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**Private Sector Engagement for Poverty Reduction:  
The Experience of UNDP and lessons for G-20**

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Under the Advisement of  
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**The City College of New York**

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## **Abstract**

The Group of Twenty countries has recently adopted its first development plan called the “Seoul Development Consensus for Shared Growth” with an unprecedented focus on inclusive development and increased participation from the private sector. The statement from the heads of state of the G-20 group calls for "financial inclusion", "private investment and job creation" and trade, among other required steps toward economic development and achieving the Millennium Development Goals. The traditional approach to development has been through development assistance and aid flowing from developed to developing nations. This approach has had some successes, but with the large numbers of people still living in poverty and with vast income inequalities, current development criteria leave a lot to be desired of.

Several development agencies and non-governmental organizations have been adopting a private sector development approach as part of their broader development agenda. This translates into enabling small and medium sized enterprises to flourish in developing countries in the interest of poverty eradication. It also calls for forming linkages with larger multinational corporations, tapping into their earning potential, financial resources and technical expertise to benefit the poor in a country. Has this approach been successful, and is incorporating the private sector in development strategies promising? I will evaluate this question using the experience of one of the largest multilateral development agency in the world, the United Nations Development Programme. What could the Group of Twenty as an increasingly important player in International Relations learn from existing actors in the field? With the Seoul Consensus now emerging, it is clear that the major economic players of the world attach some importance to inclusive development, and also to a greater role of the private sector in development.

I will look at these issues during the course of this paper, drawing from my experience interning at UNDP’s Private Sector Division, with a focus on answering the main question, is private sector development a viable strategy?

## Acronyms

APED	Aceh Partnerships for Economic Development
CSR	Corporate Social Responsibility
ECX	Ethiopian Commodity Exchange
FDI	Foreign Direct Investment
G-20	Group of Twenty
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IFI	International Financial Institutions
IFPRI	International Food Policy and Research Institute
ILO	International Labor Organization
MDG	Millennium Development Goals
MNC	Multinational Corporation
NGO	Non-governmental Organization
OECD	Organization for Economic Co-operation and Development
SAN	Sustainable Agriculture Network
SME	Small and medium enterprise
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
UNRISD	United Nations Research Institute for Social Development
USAID	United States Agency for International Aid

## **1. Introduction**

In light of the Seoul Development Consensus for Shared Growth, a declaration and commitment to development made by governments of the Group of Twenty countries (G-20), there is to be a new focus on more inclusive development in the coming years, and this is to be done with greater private sector engagement than ever before. Evaluating the United Nations Development Programme's (UNDP) experience with the private sector will expose lessons and strategies that may be replicated by organizations such as the G-20, seeking engagement with the private sector.

Development agencies have been grappling with the issues of poverty eradication for decades. These agencies have implemented various strategies over the years with varying degrees of success. Most of the strategies are based on foreign aid. With the vast majorities who live in poverty today, it is clear that these strategies have not had a 100% success rate. One approach to development, which has gained traction since 2004, is that of private sector development. This approach does not rely on aid as much as it does on investment into private businesses and enterprises. The private sector, comprising domestic companies, multinational corporations, small and medium enterprises has immense potential which is not fully harnessed for development. For the purposes of this paper, private sector is comprised of privately owned companies, both domestic and international established with a profit motive. Hence, this excludes private philanthropic and charitable foundations of companies. Even though corporations establish such foundations, they are not governed by the profit motive. Various development agencies, non-governmental organizations (NGOs) and bilateral development agencies have been

involved in this approach. UNDP, the main United Nations agency devoted to development has also adopted this strategy. Jointly under the Bureau for Development Policy and the Partnerships Bureau, UNDP has established a Private Sector Division to advise Country Offices and its staff on engaging with the private sector and incorporating private sector development as a strategy. More recently, the G-20 following its Seoul Summit in November 2010, made a declaration entitled the “Seoul Development Consensus for Shared Growth”, which also has a large focus on engaging with private sector actors for development. With such major International Organizations and groupings of countries laying a heavy emphasis on the private sector for development, it is important to evaluate the utility and success of such policies and determine what lessons we may learn from them for future projects and policies.

### **Theoretical Framework**

The private sector development approach of development agencies has its basis in two concepts. One is the current practice of development through the disbursement of aid. The second is the role of the private sector in the international economy. Private sector development as an approach touches on both these concepts.

Different schools of thought in International Relations explain foreign aid in different ways. Realists explain the giving of aid as a policy tool. A country will only give aid to another country if such aid meets one of the following objectives; military strength, economic gain, prestige or humanitarian assistance. A country may also give aid



if it is meant to support a weaker nation. Aid can also be given as a form of propaganda or bribe to increase a country's influence in the world.<sup>1</sup>

Neoliberal theories of International Relations place great importance on liberal economic policy and the operation of market forces. For them, foreign aid is a means to enable economic development in the recipient country. It is seen as a manifestation of collaboration and cooperation between countries.<sup>2</sup> The giving of aid will reduce the economic inequality between the two countries through greater international trade and exchange of finance. As a consequence of development in the recipient country, the donor country will benefit from greater access to new markets and trading partners.<sup>3</sup> This is done is through conditional loans and grants. A loan or grant may be given to a country contingent upon the country employing greater liberal macroeconomic policies. This could include privatizing certain industries, reducing government spending, devaluing currency, promoting enterprises and increasing free trade.

In the field of International Political Economy, the neoliberal school of thought attaches great importance to multinational corporations. Neoliberals stake great importance in the forces of demand and supply as the guiding force. These forces direct labor and capital to the most profitable industries and lead to gains for all actors involved. A free market system is advocated with the state's role limited to providing the very basic support for functioning of the economy, such as a stable monetary system. The market, which is an aggregate of demand and supply, is self-regulating and allows individuals to pursue self-interests. This self-interest will lead resources and capital to where they are

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<sup>1</sup> Hattori, Tomohisa, "Reconceptualizing Foreign Aid", *Review of International Political Economy*. Vol 8, No. 4 (2001) 642

<sup>2</sup> Haan, Arjan de. *How the Aid Industry Works*. (Sterling, Virginia: Kumarian Press, 2009) 64

<sup>3</sup> Ibid, 639

needed the most, regardless of political boundaries and therefore will lead to increased productivity. In this vein, neoliberals are very open to the idea of capital flows in the form of Foreign Direct Investment (FDI) by multinational corporations (MNCs). An MNC would only invest in a country if it is profitable and would lead to increased productivity, thereby upholding free market principles. FDI directly impacts development in a country. The contention is that MNCs, by requiring free trade and lesser regulation would bring higher standards of living and higher income for people of host countries.<sup>4</sup> Neoliberals also attach importance to institutions, which can enforce desired principles upon states. Institutions also provide a platform for repeated interaction and for enforcing norms by encouraging cooperation between states. These include norms such as trade liberalization, freeing capital flows, allowing foreign direct investment, privatizing of industries, etc.<sup>5</sup>

To further elucidate the benefits a company and FDI bring to a nation, it is important to understand the different terms in use. The “private sector” for purposes of this paper refers to privately-owned enterprises established to conduct business. These can be large corporations or small or medium sized enterprises. A corporation becomes a multinational corporation when it has subsidiaries in multiple countries.<sup>6</sup> These subsidiaries are set up to take advantage of favorable manufacturing and distributing chains, or for proximity to consumers and raw materials. A corporation does this by making investments into the country of choice, and acquiring ownership or a controlling share in the subsidiary. According to Anil Kumar, economist at the Federal Reserve Bank

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<sup>4</sup> Crotty, Epstein & Kelly, “Multinational Corporations in the Neo-Liberal Regime,” in *Globalization and Progressive Economic Policy*, ed. Dean Baker, et.al (London: Cambridge University Press, 1998) 2

<sup>5</sup> Cohen, Theodore. *Global Political Economy*. (New York: Pearson Longman, 2008) 52-54

<sup>6</sup> Gilpin, Robert. *The Challenge of Global Capitalism: The World Economy in the 21st Century*. (Princeton: Princeton University Press, 2000) 164

of Dallas, FDI has become the largest source of capital flow for developing countries.<sup>7</sup> Therefore a case can be made for greater FDI flows and MNC presence in a developing country. MNCs invest in developing countries, set up factories there, which bring in new technology and create jobs for the local people. In this regard, MNCs play a vital role in the economic development of a country. A developing country lacks the infrastructure and the legal framework to allow businesses to flourish and it would likely not be able to develop or gain access to international markets, were it not for MNCs investing in them.<sup>8</sup> The taxes they pay to local governments help finance infrastructure projects which serve to benefit all people of the country. The argument by Jagdish Bhagwati, University Professor in International Economics at Columbia University, is that multinationals pay a “wage premium”. They pay nearly double than what a local firm is able to pay its employees, thereby increasing levels of income and savings in countries where multinationals operate.<sup>9</sup> In addition to bringing manufacturing jobs to the developing country, MNCs also bring superior technology which they have access to. This technology has a spillover effect to the local enterprises, allowing them to adopt new production techniques and methods from MNCs. In addition, when MNC trained employees transfer to local companies, it results in a knowledge transfer as well.<sup>10</sup>

Further, John Stopford argues that MNCs are more likely to address climate change and implement green technology as opposed to local governments who must

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<sup>7</sup> Kumar, Anil. "Does Foreign Direct Investment Help Emerging Economies?." *Economic Letter* 2, no. 1 (2007) 1-8.

<sup>8</sup> Gilpin, 173

<sup>9</sup> Bhagwati, Jagdish. "Do Multinational Corporations Hurt Poor Countries?" *The American Enterprise*, Vol. 15. No. 4 (2004) 28-30.

<sup>10</sup> Gorg, Holger. Strobl, Eric "Multinational Companies, Technology Spillovers and Plant Survival." *Scandinavian Journal of Economics* 105, no. 4 (2003): 581-595.

garner enough political support to implement new policies.<sup>11</sup> The freedom of MNCs in this area might serve to the advantage of the environment.

It is important to recognize that in spite of the many benefits of FDI, multinational corporations have been known to be exploitative and their role in development is likely to be viewed as controversial because of their history. Historically, corporations are economic actors and aim to fulfill economic goals, and have never been tasked with any development objectives. With the state centric nature of International Relations today, there are few institutions that allow participation by private sector actors, leaving private sector actors without any platform on which to uphold norms. As a result there are various reports of exploitation, human rights abuse, environmental degradation and disregard for local cultures, and it is not surprising that popular opinion of MNCs is unfavorable at times. Corporations have never been held accountable by any enforceable international law with regard to human rights or economic development. There have been some efforts to do so by various international organizations, the most notable ones are the Organization for Economic Co-operation and Development's (OECD) Guidelines for Multinational Enterprises, Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights and the ten principles for multinational corporations as identified by the United Nations Global Compact.<sup>12</sup> These have been written by various International organizations to serve as

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<sup>11</sup> Stopford, John. "Multinational Corporations." *Foreign Policy* 113, (1999): pp12-24.

<sup>12</sup> Boni, Alejandra, Lozano, J. Felix. "The Impact of the Multinational in the Development: An Ethical Challenge." *Journal of Business Ethics* Vol. 39, No. 1/2 (2002): 169-178

voluntary guidelines for corporations to adhere to in the absence of any binding international corporate law.

To counter their negative image, MNCs have tried to showcase their philanthropy and social consciousness through Corporate Social Responsibility (CSR) programs and are increasingly getting involved with voluntary initiatives such as the United Nations Global Compact to serve a positive role in communities. In these efforts to encourage corporate philanthropy and better behavior, one crucial point is often overlooked. A corporation's main objective is profitability, and hence any charitable or voluntary initiative it takes up outside the scope of its core business is not sustainable in the long term. A shift in paradigm is needed, which recognizes the role MNCs play in the world, both positive and negative, and aims to give them a legitimate and responsible role in society. Since MNCs bring many benefits to the countries they operate in, in spite of their wrongdoings, the solution to the problem lies in developing a framework where private sector actors can serve the interests of society, while serving their own profit motives. Many companies have massive earning capacities and earn revenues which are greater than the Gross Domestic Product (GDP) of many small countries. How can the earning capacity, technological innovation capability and efficient management practices of these companies be implemented to bring positive development results? Private sector development approaches aim to do just this. By combining the strengths of the larger private sector and using that as a resource to help small entrepreneurs in developing countries, this approach aims to ensure corporate profitability and better development results. MNCs have the potential to create entrepreneurs and bring sustainable development to poor countries through FDI and to do so in a way that is profitable.

## **Research Design and Methodology**

While there are numerous development agencies functioning today, UNDP being the main development agency of the United Nations and being multilateral in nature is the focus of this paper. The World Bank is also involved in development, but its involvement pertains to financial loans and grants that it makes. UNDP has implemented the Private Sector Development Approach as a strategy for poverty reduction. Their strategy outlines how entrepreneurship and business linkages can help lift people out of poverty. Several projects have been implemented with this in mind. From a mapping exercise that I conducted for UNDP, the estimated value of projects implemented to build or enhance the private sector in development countries was over \$1 billion US dollars. With such large sums of money invested to promote private sector growth, there are successes and failures in some projects. I aim to evaluate some of the major initiatives UNDP has engaged in, with regard to private sector development to answer the question: is private sector development a promising development strategy? In light of UNDP's experience with private sector development, what implementable lessons can be learnt and applied by the G-20?

UNDP was chosen as an agency of particular interest owing to its position as a multilateral development agency. There are other UN agencies who engage with the private sector, such as the United Nations Industrial Development Organization (UNIDO), United Nations Conference on Trade and Development (UNCTAD), and the United Nations Global Compact. However, UNDP has been the primary body within the UN to take the leadership in promoting and achieving the Millennium Development Goals, and is the primary development agency of the United Nations, and hence the focus

of this paper. I chose specifically not to examine the role of the United Nations Global Compact, even though this organization is committed to promoting Corporate Social Responsibility. The purview of private sector development falls beyond the limits of corporate social responsibility and includes concepts such as entrepreneurship, and pro-poor business practices, which the Global Compact, in its current state, does not address. Through its Country Offices, UNDP promotes establishment of local Global Compact networks as part of its private sector development mandate.

I will examine three case studies to determine the success of UNDP's experiences; these will be cases of UNDP initiatives with the stated aim of private sector development or engagement with existing private sector. One of the cases will be the establishment of a commodity exchange in Ethiopia. UNDP along with its implementing partners facilitated the establishment of a commodity exchange for coffee farmers in Ethiopia to create a better business environment for coffee sales, trading and storage. The second case will look at a partnership facilitated by UNDP with various multinational corporations and an NGO to promote shade-grown coffee in multiple South American countries. Another case will examine the partnerships facilitated by UNDP in the tsunami-hit region of Aceh in Indonesia. These partnerships between various stakeholders and various government agencies are formed to promote entrepreneurship in the production, marketing and export of coffee. From these cases and through my interviews with key UNDP staff, I will identify the opportunities for replication and make recommendations for G-20. All the selected cases pertain to the coffee industry across various regions. Coffee was chosen as it is a product which is grown in different developing regions and the industry has different bottlenecks in these countries. It has

been chosen to make the cases more comparable and to illustrate the different approaches that can be taken in private sector development based on the local requirements, even with the same commodity. This is not to imply that coffee is representative of the agricultural sector as a whole or that the selected problems are the only ones facing growers. These cases are representative of similar types of problems in various commodities grown in developing countries, and therefore the solutions are also illustrative of the various possible approaches. Such models show that MNCs and domestic entrepreneurs can bring various benefits to developing countries and that the private sector development approach has its benefits.

In order to determine the success UNDP has had in its private sector development endeavor, I will look at various variables and sources of information. This includes publications by UNDP, case studies, interviews with UNDP staff and other published literature. I will also use personal observations from my experience working at UNDP as an Intern. Using this information, I will make recommendations for G-20's Seoul Consensus. A point of clarification is that while NGOs, foundations and other bilateral agencies also engage in private sector development, the scope of this paper is confined to multilateral development agencies only.

Chapter Two will present a brief history of development illustrating various approaches that have been taken to address problems of poverty and economic development since World War II and how these have evolved into the current state of development plans. I will also identify the problems with current development approaches and identify the new policies which development agencies have adopted to tackle poverty and economic development, specifically the policy of private sector



development. In this chapter I will provide details on UNDP's private sector development approach. The G-20 being the newest actor in development will also be introduced here. I will examine the development agenda outlined by the G-20 in their Seoul Consensus. Here, I posit that the future of development is in private sector development and entrepreneurship.

In Chapter Three, I will illustrate three case studies from UNDP's experiences with private sector development. In Chapter Four, I will evaluate these cases to gather the lessons learnt. I will also examine the challenges that private sector development approaches face and based on these challenges and lessons learnt from UNDP recommend a way forward for G-20 and other future development initiatives.

## **2. A Brief History of Development and the New Approaches to Development**

There are a myriad of development agencies working to address pressing problems in international development. There are agencies established under international organizations such as the United Nations Development Programme, the World Bank and International Monetary Fund or those established by various governments of the world such as the Department for International Development (UK), Canadian International Development Agencies and the United States Agency for International Development. The focus of these agencies and the approaches they have taken has changed over time due to the changing discourse on international development. Looking at the history of international development in the post-World War II era demonstrates these changes and shows how private sector development has emerged as a development approach. It is important to define development aid at this stage as this has been the primary form of development assistance over the years. In an article examining differing points of view on foreign aid, Jean-Philippe Thérien defines foreign aid using the definition provided by the OECD. Aid includes loans and grants made by the public sector of a country or an organization, given with the objective of achieving economic development in another. Such loans and grants must be given at a preferential rate and at a minimum of 25%, include grants.<sup>13</sup>

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<sup>13</sup> Thérien, Jean-Philippe, "Foreign Aid: Right versus Left" *Third World Quarterly* Vol. 23, No. 3 (2002) 450

## A Brief History of Development

The decolonization that took place after World War II led to many newly independent countries which needed aid for development. The flow of aid and other forms of assistance during the Cold War period was heavily influenced by Cold War politics, where either the United States or the Soviet Union would offer development assistance to countries to gain allies. At this time the focus of international development agencies was on economic growth. Social development and poverty reduction were a corollary to overall economic growth in a country. The rural agricultural sector which was predominant in most developing countries was not the main priority, as the belief held that these sectors would develop as a consequence of modernization and industrialization in the economy.<sup>14</sup>

During this era, the focus was on planning economies. As the world was reeling from the Great Depression of the 1930s and the effects of World War II, market-led approaches were subject to skepticism. In 1949 when President Harry S. Truman came to power, in an unprecedented use of the term, he called for the West to provide “development aid” to transform the world. Following this call, the newly formed United Nations estimated that \$3 billion in aid would be needed to increase per capita incomes in the developing world by 2%.<sup>15</sup> Increasing the flow of development aid for economic development countries then became the main focus of development agencies from the 1940s until the 1960s.

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<sup>14</sup> Haan, 68-88

<sup>15</sup> Easterly, William R., *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin Press, 2006) 22-26

Poverty reduction was introduced as a goal for development agencies in 1973 in a speech made by then World Bank President Robert McNamara. He stressed the importance of addressing rural poverty through aid. In this period, the World Bank and other International Financial Institutions (IFIs) emphasized balanced growth and linkages between various sectors of the economy. As a result of this shift in focus, employment became the main priority of development agencies and there was increased lending to rural agricultural projects. Projects such as the International Labour Organisation's (ILO) World Employment Programme were implemented.

Opposing this point of view were studies that were conducted by economists in Canada and the United Kingdom to demonstrate that aid flows did not necessarily result in poverty reduction. Development economists had been struggling for several decades and continue to struggle to reconcile economic growth and poverty reduction. Is poverty reduction more important or is economic growth more important as a development objective? There are various studies and opinions claiming one is more important than the other. Studying the history of development demonstrates that opinions have been shifting back and forth over the years. During the 1970s, there was also a backlash against state-led approaches to development. Aid flows at this time were to governments, and due to corruption in many development country governments, this aid never reached the populations.<sup>16</sup>

The 1980s are considered the "Lost Decade" for development. There was increasing backlash in developing countries against governments for failing to build stable fiscal and monetary systems. After financial crises that took place starting in Asia

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<sup>16</sup> Haan, 68-88

early 1980s, IFIs gained importance in development and traditional United Nations agencies like UNDP and United Nations Industrial Development Organization (UNIDO) played a lesser role. Aid was given primarily by International Financial Institutions (IFIs) such as the World Bank and the International Monetary Fund in the form of loans and grants. This aid was tied to a multitude of conditions requiring the recipient country to adopt policies of the so-called “Washington Consensus”. These conditions required recipient governments to privatize industries, adopt liberal economic and trade policies and adopt a market-oriented approach to fiscal policy. These conditions were highly contentious as governments were forced to reduce spending on or abandon social programs which benefit people at lower income levels. To mitigate the effects of these adjustments, IFIs added programs and schemes targeting the poor in these countries. An example of this is the support given to Grameen Bank in Bangladesh by the International Fund for Agricultural Development (IFAD).<sup>17</sup>

One of the consequences of the end of the Cold War in the 1990s was a decrease in international interest in development aid. This was attributed to waning interest in the United States and the Soviet Union in providing financial support to their allies. Consequently lesser aid flowed from developed to developing countries. With the introduction in 1990 of the World Development Report focusing on poverty and the launch of the first Human Development Report, development agencies around the world turned their focus to poverty reduction once again. The World Development Report emphasized economic growth for poverty reduction and stressed the role of the private sector and trade in accomplishing these goals. This was the first time in the history of development agencies that economic growth and poverty were looked at as

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<sup>17</sup> Ibid

complementary objectives and not mutually exclusive ones. With a subsequent World Development Report in 2004 making a case for good governance and democracies being essential for vibrant market economies, for the first time in development discourse the connection between economic growth for poverty reduction and the role of the private sector was made.<sup>18</sup> This focus on the role of governance and institutions, thus re-emphasizing the role of the state in economic policy and growth, was a shift from the approach of the 1980s.

Since the start of the new millennium, the focus has been on building sound institutions and in good governance. However with the attacks on the World Trade Center in New York, disbursement of aid especially from the United States, has been determined by security concerns and the threat of terrorism. As Arjan de Haan points out, aid agencies have responded to these by incorporating security concerns into their approach to poverty reduction, thus ensuring that poverty reduction is the main priority for these agencies.<sup>19</sup>

### **Problems with Traditional Development Aid and New Approaches to Development**

Haan also brings to attention, some major problems of international development assistance which show why in spite of several decades of aid, the problems of poverty, economic development and income inequality are still persistent. The discourse on development, he argues, is focused on providing information to the global North and to

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<sup>18</sup> Ibid

<sup>19</sup> Ibid

aid agencies on tackling problems in the global South, and equates poverty reduction with economic development, instead of addressing poverty as a problem in itself.<sup>20</sup>

Traditional aid to governments has become an object of criticism since the 1980s. One of the main points of criticism is the lack of accountability.<sup>21</sup> Governments receiving aid are not accountable for how aid funds are disbursed and spent in the long term. There have been instances of various corrupt rulers using development aid according to their wishes and leaving the poor of their countries to suffer. This is explained by the backlash against aid in the 1980s. The vast majorities in developing countries did not see the benefits of aid as most of the funds never reached them. In more recent times, development agencies' various approaches to aid also suffered from various other problems. One of the problems is that of inadequate local input. Most development agencies adopt a project-based approach to development. The conception, design and implementation of a project is in the hands of the development agency and often times lacks buy-in from local authorities, limiting the impact of projects and their sustainability in the long term.<sup>22</sup> These criticisms are often cited by one group of scholars who oppose the idea of more aid for development.

Scholars like William Easterly and Dambisa Moyo form one such school of thought on development aid. Easterly calls for an end to planned approaches to solving development issues. He makes the case that economic development cannot be planned and that grandiose solutions seek to do the impossible. He advocates a piecemeal approach where “searchers” look for the best solution that will work for a particular

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<sup>20</sup> Ibid

<sup>21</sup> Easterly, William R. *Reinventing Foreign Aid*. (Boston: The MIT Press, 2008) 137-139

<sup>22</sup> Ibid

problem, without assuming prior knowledge of the situation. Once a solution has been identified, it must be scaled up to increase its benefits. This is contrast to the planned approach where individuals or agencies determine at the onset what the problem is and how it must be solved. One of the problems Easterly identifies with aid is that it lacks accountability and local feedback. This, he argues, is the reason why aid will not work, and why more demand-based, market-led solutions are needed.

Moyo blames aid for the persistent poverty facing Africa. Aid, she argues has led to African countries being caught in a vicious cycle. Aid that goes to corrupt governments increases corruption by giving such governments more funds. Such governments do not create transparent institutions, or pass laws to promote to protect poor populations. This lack of transparency and adequate laws to protect civilian and business interests discourages private investment and leads to unemployment in the country. This directly impacts poverty levels in the country, thereby perpetuating the cycle.<sup>23</sup> Moyo makes the case that the giving of aid should be drastically reduced. This will compel developing countries to seek other means of financing development. Several alternatives to aid are explored by Moyo. One of the options is to finance development by offering bonds on the international bond market to raise capital. This would be akin to a loan, but getting loans or bond financing in future would be contingent upon the country's ability to repay its commitments.<sup>24</sup> Another suggestion put forth by Moyo is to encourage FDI into the country. Once a country builds the policy and regulatory environment to protect investments, it can attract higher FDI from countries willing to invest in it. Here, she cites the example of a growing number of Chinese companies

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<sup>23</sup> Moyo, Dambisa, *Dead Aid: Why Aid is not working and how there is a better way for Africa* (New York: Farrar, Straus and Giroux, 2009) 49

<sup>24</sup> *Ibid*, 77-97



making FDI in African countries. Challenges such as fledgling infrastructure remain, but are smaller challenges in the face of the lack of laws and institutions to protect investors. Such institutional reform will help poor countries attract greater FDI and this will help finance development.<sup>25</sup> Yet another alternative to aid suggested by Moyo is that of international trade. Again, using the example of China, Moyo describes how trade can help Africa. The Chinese economy has been growing at a rapid pace in recent years. As a consequence, demand for oil gas, food products and other manufactured goods is also increasing. In order to meet this demand China is looking to import what it cannot locally produce. Moyo suggests that African countries capitalize on this and export to China. Beginning with agricultural exports and gradually moving up to manufactured goods and subsequently services, trade will be crucial in aiding development in Africa while reducing dependence on foreign aid. It will create employment and generate income for the country both as income for producers and for the country's government in the form of taxes and tariffs.<sup>26</sup> To promote entrepreneurship and encourage FDI in the country, a certain amount of startup capital is required. This remains a challenge for poor countries as the poor are considered too risky to provide loans to. Here, Moyo provides alternatives. The microfinance model created by Mohammad Yunus of Grameen Bank in Bangladesh is one such model which can be replicated to provide funds to the poor. Another source of funding is from remittances to poor countries. Remittances from people living outside of their home country to their home country account for a large

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<sup>25</sup> Ibid, 98-106

<sup>26</sup> Ibid 121-122

source of income and contribute to the GDP of poor countries which can be tapped for development.<sup>27</sup>

On the other side of the debate are scholars such as Jeffrey Sachs who advocate for more aid to be given to poor countries. Sachs makes the case that poor countries are caught in a poverty trap due to lack of adequate development assistance from the Western World. Poor countries cannot be left on their own to eradicate poverty and collective action from United Nations agencies and Western governments is needed to eradicate poverty. Specifically Sachs makes the case that the United States' financial contribution to development is poor and needs to be increased. The poverty trap as described by Sachs starts with the Millennium Development Goals (MDGs) These are the goals agreed upon by world leaders in the year 2000 to be achieved by 2015 to tackle problems of extreme poverty. In order to meet these, a country must make real progress toward achievement of the eight goals pertaining to poverty, education, health, gender equality and environmental sustainability. In order to make any progress towards these goals, a country needs money. This, Sachs argues, is where the gap lies. Most countries who have not met these goals are simply too poor. Whatever little they have is barely enough to cover present costs and not at all sufficient to invest in the future. As a result, they are too poor to invest money into improving their situation, and because they are too poor, they cannot take any steps towards development. Development assistance by Western countries and aid agencies can help bridge this gap, according to Sachs. Once developed countries provide developing country governments the funds to overcome poverty, they

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<sup>27</sup> Ibid 126-136

can then develop infrastructure and the institutions needed to attract FDI, thereby making the transition to market-based economic growth.<sup>28</sup>

### **United Nations and the Private Sector**

The United Nations has had a long history of working with the private sector. This interaction has been with business associations and various trade and industry associations, and also with groups promoting responsible corporate behavior. However, the interactions are more apparent in the public domain in recent times due to the increase in the number of these partnerships. This increased activity began under the leadership of Secretary General Kofi Annan. Annan time and again used his office to call for greater private sector engagement. This new form of engagement with the private sector at the United Nations, was seen as being a compromise between the market economy systems in the US and UK and the social democratic systems of Europe. The objective was to have governments play a role which enabled entrepreneurship and better business behavior as the government was perceived to be unsuccessful in providing essential public goods in some cases. This would solve the problem of state failure and bureaucracy in government and the problem of market failure prohibiting a functioning private sector.<sup>29</sup>

Other views on partnering with the private sector attribute the need for such relationships to the lack of coordination of the role of the private sector and the inability of governments to adequately regulate private sector behavior. Yet another view on this is

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<sup>28</sup> Sachs, Jeffrey, "The Development Challenge", *Foreign Affairs*, Vol. 84. No. 2 (2005) 78-90

<sup>29</sup> Zammit, Ann, *Development at Risk: Rethinking UN-Business Partnerships* (South Centre and the United Nations Research Institute for Social Development, 2003), 28-33.

that the increasing reach of the corporations and the inability of regulatory authorities to keep up with the rapid advance of corporations has resulted in a need for collaboration in governance, which is met by public-private partnerships.<sup>30</sup>

### **UNDP as a development agency and its approach to Private Sector Development**

UNDP is the United Nations' development agency. UNDP's work is organized into various areas all aimed at achieving the MDGs. The broader areas of UNDP's work are Democratic Governance, Poverty Reduction, Crisis Prevention and Recovery, Environment and Energy and HIV/AIDs. According to their website, UNDP "helps developing countries attract and use aid effectively".<sup>31</sup>

In the year 2004, then United Nations Secretary-General Kofi Annan asked for a Commission to be established to look into how the private sector can contribute towards achievement of the Millennium Development Goals. He specifically asked for two questions to be answered: How can the potential of the private sector and entrepreneurship be unleashed in developing countries? And how can the existing private sector be engaged in meeting that challenge?<sup>32</sup> The Commission on the Private Sector and Development was then formed and it published the results of its research in a report entitled "*Unleashing Entrepreneurship: Making Business Work for the Poor*". The report suggested replicable and scalable approaches in which multilateral development agencies can work with larger companies toward economic development, while providing

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<sup>30</sup> Utting, Peter and Zammit, Ann. "United Nations-Business Partnerships: Good Intentions and Contradictory Agendas" *Journal of Business Ethics*, Vol. 90 (2009) 39-56

<sup>31</sup> United Nations Development Programme, "About UNDP", accessed February 15, 2011, <http://www.undp.org/about>

<sup>32</sup> United Nations Development Programme, "Unleashing Entrepreneurship: Making Business Work for the Poor" (2004)

incentives to these companies. These approaches differ from traditional development models which include the giving of aid by developed countries, World Bank, aid agencies, etc. to the developing country's government in exchange for "structural adjustments" or other such changes.

Private sector development takes a different approach. It requires all efforts to go towards creating entrepreneurs in developing countries for example, by providing training, technical assistance, startup capital and also linking these entrepreneurs to larger companies and MNCs. The Commission, in its report demonstrates that the private sector comprises two very different, yet equally important groups. One group comprises larger companies and multinational corporations, and the other are domestic entrepreneurs of a country, including small and medium enterprises. Private sector development as a strategy requires engaging both these groups for the purpose of poverty reduction. One aspect of private sector development is to engage with MNCs and other large companies and encourage them to invest in developing countries, through FDI by establishing factories, research centers, by obtaining their raw materials from developing countries and also by transacting with small and medium enterprises (SMEs) in developing countries. This will lead to a technology transfer and training of employees in developing countries, which will benefit the workforce as a whole. Another approach is to help build SMEs and to help them grow by promoting trade and other international linkages. By employing such strategies, the Commission on Private Sector and Development has contended that it is possible to eradicate poverty and achieve the Millennium Development Goals.<sup>33</sup>

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<sup>33</sup> Ibid

These new approaches served as the impetus behind the launch of UNDP's "Growing Sustainable Business" program within its Private Sector Division and subsequently the "Inclusive Markets Development" program, both focused on private sector development. Today, several development agencies, foundations and NGOs have adopted private sector development as a strategy. However, this paper will look at the experience of UNDP as it is the only agency under the United Nations, with a broad development mandate and it has a truly multilateral approach and a global audience.

UNDP as a development agency also suffers from the drawbacks of development agencies mentioned above. However, in spite of the problems of scalability, lack of local input and lack of a sound exit strategy, UNDP has been revamping its approach to development in line with the changes in development discourse. It was due to these attempts at a renewed approach to development that it adopted the private sector development approach in response to the recommendations of the Commission on Private Sector and Development.

The Private Sector Division in UNDP's Headquarters was established to provide support to its Country Offices seeking to implement private sector development strategies in their projects. This division contains three areas: Inclusive Markets Development, to provide support and advise to Country Offices; Growing Inclusive Markets, to conduct research, to write case studies and to disseminate knowledge on successful inclusive business strategies. It also contains the secretariat for Business Call to Action. This is an initiative started jointly UNDP, Australian Aid, United Kingdom's Department for International Aid and other international agencies aimed at encouraging companies to develop inclusive business models to help achieve the MDGs.

The overarching strategy of the Private Sector Division is outlined under the Private Sector Development strategy published by UNDP in 2007.<sup>34</sup> This strategy calls for building “inclusive markets” which will incorporate the poor into markets as entrepreneurs, employees and consumers. The main idea behind this approach is that if left unaltered markets cannot benefit the poor. They require some intervention in order to achieve poverty reduction. Therefore, UNDP makes the case that “targeted support” is needed to encourage industries important to the poor and to provide assistance to developing countries to diversify their economies to attract FDI and other private investment. This is to be done by focusing on entire market problems such as policy reform, developing value chains, supporting sectors that provide decent employment opportunities for the poor. This will provide the poor with a choice of goods and services. Forming strategic and profitable partnerships with the companies as part of their core business, outside the realm of Corporate Social Responsibility and philanthropy, will also benefit the poor develop their entrepreneurial capacity. Prior to this approach, the private sector related work UNDP did was divided into private sector development (promoting growth of SMEs for poverty reduction) and private sector engagement (forming partnerships between larger companies and SMEs to meet development objectives). These approaches were smaller in terms of financial contribution and also in the targets to be achieved. They would target certain types of enterprises for skills development, to provide micro-credit for entrepreneurs, and other assistance without addressing the larger constraints of access to markets and building a sound business environment. With these

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<sup>34</sup> United Nations Development Programme, "UNDP Private Sector Strategy: Promoting Inclusive Market Development" last modified 2007. Accessed 16 March 2011  
[http://www.undp.org/partners/business/resources/strategy\\_paper\\_ps\\_undp.pdf](http://www.undp.org/partners/business/resources/strategy_paper_ps_undp.pdf)

drawbacks identified, the Inclusive Markets Development approach was launched under which more strategic all-encompassing interventions are to be made.

UNDP directly targets the poor for private sector development assistance, as opposed to IFIs who give loans and grants for broader goals of economic growth and development. In its Strategy Paper, published in 2007, UNDP also presents the various comparative advantages it holds over other development agencies in working with the private sector.<sup>35</sup> Popular appeal has favored UNDP's work engaging with the private sector under the banner of private sector engagement, for MDG achievement. UNDP has strong bargaining power and is known for its impartiality in dealing with local governments and has a large presence in most developing nations, especially Sub-Saharan Africa. These advantages, the paper proposes put it at the ideal position to make larger, wider interventions in developing countries for private sector development.<sup>36</sup> We evaluate these claims by examining some of UNDP's most well-known cases in private sector development and engagement.

### **The G-20: a new actor in International Development**

During November 2010, the Group of 20 countries (G-20) which is representative of nineteen of the world's largest economies today, and the European Union met in Seoul, South Korea for a summit. The leaders attending the Seoul Summit came to a consensus for a development plan, which came to be called the "Seoul Development Consensus for Shared Growth". The G-20 is focused on promoting economic stability, growth and

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<sup>35</sup> Ibid

<sup>36</sup> Ibid



cooperation to foster economic development and growth. Although it is limited in membership to nineteen of the world's richest countries, economically, it represents 90% of the world's Gross National Product. By no means is the G-20 representative of the majority of countries, but its membership boasts the major economic players of the world from developed countries to emerging economies.<sup>37</sup> This varied membership and separation from the traditionally political organizations such as the United Nations, and from Bretton Woods organizations such as the International Monetary Fund, the World Bank and the World Trade Organization, give the G-20 a perspective different from these international groupings.

The G-20 is not a traditional development agency. In fact, the Seoul Consensus marks its first foray into development. Free from the limitations of a traditional development agency and being an economic organization affords it advantages which agencies like UNDP lack. For example, infrastructure in developing countries remains one of the largest challenges to the private sector. Lack of roads, bridges and railway systems, is one of the biggest hindrances to trade in developing regions. Agencies such as UNDP are limited in their resources and in their ability to implement, finance and sustain very large scale, expensive projects. This could be an area for the G-20 to address with its considerably larger financial resources. The combined economic power of all its members puts the G-20 in the ideal position to address economic imbalances and development concerns.

The Seoul Consensus is based on the notion of shared or inclusive growth. The contention is that lasting economic prosperity in the world, depends on the demand for goods and services generated by developing and low income countries and that these

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<sup>37</sup>G-20, "About G-20", accessed February 27, 2011, [http://www.g20.org/about\\_what\\_is\\_g20.aspx](http://www.g20.org/about_what_is_g20.aspx)

countries become sources of global growth as the emerging markets of today have become. Growth can only be sustainable in the long term if it is shared. This interconnectedness was brought to light by the recent financial crisis in 2008 and in subsequent years. In addition to goals of economic prosperity, the Seoul Consensus stresses the correlation between economic growth in these countries and the eradication of extreme poverty and the achievement of the MDGs.<sup>38</sup> In order to achieve the goals of economic growth and poverty reduction, the G-20 has stated its main approach as that of enhanced relationships between the high, middle and low income countries by

“promoting sustainable economic, social and environmental development; honoring equity in the partnerships that exist; building stronger and more effective partnerships among advanced countries, emerging countries and low-income countries; engaging the private sector and civil society; and refocusing our priorities and efforts to remove the bottlenecks for low-income countries’ growth”.<sup>39</sup>

The G-20 has identified six objectives to be met in its *Multi-Year Action Plan*, clearly enunciating the Development Principles to be adopted. These include a focus on economic growth, forming a global development partnership, addressing global or regional systemic issues, promoting greater private sector participation and investment, complementing existing development efforts by focusing on areas where G-20 has a comparative advantage, and monitoring outcomes through a framework which assigns accountability for results.<sup>40</sup> On the basis of these objectives, nine pillars have been identified as most crucial, these are: infrastructure, private investment and job creation,

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<sup>38</sup> AusAid Australian Government, “The G-20 Seoul Development Consensus for Shared Growth” last modified November 19, 2010. Accessed February 28, 2010

[http://www.aisaid.gov.au/hottopics/topic.cfm?ID=3907\\_2998\\_8626\\_5861\\_1557](http://www.aisaid.gov.au/hottopics/topic.cfm?ID=3907_2998_8626_5861_1557)

<sup>39</sup> G-20 Seoul Summit 2010, “Seoul Development Consensus for Shared Growth ” Accessed February 28, 2011 [http://media.seoulsummit.kr/contents/dlobo/E3.\\_ANNEX1.pdf](http://media.seoulsummit.kr/contents/dlobo/E3._ANNEX1.pdf)

<sup>40</sup> G-20 Seoul Summit 2010, “Multi-Year Action Plan on Development ” Accessed February 28, 2011 [http://media.seoulsummit.kr/contents/dlobo/E4.\\_ANNEX2.pdf](http://media.seoulsummit.kr/contents/dlobo/E4._ANNEX2.pdf)

human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilization and knowledge sharing.<sup>41</sup>

With regard to private investment and job creation, the G-20 pledges to support organizations which improve the business climate in developing countries and to help developing countries attract much-needed private investments. Under this, the G-20 will identify best practices for engaging with the private sector and promote these practices for responsible investment and compliance. It specifically identifies the International Finance Corporation, the United Nations Global Compact, UNDP, the World Bank, UNCTAD and ILO as agencies which will study current practices and identify ways and means for developing countries to attract investments which will add the most value to their economies. The Consensus also focuses on small and medium enterprises and affords them a role in poverty reduction. Through an innovation fund which the World Bank is to establish, the G-20 will showcase innovative practices by these enterprises which solve the most pressing problems faced by developing nations. And lastly, the Consensus proposes a joint effort by the G-20 and various other international organizations such as UNDP and various other United Nations agencies to develop action plans strengthen financial markets to “strengthen financial markets and boost small and medium enterprises, improve the business investment climate, maximize the value-added of private investment and support the regulatory framework for foreign and domestic investment.”<sup>42</sup>

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<sup>41</sup> Ibid

<sup>42</sup> Ibid

## **The Future of Private Sector Development**

As outlined in previous sections, the private sector, whether as a multinational company or SMEs brings many benefits to a nation. By bringing investment, employment and promoting trade, poverty is alleviated and greater economic growth is made possible. It is at the juncture of these benefits and the ability of international organizations to facilitate responsible private investment that the private sector development approach lies. The G-20 proposes to complement the activities of existing development agencies and to add on to these based on its comparative advantage, instead of attempting to re-invent the wheel. I will examine three of UNDP's most notable projects to determine what UNDP has been working with, what successes they have had and how these can be replicated or what can be learned from them for the G-20's agenda to be successful.

As of early 2011, an Inter-Agency Working Group comprising representatives of G-20, UNDP, UNCTAD, ILO, OECD and the World Bank has been formed to support the private investment and job creation pillar of the Seoul Consensus. This working group is in the process of publishing a report which is to serve as guidance for participating agencies in designing and implementing projects which are directly related to the goal of increasing private investment and creating a favorable investment climate in developing countries. It has also defined various indicators for measuring economic value-added for private investment, these include Gross Domestic Product (GDP) contribution (total value added, value of capital formation, export generation), job creation (employment numbers, wages, typologies of employee skill levels) and development of the formal job sector (number of formal business entities and total fiscal revenues). These measures will be valuable in assessing the success of any initiatives involving the private sector. The

formation of this working group and the steps taken to prepare the report indicate that there is inter-agency collaboration and that progress is being made in implementing the Seoul Consensus.<sup>43</sup> Private sector development as a strategy has potential for poverty alleviation, and as the G-20 implements this on a wider scale, it will learn a great deal from working with existing actors and from examining their experience with private sector development.

### **The Role of Entrepreneurship in Development**

The role that multinational corporations can play in development has been explored at length and the role of FDI in developing countries well documented. However, the other aspect of the private sector, smaller entrepreneurs, is not well-documented. Does entrepreneurship have a role to play in development? Can entrepreneurs contribute to development beyond their role as suppliers of raw materials to large MNCs?

The United Nations University's World Institute for Development Economics Research (UNU-WIDER) conducted a research project entitled "Promoting Entrepreneurial Capacity". In a Policy Brief by Senior Research Fellow Wim Naude, entrepreneurship is defined as "the resource and process whereby individuals utilize opportunities in the market through the creation of new business firms." Therefore, entrepreneurs can be credited with starting new businesses in a country. Entrepreneurs

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<sup>43</sup> Rana, Srijana, interview by author. New York, New York. March, 2010.

The G-20 has formed a High-Level Working Group composed to look into the private investment and job creation pillar of the Seoul Consensus. This Working Group is still in its formative stage. In my interview with Ms. Rana, Policy Advisor in the Private Sector Division, she informed me that the working group was formed in response to the call made by G-20 to furnish information and that the group has not yet finalized the report for publishing.

perform an important role in the economy of a country by serving the role of risk-takers, innovators and arbitrators. By starting various new businesses, they facilitate the growth of a country from being solely dependent on agriculture for income. This is done by creating jobs in new sectors where additional people and surplus labor from the agricultural sector may be employed. A vibrant SME sector is thereby created in the country. SMEs contribute to development in many ways, as demonstrated by Naude in his Policy Brief. The rapid economic growth in China can be attributed in some part to the role of local entrepreneurs. Also, entrepreneurs are quick to adopt innovation and have been known to bring innovative practices to farming in developing nations. This is true for sectors other than agriculture as well, as it has been demonstrated that SMEs embrace new technologies willingly. This technological innovation aids development. In addition to this, Naude points out, many SMEs are owned and operated by women, empowering women and contributing to the health of households. Research has been conducted showing that people prefer being entrepreneurs over being employees of an organization, as it provides them with independence, a sense of identity, a higher quality of living and greater job satisfaction. Overall this would contribute to the human development of a country. However, research on this concept is not very well-developed, and there is an absence of quantifiable, comparable data on the subject of entrepreneurship. Naude reminds us that the absence of data is not indicative of absence of progress.<sup>44</sup>

This analysis demonstrates that entrepreneurs, along with multinational corporations have a role to play in furthering the economic development goals of a

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<sup>44</sup> Naude, Wim (2010) “Promoting Entrepreneurship in Developing Countries: Policy Challenges”. (Policy Brief No. 4) Accessed 10 April 2011 [http://www.wider.unu.edu/publications/policy-briefs/en\\_GB/unupb4-2010/\\_files/83350865274404873/default/Policy%20Brief%20no%204%202010-Web.pdf](http://www.wider.unu.edu/publications/policy-briefs/en_GB/unupb4-2010/_files/83350865274404873/default/Policy%20Brief%20no%204%202010-Web.pdf)

country. In devising a private sector development strategy, attention must be paid to the development of the domestic private sector and entrepreneurs in order to ensure sustainable development.

Following are three case studies from UNDP's experience working with the private sector. These case studies look at UNDP's experience working in the coffee sector of various countries in its attempt to boost private sector engagement and entrepreneurship for poverty reduction and economic development.

### **3. The Ethiopian Commodity Exchange: A Case Study**

#### **Background**

Ethiopia has a largely agrarian economy, where agriculture contributes to 45% of the country's GDP and employs 85% of the workforce. Combined with this the 39% of the population living below the poverty line depends on agriculture for their livelihood.<sup>45</sup> In spite of agriculture being a major part of the GDP, farming in Ethiopia is mainly done by small-holder farmers lacking technology, resources and infrastructure for any expansion. These farmers also rely on rainfall to irrigate their crops, leaving them susceptible to low yields and famine in years of drought. These problems are exacerbated by poor transportation and communication infrastructure in the country. Buyers and sellers are unable to locate each other. Prices for goods are not transparent and are subject to market fluctuations. Many small-scale rural farmers do not have the resources to transport their produce to markets in the cities where they may get a better price.

The Government of Ethiopia has stated that it is committed to developing the state of agriculture in the country as this is to be the source of economic growth and poverty reduction in Ethiopia. This is not an unrealistic goal, as Ethiopia has vast areas of fertile lands where rain is plenty and the constraints to agricultural development are not impossible to address. These constraints, which can be addressed by the Government,

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<sup>45</sup> CIA The World Factbook, "Ethiopia" last modified March 16, 2010. Accessed March 22, 2011 <https://www.cia.gov/library/publications/the-world-factbook/geos/et.html>



include the provision of high quality of seeds, fertilizers, and transportation and communication infrastructure.<sup>46</sup>

The Ethiopian Commodity Exchange was formed in 2008 to address the problems of market access and market infrastructure primarily for grain farmers, and subsequently became the sole body responsible for managing trade in coffee. The lack of infrastructure and a functioning market is to blame for the inability of buyers and sellers to transact in spite of their being a need for such exchange to take place. The commodity exchange provided a solution to these problems

Various members of a commodity exchange may include producers, traders, speculators, buyers, processors, storage owners, transporters, government agencies and input suppliers. A commodity exchange in a developing economy serves many benefits to its members. Through enhanced communication, market access is improved and market intelligence/information is more readily available. It also encourages competition and higher quality standards. It provides a secure space for conducting business since all transactions are transparent and prices are made public. Contracts are written and enforceable and a dispute resolution mechanism is provided.<sup>47</sup> Having a commodity exchange also protects small-holder farmers from price fluctuations in the export-market offering reliable, stable prices for their produce. When global prices are high, the exchange can save profits it makes from sale of commodities and distribute these in years when prices are low. This protects small-holder farmers from fluctuation in global prices and encourages exports.

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<sup>46</sup> Mello, John W. and Dorosh, Paul. "Agriculture and the Economic Transformation of Ethiopia" last modified April 2010. Accessed March 22, 2011

<http://www.ifpri.org/sites/default/files/publications/esspwp010.pdf>

<sup>47</sup> UNCTAD, "The Development Impacts of a Commodity Exchange" last modified 2007. Accessed March 1, 2011 [http://www.unctad.org/sections/wcmu/docs/c1em33p08\\_en.pdf](http://www.unctad.org/sections/wcmu/docs/c1em33p08_en.pdf)

The warehouse receipts/silo certificates that a commodity exchange provides serve as instruments of credit and risk mitigation and offer greater financial liquidity. A written acknowledgement of deposit at a storage facility is given to a producer which serves as a warehouse receipt or silo certificate. This receipt can then be used as collateral with a financial institution to obtain funds. Such measures offer producers access to much-needed finance.

The Ethiopian Commodity Exchange (ECX) was set up in Addis Ababa with financing of \$9 million provided by the World Bank, the United States Agency for International Development (USAID) the Canadian International Development Agency, the World Food Program and the Government of Ethiopia. UNDP got involved in ECX with an agreement between UNDP, the Ethiopian Ministry for Agriculture and Rural Development and the International Food Policy and Research Institute (IFPRI).

### **UNDP's Work with the Ethiopian Commodity Exchange**

The approach that UNDP took in Ethiopia to support small-scale coffee and grain farmers was to provide support for the establishing of the commodity exchange. This was provided with an investment of over \$14.5 million over a period of 5 years, under the broader goal of providing sustainable livelihoods, food security and eliminating dependence on food aid. UNDP contributed to the development and implementation of policies, strategies and coordination mechanisms with an emphasis on community-driven approaches. It also organized farmers' cooperatives and provided training on crop and water management and agribusiness.

The agreement between UNDP, IFPRI and the Ministry of Agriculture was signed in 2006, which gave UNDP an important role to play in ensuring the success of the Commodity Exchange. Under this agreement, UNDP played two key roles in ECX. A formative role was by providing technical advisory and capacity building services, in addition to financing the operations of the exchange. Through this, UNDP built a panel of six international advisors who would be key in establishing the structure and mechanism of the exchange.<sup>48</sup>

In addition to this, UNDP organized a Knowledge Forum to share the ECX experience. This forum, which was launched in February 2010, includes participants from commodity exchanges in India and Africa, with twelve African countries represented. The objective is to bring together people who have been involved in commodity exchanges and those are interested in establishing exchanges in their countries to share best practices and provide lessons on effectively implementing an exchange. The types of issues addressed include the contribution of commodity exchanges to promoting regional trade and how markets can contribute to the development of the agriculture industry in Africa. UNDP is also looking into the possibility of establishing similar exchanges in other African countries. Such a forum can help participants learn from each other's experience and create a wider African interest in the concept of commodity exchanges to the benefit of poor African farmers.

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<sup>48</sup> United Nations Development Programme, "Ethiopian Commodity Exchange Knowledge Exchange" Last modified 2008. Accessed March 22, 2011.  
[http://www.et.undp.org/index.php?option=com\\_content&task=view&id=72&Itemid=165](http://www.et.undp.org/index.php?option=com_content&task=view&id=72&Itemid=165)

ECX was initially established to facilitate trade of grains. Soon after it was established the Ethiopian government discontinued its existing auction system for coffee trading and ECX became the sole organization in Ethiopia responsible for coffee trading.

In collaboration with other partners, UNDP provided wider support to ECX in various activities. Farmers and producers in rural areas looked upon the concept of a commodity exchange with mistrust, as this was very different from the traditional grain markets of Ethiopia. To address this resistance, one of the first projects was to conduct workshops to educate farmers about the commodity exchange and how such a mechanism could benefit them. On the other side, the traders and brokers who would work in the exchange also needed professional training. In addition to aiding with the setup of the ECX office, warehouse facilities also had to be established in various towns and villages to store the coffee beans and grains. These warehouses were to have a mechanism for quality assurance, wherein each lot of coffee and grain to arrive at the warehouse would be inspected and assigned an industry-accepted grade to facilitate trading in the exchange. UNDP provided support in establishing these grading standards.

Providing market information to farmers is one of the most important functions of ECX. The market information system established with the support of UNDP, provided farmers across Ethiopia with the prices of the commodities they produce with the help of digital display boards. This transparency in prices is essential in protecting farmers' incomes and in providing stable livelihoods. Having market information readily available also provided farmers with a risk management tool to protect them from variations in prices. UNDP supported this market information system and provided support for the information technology needs of the exchange in making this possible.

## **Conclusion**

In this case, UNDP supported the development of the local private sector in Ethiopia by facilitating the functioning of a commodity exchange. This exchange addressed the problems which were specific to Ethiopia. Market information systems provide price transparency to the farmers, warehouse receipts provide financing and local warehouses address the problem of transportation over long distances. The exchange also makes it easier for small-scale producers to sell their produce internationally and domestically within the nation, providing stable livelihoods to small-scale farmers. In this way, ECX has been a welcome institution to improve the state of agriculture in Ethiopia.

## **4. Rainforest Alliance Coffee in South America: A Case Study**

### **Background**

Many countries across Latin America are the major producers of coffee. However, in countries like Peru, nearly all the coffee producers are small-holder farmers for whom coffee is the only source of income, and this commodity's price is subject to market fluctuations. As a result of the "coffee crisis" in recent years, the price for coffee in retail stores in the developed world has remained the same or increased, whereas the income for the farmers growing coffee has decreased. This discrepancy is due to the deregulation of the coffee industry by the dismantling of the International Coffee Agreement's quota system in 1989. This paved the way for increased competition and overproduction of coffee.<sup>49</sup> As a result of the deregulation, worldwide coffee prices experienced a sharp decline. Many countries in Latin America abandoned coffee production or switched to mechanized production as a result of this drop in prices. This had an adverse effect on the economies of these countries as they are primarily coffee exporters. In spite of coffee prices increasing after the sharp fall, small-scale coffee producers in these countries remain susceptible to price fluctuations. To avoid this dependency, UNDP has recommended increasing the quality of coffee production, which can then be sold for a premium in international markets.<sup>50</sup>

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<sup>49</sup> Linton, April. "Partnering for Sustainability: Business-NGO Alliances in the Coffee Industry", *Development in Practice*. Jun 2005. Vol. 15 No ¾ pp 600-614

<sup>50</sup> United Nations Development Programme. "Project Document for Biodiversity Conservation in Coffee: Transforming Productive Practices in the Coffee Sector by Increasing Market Demand for Certified Sustainable Coffee." *Global Environment Facility*, last modified July 2006. Accessed April 7, 2011. <http://www.thegef.org/gef/sites/thegef.org/files/repository/7-13-06Regional-Coffee-Docsforwebposting.pdf>

Coffee as a commodity is the second-most frequently traded item in the world, second only to oil. It is grown traditionally under the shade of trees in a forest-setting, within an ecosystem that also provides a habitat for insects, mammals, birds and other wildlife. According to the Global Environment Facility, shade grown coffee is one of the most biodiversity-friendly crops in the world. Growing coffee in this manner helps preserve the environment, prevents water pollution and soil erosion. However as a result of the drop in worldwide wholesale prices of coffee, and the advent of new coffee-growing countries such as Vietnam, the livelihood of coffee farmers in traditional coffee-growing countries of Latin America is threatened. To cope with the increased supply of coffee and resultant fall in prices, many coffee growers in South and Central America are opting for large-scale mechanized production without the traditional shade of forests. Over 600,000 coffee-farm workers have become unemployed as a result. Coffee growing ecosystems are now demolished and the forests cut down to give way to large scale coffee production sites.<sup>51</sup> In an effort to cut costs and increase yields, farmers may use fertilizers and insecticides and pay lower-wages to their employees. Such methods will bring short-term benefits but will not be suitable for the long term. Falling wholesale coffee prices lead to loss of farmer's income, and the practices adopted to increase income have led to the loss of biodiversity leading to increased soil erosion and poor quality soil.<sup>52</sup>

Various initiatives have been taken up by nonprofit organizations to certify coffee as being environmentally-friendly or supporting poor farmers. The aim is to promote

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<sup>51</sup> Global Environment Facility. "Biodiversity Conservation in Coffee: Transforming Productive Practices in the Coffee Sector by Increasing Market Demand for Certified Sustainable Coffee" Accessed 7 April, 2011 <http://www.undp.org/gef/doc>

<sup>52</sup> Bovarnick, Andrew interview by Leif Pedersen. Accessed April 7, 2011 [http://rainforest-alliance.org/sites/default/files/site-documents/agriculture/newsletter/documents/bovarnick\\_int\\_en.pdf](http://rainforest-alliance.org/sites/default/files/site-documents/agriculture/newsletter/documents/bovarnick_int_en.pdf)

sustainable coffee, which is sold at a premium and will also protect livelihoods of small-scale farmers and encourage better working conditions on farms. The Rainforest Alliance is one such NGO which seeks to certify coffee as ecologically friendly, shade-grown coffee and to promote the sale of this coffee through its retail partners. The Rainforest Alliance is an international NGO working to conserve biodiversity and ensure sustainable livelihoods. The Rainforest Alliance belongs to a coalition of NGOs which work to improve commodity production called the Sustainable Agriculture Network (SAN). The SAN alliance has certain criteria which a farm must meet before it can be certified as sustainable which include ecological factors such as better farming practices, protecting forests, water conservation and protection of endangered species, as well as factors promoting better working conditions on farms and stronger adherence to ILO labor standards. Following these criteria allows for sustainable coffee farming and for better community development practices such as promoting healthcare, education and clean water. Rainforest Alliance in turn certifies the products and provides customers with the assurance that their products are responsibly sourced while promoting the interest of small-holder farmers.

### **UNDP's Work with the Rainforest Alliance**

In 2006 UNDP started a project partnering with Rainforest Alliance and various multinational companies such as Kraft Foods, Procter and Gamble, Caribou Coffee, Gloria Jean's and McDonald's UK. The project has been transforming the way companies source coffee, promoting sustainable coffee growth in Southern and Central America and increasing the share of sustainable coffee in worldwide consumption of



coffee. The project, called "Biodiversity Conservation in Coffee: Transforming Productive Practices in the Coffee Sector by Increasing Market Demand for Certified Sustainable Coffee" is a seven year project, targeting coffee growers in Honduras, Guatemala, Peru, Brazil, Colombia and El Salvador. The project has a budget of \$12 million and is being executed by the Rainforest Alliance, implemented by UNDP and co-financed by the Global Environment Facility.

UNDP's approach to the project is governed by the objective that by promoting biodiversity in coffee growing, diversified farming is promoted. This provides farmers with alternative source of livelihoods from timber, fruits, etc., reduces dependency on coffee as the only source of income. Additionally, the project with Rainforest Alliance aims to increase demand for certified coffee in developing countries to 10% of the worldwide coffee demand. This increased demand will provide a market-based solution to sustainable coffee farming and provide steady income to farmers in a world of fluctuating commodity prices. Larger farms seeking certification will improve work conditions and offer healthcare, education and other benefits to workers thereby fulfilling the goal of rural development. Farms that embrace certification are rewarded by the market with long-term purchasing contracts and other preferential purchase agreements.

There are multiple institutions working to certify coffee in the market today. However, UNDP chose to partner with Rainforest Alliance as it uses a market-based approach; increasing demand for certified coffee to promote sustainable growing practices. This approach solves two problems; conserving biodiversity and helping farmers compete in international markets. Farmers in turn are rewarded for implementing sustainable farming practices. Consumers are increasingly more aware of growing

practices and are empowered to choose sustainably grown products. UNDP claims that this process of certification is also appealing to its corporate partners as it enhances their reputation and casts them as environmentally responsible. In addition, Rainforest Alliance's approach is designed to fit with corporate practices and is, hence, preferred by companies. Companies such as Kraft Foods seek partnerships with NGOs like the Rainforest Alliance and attach a premium to sustainably-sourced raw materials as this enhances their credibility and helps them appeal to the "ethical" consumer trend. Therefore, given the potential benefits of certified coffee to producers and the environment, UNDP chose to support the Rainforest Alliance's efforts to increase awareness, production and consumption of certified sustainable coffee.<sup>53</sup>

### **Activities**

In order to achieve the stated objectives of this project, UNDP has already undertaken various measures and will continue with others. UNDP has the ability to advocate for policies with national governments and NGOs and this will allow the scaling up and institutionalization of production of sustainable coffee. UNDP will also provide technical and financial support to coffee farmers and their associations. Financial support is provided through credit from microfinance institutions. UNDP does this through partnerships with financial institutions and bodies such as the United Nations Capital Development Fund. Technical assistance to farmers is provided on projects such as a carbon sequestration and also to create and support local businesses. These local businesses can take the form of tree nurseries for example, which provide services to

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<sup>53</sup> Ibid

farmers reducing dependence on donor and government assistance for inputs. UNDP can also provide support in the form of business advisory services, which farmers can benefit from. Through such measures, UNDP can foster sustainable rural economies. Through its policy advocacy, UNDP can lobby for lower costs of certification, making certification accessible for smallholder farmers.

The other side of the equation is promoting awareness of sustainably grown coffee, which is to be taken up through the Rainforest Alliance. The marketing and advertising for such products is done by the companies UNDP and Rainforest Alliance partner with. Through their dedicated advertising and marketing teams, a direct link can be made between farmers growing sustainable coffee and the companies' customers.<sup>54</sup>

Future efforts include continued policy advocacy and capacity building with local governments and farmer's associations, increasing awareness and demand for certified coffee, and providing continued technical assistance to farmers. In addition, UNDP and its implementing partner GEF will advocate for regulatory improvements and removal of barriers to sustainable coffee production.

## **Results**

As a result of the partnership with Rainforest Alliance and the companies it partners with, the project has had many successes to date. Production of shade-grown coffee has been increasing with the area devoted to growing certified coffee worldwide increasing from 92,000 hectares to 160,060 hectares. As of early 2011, there are two

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<sup>54</sup> Ibid

more years remaining for the completion of the project. The aim is to increase the area for shade-grown coffee to 1.5 million hectares by 2013. The project has also seen many social benefits, providing higher incomes and better working conditions to farmers. Communities benefiting from the project now have access to clean water, healthcare and schooling for children.

In addition, sales of certified coffee worldwide have grown by more than 100% annually, the goal being for certified coffee to account for 10% of worldwide demand. This increase in demand will be accomplished by certified coffee being sold in more retail outlets and increased visibility of certified coffee brands in markets. Kraft Foods has agreed to increase consumer awareness through its market research and analysis.<sup>55</sup>

In order to make this success sustainable and replicable, it is crucial that the mechanisms established under the project remain functioning beyond the end of the project period. There are plans to expand this project to three additional countries in Central America, Africa and Asia, bringing the major suppliers of coffee under the umbrella of Rainforest Alliance certification and its benefits.<sup>56</sup>

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<sup>55</sup> Global Environment Facility, 2011

<sup>56</sup> Ibid

## **5. Aceh Partnerships for Economic Development (APED): A Case Study**

### **Background**

Aceh (Indonesia) was one of the worst hit areas of the Indian Ocean earthquake and subsequent tsunami of December 2004. For thirty years prior to this, a civil war had occurred in Aceh with groups calling for independence from Indonesia. After the tsunami, widespread destruction and loss of life took place, and it ultimately served as the impetus for a ceasefire and peace agreement between the separatists and the Indonesian government. Extensive humanitarian aid and reconstruction efforts have had to be made to aid recovery in this region by various international relief organizations and aid agencies. There are also various initiatives to restore livelihoods of the Acehnese people.

As of 2007, the World Bank estimated that agriculture and employment remained the main challenges to the economy of Aceh. After being virtually wiped out by the tsunami, reconstruction efforts accounted for the majority of economic activity in the region. In the years following the tsunami, agriculture remained the most important sector of economy, next only to oil and gas, accounting for 21.2 percent of the economy in 2006. However, growth in the agricultural sector has remained stagnant since the reconstruction efforts began, growing at a slow pace of 1.5 percent per year, which is lower than the growth seen before the tsunami.<sup>57</sup> In its assessment of the conflict and of tsunami's impact on the economy of Aceh, the World Bank assessed that long-term

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<sup>57</sup> World Bank, "Aceh Economic Update" last modified Nov 2007. Accessed April 8, 2011.  
[http://siteresources.worldbank.org/INTINDONESIA/Resources/226271-1176706430507/3681211-1194602678235/aeu\\_nov2007\\_en.pdf](http://siteresources.worldbank.org/INTINDONESIA/Resources/226271-1176706430507/3681211-1194602678235/aeu_nov2007_en.pdf)

development and poverty eradication efforts should focus on increasing the productivity of the agriculture and fisheries sector, with a view to providing long-term employment.<sup>58</sup>

The most recent data from Aceh by the World Bank comes in a report from May 2009. This report shows more dismal information. Growth in the agriculture has fallen to 0.8% annually and employment in the agricultural sector now accounts for 54% of employment in Aceh. The slow growth rate is explained by adverse rainfall patterns and the loss of arable land to settlements. The increase in employment in the agricultural sector is attributed to assistance provided to small entrepreneurs in the agricultural sector as part of the reconstruction efforts. This reliance on agriculture, compounded with slow overall growth in the sector needs to be addressed, before it becomes a burgeoning unemployment problem in Aceh.<sup>59</sup> Sustainable growth and creation of stable employment in the agricultural sector is crucial to any development projects in Aceh.

Another major challenge of the reconstruction efforts is the creation of sustainable, long-term employment for the Acehnese people. Once the disaster relief efforts end, vast numbers of Acehnese will be left unemployed, and hence a more lasting effort towards job creation is needed. The lack of private investment in the economy of Aceh has led to a lack of employment opportunities. Ten percent of the population was unemployed as of 2007. Of the various sectors of the economy, agriculture is the biggest employer in Aceh.<sup>60</sup> It was in this climate that UNDP announced its project to enable long-term economic development in Aceh through their Partnerships for Economic

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<sup>58</sup> World Bank, "Aceh Economic Development" last modified May 2011. Accessed May 1, 2011 <http://go.worldbank.org/KAXD05OOS0>

<sup>59</sup> World Bank, "Aceh Economic Update" last modified May 2009. Accessed May 1, 2011. [http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2009/07/01/000333038\\_20090701013738/Rendered/PDF/491870NEWS0P111june091english1final.pdf](http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2009/07/01/000333038_20090701013738/Rendered/PDF/491870NEWS0P111june091english1final.pdf)

<sup>60</sup> Ibid

Development Programme. The project commenced in 2006, and as of 2011 is in its third phase, to be completed in 2012.

### **UNDP's Role in APED**

Most of the initial interventions in Aceh were aimed at humanitarian aid and recovery from the crisis, and there was great interest from donors in accomplishing this. As the immediate need for assistance was met, the short term gains that had been realized needed to be converted to long term plans. In order to foster long-term sustainable economic growth in Aceh, UNDP partnered with the National Development Planning Agency (BAPPENAS) and the Aceh Provincial Development Planning Agency (Bappeda NAD) to form the Aceh Partnerships for Economic Development. The objective of this project was to build and strengthen partnerships between the local private sector and the government to enhance the export potential of the private sector. The project was budgeted at \$ 2.1 million and was started in 2006 as a partnership between UNDP, World Bank and the Department for International Aid (UK).

As assessed by the World Bank, agriculture in Aceh is crucial to the growth of the economy. From the agricultural sector, coffee is the main export product. For this reason, APED chose coffee as the first product it would focus on. APED works by supporting a certain product for export and by encouraging formation of export “clusters” comprising small and large-scale producers, farmers, producer associations, exporters, donors, NGOs and other stakeholders. These clusters then form partnerships with the government to increase production; market cluster commodities, provide financial resources and collaborate with other organizations that support the efforts of the cluster. UNDP through

APED has helped these clusters become self-sufficient entities. The goal was that they would continue to create jobs after the short-term objectives of disaster relief were met in Aceh. Farmers were linked to markets, thus enhancing their earning potential and boosting incomes. Jobs were created and new business opportunities are created. Cocoa was identified in 2008, as a second cluster and other commodities with export potential such as rubber, fisheries and livestock are to follow suit. When selecting clusters, APED considers not only commodities that have a strong export market, but also seeks to support areas hardest hit by the tsunami and to reintegrate ex-combatants into civil society.<sup>61</sup>

The approach that APED follows is to build Forums, which are legal entities with elected members and a governing body of rules. These forums meet on a regular basis to address the problems of a particular cluster. The collaborative effort links small-scale producers with exporters and enhances their access to markets both within Indonesia and abroad. The Coffee Forum has also helped small-scale farmers by providing seedlings and providing funding to rehabilitate damaged farms. Funding is also provided for disease control, infrastructure development and improvement of productivity and quality.<sup>62</sup>

UNDP, through APED, has supported distribution of tools and farming equipment to the farmers in Aceh. It has also provided funding to producer associations to strengthen management capacity and link it with international export markets. There are also collaborations to provide micro-loans and other needed financial assistance to

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<sup>61</sup> United Nations Development Programme Indonesia. "Project Facts: Aceh Partnerships for Economic Development (APED)." Last modified Nov 2008. Accessed April 8, 2011.

<sup>62</sup> Aceh Partnerships Economic Development, "APED Project History" Last modified Nov 2008. Accessed April 8, 2011. <http://aped-project.org/en/about/index.php>



farmers and producers. In order to ensure quality of produce, farmers cooperatives are built and strengthened. These organizations can then be educated and trained to maintain quality standards in produce. Farmers are provided training on pest control, crop disease, soil erosion and other farm management practices.<sup>63</sup>

### **Activities**

UNDP has been taking up specific activities through its office in Indonesia to support APED and the clusters it has created. By the end of 2008, it had distributed farming equipment to 5,000 farmers in the region and helped rehabilitate 110 hectares of damaged farmland. Since one of UNDP's main strengths is its ability to advocate for pro-poor policies with local governments, it has been responsible for mobilizing over \$ 1 million from the Acehese government for the coffee cluster. In addition, it has also provided grants to business associations in Aceh to strengthen their supply chains and to assist them in procuring purchase agreements from US importers. The orders secured from American importers, for instance were worth \$10 million.

In addition to financial assistance, UNDP has also been working with the coffee cluster in increasing communication between various stakeholders in the cluster. Bi-weekly newsletters were launched to disburse information on export market conditions. A mobile-based service was launched, which provides coffee prices to farmers via Short Message Service (SMS). To encourage higher productivity and better quality yields,

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<sup>63</sup> Ibid

UNDP also compiled a coffee manual which would assist producers. UNDP also facilitated research and development for coffee seedlings.<sup>64</sup>

The regional government of Aceh has also been played a key role by providing policy guidelines and assistance to the clusters and providing funding for seeds. Furthermore, it has enabled the formation of several farmers' associations.

### **Conclusion**

As the Coffee Forum has become an independent entity supporting local farmers and linking them to export markets, focus has shifted towards other commodities. The Coffee cluster is seen as being extremely successful with 50% of orders coming from international buyers thus directly benefitting small-scale farmers and their families, with potential for increase. As a result, revenues of approximately \$1000 per household have been generated. Grants have benefitted over 2,800 members of the cluster, with a significant percent being women.

On the export side, coffee exports have nearly doubled since 2007. The next step is to seek certification from organizations such as Rainforest Alliance or "Fair Trade" certification for coffee exports. This will further benefit farmers and lead to increased incomes with coffee being sold at premium prices.

In a subsequent report for another poverty reduction project, UNDP reports that poverty in Aceh have decreased to 21.8% in 2009, compared to the 28.4% in pre-tsunami

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<sup>64</sup> United Nations Development Programme. "Agriculture Development: Coffee and Cocoa in Indonesia." Accessed April 8, 2011. [http://www.undp.org/partners/business/resources/cs\\_indonesia\\_aped.pdf](http://www.undp.org/partners/business/resources/cs_indonesia_aped.pdf)

years.<sup>65</sup> This reduction can be attributed to a variety of factors, the reconstruction efforts playing a large part. However, the role of the coffee clusters in poverty reduction and long-term economic growth and job creation cannot be understated. After the success of the coffee cluster, UNDP and its partners are seriously evaluating the potential of other export sectors to develop them into similar successful clusters.<sup>66</sup>

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<sup>65</sup> World Bank, “The Impact of the Conflict, the Tsunami and Reconstruction on Poverty in Aceh: Poverty Assessment 2008”, World Bank, Jan 2008. Accessed May 1, 2011  
[http://siteresources.worldbank.org/INTINDONESIA/Resources/Publication/280016-1200376036925/acehpoverity2008\\_en.pdf](http://siteresources.worldbank.org/INTINDONESIA/Resources/Publication/280016-1200376036925/acehpoverity2008_en.pdf)

United Nations Development Programme Indonesia, “Project Facts: Training Future Experts on Climate Change and Poverty in Aceh”, last modified Nov 2009. Accessed May 1, 2011  
<http://www.undp.or.id/factsheets/2009/ENV/Climate%20change%20training%20in%20Aceh.pdf>

<sup>66</sup> Ibid

## **6. Evaluation of Findings, Challenges and Recommendations for G-20**

### **Evaluation of UNDP Cases**

Looking at the three selected cases from UNDP shows that within the realm of private sector development, there are different approaches that can be taken. While all cases have the same broad goals of poverty reduction and entrepreneurship development, this was done with different partners and means in each case. In Ethiopia, a commodity exchange was established to provide a trading mechanism to producers. Given Ethiopia's turbulent history of famine, food security was UNDP's main priority in this case. In South America, a partnership was formed with an NGO and various large companies to form sustainable linkages. Biodiversity and environmental conservation were highly prioritized in this case. In the case of Indonesia, groups of entrepreneurs who work with a particular commodity were organized into groups which could then function on their own through mutual support and assistance. Special attention was given to disaster relief and long term solutions to employment in this case. These varied approaches demonstrate that it is not possible to have one standardized recipe to poverty reduction and development. While the overarching goal of poverty reduction remains, the specific approach to a project depends on country-specific issues and circumstances.

The three selected cases are widely recognized as being successful by UNDP and by UNDP's partners. Based on UNDP's experience with private sector development, the criteria required for a successful approach can be identified. These criteria will be essential to organizations like the G-20 in replicating their success and in making improvements to the approach.

In all three cases, UNDP partnered with various other institutions such as the World Bank and USAID in order to implement the project. This appears to be an important requirement for success. Various agencies bring their expertise and resources to allow for a comprehensive solution to the problem. This could be financial resources, technical advisory services, advocacy, and building political will. In addition to international organizations, it is also crucial to have the support of national governments in implementing a project. Organizations under the umbrella of the United Nations such as UNDP are often viewed favorably by national governments, affording it much needed credibility. Support from national governments can be in the form of adopting favorable policies and institutionalizing practices to allow scaling up and expansion of initiatives. This can take many forms, such as allowing for quicker and easier business licensing, providing incentives to exporters, providing tax holidays and financial assistance. Another important actor whose support is needed is the multinational corporation. Partnering with large corporations is crucial to provide small entrepreneurs with a market for their products. This needs to be outside the realm of voluntary CSR practices and part of the core business focus of a company for the project to be successful and sustainable over the long term. For UNDP, it would be imperative to ensure that the partnering corporation has a business interest in any project. This may include gaining the cooperation of senior management and building awareness about the different nature of low-income consumers and producers.

In addition to the stakeholders already mentioned, the approach that UNDP has had depends strongly on the requirements of the people under consideration in these countries. The initiative should meet certain criteria to ensure that the best interests of the

poor are served. This could include providing support for business development in the form of advisory and technical assistance to start a business. Training can be provided on on farm management, water conservation and agricultural practices to ensure higher yields. All initiatives should take the environment into consideration through efforts such as promoting biodiversity conservation, water conservation and preventing soil erosion. Financial development has been a challenge to date, and finding innovative financing schemes is essential. Provision of microfinance, micro insurance, warehouse receipt financing, and encouraging savings will go a long way. One of the major problems facing developing countries is that of weak infrastructure, UNDP and other agencies can and have continued to help by building warehouses, as well as building roads and transportation services to facilitate movement of goods for trade and access to markets.

When designing a project, one of the most important steps is to design an exit strategy. The institution implementing the project should define clear objectives and goals to be met before withdrawing. This could be stated, for example, in terms of number of people of employed, income increased or percentage of farmed land. However, in most private sector development initiatives, establishing an institution that will function beyond the life of the project is required. In all three cases, this has been given priority. In Ethiopia, a fully functioning, independent commodity exchange was established, and every effort was put into making it a stand alone entity not dependent on donor funds. In Latin America, UNDP supported the formation of farmer's associations and sought to institutionalize the practice of certification with the national governments to make the efforts sustainable. In Indonesia, establishing the coffee forums and clusters was the approach. These clusters and fora could then function as independent entities

even after the term of the project expired and funding ended. UNDP recommends the criteria established by the Donor Committee on Enterprise Development to evaluate the success of a project. These criteria include immediate measures such as scale (number of enterprises getting a financial benefit from the project), increase in income and number of jobs created. Lasting impact indicators include profitability, sustainability of income, and the capability to carry out new functions.<sup>67</sup>

### **Challenges to Private Sector (led) development**

Given the nature of the debate regarding corporate laws and accountability, it is of no surprise that the private sector development approach has its critics. In a joint publication from the South Centre and United Nations Research Institute for Social Development (UNRISD) entitled *Development at Risk: Rethinking UN-Business Partnerships*, Ann Zammit writes a critical account of the United Nations' partnerships with business entities. She concludes that such partnerships are counter-productive and cannot make any significant contributions to development objectives or towards promoting responsible corporate behavior. She also notes that the current literature on the topic of the private sector in development assumes that the private sector plays a positive role in development. Zammit argues that the negative consequences of activities by

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<sup>67</sup> Donor Committee on Enterprise Development, "Measuring Achievements in Private Sector Development" last modified 2010. Accessed February 17, 2011 <http://www.enterprise-development.org/download.aspx?id=1494>

UNDP published an Inclusive Markets Development Handbook in December, 2010 as a guidance and resource for its staff to incorporate inclusive business principles in projects. This publication has not been published outside of UNDP. During my work at UNDP, I worked extensively on this handbook and have reviewed it at length. DCED's guidelines on measuring results are used in the chapter in Results Measurement and Exit.

multinational corporations are too many and too vast to be rectified by these business partnerships.

Zammit's criticism is based on the premise that the United Nations and various business entities cannot partner for development as this would lead to a conflict of interest. Even though a partnership may have development goals and objectives that are met, the unintended outcomes need to be evaluated. Partnering with the UN and its agencies gives a corporation a responsible and ethical image, even if such an image is undeserved. Corporations can unfairly market their products and services through a UN partnership, and even gain access to untapped developing country markets through such a partnership. This amounts to giving a company preferential access to markets and to developing country governments, increasing a company's comparative advantage and policy influence. Such an advantage would undermine local competition, threaten the domestic private sector and lead to market distortions. In addition, partnering with the United Nations would build a socially responsible image of the corporation and might let it avoid being subject to some inter-governmental regulations.

The reasons for such a potentially exploitative relation are explained by a lack of adequate reporting and monitoring of projects with the private sector. Outcomes of business partnerships do not follow a standard, measurable approach, which makes it difficult to ascertain their true progress. Progress is often reported in terms of MDG achievement, taking away from measurable macroeconomic variables. Companies are also not monitored for their compliance with stated objectives and there is no mechanism in the partnership agreement to hold them accountable. Given this, it is difficult to assess



the development impact of business partnerships, and therefore not possible to know whether or not they play a positive role in development.

Another point of criticism is in the perceived benefits of FDI. While some view FDI as an engine of growth, providing developing countries with much needed investment and creating jobs, Zammit presents a different point of view. FDI may not always bring the claimed benefits, when, for example, corporations are corrupt or avoid paying taxes to developing country governments. There are also reports from UNCTAD that show FDI in developing countries actually goes towards acquiring national firms, more than creating new business entities there. In addition, excessive FDI flows to a country will distort its economy and may result in financial crises.

One of the main criticisms of working with the private sector is that such a practice promotes and reinforces neoliberal policies. Neoliberal schools of thought also stress the importance of rules, institutions and codes of conduct. Neoliberal policies are known to promote globalization of corporations and allot a greater weight to the market as opposed to the state in setting policy. The focus that neoliberals place on the role of the markets, according to Zammit, creates a conflict between state-led policies and the influence of private sector individuals on policy-making. Partnering with businesses might be seen as promoting this element of neoliberalism. This is contentious as multinational corporations are not required by law to contribute to the public good, and are not challenged to doing so. Hence, these partnerships can only be seen as a vehicle to promote neoliberalism. By allowing for greater business partnerships and formal engagement with the private sector, companies' role in policy decision making is legitimized and formalized. The United Nations, as the primary upholder of the global

public interests, it is argued, cannot be biased towards corporate interests in this manner as corporate interests are not universally accepted.

In a special edition on “Business Partnerships”, published by the Journal of Business Ethics, Zammit and Utting make the argument more pointedly. Formalizing a corporation’s role in policy decisions and consultations affords them too much power and promotes corporate hegemony. What is needed is an increase in corporate accountability and regulations for corporate behavior. During the World Summit on Sustainable Development in 2002, a call was made for guidelines governing corporate behavior. Several companies opposed such measures and announced a multitude of public-private partnerships as a counter-offer. This proactive and defensive response is part of a hegemonic strategy by corporations, the article suggests.<sup>68</sup>

The claim that private sector led development will lead to more equitable development is also challenged by the article. In the face of increasing privatization, poverty reduction is sidelined. This is so especially in the case of water, sanitation and healthcare privatization. The article argues that such action is often taken without due consideration of regulations, capacity of the economy or the social effects of privatization, which results in inequalities in development. Inequalities also emerge as most developing countries do not have the same bargaining power as developed countries and therefore are caught in partnerships with developed country companies that carry far greater influence and power.

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<sup>68</sup> Utting, 39-56

### **Comparative Advantage: What G-20 can do**

The G-20 is not a development agency. It is an organization to promote economic co-operation between its member states without any established development objectives until now. What can it do differently to promote poverty reduction and economic development which development agencies can not accomplish? Its comparative advantage stems from its nature as an economic alliance of members and not as a development agency. It is undertaking the development agenda with a clean slate. Established to promote economic policy cohesion, stability and cooperation, the institution's belief is that growth can only be sustainable if it is shared. Therefore, its member countries are invested in sharing their economic growth with the less-developed countries of the world.

The group has had success in dealing with the financial crisis of 2008, responding by introducing fiscal policies in their respective countries to tackle the issue. Going forward from the impetus of this success, it may be possible for it to make a difference in the development agenda. Another factor to consider is the composition of members. Along with the veteran developed countries such as the United State and Western Europe, it also has members who have until recently struggled with developed issues of their own, such as Brazil, India, China, South Korea and Mexico. This diversity in membership shows that it is possible that their combined experiences may be replicable in other developing countries.<sup>69</sup>

The G-20's "shared growth" concept may translate into better economic relations between developed and developing countries. Ideally trade with low income countries

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<sup>69</sup> Ahn, Choong Yong, "To Remain Relevant, The G-20 Needs Seoul's Development Agenda", *Global Asia*, 5, No 3 (2010)

will be supported and more linkages with businesses in these countries will be explored. This is one of the most notable aspects of the group's Seoul Consensus. The approach to development being through economic growth, avoids dependency on aid and its pitfalls. Both groups of countries will be invested in making these plans successful due to their own economic interests as trading partners.<sup>70</sup>

The group can also make a contribution to development by utilizing their influence to bring together different parties to a particular issue. In an example cited by the Business Call to Action initiative, bringing together NGOs, academics, development practitioners, investors, donors and insurance companies might facilitate providing health care to the poor. The G-20 has this capability, to bring together relevant parties and come up with solutions to persistent problems.<sup>71</sup>

Still, in considering the role that the G-20 can play in development, the issue of legitimacy is one of concern. With organizations like the UNDP, or even bilateral aid organizations such as USAID, legitimacy for corporate involvement in development is implied. With the G-20 however, it being a self-formed group of the richest nations of the world, legitimacy for involvement in poor countries is not present.<sup>72</sup>

Another point of consideration is the items on the Seoul Consensus agenda. The agenda aims to promote private investment, increase trade, develop infrastructure, offer better financial services, improve governance and improve food security in low-income

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<sup>70</sup> Ibid

<sup>71</sup> Africa., Natalie, interview by author, New York, New York, November 2010.

In December, 2010, the Business Call to Action initiative held a workshop to address the barriers to inclusive growth. Participants included development practitioners, private sector, and donor agencies. The main issues for companies in promoting inclusive growth were discussed and solutions identified. Utilizing the convening power of donors was one of the recommended solutions by Business Call to Action before the workshop took place.

<sup>72</sup> Ahn

countries. These items are quite wide-ranging and ambitious. Perhaps this is why most of the actions required to meet their stated goals revolve around cooperating with existing development agencies and institutions. Combining the experience of these agencies with the new cooperative approach of the G-20 may lead to better results in development than have been seen over the last several decades.

### **Recommendations**

When considering the criticism made of past private sector engagement in development, one of the main points is the importance of building a domestic private sector. While it is important to foster relationships with large multinational corporations, these relationships must be built in a way that encourages development of small and medium sized enterprises in the recipient country, and does not restrict them to be simply suppliers of raw materials for these MNCs.

Transfer pricing and taxation for multinational corporations operating in poor countries remain issues. Developing countries often get in to a “race to the bottom” to offer competitive terms to companies to attract FDI, which often puts the domestic sector at a disadvantage. With the economic prestige that the G-20 brings, it is crucial that they address these bargaining power problems involving developing countries and build guidelines and rules for responsible FDI. Attention also needs to be paid to building a better business environment in these developing countries. This can take the form of improving competitiveness of the domestic sector to increase production locally. More specifically, these corporations need to help address the lack of suitable health and education services and infrastructure to facilitate transport, communication and

functioning markets. As was seen in the selected cases, each project attempts to address such problems, such efforts need to be multiplied. Finally, all G-20 poverty reduction strategies should not conflict with World Bank recommendations, and should be in accordance Poverty Reduction Strategies designed by the World Bank

The UNDP has made a good start in engaging the private sector and building relationships with developing countries governments to advocate for better business policies. By working with the UNDP and other UN agencies, G-20 can continue this work, and by bringing its own comparative advantage to policy decisions, contribute towards a comprehensive development policy balancing poverty reduction with economic development.

The G-20 can also play a part in supporting sustainable business practices in multinational corporations. Multinational corporations, as we have seen have the potential to bring both benefits and disadvantages to a country. The benefits they bring can be profitable for both the country and the company. In his book, *The Fortune at the Base of the Pyramid*, C.K. Prahalad discusses various approaches that a company can take to successfully do business with the poor.<sup>73</sup> The Bottom of the Pyramid is defined as the estimated 4 billion people at the base of the economic pyramid making less than \$3,000 per year.<sup>74</sup> The main premise of this book is that the Bottom of the Pyramid market is a key emerging market, which corporations must operate in, to stay ahead. Prahalad says “Large scale and wide-spread entrepreneurship is at the heart of the solution to poverty” and makes the case that if the population at the bottom of the

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<sup>73</sup> Prahalad, C.K. *The Fortune at the Base of the Pyramid: Eradicating Poverty Through Profits* (Upper Saddle River, NJ: Wharton School Publishing, 2005) 3-22

<sup>74</sup> International Finance Corporation, “Defining the Base of the Pyramid” Accessed Feb 01, 2011 <http://www.ifc.org/ifcext/advisoryservices.nsf/Content/CAAE8790B5291BB5852577190066F3DE?OpenDocument>

pyramid is treated as consumers, they gain the benefit of choice, respect, self-esteem and the opportunity to climb out of the poverty trap. Small and medium-sized enterprises formed by these “bottom of the pyramid” populations can partner with larger companies thereby gaining access to global markets and to capital.<sup>75</sup> This arrangement would also be profitable for multinational corporations, who gain access to an emerging market. These markets contain consumers who are more cost conscious than consumers in developed countries, therefore forcing the company to develop cost effective products and to adopt innovative practices, to increase their profits and overall efficiency. Resources such as electricity and water are scarce in most low-income countries and present a challenge to a company. Learning to work with fewer resources in these countries would result in replicable practices which can increase profitability for the company in other locations as well.<sup>76</sup> By making pro-poor policies part of their core business, companies can make long term interventions, which are profitable and which also benefit the poor as suppliers, employees or consumers. Such mutually beneficial approaches are needed to promote a deeper business interest in eradicating poverty.

The G-20 can support such objectives by convening businesses and calling for changes in practices. Another approach would be to support organizations that are currently engaging businesses in this manner. The Business Call to Action (BCtA) initiative is one such organization. It encourages companies to develop pro-poor business models and to encourage sharing and replicating of these models through its network of companies. Various events are held and publications are launched to share this knowledge. BCtA already enjoys the support of major development agencies such as

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<sup>75</sup> Prahalad, 3-22

<sup>76</sup> Ibid 25-27

UNDP. Gaining endorsement from the G-20 would help it expand its network to G-20 member countries and to engage corporations from these countries.

One of the main cross-cutting issues that surfaces repeatedly is the need for regulation to check the activities of the private sector and a sound business environment to allow it flourish. This could be accomplished by a body established under G-20 which does research on doing business, provides guidelines to countries for establishing regulations in their national laws, disseminates successful case studies and provides the framework for countries to form successful partnerships with the private sector. The Growing Inclusive Markets initiative under the UNDP performs a similar role, researching and publishing case studies on pro-poor business practices. With the support and resources of the G-20, such an organization could scale up its work and widely disseminate its research to reach a larger audience.

Another role the G-20 can play is in advocating for better policies with national governments of developing nations. Such policies include reforming the judicial structure, passing laws to promote entrepreneurship and provide protection for investors, establishing institutions and eliminating excessive taxation and tariffs. Governments of poor countries can be incentivized to establish better law and to promote pro-poor policies. An example of such a practice can be found in Ecuador. There, the Government established a Ministry for Social and Economic Inclusion to ensure that economic development included the poorest pockets of people. It provides incentives to companies to implement practices that benefit the poor. In 2009, the Ministry announced that



through such inclusive business approaches, it aims to create 250,000 jobs in Ecuador by 2013. This measure would improve the livelihoods of 8% of Ecuadorians.<sup>77</sup>

In order to incorporate greater enterprise thinking and focus in poverty reduction projects, Kurt Hoffman of the Shell Foundation makes some recommendations for international development agencies.<sup>78</sup> Hoffman's main recommendation which can be applied to the G-20 is to operate less as a charity and to invest more in developing countries. Investments are made considering growth and return. Therefore, Hoffman proposes that requests for assistance should be evaluated for risk and fund disbursements should be subject to performance targets. This however, is a drastic shift from current disbursement methods. A middle way is needed where development agencies practice more evaluation and assessment of projects in financial terms without becoming too stringent in their requirements. Any disbursements of funds then made should go towards creating pro-poor businesses in these countries. Hoffman accepts that no amount of foreign investment will create a self-sufficient private sector. As a remedy, he proposes that all future aid flows should go towards promoting pro-poor enterprise and the development of local capital sources. Another recommendation is to incorporate enterprise promotion into existing efforts to achieve MDGS. Specifically, this can be applied to the delivery of healthcare, clean water and education services.<sup>79</sup>

UNDP is currently involved in an initiative entitled "Public-Private Partnerships for Service Delivery." These are partnerships developed and fostered by UNDP between

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<sup>77</sup> Cely, Nathalie, interview by World Business Council for Sustainable Development. Accessed Feb 02, 2011 [http://www.youtube.com/watch?v=9Cnls9KhQ\\_4](http://www.youtube.com/watch?v=9Cnls9KhQ_4)

<sup>78</sup> Kurt Hoffman, "Placing Enterprise and Business Thinking at the Heart of the War on Poverty," in *Reinventing Foreign Aid*, ed. William Easterly et al. (Cambridge, MA: MIT Press, 2008), 480-494

<sup>79</sup> Ibid

local governments, business, civil society organizations, NGOs and the local populations. The objective of such partnerships is increase the efficiency and ability of local governments to reach and to deliver much-needed services to the poor. According to UNDP, such a public-private partnership “combines the power, authority, social responsibility, accountability of the public sector, with the finance, technology, managerial efficiency and entrepreneurial abilities of the private sector and the informed voice, energy, drive and oversight responsibilities of Civil Society Organization including the service users.”<sup>80</sup>

These are important lessons for the G-20 to bear in mind when developing interventions to address poverty issues and to recall that there are already numerous efforts being made to foster a vibrant private sector for poverty reduction. In addition to developing solutions to the macroeconomic problems facing poor countries, supporting these efforts and scaling them up will go a long way in fighting poverty.

## **Conclusion**

The focus of international development efforts has been shifting over the years with new approaches being tried periodically. The problem of poverty and economic inequality continue to plague the world today. While private sector development as an approach has been practiced for several years, it is not employed to its fullest scale due to the belief held by many that helping the poor is strictly a matter of charity. However, in order for initiatives to be sustainable in the long-term, they need to benefit both the

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<sup>80</sup> United Nations Development Programme, “Public-Private Partnerships for Service Delivery” Accessed 02 May 2011 <http://www.undp.org/pppsd/whatareppps.html>

donors and the recipients. As we have seen through UNDP's experience, its attempts at fostering entrepreneurship and private sector development have been successful in impacting poverty. Hurdles remain in scaling up these operations and developing evaluation procedures, but the potential cannot be denied. The G-20 is an economic powerhouse. By taking on the task of development and specifically by doing so in an inclusive, pro-business manner, it has taken a step in the right direction. It has the power to call for changes in business practices, and to target its funding towards enterprise creation initiatives. Backed by the financial resources and political will that the organization has, it can make a real difference to poverty in much of the world.

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