What goes around comes around. Evidences from the first call for private engagement in the international development cooperation in Italy.

Pasquale De Muro[a], Lucia Marchegiani[b], Carlo Alberto Pratesi[b], Grazia Sgarra[c]

[a] Department of Economics, Roma Tre University, Via Silvio D'Amico 77 00145 Roma, pasquale.demuro@uniroma3.it
[b] Department of Business Studies, Roma Tre University, Via Silvio D'Amico 77 00145 Roma, lucia.marchegiani@uniroma3.it, carloalberto.pratesi@uniroma3.it
[c] AICS Agenzia Italiana per la Cooperazione allo Sviluppo, Via S. Contarini 25 00135 Roma, grazia.sgarra@aics.gov.it

Introduction

International development cooperation (IDC) has undergone a major change over the last decades due to economic and political pressures (Degnbol-Martinussen and Engberg-Pedersen, 2003). The original concept of international aid assumed that developed northern countries could accelerate development of poorer countries of the world through financial and knowledge inputs. More recently, a growing body of evidence shows that development "could not be externally directed, but requires local ownership and sufficient capacity to guide the process" (Fowler, 2013, p. 3). Moreover, an increasing global understanding envisions the private sector as part of the global IDC system. Private for profit firms have been increasingly engaged in pursuing the goals of the sustainable development. This global institutional change has provoked innovations at supranational and national levels, such as the European Agenda 2030 for sustainable development and national legislations. In this vein, the Italian reform law 125/2014 of the international cooperation system has introduced the concept of "Profit for Development". As one of the consequences, the Italian Agency for the Cooperation and Development (Agenzia Italiana per la Cooperazione allo Sviluppo, hereafter AICS) has launched the first call for the funding of entrepreneurial projects that are in line with the sustainable goals. This has been the first institutional attempt to favor the engagement of the private sector in IDC. The piece of research presented in this paper focuses on this first call and in particular this paper shows the result of the call in terms of the projects that have been submitted and those that have been actually selected. As part of the team in charge either of the writing of the call or of the committee that selected the projects to be funded, the Authors had premium access to the documentation of the call. Thus, the analysis presented in this paper is based on primary data. The results show a limited response to the AICS call for action. Nevertheless, an increasing attention of the private sector for the international cooperation can be detected, and some of the projects correctly target the sustainable development goals. This paper also discusses a number of limitations that should be addressed in the next phases. Thus, the authors' contribution is twofold: a) from a theoretical point of view, we review the process that globally led to the inclusion of the private sector in the international cooperation for development system; and, b) from an empirical point of view, we offer insights on how to raise the awareness of the private actors in relation to the benefits of their engagement in the international cooperation for development.

Theoretical background: evolution of the system of international cooperation for development

In revising the theoretical contributions related to IDC, we propose to distinguish between two major groups of actors that have been involved in the different stages in the evolution of IDC, namely: 1) Governments and Non-Governmental Organizations (NGOs); and 2) firms and private actors, both not for profit organizations (PNPs) and for profit firms (PPFs). While the two groups have pursued independent actions for decades, the two streams have converged starting in 2015, as it is discussed more in details in the following sections.

Started after WWII, International Development Cooperation (IDC) in the beginnings and until the 1970s was essentially a public action, devised, planned, funded and mostly implemented by governments, state agencies, and intergovernmental (i.e. multilateral) institutions.[1] During that period, private for-profit firms (PPFs) had a secondary and limited role in IDC, usually as contractors or providers. Later, since the 1970s, national and international civil society –private not for-profit (PNP)– organizations entered the stage (Wegner, 1993), often with humanitarian concerns and approaches, and with a strong governmental support and sometime direction (Italian aid channelled through NGOs/CSOs was 42% of bilateral aid in 2011, according to OECD DAC Creditor Reporting System).

PPFs, especially large corporations, did engage –and do increasingly nowadays– in philanthropic initiatives (which partially overlaps with charity) in so-called developing countries. However, in this paper we will not consider philanthropic initiatives as they should not be confused with genuine corporate social responsibility (Zamagni and Bruni, 2013). From a theoretical perspective, although ethical issues were embedded at the dawn of political economy (Smith, 1790), it is only since the 1980s that business ethics attracted an increasing interest among corporations and scholars. This produced a number of concepts and approaches (Corporate Social Responsibility, Triple Bottom Line, Corporate Social Entrepreneurship, Shared Value, Global Corporate Citizenship) that highlight the opportunities that emerge from the engagement of the private for profit sector in IDC. Prahalad and Hart (2002) clarified that for profit corporations have the opportunity to unlock the business potential through technological innovations that allow to produce affordable products for the poor, untapping the fortune at the Bottom of the Pyramid (BoP). In other terms, corporations may pursue globalization strategies through the innovative lens of the so-

[1] We have used the broader term "International Development Cooperation" in order to go beyond the narrow terms "Official Development Assistance" and "Official Aid" used by OECD, which concern only «flows of official financing … [which] … comprise contributions of donor government agencies, at all levels, to developing countries … and to multilateral institutions» (OECD Glossary of statistical terms, *Official Development Assistance*).

called inclusive capitalism (Prahalad, 2009) This is a time for MNCs to look at globalization strategies through a new lens of inclusive capitalism. For companies with the resources and persistence to compete at the bottom of the world economic pyramid, the prospective rewards include growth, profits, and incalculable contributions to humankind. Moreover, actions under the CSR could boost development, that is to say *CSR can untap the fortune from development!* (Hopkins, 2012, p. xi). In revising this literature, we suggest that five factors are the most important in driving the PPFs engagement in IDC, namely: A) Learn. Entrepreneurial experiences carried on in developing countries allow the acquisition of totally different skills that are fundamental nowadays, when the ability to innovate to meet market changes and socio-environmental constraints has become a pillar of corporate sustainability. That's why many business schools (Stanford, Harvard, MIT, etc.) organize for MBA students learning expeditions in emerging markets with project works developed on field. The basic idea is that if you know how to succeed in these difficult countries you are better prepared for the global competition; B) Target market identification. A company willing to make long-term strategies should not limit the search for new business opportunities to industrialized countries. Following the so-called "blue ocean strategy" (Kim and Mauborgne, 1997) that suggest markets that are less conditioned by the fierce competition, it is clear that some DAC List of ODA Recipients countries (link) will offer the most interesting opportunities. Getting there "in time" and without excessive risks, thanks to the cooperation with those who really know the local scenario (such as AICS, NGOs, local companies, etc.) may be over time the best marketing choice (Prahalad, 2009); C) New low cost-product development. Normally, when a product reaches the stage of maturity in its life cycle, the company exports it to emerging countries. Nowadays products and services can be developed and succeed in emerging markets and only then be imported to mature ones. For examples, Nestlé's low-cost, low-fat dried noodles developed for rural India and Pakistan found a market in Australia and New Zealand as a healthy and budget-friendly alternative. This kind of process is called “reverse innovation” (Govindarajan and Ramamurti, 2011) and it will tend to be more and more frequent among the companies that are willing to follow the SDG's guidelines; D) Enhance diversity. Diversity is the basis of creativity, and creativity is the engine of innovation. As a matter of fact, the geographic areas with the highest density of innovative startups are Silicon Valley and Israel: two regions strongly characterized by immigration and a multicultural social environment. Since management studies (Talke *et al.*, 2010; Zhou and Rosini, 2015) increasingly highlight the importance of multiculturalism and multidisciplinary to avoid the dangerous effect of the single thought, any business activity that allows an organization to open up to new worlds is very useful: it helps to generate innovation and new value inside and outside the company; E) Reputation. A few years ago, improving the corporate image was probably the first reason to push the company in the implementation of development cooperation activities. Doing good (corporate philanthropy) and getting the word out was the pillar by which a respectable reputation was built. Today, at a time when it is easy to be accused of "green washing", implementing a program of high social impact that is also consistent with our core business can be very useful to climb corporate sustainability rankings (Oxfam, etc.) and acquire a competitive advantage over the various stakeholders: customers, distributors, business partners, opinion leaders and policy makers.

The convergence of public and private sectors in IDC

Since the 1980s, two different factors created the premises for a progressive pro-active involvement of the PPFs in IDC. The first is a pull factor. A number of interrelated economic and political events and transformations produced an increasing distrust in the dominant role of governments in the development process, both in terms of efficiency and effectiveness; at the same time a structural fiscal crisis hit most donors, reducing the available public resources. The lessons of development experience in the first decades suggested that "the new agenda for sustainable development calls for a mix of market-friendly, people-friendly, and environment-friendly policies" (Picciotto, 1995).

The second is a push factor. As it has been discussed above, an increasing awareness of the social responsibility of firms together with other theoretical approaches suggest –though with different emphasis and views– that PPFs could and should contribute to sustainable and inclusive development –not just to economic growth– in the Global South while making profits.

During the 2000s, thanks also to the UN Millennium Agenda and related MDGs, the two above-mentioned factors converged to shape a widespread international consensus about the potential and possible positive role of PPFs in IDC. Some milestones of this process were (Knutsson, 2009): A) the UN Global Compact, a voluntary initiative, launched in 2000, based on CEO commitments to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals; B) the 2002 UN World Summit on Sustainable Development in Johannesburg, where the *Type 2 Partnership Initiatives* were created; these initiatives, unlike traditional UN intergovernmental co-operation, include private companies; B) the second High-Level Forum on Aid Effectiveness held in Paris in 2005, where, beyond ministers and officials from donor and recipient countries, also representatives of private companies participated.

Finally, in 2015, at the end of Millennium Agenda, the UN *2030 Agenda for Sustainable Development* recognized explicitly the role of PPFs: *""Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. We acknowledge the role of the diverse private sector, ranging from micro-enterprises to cooperatives to multinationals, and that of civil society organizations and* *philanthropic organizations in the implementation of the new Agenda."* (Paragraph 67 of the Declaration of Resolution A/RES/70/1).

Beyond the above-mentioned multilateral initiatives to involve PPFs in global development goals, also a number of donor countries at the forefront –such as Denmark, Japan, Norway– have recently introduced in their international cooperation policy calls and financial support to their PPFs for development projects in the Global South.

Empirical context and methodology

Italy undertook a reform of its development cooperation in 2014 (law 125/2014). Law 125 anticipates the primary objectives and principles evoked in the 2015 Un Declaration, especially in relation to the role of profit private sector. The reform introduced, in line with other important donor countries, the new Italian Agency for Development Cooperation (AICS), established in 2016. Also, the new law "recognizes and supports the contribution of firms to the development process of partner countries" (art. 27). Based on this important institutional change, in 2017 AICS published its first call for development projects by private companies. Some of the authors were in charge of the writing of the call while the others were members of the Commission that selected the projects. The data presented in this paper have been collected through a thorough examination of the documents submitted by each applicant.

Although the resources allocated to this call were relatively small compared to traditional cooperation channels (e.g. NGOs, Local Governments, Multilateral Organizations), the call represented a significant innovation in both the Italian cooperation policy and the Italian business environment. In fact, until 2017 –excluding a handful of firms– the Italian private for-profit sector had not shown a widespread interest in such projects. This does not apply to the Italian cooperative firms, which have an established tradition, aptitude and competence in development cooperation, but they are not included in art. 27 of law 125 because their main official objective is not profit. Furthermore, beyond philanthropy, there is not yet a well established customary collaboration between Italian PPFs and PNP organizations in developing countries.

Consequently, the 2017 AICS call for PPFs was indeed an innovation but also a great challenge, as the Italian context does not seem to be a breeding ground for such initiatives. Particularly, the call showed an element of great innovation, that is the ratio of co-funding that was required by the applicants (with the exception of start-up firms). In fact, the established firm should co-fund at least 50% of the total value of the project with their own financials. In any cases, AICS contribution for firms is compliant with EU State aid Rules ("de minimis" rule).

The call was formally launched by a public bid that was released at the end of July 2017. The application deadline was set on October 29, 2017. 25 projects were submitted in response to the call.

Discussion of the results

At the time of the submission of the abstract, the projects that received the public funding are still in their infancy. Thus, it is not possible to assess whether the public call for projects have produced actual outcome in terms of sustainable development. Nonetheless, it is interesting to discuss the projects that have been submitted in response to the call. To this end, the following section provides a brief overview of all the projects that have been submitted, with a particular focus on those that have been selected and actually funded.

The funds to be assigned to firms were divided in three lots: the first for “new ideas” (so called “seed capital”); the second for start-up firms; the third for “mature ideas” (so-called “scaling-up”). Beyond a number of legal requirements, AICS established a number of technical and financial criteria to assign the funds. The former included: 1) coherence between the business idea, declared non-monetary resources, and expected results; 2) country in which the project would be implemented; 3) sector in which the project would be implemented; 4) coherence between stated SDGs and the proposed project; 5) quality of partnership(s) and involvement of local (i.e. developing countries') organizations; 6) stakeholder analysis; 7) sustainability in terms replicability, growth potential, skills of the project team, market validation; 8) elements of "inclusive business"; 9) aspects of innovation; 10) time schedule.

By the end of October 2017, AICS received proposals by 25 firms, of which 2 did Not Pass the administrative checks. Although in absolute terms the number of proposals is not high, in the light of previous caveats about the Italian environment and being this the first call of this type in the country, the number can be considered fair. A technical commission evaluated the 23 proposals and selected 13 of them.

The fact that only 60% of proposals were selected depends mainly by the poor technical quality of most proposals. In fact, the average technical score of the 23 proposals was 45.9/100; nine proposals got a score below 50/100 –the minimum requirement– and therefore were not selected. Even the general quality of the selected proposals was relatively low, as their average score was 60.4/100.

Therefore, the main problem emerged from the 23 proposals was about their quality rather than their quantity. The technical criteria that got the lowest scores were: quality of partnerships (average 3.7/10), inclusive business (average 3.9/10), sustainability and innovation (both an average of 4.3/10). The technical criteria with the highest scores were: sector (8.3/10), coherence with SDGs (average 6.6/10) and country (average 6.5/10).

These scores reveal the great difficulties of proponent firms –and more in general of many Italian PPFs– in building good partnerships with both Italian and local organizations, in designing inclusive projects, that are also economic sustainable and innovative. In turn, these problems reveal a widespread insufficient expertise and capability of most Italian PPFs of formulating development cooperation projects and therefore of catching emerging opportunities in low-income countries.

The cofounding rules of at least 50% led to another important result in terms of private resources that have been allocated to the projects, and therefore to IDC. Considering the projects that have been funded, the final levarage ratio was 1,3. This type of private investment is unique for this call, as no other calls of AICS or of any other cooperation agency require a similar leverage effect.

Conclusions

Although it is not possible at this stage to assess the actual socio-economic outcomes of the projects that have been funded, the discussion of the preliminary data allows the Authors to propose some conclusions. First, the relatively small number of applicants suggests that the private sector mostly neglects the business opportunities that are paired with international cooperation. Second, not all the projects were in line with the principles of IDC and in some cases, they were rather projects of internationalization. This implies that some private actors are not fully aware of the principles of the modern approaches to corporate social responsibility, not to mention the principles of IDC. All considered, our study shows that private sector engagement in IDC should be pursued both by raising the awareness of the market opportunities and by educating the private actors about the core principles of responsibility and international development cooperation, in order to raise the quality level of such initiatives.

References

Degnbol-Martinussen, J., & Engberg-Pedersen, P. (2003). *Aid: understanding international development cooperation*. Zed Books.

DeLab (2017) *Stato dell'arte del coinvolgimento del Privato Profit Italiano nella Cooperazione Internazionale secondo il modello del Business Inclusivo: dati, strumenti e processi di azione.*

Fowler, A. (2013). *Striking a balance: A guide to enhancing the effectiveness of non-governmental organisations in international development*. Routledge.

Hopkins, M. (2012). *Corporate social responsibility and international development: Is business the solution?*. Routledge.

Govindarajan, V., Ramamurti, R. (2011). Reverse innovation, emerging markets, and global strategy. *Global Strategy Journal*, *1*(3-4), 191-205.

Kim, W. C., Mauborgne, R. (1997). Value Innovation: The Strategic Logic of High Growth. *Harvard Business Review*. January-February.

Knutsson B. (2009), The Intellectual History of Development: Towards a Widening Potential Repertoire, *Perspectives*, No. 13, April, Göteborgs Universitet.

Picciotto, R. (1995). *Putting institutional economics to work: from participation to governance*. The World Bank.

Prahalad, C. K., Hart, S. L. (2002). The Fortune at the Bottom of the Pyramid, Strategy+ Business 26: 54–67.

Prahalad, C. K. (2009). *The fortune at the bottom of the pyramid, revised and updated 5th anniversary edition: Eradicating poverty through profits*. FT Press.

Smith A. (1790), *The Theory of Moral Sentiments*, Sixth Edition, Strahan and others., Edinburgh.

Talke, K., Salomo, S., & Rost, K. (2010). How top management team diversity affects innovativeness and performance via the strategic choice to focus on innovation fields. *Research Policy*, *39*(7), 907-918.

Zamagni, S., & Bruni, L. (Eds.). (2013). *Handbook on the economics of philanthropy, reciprocity and social enterprise*. Edward Elgar Publishing.

Zhou, W., & Rosini, E. (2015). Entrepreneurial team diversity and performance: Toward an integrated model. *Entrepreneurship Research Journal*, 5(1), 31-60.