid effectiveness of the arrangement is important. Regarding ownership, the responsibilities in the bidding process are decisive. In the Danish and Dutch programme, the development agency acts only as a first stage. Responsible for the election and implementation is the embassy in the developing country; strategies for electing adequate projects and directing them towards certain sectors are developed in cooperation with the local government. Due to the demand-driven approach, the initiative will come from side of contractors and not be derived from development plans of developing countries. A matching of programmes of different donors for alignment is not given. Often criticised is also the concentration of projects on the micro level and leaving out possibilities to improve the institutional environment, which would allow for more structural improvements. Impact assessment is still a challenge to the programmes. Although most arrangement require reports on the objectives, a systematic evaluation of

⁷ Mwilima (2003) indicates the share of FDI to Africa in 2000 with 3.8% of FDI to the developing world.

overall development impacts delivering significant results while containing the costs is still missing. The Dutch programme reports on uncertainties in identifying complete projects, and only includes half, the British program 75%, of the project into a closer evaluation. One obstacle to effective evaluation is the relatively small size of the projects in comparison with various objectives and regions. Accountability is often challenged for FSB partnerships, since a deviation from development strategies towards the interest of the private sector is assumed (Binder et al.: 2007, 39). As long as no evaluation has proved the contrary, this argument cannot be dismissed. A systematic review is therefore essential.

3.5 Summary and Challenges for FSB Partnerships

FSB partnership for development allow for synergies helpful to reach economic development due to positive spill-over effects of investments. Decisive in this context are transaction costs. If they exceed the benefit for development gained by the cooperation, partnerships cannot be a feasible instrument. Strategies have to be found to reduce transaction costs by reducing existing conflicts between participants and buildup trust to confine opportunistic spaces and allow for relational contracting. Furthermore, the success of FSB projects is still concentrated on emerging markets. Systematic evaluation has to be aspired for. Scaling-up projects and regional concentration may be one solution to not only increase effects and impacts, but as well to allow for a feasible evaluation regarding costs. At the same time scaling-up will be difficult above a certain level, as partners, their interests and ability differ.

4 Corporate Development Responsibility Partnerships

4.1 Motivations in CDR Partnerships

Corporate Development Partnerships mainly concern business relationships with companies of developing countries in the supply chain, or companies headquartered in developed countries that are active in developing countries. In comparison to FSB motivated partnerships the relationship often already exists, and within the engagement the business environment should be improved. The development agencies therefore offer a partnership with economic and advisory support, to increase the quality and scope of CSR engagements. The motivation of private companies does not comprise direct profits, but indirect effects via the business case of CSR. A image transfer is possible by cooperation with the development agency.

The development agencies motivations are led by the MDGs and development policy. In their description of CDR programme they communicate similar objectives as for FSB partnerships: reduction of poverty should be reached by promoting economic growth, but as well stimulating social development and improve working and living conditions of the poor. The viewpoint is long-term, aspiring to economic sustainability of improvements. In contrary to FSB partnerships the company takes an active role for sustainable development and accepts benefits of its engagement as spill-over effects on their profit via the business case (Dunning, Fortanier: 2007, 36). As illustrated in figure 3, CDR partnerships integrate a CSR approach into the cooperation. This leads to an expansion of certain CSR activities, while others are not appropriate for PPPs.

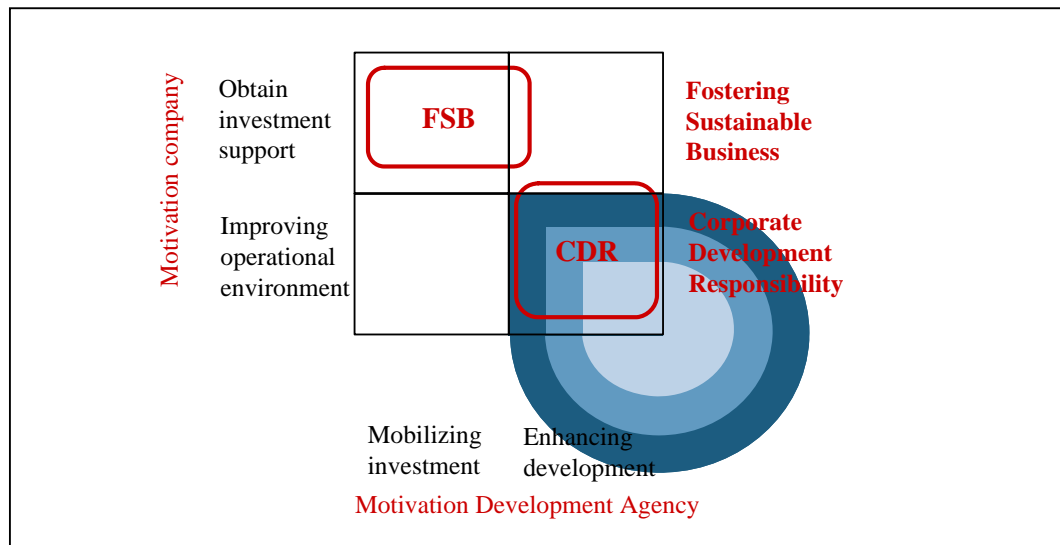


Figure 3: Integration of CSR in Public Private Partnerships for Development
(Based on Binder et al.: 2007, 14; Nelson, Prescott: 2003, 6)

4.2 Institutional Potentials and Obstacles in CDR Partnerships

Potentials

Which synergies arise, making the partnership worthwhile for development, depends on the sphere of CSR they can be allocated to. In the first sphere, core competencies are used for improving development. This includes the development and implementation of international social and ecological business standards (Nelson: 2003, 7). Especially in agriculture, the inclusion of small-scale farmers as poor and vulnerable groups into global value chains has a high potential to reduce poverty (Zammit: 2003, 58). Companies have comparative advantages in establishing local business linkages (Nelson: 2003, 8), transferring technology and knowledge, in respect to production techniques and business contacts, while donors have the expertise to identify capable farmers, the needs of the workers and the means to improve their living situation. The involvement of the development agency as a mediator can facilitate dialogues between companies, governments and civil organisations and therefore allow for structural changes to the foundations for the private sector, such as legal rights (Sørensen, Petersen: 2006, 8). Accepted projects have to include CSR measures that would otherwise not take place or improvements of CSR measures important for development. This additionality thereby constitutes an indicator that is not measurable and depends on subjective estimations.

For strategic social investments on the second sphere, development knowledge of the public partner is essential to use financial and in-kind contributions of the company for reduction of poverty. The donor is able to include important stakeholder into decisions (Konrad-Adenauer-Stiftung: 2005, 5).

Within the third sphere of advocacy, partners cooperate for sector based solutions, such as agreements on codes of conduct, or raise awareness for global topics. While companies will have advantages to assess and influence disposition within the business sectors and contribute to realizable solutions, development agencies can represent voiceless people, and make use of their relationships and accountability (Nelson: 2003, 8).

To increase the scale of development relevant CSR measures and give additional incentives to companies, donors support CDR partnerships with a grant scheme; contributions of the private sector are, depending on the programme, between 20% and 50%. Productive efficiency is furthermore increased by management techniques and entrepreneurship of the companies. Because economic sustainability is increased by business interests, it will be stronger in CSR activities that are linked to core business and the operable result than in philanthropic social investments (Sørensen, Petersen: 2006, 18). The programmes therefore tend to exclude purely philanthropic engagements from their support, which is connected with problematic differentiation.

Obstacles

A major obstacle to CDR partnerships is given by transaction costs. The German PPP as well as the Danish PPP and the UN programmes are mainly demand-driven, although there are exceptions made. The American programme, on the other hand, requests for proposals for certain countries and sectors. Nevertheless proposals have to be made from the side of the companies and constitute an investment. Being connected by common goals and at least similar values, the incentive for companies to lower the quality of their development relevant investments will be decreased, space for opportunistic behaviour limited. With “principled behaviour”, compatible interests and values, which the American programme sets as a condition, a basis for trust and relational contracting is given.

Success Factors

Success factors to realize potentials from CDR motivated partnerships can mainly be developed by imitation of FSB partnerships. Since companies embodying responsible values demonstrate a convergence of activities, cooperation may be easier within CDR partnerships than FSB programmes. Nevertheless, a clear definition of objectives, targets, processes and responsibilities within the partnership is one decisive factor of success and is often problematic, as highlighted by both sides (WEF: 2005b, 6).

4.3 Comparison to Corporate Social Responsibility

To justify public expenditures for supporting CSR measures additionality and increased quality have to be given. Concerning *specific limitations of single project impact*, the knowledge of the development agency offers the possibility to design strategic activities with strong developmental impact. Comparative advantages of the donor will thereby allow for identification of stakeholders and their needs, the implementation of strategies facilitated by demanded control (WEF: 2006, 13).

Regarding *specific limitations of summarized impact*, a higher development impact may be reached by including a public partner. Following guiding principles of development policy, all impacts must be assessed, problems solved by addressing the causes and not only the effects. This becomes apparent in the case of child labour. The topic implies high reputation risks for the company, but simply addressing the problem by bans is not leading to improvements for concerned children (Chakrabarty: 2007, 64). Furthermore, ways have to be found to lead them out of poverty. A cooperation of companies and development agencies therefore may lead to more systematic solutions (Nelson: 2005, 10).

PPPs offer a strong possibility to scale up innovative and relevant CSR activities, and attenuate *systemic limitations of single project impact* (Konrad-Adenauer-Stiftung: 2006, 73). By assessing successful partnerships and offering best-practise examples as well as proven management structures, transaction costs can be decreased and attractiveness of projects improved (Sørensen, Petersen: 2006, 15). Thereby transference is constrained due to the unique character of partners.

Concerning the failure of aid coordination within CSR as a *systemic limitations of summarized impact*, CDR partnerships offer an approach for improvements. The projects aspire alignment with development policies. But these projects would have to be strategically part of development plans, which is difficult with demand driven proposals (Sørensen, Petersen: 2006, 13). The problem has been realized, and first solutions conceived. The German PPP programme offers beneath its demand driven PPP facility also the possibility to embed the projects within bilateral development assistance (USAID: 2008). The American programme places emphasis on building strategic alliances, and therefore bundles the strength and activities of more companies. Nevertheless, the successful integration of PPPs into development plans, which also requires attractiveness for companies, is a challenge for CDR programmes.

4.4 Aid Effectiveness in CDR Partnerships

The demand-driven approach stands in contrast to local ownership and alignment of projects, which would allow governments of developing countries to choose projects in respect to their poverty reduction strategy (Utting, Zammit: 2006, 18). Donors already realized this fact, so strategies for more local ownership are being developed. While the American and the Danish CDR programmes increase local ownership by exercising projects via the embassies and keep close contact to involved local companies, the German PPP programme allows additional for integration of CDR projects into bilateral assistance. Since CDR projects demonstrate cooperation with a new player in development assistance, the private sector, they can be regarded as an opportunity for harmonization (World Bank, IMF: 2008, 102). CDR partnerships positively influence managing for results. Due to the inclusion of the private sector, efficiency, flexibility and innovation within projects will be increased. Nevertheless, an orientation and evaluation of results measured by objectives of development assistance is essential, but often neglected. This includes not only assessment of reaching objectives, but the impact of objectives on development. Data is only sparsely available.

4.5 Summary and Challenges for CDR Partnerships

CDR partnerships offer possibilities to increase resources of development assistance by strong synergies. The overlapping of contents between CSR and development policy broaden project possibilities and a direction of activities at development goals in comparison to FSB partnerships. An inclusion of social and environmental values within the corporate culture will lead to a convergence of values of company and development agency, with positive effects on transaction costs. But even if cooperation in CDR partnerships is able to compensate for shortcomings of CSR, and therefore rightly can be ranked among a third generation of CSR, certain challenges for development assistance must be addressed. Systematic monitoring and evaluation of projects is required. A further systematisation of governance must be aspired to, since contractual details account for the most important success factors. Furthermore, integration into development strategies is required, if CDR partnerships should be established in development assistance in the long-term. Due to the trade-off between flexibility and ownership, innovative solutions are necessary, which allow for an expansion of impacts from micro- to meso-level.

5. Final Summary and Conclusions

CSR depicts business' contribution to sustainable development, due to a strong overlapping of topics with development and the MDGs. Nevertheless, since CSR is motivated by the business case of responsible business operations, an alignment with intermediate goods and development strategies does not take place. This constitutes systemic and specific limitations.

Both types of partnerships analyzed build on synergies of PPPs and are able to attenuate limitations of foreign direct investment and CSR, respectively. As a difference CDR partnerships more easily allow for relational contracting, since interest overlap. Development agencies are challenged within both types of programmes to maximise the allocative efficiency by integrating PPPs effectively into development strategies and increase their scale. At the same time processes of cooperation have to be improved, to increase efficiency and decrease transaction costs. To further lower production costs for development agencies a concentration on their role as facilitator would be helpful, allowing for partnerships without grant mechanisms. To render allocative and productive efficiency, projects have to be critically assessed, and processes of cooperation improved. If projects do not provide advantages for both sides, they will not be successful for development.

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