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Measuring the impact of business on development

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'The best examples of business impact on development use corporate investment as a springboard for local enterprise'

International businesses are looking at how to boost their impact on local economies in developing countries. Leaders on this curve are going beyond pure philanthropic donations for local good causes to assess – and adapt – core business practice to support development goals. Abiding by fair labour standards is one step; using procurement power to develop local enterprise is another; while an array of other mechanisms involving mentoring, sharing infrastructure, working with distributors, and tackling log-jams in access to capital are being developed.

Sceptics may ask, is all this effort worth it for development or the companies? We can see the business benefits, which have been relatively well documented, and seem to be growing. Reducing risk and gaining social license to operate remain valuable, but in addition, market leaders are now gaining competitive advantage in the ongoing competition for reputation, tenders, resource rights, and consumer loyalty.

The benefits for development can be high, but are harder to capture. Proponents can cite the number of jobs created or small and medium enterprises (SMEs) supported, and the value of contracts procured locally (see Table 1). But our understanding of impact needs to go further. As every adopter of 'inclusive business practice' knows, it takes considerable leadership, time and internal change management to get going. It often involves partnership with development banks, donors or NGOs whose justification must be development impact. So we need to ask: how do inputs translate into impact, and measure up against other investments of time and resources?

Advocates of 'inclusive business', myself included, need more information on the develoment impact of doing better business. There are, however, some challenges.

First, more work is needed on how to best to measure the development impact of business per se, let alone the development gain from adoption of more inclusive business practice. Existing value chains are being studied from a pro-poor perspective – as in the case of Unilever's operations in Indonesia and South Africa, or tourism economies in destinations such as Luang Prabang (Laos), Da Nang (Vietnam), Cambodia, and The Gambia. These assess impacts on the poor from all parts of the value chain and provide a basis for enhancing impact. Benchmarks are emerging from the tourism value chain studies by ODI and partners, indicating scope for making a development difference. For example, the fact that the poor receive around one quarter of tourist expenditure in Luang Prabang and Da Nang, but only around 5-10% in Cambodia, clearly indicates that structural issues in the tourism economy make a big difference. While this does not tell

Table 1: Examples of SME impact of linkage initiative by gross contract value

Linkages programme/country	Contract value of SME procurement
Mozal smelter linkages programme (Mozambique)	Procurement from SMEs at $11 mn per annum
Chad SMEs linkages around Chad-Cameroon pipeline	16 SME contracts worth over $30 mn (2004-mid-2007)
Azerbaijan BP/IFC linkage programme	2006: BP spent $77 mn on procurement from local SMEs
Anglo Khula Mining Fund	Investing in 46 companies with turnover around $130 mn
Examples of *increase* in activity	
Minera Yanacocha gold mine, Peru	2005: $10 mn of SME sales (cumulative) marked a $4 mn gain cf previous 18 months. Farm sales tripled to over $2 mn
SBP Private Sector Initiative, Malawi	43% ($9 mn) increase in SME input in first 2 years

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us the specific impact of different business models, but it does provide pointers.

A second challenge in assessing impact is that some of the most important impacts are dynamic and unquantifiable. The best examples of business linkage programmes aim for the anchor investment to be a springboard for local enterprise development. SMEs gain contracts but also capacity to access finance, reach new markets or achieve economies of scale. In the Azerbaijani Enterprise Centres supported by BP and the International Finance Corporation, the aim of supplying the project at reduced costs is combined with the aim of developing whole supply sectors that can reach markets elsewhere. Shell's guidance notes for supporting local suppliers encapsulate the 'springboard' in measures to build SME capacity to meet (ISO/ILO) standards necessary to tap into other markets, and update the supplier database post construction for others to use.

From a developmental point of view, the springboard effect is probably where the greatest potential impact lies in the long-term. Massive as a mine or pipeline may be, the opportunities are finite. But if the opportunities provide a springboard for further growth, entrepreneurship and adaptation, the dynamic effect on local economies can multiply. Existing assessment frameworks simply don't capture this. In IFC, for example, leading the field of development finance institutions in measuring impact, the indicators are the dollar value of assistance provided and purchases made, and the number of SMEs supported.

We need to know more about the real costs of creating business linkages, apart from specific budgets of donor-supported linkage projects, or the ring-fenced community development projects of a company. Interventions appear to be cost-efficient, if linkage projects of a few million spur new contracts of tens of millions – although of course any decent economic appraisal would not use gross contract value. But as the Shell Foundation argues, the most valuable input is the 'business DNA that is encapsulated in people, knowledge and techniques' – abundant in big business but a scarce resource in development. What is so exciting about this field is the likelihood that for small marginal cost, this high value asset can be applied for substantial local development gain. A small action by big business – bringing local banks to the SME table, changing the terms of bids for lead contractors, or sharing market information, can cost little but achieve much. While this has intuitive appeal, it needs verification.

This is a time of innovation in boosting the development impact of business. The agenda ahead includes three priorities: bringing the laggards on board for wider uptake; continued experimentation and learning from innovation; and greater delivery of results. To serve all three of these – making the case, learning from experience, and ensuring we achieve real results for the poor, we need to keep building our capacity to capture the development results.

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