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Public–Private Partnerships, Strategic Planning and Capacity Building for Better Development

The interaction of the public and private sectors—at both the operational and strategic levels—was a major theme throughout the 2014 Brookings Blum Roundtable's discussions on how to generate economic growth in difficult environments.

These discussions reflected several basic themes: (1) The more progressive modern corporation "is not your father's exploitative multinational," but rather a more socially and environmentally conscious enterprise, and innovative entrepreneurs are creating ways to deliver essential services to the poor and underserved populations; (2) governments need the private sector to generate economic growth and jobs and to help address national and community issues, and the private sector needs a functioning government to create the climate and rules and regulations it requires to be able to maximize the benefits it can bring to the economy and society; and (3) transparency and risk mitigation are mechanisms for attracting investment into uncertain circumstances.

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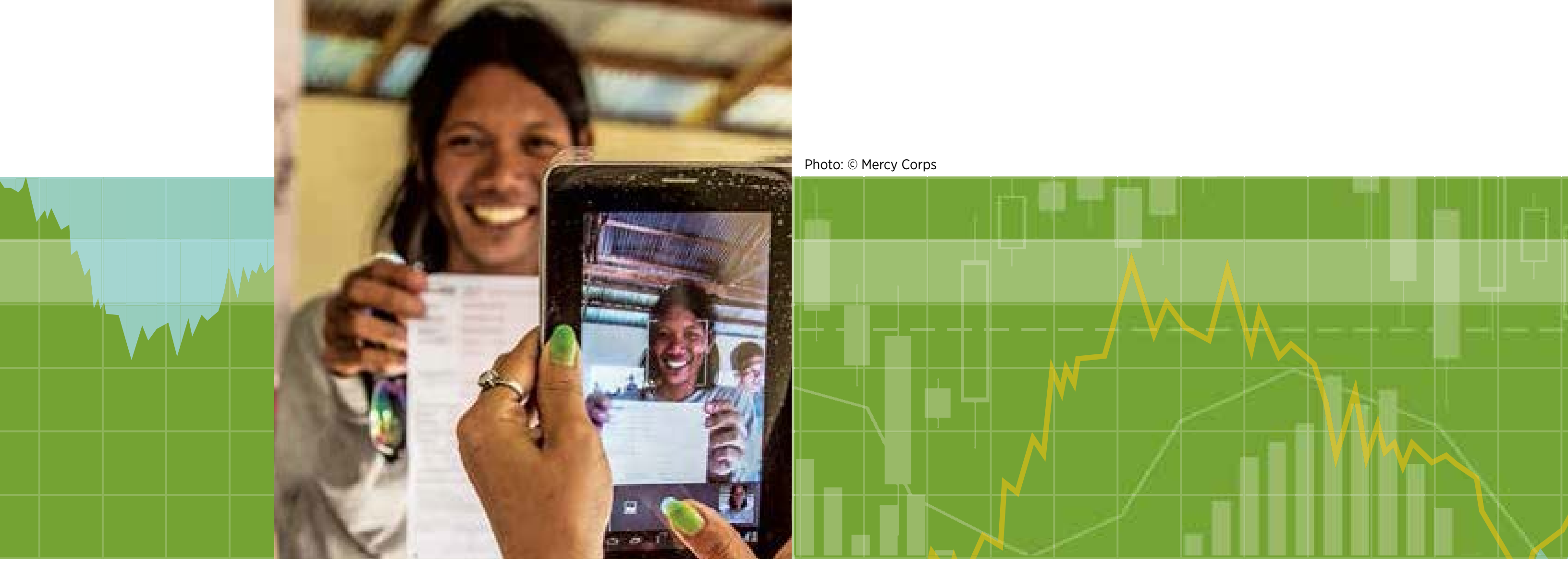
THE 21ST-CENTURY CORPORATION

The corporation of today—at least the growing number whose executives think strategically about their firm's future and recognize that they depend on sustainable communities and environments—is a more socially and environmentally conscious actor than its predecessor. It is still driven by the bottom line, but this line has shifted and broadened, from just a focus on quarterly profits to a recognition that long-term profitability is linked to social and environment outcomes and impact. A cultural shift is happening in business, as executives expand their vision of what it means to be successful, including the responsibility to create jobs, provide opportunities for suppliers and contribute to government revenues. There is an intersection between what is good for business and what is good for society. Governments need to understand that this changed mentality provides the opportunity to find shared space, that 21st-century corporate managers can contribute to addressing difficult social and economic challenges, and that engagement with the private sector can help create an environment more amenable to helping communities and states move beyond conflict and fragility.

Why are multinational corporations involved in poor and fragile states? Inherently, they are involved to pursue business opportunities in these countries. But they can also be driven by a diversity of other motives—potentially outsized returns, following clients to service them (e.g., banking), loyalty to national interests, and the sense that this is the only game in town (e.g., resource extraction).

A more socially and environmentally conscious approach to business is represented by the Mining Company of the Future. This project—a product of the Kellogg Innovation Network Development Partner Working Group, which comprises the Kellogg School of Management, mining companies, and civil society—presents a road map for mining companies to ensure long-term profitability by adopting a triple bottom line and engaging local communities.

As a specific example of this changed corporate mentality, one roundtable participant explained the altered approach that has been taken by a foreign mining company in Peru. Its traditional operating procedure had been to obtain its operating license from the national government and to then avoid engaging with the local government and community. But continuous conflict at the local level and a loss of revenues led it to adopt a more inclusive approach. Through the facilitation of an international nongovernmental organization (INGO), the company has engaged in a dialogue with the local community that has led it to support a local development fund and investigate allegations of abuses against the population and water sources. This process has helped galvanize a broader dialogue about mining in Peru, which has resulted in Peru joining the International Extractive Industries Transparency Initiative and improving the distribution of mining revenues at the local level. The government has also passed a law recognizing the right of local communities to be consulted before a firm undertakes an extractive project.



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In contrast is the story of the large-scale palm oil plantation investment by Herakles Farms in Cameroon. The investor had a positive track record in other investments, and the company presented the project as "contributing to a sustainable future for Cameroon" and as engaging at the local level. However, the project began without proper authorizations; local engagement was restricted to village "leaders," who appeared to represent their own self-interests and opinions rather than the broader interests of their villagers; its alleged local social and economic benefits are uncertain and otherwise questionable; and the project is being criticized for endangering the local environment and surrounding parks and nature reserves.

CORPORATE ENGAGEMENT WITH THE GOVERNMENT

The government needs to recognize that corporations have broad interests and can be engaged on the government's priorities. Identifying and working toward common objectives can serve as the foundation for building trust. In turn, companies should engage the government on its agenda and step up to making a positive contribution to the formulation and implementation of policy. But to do this effectively, firms need to understand the government's core interests.

An example of how business can engage with the government at the policy level is the public–private collaboration in Cambodia. The private sector meets to identify issues, it raises those with government officials, and the culmination is a meeting at the cabinet level.

The private sector can offer approaches to address the ramifications of fragility and conflict. A key problem often is financial, the lack of credit and cash for business activities. The private sector can overcome the absence of a banking sector, or the interruption of banking services during conflict, by creating mechanisms to transfer cash via mobile phones and by circumventing the need for cash through electronic payments, which can help advance financial inclusion.

A particularly innovative suggestion for a public–private approach to overcome the lack of cash and credit at the local level following a disaster is to establish a standby liquidity arrangement. After a disaster, there is an urgent need to get liquidity into the hands of individuals and small businesses. Just as donors and civil society have emergency supplies prepositioned and emergency experts on call to rush in to save lives after a natural or human-made disaster, so create a prearranged capability to stem the economic dislocation that typically follows a disaster. Homeowners lack funds to rebuild homes, farmers lack cash to purchase seeds and fertilizers, and businesses lack credit to restock stores. There needs to be a mechanism to infuse liquidity into affected villages and towns. Local financial institutions are either nonexistent or lack liquidity. Large financial institutions lack on-the-ground presence and a willingness to take risk. So there is a need to engage the U.S. Agency

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for International Development's Development Credit Authority, or another mechanism, in order to create a standby authority that will share the risk with financial institutions of injecting liquidity into the local economy.

A key mechanism for business and government engagement is public–private partnerships (PPPs). These arrangements can be between two or more parties and may involve government donors collaborating with corporations, foundations, NGOs and foundations. PPPs are not a new phenomenon for the development business. The Green Revolution in the 1970s was a public–private effort that involved all the above-mentioned entities. What is new is that in the past decade, PPPs have grown exponentially in number and scope. Increasingly, corporations are seeing themselves as development players, and the government is recognizing the private sector as essential to creating jobs and economic growth and contributing to public goods.

There was considerable discussion among roundtable participants of what makes a good public–private partnership. To start with, there must be a clear agreement on goals and rules and an alignment of interests and incentives. This alignment must include a joining of benefits for both business and society. Other elements of successful PPPs are transparency, rigorous governance and dispute resolution mechanisms. The right cultural fit is also important, as the partnership must fit the company's heritage and values. Too often, the government turns to the private sector only after it has already designed the purported solution to a problem. This is the wrong approach—it should be turned on its head in the form of joint problem solving that involves both the private sector and civil society organizations from the beginning. The government should identify the desired outcome and engage the private sector to help design the appropriate intervention. And the government can then be very clear in targeting the right parties (e.g., for-profit companies, foundations, NGOs and other donors) to implement the project.

One of the conundrums of PPPs is fitting the pieces together. The private sector has operational capacity, but it tries to squeeze out the complexity that is an inherent characteristic of social and developmental change. The government can reshape the enabling environment, but it is bound by regulatory and political constraints. Civil society groups offer innovation and links at the community level, but they are often overly tied to their methodologies and theories of change rather than to specific goals. What is needed is the integration of these various players—someone to play the role of systems integrator, and this requires a lateral thinker who can knit the pieces together. Some foundations are stepping into this role. In fact, this role is not that different from what some people do inside large organizations—government bureaucracies, companies and large NGOs—to make sure that the organization's disparate pieces work in harmony toward a common objective. It

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is the absence of someone playing this role that can cause PPPs to fail.

Several participants asked "how can donors be helpful—what is the private sector looking for from government donors?" There were a range of answers. The principal finance gap is on the front end; donors can be most useful in providing risk capital and patient capital and support during the period of incubation. Too often, donor processes are so constraining and discouraging that companies do not engage; the private sector is looking for speed in decision making and for the room to propose innovative, breakthrough ideas that lie outside stated government strategies and priorities. Donors need to avoid requests for proposals that prescribe the solution and require hiring expensive consultants. And the government can be supportive in helping with enabling policies and rational regulations.

TRANSPARENCY AND RISK

The role of transparency and risk management, and the intersection of the two, was a theme throughout the roundtable discussions. Mitigating risk is a key element for attracting private investment to countries plagued by conflict and fragility. One answer for risk mitigation is the diaspora, which can mean attracting back to a country emigrants who know the language, culture and politics and can deal in the local environment. Other suggested avenues of risk mitigation are to avoid government by staying small; to avoid buy-outs; to aim for both financial and social returns; to leverage new technology; to work in rural areas; and to be transparent.

It was noted that transparency in contracts and operations can help corporations avoid surreptitious squeeze by government leaders and bureaucrats. Publish What You Pay spearheads the Extractive Industries Transparency Initiative, a multistakeholder (government, companies, civil society, investors and international organizations) voluntary compact that commits governments to publish what they receive from extractive companies and companies to publish what they pay to governments. A broader concept, Publish What You Buy, proposes to make public all government

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contracting. It was noted that often it is not the private sector, but government, that opposes transparency, in particular objecting to making public the terms of contracts for resource extraction.

Another approach for both government and business to circumvent corruption and stifling government bureaucracy is to create enterprise zones and one-stop shops for dealing with government permits and regulations.

In contrast to the usual negative view of risk, a particularly interesting perspective is the notion that risk wipes the slate clean and allows one to rethink assumptions and thereby creates new opportunities.

Poor governance and corruption are perennial obstacles to investing in poor and fragile countries. One approach is simply to avoid government by staying small and by keeping investment and business activities at a modest level, so as to operate below the government's radar. This can work for individual entrepreneurs and small investors, but not for large international corporations. Because these large firms are visible by size and profile, they have no choice but to engage with government—so their best approach is to engage at the policy level with the government's agenda. Further, the private sector needs to analyze and understand the root causes of conflict in order to avoid becoming part of the problem.

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