

PRIVATE SECTOR AND DEVELOPMENT:

FINNISH SMEs AS ACTORS CONTRIBUTING TO DEVELOPMENT?



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The Development Paradigm Shift – Exploring New Opportunities for Partnerships

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FOREWORD

This research report examines how Finnish small and medium sized enterprises (SMEs) are responding to expectations for increased private sector ‘engagement for development’ (a term coined by Di Bella et al. [2013] to distinguish it from ‘private sector development’ and ‘the private sector in development’) which is articulated in current Finnish development policy and enhanced by specific financial instruments. Very little is known about how the companies themselves perceive development co-operation, or their capacity and willingness to engage in it. Moreover, there is a gap in our understanding of how, or even whether, the SME sector is positioning its business practices in emerging-market economies in relation to development co-operation.

In recent years, there have been remarkable changes in development co-operation – in policies and approaches, as well as in financing – strongly suggesting that we are experiencing a paradigm shift in development policy and practice. The biggest changes culminated in the Agenda 2030 Sustainable Development Goals (SDGs) launched by the United Nations (UN) in 2015, particularly in terms of the anticipated role to be played by the private sector in development. For example, multinational corporations are shifting from being merely philanthropic sponsors to partnering development organizations in finding ways to solve persistent problems in developing countries. In addition, multinational corporations, as well as the International Chamber of Commerce as a representative of corporate power, have taken a more active role in shaping development agendas. The International Chamber of Commerce was the first business organization to be granted observer status, and thus a direct voice, at the UN General Assembly in late 2016.

These changes have influenced development policies globally; however, involvement by the private sector is not an entirely new trend. Many countries, such as the UK, the Netherlands, Sweden, Denmark, and Australia, have strengthened the focus on the private sector in their development policies by promoting the accessibility of new markets to national corporations, meanwhile highlighting the latter’s role in achieving

development goals. Finnish development policy has followed these international trends by emphasizing 'aid for trade'. Yet collaboration with the private sector has proved challenging because of inadequate understanding and vision of how this might take place and on which value base. Drastic cuts in Official Development Assistance (ODA) funding for Civil Society Organizations (CSO), coupled with a significant rise in Finnish private sector funding in 2015 caused additional turmoil in the Finnish CSO sector, especially because the changes were implemented at very short notice, leaving little time for CSOs to adjust to the new situation.

It is, however, clear that complex social problems – poverty, inequality, inadequate nutrition and food security, and a lack of clean water, health care, adequate sanitation, and reliable energy supply, exacerbated by climate change – persist in posing a threat to the wellbeing of large numbers of people in developing countries. Solving these complex issues calls for joint and coordinated efforts involving different types of actors, including collaboration between CSOs and the private sector. In strategic partnerships of this sort, the private sector has the potential to play a critical role in enhancing the realization and protection of human rights, including those of children.

Yet harnessing the private sector's power to support the achievement of sustainable development goals requires that civil society actors gain a greater knowledge and understanding of the private sector: its potential role in development and its interest and motivation in contributing to the achievement of SDGs in partnerships with CSOs. The findings of this study are, therefore, very important, as they will allow us to improve our capacity to collaborate with the private sector and find ways to create shared value through partnerships yielding positive results for children and their wellbeing in the long term. The results will also allow the government to fine tune its development policy in relation to private sector engagement – to define the measures needed to generate development impact and to contribute to the achievement of SDGs through support mechanisms provided to private sector engagement in developing countries.

Annika Launiala

Director of UniResearch

LIST OF ABBREVIATIONS

BPS	Business Partnership Support
CEO	Chief Executive Officer
CR	Corporate Responsibility
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
CSV	Creating Shared Value
GoF	Government of Finland
KII	Key Informant Interview
KPI	Key Performance Indicator
MFA	Ministry for Foreign Affairs
NGO	Non-Governmental Organization
ODA	Official Development Assistance
SDG	Sustainable Development Goal
SME	Small and Medium-Sized Enterprise
UN	United Nations

EXECUTIVE SUMMARY

BACKGROUND

In the past few years, we have witnessed a 'private turn' in development policy that calls for deeper private sector engagement in development. While support for private sector development has been on donors' agendas in the past, donor interest in actually engaging the domestic private sector in development is a more recent phenomenon; this includes the active pursuit by private sector actors of positive development outcomes beyond traditional impacts such as job creation. The shift is also visible in Finland, with the Development Policy of 2016 putting increased emphasis on the private sector, and new funding instruments being introduced whose goal is to push the private sector towards development co-operation.

RESEARCH OBJECTIVES

The study discussed in this report, which was directed by UNICEF Finland, has researched whether and how the Finnish SME sector is positioned to respond to increasing government expectations of private sector engagement in the generation of positive development outcomes.

The issue was addressed by exploring private sector perceptions of development co-operation and its role in it, its business goals, and its understanding of its development impacts in relation to the objectives outlined in the Finnish Development Policy. Furthermore, the researcher also examined what the private sector sees as its opportunities in development co-operation.

METHODOLOGY AND DATA

The empirical evidence was drawn from semi-structured interviews conducted between November 2016 and January 2017 with fourteen Finnish SMEs that had utilized BEAM and Finnpartnership funding instruments, the two programs specifically targeting SMEs. To supplement these data, additional interviews were conducted with three key informants with extensive experience in advising SMEs on operations in developing countries.

KEY FINDINGS

HOW DO FINNISH SMEs PERCEIVE DEVELOPMENT CO-OPERATION AND THEIR ROLE IN IT?

The research findings indicate that the participating SMEs did not share a uniform view of changes in the development paradigm, but some respondents had noted the integration of aid and trade and the increasing role of the private sector in development co-operation. Perceptions of the latter were more critical than positive as the participating SMEs hold the view that the traditional nature of such partnerships and their methods restricts innovative potential. Furthermore, it was found that the SMEs did not consider themselves actors in development co-operation even if they had utilised BEAM or Finnpartnership funding for their emerging-market business development, expressing the view that it was only right that some of the ODA budget also benefits private sector companies.

Several strengths that private sector companies had in terms of promoting development compared with traditional development actors were noted, including continuity (vs. traditional development co-operation with its project work), real local need (manifested by clients willing to pay for the product or service), innovativeness, and growth of the Finnish economy.

HOW DO SMEs' GOALS FOR THEIR EMERGING-MARKET BUSINESS MEET THE OBJECTIVES OF DEVELOPMENT CO-OPERATION?

Most of the participating SMEs build their businesses from three principal starting points: either they are working on a new, development-enhancing concept for markets in developing countries, or they already have such a product and are looking to expand its distribution, or they are looking for new markets for existing, perhaps conventional, products or services. The study found that the SMEs seeking new markets for their existing products are driven by rather traditional motives for internationalization whereas those companies whose solutions are developed to respond to the challenges faced by the developing countries see the social and

environmental problems as a way to conduct commercially viable but still meaningful business.

Still, the findings suggest that business and development 'markets' have compatibility difficulties: the private sector requires markets that are rather stable, adequately developed, or at least with a sufficient clientele of substantial paying capacity to attract their interest, whereas development efforts target the most vulnerable groups in the least developed countries

HOW DO SMEs UNDERSTAND THEIR DEVELOPMENT IMPACTS?

The results indicate that the SMEs' interpretations of development impact do not match the definition of impact as it is used in the context of development co-operation. The SMEs do not distinguish between output, outcome, and impact; rather, they consider all changes resulting from their operations as impacts. The SMEs perceive their products and services, which often address social or environmental problems, as the key sources of positive development impacts, but they also highlight their training efforts. Yet even though all the SMEs have local partner companies, only a minority emphasizes the involvement of the local partners in concept design and development.

Creation of employment opportunities and development of the local private sector are often used as arguments for increasing the private sector engagement for development. The study, however, revealed that the SMEs' impact on the local private sector and local employment is limited as local companies are mainly customers, agents or service partners of Finnish companies; only a few companies develop local sourcing; and job opportunities are mainly created for the educated population. It is important, however, that the SMEs offer better working conditions and more meaningful employment opportunities than those prevailing in the market.

Despite this rather limited impact on local private sector development in general, a small number of companies are striving to create completely new local businesses through their interventions and solutions. However, even fewer companies develop business innovations or inclusive business models that would allow the participation of low-income communities in companies' value chains as customers, producers, or distributors. SMEs' resources are limited so companies tend to focus on those markets in which there is demand for their existing solutions or a lesser requirement for localization.

Finally, the research revealed that the SMEs understand their limitations as promoters of development and shared the reasons for their limited ability to impact on development at a significant scale.

WHAT KIND OF OPPORTUNITIES DO SMEs SEE IN DEVELOPMENT CO-OPERATION?

The data revealed the difficulty the private sector encounters in envisaging avenues of involvement that extend beyond merely offering products and services to the development community.

Development NGOs are not included in the current partner networks of SMEs. Local know-how is perceived as a core strength of the development NGOs, but the SMEs' ideas about collaboration are limited to considering development NGOs as potential customers or in terms of information exchange. Even though the SMEs are, in principle, open to co-operation with development NGOs, it is difficult for them to picture collaboration opportunities within their sector. Thus, the research results suggest that the SMEs are unlikely to approach development NGOs for purposes other than sales and marketing.

The SMEs see the constraints and limited funding offered by the current financial instruments as key hindrances in promoting development. Financial support is available for the initial stages of emerging-market business development, but the construction of real pilots not possible. On the other hand, based on research findings it cannot be confirmed whether additional funding would actually result in SMEs' tackling the issue of poverty in their business operations.

PRINCIPAL CONCLUSIONS

FIRST, research findings suggest that SMEs regard development co-operation critically and do not network with development NGOs. The companies do not see themselves as actors in development co-operation, although they do evaluate their contribution to development positively.

SECOND, the research data indicate that the solutions offered by most of the companies studied address development-related problems and hence meet the main criteria for private sector engagement in development, fulfilling government expectations in this regard. However, the Finnish SMEs' products, services, or business models seldom reach the most vulnerable groups in developing countries, and thus there is little other interface with the objectives of the Development Policy, especially with the ultimate goal of reduction and eradication of poverty.

THIRD, even if companies venture into developing countries, they look for markets that are rather stable, adequately developed, and that have sufficient clientele with the capacity to pay. Thus, the target markets and groups of companies and NGOs do not readily coincide and there is a clear discrepancy between the business goal of making profit, and the development goal of eradicating poverty amongst the most marginalized groups.

FOURTH, the research results reveal that the SMEs view of their development impact does not match the definition of impact in the context of development co-operation, as the SMEs perceive all the results arising from their work as impacts and see their products and services as key positive sources of these. Actual development impacts were beyond the scope of this study, yet the findings suggest that SMEs do not create real employment opportunities because if any arise they are mainly for those with skills; local private sector development remains limited; and apart from a few exceptions, the interviewed SMEs have not had the opportunity to explore inclusive business models that incorporate low-income communities into supply chains as consumers, retailers, suppliers, or distributors.

FIFTH, the SMEs themselves acknowledge their limitations. They see that they could contribute more if there were more comprehensive funding available. Still, the research results cannot confirm whether any increases in funding would make the SMEs address the issue of poverty or even consider the connection between their business and development impact in more depth than currently.

FINALLY, as far as other perceived opportunities to participate in development co-operation are concerned, the data reveal that it is difficult for the private sector to think of possibilities beyond offering products and services to the development community. Development NGOs lie outside the SMEs' current partner networks and even if the SMEs are, in principle, open to collaboration, it is difficult for them to envisage co-operation opportunities within their sector and within their area of operations. Thus SMEs are unlikely to approach them for purposes other than sales and marketing.

1

INTRODUCTION

In the past few years, we have witnessed a ‘private turn’ in development policy that calls for deeper private sector engagement. This introductory chapter investigates the background of donors’ changing development policies – including those of Finland – and provides a brief overview of the corporate social responsibility that is an important element of any private sector role in development. After outlining the context, the chapter presents the research scope and research questions, followed by a short description of methodology employed.

1.1 THE PRIVATE TURN IN DEVELOPMENT POLICY AND ITS BACKGROUND

In recent years, changes in the policies, approaches, and financing of development co-operation strongly suggest that there has been a shift in the development paradigm to accommodate the growing importance of co-operation between the private sector and the traditional development community of governmental and civil society organizations (Byiers & Rosengren, 2012; Di Bella, Grant, Kindornay, & Tissot, 2013; Vaes S. & Huyese, 2015).

Private sector engagement in development has been growing steadily since the late 1980s. It can be argued that the Busan High Level Forum on Aid Effectiveness in 2011 made the private sector formally equal to other development actors by enabling its participation in the design and implementation of policies and strategies fostering sustainable growth and poverty reduction. Subsequently, the private sector was closely involved in shaping the new UN Agenda 2030 and the Sustainable Development Goals (SDGs): seventeen targets that aim to transform the world by ending poverty, protecting the planet, and ensuring prosperity for all by 2030. Under the new SDG agenda, companies, governments, and civil society actors are equally called upon to pursue a more sustainable path forward, thereby according companies both an active role and concomitant responsibility. (Scheyvens, Banks, & Hughes, 2016; Vaes S. & Huyese, 2015.)

Donors, CSOs, and global institutions are welcoming corporations to development engagement partly to alleviate shrinking ODA budgets; however, the growing interest in business involvement is also based on the notion that complex problems are better solved through collaboration. Solutions are no longer perceived to be the province of the state *or* business *or* civil society, but rather of the state *and* business *and* civil society. (Vaes S. & Huyese, 2015.) Business solutions are also embraced by multilateral development institutions on the basis of the perceived 'efficiency' of the private sector which could be deployed in the reduction of poverty among billions of people living on less than two dollars per day, something that traditional aid programs and governments have been unable to do (Blowfield & Dolan, 2014). Some donor governments see engagement with the private sector as a means to promote their own commercial interests (aid for trade); other donors emphasize that links between corporations in the homeland and developing countries increase the internationalization of firms in aid-recipient destinations and facilitate the expansion of their national companies; while still others harness the expertise of their own businesses to produce positive development impacts. (Kindornay & Reilly-King, 2013.)

Research evidence suggests that corporations are increasingly interested in development (Blowfield & Dolan, 2014; Lucci, 2015; WBCSD, 2016), and it seems that expansion to developing countries serves to further align corporate incentives with development objectives, raising the former's interest in engaging more explicitly in the development agenda (Lucci, 2015). Meanwhile, with the private sector taking on numerous roles in the field of development, discussion of issues related to different modalities of its participation in development co-operation is on the rise.

Researchers Di Bella et al. (2013) distinguish between 'private sector development', 'the private sector *in* development', and 'private sector engagement *for*

development'. 'Private sector development' includes activities by development co-operation actors aimed at increasing private sector investment in developing countries, the key focus being on strengthening local private enterprises. 'The private sector *in* development' and 'private sector engagement *for* development' focus on international corporations and their activities in developing countries. The difference between '*in* development' and 'engagement *for* development' lies in whether the private sector is actively seeking to bring about positive development impacts or not. The former refers to regular private sector activities that produce positive development outcomes and economic growth through job creation and the provision of goods, services, and taxation revenue, along with negative impacts such as environmental degradation and poor labour practices. 'Engagement *for* development', on the other hand, refers to the active pursuit by private sector actors of positive development outcomes beyond the traditional impacts normally created. (Di Bella et al., 2013.) The agenda for private sector engagement for development places particular emphasis on international corporations and the mobilization of their resources – expertise, networks, and data, as well as financial, technical, and innovation capacities – in the pursuit of development goals. While private sector development is nothing new, the donors' increased attention to private sector engagement *for* development is more recent, and something sought after in their endeavour to bring about positive development impacts through private sector activities. (Byiers & Rosengren, 2012; Vaes S. & Huyese, 2015.)

Private sector 'engagement for development' consists of incorporating development-related activities into companies' core business strategies and models (Di Bella et al., 2013; Vaes S. & Huyese, 2015). This includes initiatives such as funding and/or carrying out development projects, adopting and implementing inclusive business models, aligning core activities to contribute to the achievement of development outcomes, creating inclusive value chains, adopting responsible business practices, incorporating climate sensitivity into business operations, implementing human rights principles in business operations including gender and child rights frameworks, improving accountability and transparency in business operations, and targeting the transfer of technologies to host communities. (Di Bella et al., 2013.)

Corporate Social Responsibility (CSR) – or corporate responsibility (CR) – plays a key role in private sector engagement for development and is closely related to the definition discussed above. Public sector institutions still tend to rely on the term CSR, but as the term 'corporate responsibility' (CR) is more commonly used these days both in business and academia, it also used in this study. CR translates as an enterprise's responsibility for its impacts on society with the objective of minimizing adverse social and environmental impacts while maximizing the creation of value, not only for company owners or shareholders but also for other stakeholders and society at large. (European Commission, 2011.)

TO SUMMARIZE:

PRIVATE SECTOR DEVELOPMENT refers to the activities of development co-operation actors aimed at increasing private sector investment in developing countries. The key focus is on strengthening local private enterprises.

THE PRIVATE SECTOR IN DEVELOPMENT focuses on international corporations and their regular private sector activities in developing countries that bring about positive development outcomes and economic growth through job creation, provision of goods and services, and taxation revenue, and negative impacts such as environmental degradation and poor labour practices.

PRIVATE SECTOR ENGAGEMENT FOR DEVELOPMENT concerns international corporations and their activities in developing countries, including the mobilisation of private sector actors' resources in pursuit of positive development outcomes instead of the traditional impacts, such as economic growth, that the private sector produces.

Depending on the company and its chosen strategy, CR can take various forms. Halme and Laurila (2009) distinguish three types of corporate responsibility: philanthropy (where the emphasis is, e.g., on charity, sponsorships, and employee voluntarism); CR Integration, which focuses on conducting existing business operations more responsibly (e.g., environmental sustainability of products and production, and the fair treatment of the workforce in the company's facilities and those of their suppliers); and CR Innovation which encompasses the development of new business models for solving social and environmental problems.

At the barest minimum, a private sector company should act to prevent adverse impacts such as environmental harm or human rights infringements through responsible business practices; however, it is CR Innovation – the 'do good' type of CR – that is gaining the attention of governments and other organizations wanting to engage the private sector for development, as it is not sufficient to apply the 'do no harm' approach in the context of development co-operation. Inherent to CR

Innovation is a strong win-win appraisal, with companies making profit while working for a good cause: servicing the poor or the environment in ways that also make business sense (Halme & Laurila, 2009).

Inclusive business and creating shared value (CSV) are examples of approaches through which corporations can make a profit while generating positive development impact. CSV is based on the notion that, by focusing on optimizing short-term financial performance, companies overlook the greatest, unmet needs in the market, as well as broader influences on their long-term success. Companies would do better in the long term if they redefined their purpose as creating shared value, and generated economic benefit in ways that also produce value for society by addressing its challenges. (Porter & Kramer, 2011.) The inclusive business model, on the other hand, encourages private sector actors to develop business initiatives that include low-income communities in supply chains as consumers, retailers, suppliers, or distributors. Inclusive business models are part of core business operations, commercially viable and replicable. (IFC, 2010.)

1.2 THE PRIVATE SECTOR IN FINNISH DEVELOPMENT POLICY

Finland is not an exception when it comes to attributing to Finnish companies a more active role in development than before. In its 2016 Development Policy, the Government of Finland outlines the shared responsibility for development in the spirit of Agenda 2030 and makes it clear that it hopes to enhance Finnish private sector opportunities to participate in development co-operation. In addition, the policy emphasizes the importance of cross-sectoral collaboration – between the public sector, the research community, educational institutes, private sector companies, and civil society organizations – to make better use of their complementary strengths to support sustainable development. (Ministry for Foreign Affairs, 2016a.) The need for combined efforts by both donors and responsible companies to advance development is also noted by the Finnish Development Committee in its Annual Report 2017 which examines the development implications of the current policy and its increased focus on private sector development and Finnish private sector engagement for development (Development Policy Committee, 2017).

The Government of Finland would like to see more Finnish private sector companies in development co-operation (Ministry for Foreign Affairs, 2016a). Nevertheless, rather than developing the policy content – the results and impact expected to

be delivered through private sector engagement – the focus so far has been on expanding the coverage and volume of funding instruments targeting the Finnish private sector. There is a growing need to move beyond the instruments and prepare a Finnish vision of development that combines the objectives outlined in the development policy, Agenda 2030, and private sector partnerships (Development Policy Committee, 2017).

At the policy level, the government is looking for more private sector engagement for development. Companies are encouraged to contribute to development by providing developing countries with development-enhancing solutions or by integrating development considerations into their business models. Private sector companies supported by the funding instruments of the Ministry for Foreign Affairs (MFA) are required to respect the best practices and obligations of CSR, complete human rights impact assessment, and generate positive development impacts through their activities. (Ministry for Foreign Affairs, 2016a.) However, as outlined in the policy, development can also be promoted through ordinary business activities when private sector solutions are development-enhancing:

Finnish companies are encouraged to provide commercially viable, development-enhancing solutions to fast-growing developing-country markets. Finnish knowhow in the fields of clean technology and bioeconomy can boost the implementation of circular economy in developing countries. This is a way to support climate change mitigation and sustainable development through ordinary business activities. (Ministry for Foreign Affairs, 2016a, 39.)

Despite this policy shift towards private sector engagement, the objective of the Finnish Development Policy is the eradication of poverty. It states that Finland's values and principles – namely, democracy and the rule of law, gender equality and human rights, freedom of speech, a sustainable market economy and sustainable use of natural resources, and the Nordic welfare state, as well as a high level of education – guide all development activities irrespective of where and by whom the activities are carried out. (Ministry for Foreign Affairs, 2016a.) The Development Policy Committee welcomes this increased emphasis on the Finnish private sector as well, but at the same time calls for measures to ensure that it also responds to the rights and needs of the people in the least developed countries and contributes to the eradication of the poverty (Development Policy Committee, 2017).

Finland has recently introduced funding instruments whose aim is to support the participation of private sector actors in development co-operation. These include the BEAM (Business with Impact) program co-funded by the MFA and Tekes, the

Finnish Funding Agency for Innovation, and a new Public Sector Investment Facility launched in late 2016. In addition, there are two other instruments supporting Finnish private sector engagement for development: Finnfund and Finnpartnership. Finnfund provides long-term risk capital for private sector projects in developing countries, and its capital was significantly increased in 2016. Finnpartnership aims at generating positive developmental impacts in developing countries through activities by Finnish companies.

BEAM and Finnpartnership Business Partnership Support (BPS) are funding instruments which specifically target SMEs. BEAM aims to assist Finnish enterprises in addressing global development challenges by converting such challenges into successful and sustainable business. The support is available for developing, piloting, and demonstrating innovations that improve well-being in poorer countries, while at the same time enhancing international business opportunities for Finnish companies. Innovations are understood here in terms of new products, services, forms of business and co-operation, technologies, solutions, and social innovations. Recipients of funding are required to demonstrate positive development impacts. (BEAM, 2017.) Finnpartnership BPS is a tool for converting commercially viable business partnerships – or opportunities – in developing countries into feasible projects. Support is offered to company projects that have commercial viability and the potential to foster development in the target country, which are also in line with the target country's legislation and other requirements, and comply with international environmental and social standards. (Finnpartnership, 2017.)

1.3 REPORT SCOPE AND KEY QUESTIONS

Research has focused on Finnish SMEs. If the private sector is to have a more active role in promoting development, the SME sector cannot be excluded; comprising approximately 99.9% of Finnish companies, SMEs are important actors in Finnish society.¹ They employ 66.9% of the total workforce and their share of combined private sector turnover in Finland is 58%. (Tilastokeskus, 2015.) The relevance of SMEs as generators of new employment has also been emphasized by the Minister for Foreign Trade and Development and the Development Policy Committee in reference to the importance of involving them in development co-operation (Development Policy Committee, 2017; Ministry for Foreign Affairs, 2016b).

Despite its significant role in the domestic economy, however, it is not known how the Finnish SME sector can actually contribute to development in the target

¹ 89.4% of all companies are micro-enterprises employing fewer than 4 people.

countries. Finnish SMEs focus on home markets; no more than 12% export directly and only 4% have established joint ventures or subsidiary companies in international markets (Rikama, 2016). Thus, developing-country markets are of interest only to a minority. Furthermore, embracing corporate responsibility and incorporating development-related activities into core business strategies and models are both still novel ideas to many Finnish SMEs. Yet, as it has been widely acknowledged that traditional actors in the development sector are unable to solve challenges, such as those faced in Africa, singlehandedly, there are growing expectations of the capacity of the private sector to generate positive development impacts if working with governments, donors, and development NGOs.² According to the Minister for Foreign Trade and Development, private sector efforts are of critical importance to generating employment, providing services, and distributing clean technologies. (Ministry for Foreign Affairs, 2016b.) Nonetheless, there seems to be relatively limited knowledge and understanding of how prepared Finnish SMEs are to respond to this call and meet these expectations.

In summary, this research report examines ongoing changes in the development paradigm from the Finnish SME perspective, as little is known of how the companies themselves perceive the change, whether they are interested in engaging for development or not, and how they are positioning their emerging-market business expansion in relation to development co-operation. Thus, the key goal is to gain understanding of how the Finnish SME sector is positioned to respond to increasing government expectations of private sector engagement for development and its generation of positive development outcomes. The specific research questions are as follows:

1. How do Finnish SMEs perceive development co-operation and their role in it?
2. How do SMEs' goals for their emerging-market business meet the objectives of development co-operation?
3. How do SMEs understand their development impacts?
4. What kind of opportunities do SMEs see in development co-operation?

² The term NGO is contested and it has often been subsumed within the broader category of civil society organizations (CSOs). CSOs have been defined as including all non-market and non-state organizations which people establish in order to pursue shared interests in the public domain. Examples include community-based and village associations, environmental groups, women's rights groups, farmers' associations, faith-based organizations, labour unions, co-operatives, professional associations, chambers of commerce, independent research institutes and the not-for-profit media. (UNDP 2013.) This study, however, has chosen to use the term development NGO as it is better understood in the Finnish private sector.

By exploring SME perceptions and emerging -market business models, insights are gained into the issues to be taken into consideration when development co-operation is carried out with private sector engagement. In addition, the study provides development organizations with greater understanding of private sector logic and expectations. The research findings are also very topical internationally. Firstly, there is a need to move the focus from justifying or criticising the engagement of businesses as development agents towards reaching an understanding of the possibilities and limitations of the private sector: Where – and how – can companies best contribute to development and where does alignment of interests take place (Blowfield & Dolan, 2014; Byiers & Rosengren, 2012)? Secondly, the issue of how to combine business and development rationales, and whether profit and development outcomes can merge, raises numerous questions.

1.4 DATA COLLECTION AND RESEARCH METHODS

The empirical evidence presented in this report is drawn from semi-structured interviews with fourteen SMEs registered in Finland and employing between five and two hundred personnel. As key decision makers and influencers, company CEOs were the preferred respondents for interviews. SMEs were selected as a target group because they represent the largest private sector group in Finland.

Companies were chosen from amongst those SMEs that had been granted either BEAM funding in 2015-16, or Finnpartnership BPS in 2015, with a grant exceeding 50,000€. Since information on the amount of BEAM funding granted to individual companies is not publicly available, the selection of BEAM cases was based on sectoral fit and their inclusion of non-business partners in their projects. Nine interviews were carried out with BPS grant recipients, four with companies running BEAM-funded projects and one that had both Finnpartnership BPS and a BEAM grant for different business lines. One company was included in the study due to its affiliation with UNICEF even though it had received Finnpartnership BPS support only in 2016. It was also learnt during the interviews that two of the interviewed companies had experience with traditional ODA-funded projects as service providers, and one company had applied for ODA funding through an NGO affiliated to it. This selection allowed research to focus on those SMEs that were active in developing countries and that had looked at their business from the development perspective. To obtain a holistic view of Finnish private sector participation in development agendas, corporations were drawn from various sectors as follows: Construction (n=1), Education (n=2), Energy (n=2), Environment (n=2), Food and agriculture (n=3),

Healthcare, (n=3) and Metal (n=1). Companies participating in the research included both those with decades of experience and recently established entities. Finland is the main market for seven of the companies whereas two focus on other developed countries' markets. Developing countries are the most important markets for five businesses.

Most respondents were either owners / CEOs (8) or partners (2). Four interviews were conducted with employees responsible for overseeing BPS / BEAM project implementation. Representatives from fourteen companies were interviewed but as in three instances the CEO was accompanied by another employee, the total number of company interviewees was seventeen. No conflicting views emerged during the three interviews made with two representatives of the same company; consequently, where there were two representatives of the same company, they are counted as only one respondent. Nearly a third of the company interviewees were female (n=6) and the rest were male.

Interviews were semi-structured and based on a set of predefined questions, although there was a high level of flexibility. Interviewers made sure that all relevant themes were touched upon but the focus changed based on the interviewee's background and experience. The initial plan to concentrate on Finnpartnership and BEAM-funded projects and operations in developing countries altered during the interviews, as in some cases such initiatives constituted a relatively small proportion of a company's total business in developing countries. In such cases discussion addressed the company's overall operations in the developing parts of the world.

To gain a more comprehensive understanding of Finnish business operations in emerging markets and to supplement data collected from the companies, three key informant (KI) interviews with experts with extensive experience in advising Finnish SMEs in emerging markets were also conducted; one of the experts also runs his own business in a developing country.

All seventeen interviews took place in November 2016-January 2017: thirteen face-to-face, two over the phone, and two via Skype. Each interview lasted from half an hour to one and a half hours with the majority taking slightly over an hour. Interviews were carried out in Finnish. All interviews, with the exception of one expert interview, were recorded with the interviewees' permission and later transcribed. Transcribed interview data was carefully studied and coded. Interview themes served as the basis for pre-set codes, but new codes emerged in the process of coding. After coding, the researcher sorted data into different categories and sub-categories and reflected upon it, making comparisons and looking for similarities and differences.

2

PRIVATE SECTOR PERCEPTIONS OF DEVELOPMENT AND DEVELOPMENT CO-OPERATION

This chapter explores private sector perceptions of development and development co-operation, and private sector views of its role in development co-operation, its capacity to promote development, and its reasons for engaging for development.

2.1 DIVERSE UNDERSTANDINGS OF DEVELOPMENT PARADIGM CHANGES

Changes in the development paradigm are closely tied to acknowledgment of the private sector's becoming a development actor. Donors across the world, including in Finland, are putting increased emphasis on the private sector, which is reflected in development policies and budget allocations. (Byiers & Rosengren, 2012; Di Bella et al., 2013; Vaes S. & Huyese, 2015.) One high priority research goal was to gain an understanding of how Finnish companies perceived the recent changes. According to findings, however, there is no uniform perception on the subject amongst the companies; rather, diverse views were expressed based on respondents'

backgrounds and industry sector, as well as their experience in developing countries and working with the Finnish public sector.

For example, when the discussion touched upon development agendas or development co-operation some company respondents (n= 4) felt that they were outside their comfort zone and areas of expertise, while five respondents with first-hand experience of developing countries noted the increased global salience of developing countries, the development leap, and the change in traditional divisions between the developed and developing worlds. Two of the respondents stressed the shared responsibility for development that starts with individuals and individual behaviour, one of whom described the need for joint effort:

I would say today it's more about maybe a kind of pulling together. Everyone is responsible for doing what they are capable of doing or what their vision is, and then you can see how to advance those visions together, because everyone needs the support of others to ensure the common good. ... So all should do their part and help others with their knowhow. (C1³)

Two others emphasized common agendas and had noticed the increased collaboration between various actors; as one observed:

At the same events, with the same potential partners, there are third sector representatives, and companies, and governments, and researchers, and expert organizations. That's maybe the first thing, actors are coming together more. (C9)

One of the respondents had noted increasing business interest in sustainability issues:

Of course, there are still the fiscal realities, money talks. ... And a lot of decisions are still made based on the return on investment or 'payback'. But I do think that, I mean, of course big companies do it, in a marketing sense. But they're also really thinking about sustainable development. And on the other hand, there is, on the business side, still that big market, waiting. You can't double phone sales anymore like you've done so far. But on that side [emerging markets] there are those big opportunities and that's probably why so many, even big companies, are looking at that side and the opportunities they might have there. (C3)

³ C stands for 'corporate respondent', KI for 'key informant', and each respondent has been allocated a number.

In addition, three respondents had also noticed the integration of aid and trade and stronger business participation in development agendas, although one respondent noted that the development paradigm had changed but government officials still do not know how to work with the private sector. Two respondents spoke about cuts in development funding and their consequences, such as NGOs needing to seek private sector partnerships to get access to alternative sources of funding.

Two corporate respondents also expressed their unhappiness with the fact that the private sector's capacity to generate positive development outcomes was questioned by some because of the profit element. This view was supported by one of the three key informants who noted that the cuts in Finnish development aid had put the discussion about development co-operation onto the wrong track, giving rise to unnecessary confrontation between the private sector and development NGOs. He added that there was also a risk that companies might universally be seen as evils even though Finnish SMEs have nothing to do with issues like tax avoidance and complicated transfer pricing models:

Finnish small and medium-sized enterprises have no place in that discussion. They're not the bad guys; they don't build businesses based on transfer-pricing or – that's like comparing apples and oranges. (K12)

A second key informant noted that development NGOs, apart from UN organizations, are currently operating like businesses: selling their products and services and offering promotional services for private companies operating in developing countries.

2.2 INEFFICIENT AND OLD-FASHIONED DEVELOPMENT CO-OPERATION PRACTICES?

Another research goal was to gain an understanding of SME perceptions regarding development co-operation in general. The results show that almost half the respondents (n=6) held critical views of development co-operation, whereas only three held positive opinions. In the rest of the cases the attitude was either neutral or the issue did not come up during the interview. The common denominator among respondents with critical attitudes towards development co-operation was that all of them had experience of doing business in developing countries. These respondents saw such practices as old-fashioned and inefficient, suggesting that funds are used to provide developing countries with products and services for which they have no real need. One respondent even perceived donors and development finance institutions – and the large multinational companies engaged in their projects – as barriers to development. According to him their mutual competition and self-interest supersede development needs:

These large funding organizations, they're a bottleneck for development. There's this kind of protectionism there. It's a kind of – which I think is sometimes the ugliest side of development aid – these [funding organizations] thinking, 'We want to be the ones doing the big, great, most meaningful thing and we have the best idea about how to do it.' (C8)

Interestingly, the respondents (n=3) who perceived development co-operation positively were all women, although, based on the small number of respondents, gender alone cannot be used to explain the difference in views. These respondents saw a lot of value in the work of development NGOs, meanwhile stressing that enhancing development requires combined efforts.

2.3 PRIVATE SECTOR DILEMMA: BUSINESS DEVELOPMENT OR DEVELOPMENT CO-OPERATION?

The study also explored how companies themselves perceived their role in development co-operation when they had used funding instruments such as BEAM and Finnpartnership for their developing-country business expansion. From a donor's perspective, it could be argued that the SMEs participating in this research project have a role in development co-operation and are engaged for development either because they have made their products and services available in developing countries (n=8)⁴ – thereby fostering exports from Finland – or because they have developed new solutions to problems faced by developing countries, often in collaboration with local enterprises (n=7). Funding from BEAM or Finnpartnership, on the other hand, is not something that makes the companies perceive themselves as actors in development co-operation; instead, their objective is to develop their emerging-market business. Less than half of the respondents (n=5) connected their business to development co-operation and, even then, they emphasized the distinction between the two:

I mean let's put it this way: in the traditional sense, or at least the way I understand development co-operation, we don't work with that at all. Everything we do is, in practice, crude business more or less. (C10)

⁴ Finnpartnership stipulates the importance of partnerships between Finnish businesses and developing country organizations. For most of the interviewed companies utilizing Finnpartnership BPS, partnerships translate into developing country clients and agents / resellers supported by local service partners for installations and maintenance, for example.

Well, I've already learned that we are, ultimately, a company whose goal is not development aid; instead, the business has to take off for real. And we need to see pretty soon if there is money in the country or not – and that's what we want to do. (C14)

Another view was that companies carry out development co-operation through their actual business, thereby operating differently to traditional development actors, as one respondent explains:

What we have is that everything we do is development aid in a way; I mean formed in a different way to how it is traditionally. And then when we grow enough we can do more, establish our own special 'corporate social responsibility' thing. (C8)

The results suggest that companies do not see that the donor requirements for CR and impact generation have shaped their roles or required additional effort from them. Ethical business conduct and CR are a part of the business practice of the interviewed companies, regardless of donor requirements.

2.4 PRIVATE SECTOR STRENGTHS IN PROMOTING DEVELOPMENT

All the respondents considered that their companies achieved positive development impacts (discussed in more detail in Chapter 4). A number of respondents (n=8), all with experience of developing markets, even argued that the private sector has a greater capacity to promote certain aspects of development than the traditional development community. According to responses, the strengths of the private sector could be summarized as follows:

- **Continuity** (n=5): Companies enter the market to stay there and thus make a permanent impact. The project work modality is seen as a key weakness of traditional development co-operation.
- **Real need** (n=4): When there is a client who is willing to pay for a product or service, there is also a real need for, and commitment to it. Development co-operation includes the free distribution of services and products to local people in developing countries and thus the need for them and their suitability may not have been properly tested.

- **Innovativeness** (n=4): Companies are good at solving problems in new ways, whereas the traditional development community tends to rely on traditional ways of working.
- **Growth of the Finnish economy** (n=3): Private sector participation benefits the Finnish economy by virtue of increased visibility in developing markets, and a growth in trade and employment. It does not dilute positive impacts in developing countries if some benefit also accrues to Finland.

One respondent summarized private sector contribution and the importance of local needs as follows:

[W]e have the idea of making things better through our business because there is in general someone with real need and intent and commitment. (C10)

Generating employment, local collaboration, and development of the whole value chain are other issues that the private sector could tackle:

The potential [that developing countries have] can't be realized with projects where you define a three-four-five-year project and shove it [the money] somewhere, to a single link in the production chain; you have to see the whole chain so that sustainability is born from one shilling rolling from the consumer's pocket into the villager's pot. Sure some are left out, but that's the way to see it; without this working, even these big investments won't bring the desired results. (C12)

In addition, the issue of getting more value for money was mentioned as another factor that speaks in favour of private sector capacity to promote development. Allocation of development budgets to private sector companies was also perceived as a way to ensure the proper utilization of development budgets in comparison to offering 'gratuitous money' to developing countries with little opportunity to oversee its utilization:

First of all, that's how [by also allocating development funds to Finnish companies] you can make sure that the money is actually spent on the set purpose and not lost in obscure ways, bearing in mind things related to corruption and so on. (C5)

Nevertheless, one respondent noted that even though the private sector has its strengths – such as providing the local citizens with job opportunities – there is a risk that businesses operating in the developing world can increase inequality in local societies, as opportunities tend to be offered to those who are already well-off and possess skills.

And it has an effect on companies that, in the end, maybe in some way, they work at a different level in society. ... But if activity relating to the basic needs of citizens is forgotten, then this focus on businesses could increase inequality in the emerging markets and especially in developing countries. (C13)

Several of the company responses presented above are in line with previous research findings about donors' reasons for engaging the private sector for development (see, e.g., Kindornay & Reilly-King, 2013; Di Bella et al., 2013). Donors emphasize cost effectiveness and value for money, seeking to alleviate shrinking aid budgets by harnessing private sector resources, financial and non-financial. They see the private sector as the key driver or engine of growth and development, while the private sector fulfils this role by nurturing new investments, contributing to self-regulating markets, producing market efficiencies, creating new and better jobs, and generating new sources of domestic tax revenue. (Kindornay & Reilly-King, 2013.) Development co-operation actors have also begun to recognize the value of private sector expertise and innovation, and these non-financial resources for development are gaining more attention (Di Bella et al., 2013).

Even though the respondents in this study saw the private sector as having a number of strengths, the need to advance development through the efforts of a range of various actors was also emphasized by some (n=5). Agendas were considered to be shared, though it was recognized that the ways and means of operating were different; according to the respondents, there is a role for NGOs and a role for SMEs. This requirement of combined effort to solve complex global problems – such as health, food security, and climate change – is also noted in the literature as one of the key reasons for donors to engage with the private sector (Lucci, 2015). This view is prevalent in Finland, with development policy outlining the importance of partnerships between the government, businesses, research centres, educational institutions, and civil society (Ministry for Foreign Affairs, 2016a).

2.5 FUNDING INDUCEMENTS TO THE PRIVATE SECTOR TO ENGAGE FOR DEVELOPMENT

Participation in development co-operation, as such, is not a goal for the companies that respondents in the study represented. They did, however, consider it fair that development funds are also allocated to those private sector entities that target developing-country markets and that advance the development of, for example, local companies dealing in education, the environment, energy, or healthcare. One respondent observed on the subject:

In my view, this direction, where support is given to companies likes us who are building something new there, makes more sense than just distributing money out there, which is sometimes better spent and sometimes worse. I see this as much wiser way of working. (C5)

Previous research has also indicated that there is demand on the part of the private sector for engagement with the development sector, as businesses seek donor assistance to enter developing-country markets (Byiers & Rosengren, 2012). Similarly, as suggested by this study, it does not matter to the Finnish private sector where the money comes from, as long as it allows them to develop their businesses. Consequently, Finnish companies utilize BEAM and Finnpartnership since they support their expansion to developing countries. The studied corporations were either familiar with the instruments or were advised to utilize them by the MFA or other Team Finland organizations that promote Finnish business interests abroad.

Corporations in general have an interest in the role donors can play in absorbing risks: namely, assisting in piloting specific projects with high entrance costs and uncertain outcomes, or providing finance for large infrastructures projects (Byiers & Rosengren, 2012, p. 10). The research findings show that the Finnish private sector is not an exception: companies initially approach donors to share the risks associated with developing-country entry. Business development in developing countries is costly – as it requires, for instance, long-term presence – but outcomes, on the other hand, are uncertain, and even more uncertain when a company not only enters a new market but also develops a new concept for the market, like half of the companies in this study. Companies also require funding for the pilots and reference projects that are of vital importance for all businesses: funding is needed to pilot the concepts and demonstrate the technology. However, the current instruments have some serious limitations in this regard (discussed in more detail in Chapter 5.3).

The respondents were unanimous that the current level of available funding is not enough to facilitate proper market entry or to develop real pilot projects. However, the available funding is still important for the Finnish private sector: five companies admitted that without the funding they could have not executed their market entry or concept development project at all. One company said that it could probably have carried out the project but on a much smaller scale and at a slower pace. Six companies did not regard funding as a determinant but, rather, as a support that helps them to accelerate the process, look at several new markets simultaneously, or study markets with a little less obvious market potential. Only one respondent claimed that the funding had no significance at all.⁵

⁵ The list here excludes two companies that did not apply for reimbursement for their Finnpartnership projects. A third has separate projects for separate business lines with funding playing a different role for each.

3

ALIGNING BUSINESS AND DEVELOPMENT GOALS: KEY CHALLENGES

This chapter looks at the factors that cause companies to enter developing-country markets and tackle development-related problems through their business and market selection. The aim is a better understanding of the extent to which business goals match up with development goals.

3.1 NEW GROWTH MARKETS AND BUSINESS FROM GLOBAL PROBLEMS

The study examined what makes private sector businesses enter developing markets and address developing country problems with their solutions. The three key informants interviewed alongside company representatives mentioned an increasing interest in developing countries amongst Finnish SMEs, but found it unfortunate that action is very slow to follow. According to the key informants, if there's enough business to keep SMEs busy in their homeland or nearby markets, only a few companies expand to developing countries.

Participating in the research were companies that are very different in terms of their offerings, target markets, and history. Depending on background, corporations consider developing country opportunities from different perspectives and can be divided into three categories based on what they offer and their target markets:

- A new development-enhancing concept for new markets (n=7);
- New markets for an existing product / service that is inherently intended for developing markets (n=3)
- New markets for an existing product / service (n=5)⁶

There are multiple factors behind the entry to the developing market of Finnish private sector businesses, and studying their motives in depth is beyond the scope of this study. However, some general arguments can be made based on the research results. First, the results suggest that the corporations looking for new markets for their existing products or services – that are not addressing development-related issues *per se* – are mainly driven by growth. While emerging markets are not traditional venues, at least for Finnish SMEs, there are traditional motives for internationalization including, on the pull side, market demand for solutions, little competition from other multinationals or local producers, and better prices, along with competition and limited growth opportunities in the homeland on the push side.

From this study's point of view, it is more interesting to look at what makes companies develop solutions that address social and environmental problems faced by developing countries (n=10). All those which are working on development-enhancing concepts for emerging markets (n=7) are established companies looking for new business opportunities outside their traditional domains. The research data suggest that social and environmental problems in developing countries that call for new solutions are part of what pulls Finnish private sector actors to developing markets. One respondent noted that the social and environmental problems in developing countries are huge and cannot be solved by a tiny Finnish SME alone. Still, they provide Finnish companies with endless opportunities:

The problems and the field of work and the opportunities; they are immense for our scale. (C12)

Respondents felt that the problems could be solved with Finnish knowhow. In some cases, however, technology can also be a starting point. Some respondents

⁶ In this case the total number is fifteen as one company has two separate business lines: one consisting of existing products that are being exported and another that comprises the development of new solutions specifically for developing countries' needs.

represented technology-driven corporations and felt that both their technology and knowhow could be applied to solve development problems (n=3). One respondent stated that it was his interest in African markets that made him look for opportunities in that part of the world.

One of the key informants noted that visits to developing countries open the eyes of company representatives to the opportunities arising from solving development-related problems, but that this interest seldom leads to action. However, the argument that visits to developing countries can be effective is also supported by the research data: one company representative identified the issue to be solved, and a potential business opportunity, during a field trip to a developing country; the second, while preparing an application for an ODA project; and for a third, it was his experiences gained as an advisor for a traditional ODA project that drove him to utilize his knowhow and his business for solving the problems he had identified in the country. He summarized his feelings by saying:

The kind of feeling follows of, 'My goodness, I've seen the whole arc of this development and if there's a way to shape and function in it so that you open doors for [the local people] to new levels of development and so on, it would be pretty motivating to see that.' (C12)

Overall, the results suggest that the experience which an entrepreneur or a company employee has of developing countries is an important factor in driving a corporation to do business in them, as it reduces the fear and prejudices that companies often have in that direction. Fear and prejudices were identified as barriers to the international expansion of SMEs to developing countries by both the company respondents and key informants interviewed. CEOs and business owners spoke more about their personal motives than company employees. Problems are perceived as opportunities to do business by doing something meaningful and making a difference:

I think that for all of us the ability to do something sensible is a driver on some level. (C10)

Results suggest that entry into a developing country is marked by commercial motives but also by visions and values – as one employee mentioned of the owner of the company:

This owner has all that I think the public sector organization I used to work for was lacking; there's the humaneness, the genuine action, and a kind of great approach. (C8)

Only one respondent strongly articulated development-related visions, however, whereas others put more emphasis on technological leadership and business growth. Nonetheless, companies addressing a developing country's problems with their solutions are happy to use their solutions for a good cause.

3.2 MARKET SELECTION FACTORS LEADING COMPANIES TOWARDS MIDDLE-INCOME COUNTRIES

The study aimed to gain knowledge of the multiple factors that affect companies' selection of target markets to understand more fully how the private sector is positioned to enhance development globally, including in the least developed countries. Developing countries as defined by the OECD Development Assistance Committee include countries that are very different from each other in terms of their development level (OECD, 2016). Meanwhile, evidence drawn from the research data suggests that there are internal and external factors guiding the selection of markets by the studied companies. External factors include a stable operating environment, the level of development, and the general reputation of Finland and Finnish business, as well as the degree of interest in the Finnish offering exhibited in the target market. Internal factors include previous experience and a contact network. The factors that define the selection of markets are summarized in table below:

MARKET SELECTION FACTORS	
EXTERNAL	<p>STABLE OPERATING ENVIRONMENT</p> <p>LEVEL OF DEVELOPMENT</p> <ul style="list-style-type: none"> • Adequate infrastructure • Clientele with the capacity to pay • Technological fit <p>REPUTATION AND INTEREST</p> <ul style="list-style-type: none"> • Opportunity for reference
INTERNAL	<p>CONTACT NETWORK</p> <ul style="list-style-type: none"> • Foreigners in Finland • Team Finland • Other contacts <p>PREVIOUS EXPERIENCE</p>
CHANCE	

Market selection factors have led the studied SMEs more towards middle-income countries than to those that are the least developed. Poor infrastructure, a low level of technological development, and a shortage of clients with the capacity to pay discourage most companies from entering certain markets. This has the consequence of narrowing the potential of the Finnish private sector to make an impact across the developing world and in countries targeted by Finnish development policy.

The results also suggest that contacts and networks are of vital importance. It is because of contacts, often local, that companies enter less developed or stable markets that they otherwise would not have contemplated. Some companies have realized the value of students or immigrants from developing countries: four respondents explained how people with origins in the developing country had helped them to establish businesses there. The previous experience of an entrepreneur, or an employee from the target market or region, also supports entry into non-traditional markets.

Indeed, most respondents stressed the need for support at a local level. Team Finland received mixed critique from the respondents due to its inadequate capacity to support private sector entry into developing countries, although the Embassy of Finland in Namibia stands out as a positive example of the efforts of the Team Finland network. All the companies that had built their business in Namibia (n=4) separately expressed their gratitude to the Embassy for sharing business opportunities and contacts, opening doors, and promoting the companies. Above all, respondents were astonished by the helpful attitude of Embassy staff. Namibia is also a good example of the importance of reputation: the reputation that Finland has in Namibia has helped Finnish companies enter the market. Companies also look at the opportunity for reference: even if a market is not very interesting it can still be entered for the first reference.

These findings regarding the importance of contacts, the need for local support, and the opportunity for references support the Development Policy Committee's recommendation to increase efforts and resources directed at bringing together Finnish Embassies, development NGOs, and private sector companies to support the reach of development goals (Development Policy Committee, 2017).

Finally, many respondents emphasized the role that chance plays in market selection, saying that no matter how profoundly the opportunities are analysed, market opportunity often arises by chance, as a result of being in the right place in the right time. However, it is noteworthy here that, in fact, opportunities do not arise purely by chance. One needs to be active and sufficiently dynamic and audible to meet the right people who can open the right doors.

3.3 COMPANIES VS. DEVELOPMENT COMMUNITY: DIFFERENT TARGET COUNTRIES AND GROUPS

The study demonstrates the discrepancy between the starting points of business and those of development co-operation. The key goal of the latter is to eradicate poverty and its measures largely target the most vulnerable people living in the poorest countries. Finnish development policy also posits the eradication of poverty as its ultimate goal and emphasizes the realization of human rights (Ministry for Foreign Affairs, 2016a). As the research findings indicate, a private sector company can be interested in, and motivated by, the opportunity to solve development-related problems; however, at the same time, profitability is the key prerequisite for business existence. The private sector, therefore, needs markets that are sufficiently stable and adequately developed, where there is a clientele with purchasing power. Moreover, alongside tackling development challenges across the developing world, companies want to contribute to the Finnish economy and employment by employing in the homeland and supporting local Finnish businesses – an issue that three interviewed companies specifically mentioned.

The factors behind the market selection presented in the previous section show that the Finnish companies studied are largely focused on more advanced developing countries, as the list of the target countries of their Finnpartnership and BEAM-funded projects illustrates.

- Namibia – upper middle income country (n=3)
- India – lower middle income country (n=2)
- China – upper middle income country (n=2)
- Tanzania – least developed country (n=2)
- Other low income and lower middle income countries in Africa (n=2)
- Other least developed countries in Asia (n=1)
- Other low middle income countries in Asia (n=2)
- Upper middle income country in South America (n=1)

Seven of the SMEs also operate in emerging markets other than those listed above. Although two companies have business in Tanzania, for example, and one company delivers its solutions across Asian and African countries, most interviewed companies looked for opportunities in markets like India, China, and Namibia.

Furthermore, when analysing the capacity of the Finnish private sector to promote development, it should be noted that even if a company has presence in a low-income country, its target groups are seldom found among the poorest and most vulnerable parts of the population. The clientele of the interviewed companies mainly consisted of local industries: larger enterprises in most cases and only rarely local SMEs. Those companies that are closer to consumers – for example in the healthcare, education, and construction sectors – also find their customers amongst the middle-classes, not in low-income communities. There are two companies working with farmers, but only one of them operates in a least developed country.

Development impacts will be discussed in more detail in the next chapter, but already it should be clear that the factors behind market selection lead companies to countries that are not the most important in development policy perspectives. Companies' target groups put further limitations on the private sector's capacity to reduce poverty.

4

PRIVATE SECTOR APPROACHES STILL INADEQUATE FOR PROMOTING DEVELOPMENT AT SCALE

The focus of this chapter is on the activities through which the Finnish private sector promotes development and creates development impact, although discussions of the subject are confusing as different parties have different views of what constitutes 'impact' and companies rarely understand it as it is defined in the field of development co-operation.⁷ However, the objective is to examine companies' *perceptions* and gain an understanding of how and where the private sector has the potential to produce beneficial effects. Analysis of the actual development impact of individual companies or projects is beyond the scope of this study.

⁷ OECD defines impact in results-based management as follows: 'Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.' Outcome is defined as the 'likely or achieved short-term and medium-term effects of an intervention's outputs'. (OECD, 2010.)

4.1 PRODUCTS AND SERVICES AS KEY SOURCES OF POSITIVE IMPACTS

In general, the respondents considered their companies to be generating impact predominantly through their products and services, with technological solutions playing an important role in the majority of cases. For example, one of the respondents, a company owner, considered that the services of his company achieved excellent impact:

Those [his company's services] would create as much impact as you'd want. (C8)

Another respondent explained:

This is how our solution promotes sustainable development. ... We turn a nuisance [an item that upsets locals] into an opportunity for them. And that's the most significant point of this. We turn problems into opportunities. And now it's being pursued by every means. (C5)

These perceptions illustrate a commonly shared view by the interviewees that their companies have the potential to address development issues through their product or service offering, whether in the field of education, the environment, energy, or health. In addition, two out of fourteen companies have developed new solutions that will not only address a social and environmental problem but also provide a platform for new local businesses. Two other companies have addressed the development of the whole ecosystem through a combination of value-chain-related knowhow and technology.

When direct impact is generated predominantly by products and services, the sector plays a major role in the type of impact: environmental and energy technology companies (n=4) bring about environmental impacts by offering solutions promoting, for example, the more efficient treatment of waste, energy, water, and material efficiency, and the better utilization of renewable sources of energy with reduced dependency on fossil fuels. As the representative of a company from the energy sector said:

For our part, we make a direct impact; you save diesel and money, and energy is a bit cleaner. (C10)

A company from the energy sector offers improved access to electricity, while a construction company provides better housing and a sense of community, thus

impacting on livelihoods. Healthcare companies (n=3) provide better access to healthcare and reduce health risks, a company from the education sector fosters learning by improving access to quality education, and another firm in that sector enhances local business performance. As one respondent put it:

I'm articulating very forcefully from the perspective that our products have influence in [the healthcare] process, but this is what we think; we think that this is how we help people help other people ... and our best area of influence is precisely that. (C9)

A company from the agriculture and food sector reduces public health risks and indirectly provides positive environmental impacts. Two others in the same field also have indirect positive environmental impacts although focusing more on economic development (discussed in more detail in the next chapter).

As technology plays a vital role in most companies' (n=11) solutions, developing countries get access to the newest technology through the Finnish presence. An agricultural company saw the improved capacity of local farmers as one of the key impacts of its interventions, while the majority of respondents (n=11) emphasized the innovative effectiveness of their companies' solutions and their ability to address development-related challenges in better ways than the existing methods available on the market. In non-service industries, product characteristics such as quality and durability are also used as arguments for positive development impacts. As one respondent observed:

It's an ecological act in itself when you choose our product: you get a long-term solution; you don't need to throw it away and get a new one. (C7)

While these claims of beneficial impact are undeniable, the study revealed, however, that the interviewed companies' understanding of development impact does not meet with the concept of impact as it is defined in the field of development co-operation. This is due to the fact that from the development perspective, the results arising from companies' interventions are 'outputs' rather than 'impacts'.

4.2 CAPACITY-BUILDING AND COLLABORATION CONTRIBUTING TO DEVELOPMENT

Although respondents considered their products and services to be generating positive local impact they also mentioned training and capacity-building as among

the most important activities generating positive development outcomes. All the respondents said that their companies train local clients and business partners in one way or another. Half of the companies (n=7) also saw training and capacity-building as means to promote development through, for example, creating awareness of environment or health-related issues in their client and partner network. In particular, companies representing the health and education sectors (n=4) saw their primary impact in both fields as an outcome of increased local knowhow and capacity to deliver health and education services. As stated by one respondent:

It's not very good if we just take Finns from here to work there; we are doing them a bigger favour and getting a better thing going if we add to local expertise. (C8)

These respondents also tended to perceive their clients as partners, emphasizing long-term collaboration with their client organizations and mutual learning:

We don't work as consultants but as partners in a way. We really look for long term partners and work with them as a team, and that is the kind of ongoing development and ongoing work we do. And I think that it's a kind of a specialty of ours that we see that the local partner has a type of knowhow that we don't; rather, we have certain things we understand and can deliver that, and they bring what they have to offer. (C8)

One respondent, representing a company from the environment sector, explained that collaboration with an organization in a developing country does not just involve a uni-directional transferral of knowhow from Finland; the Finnish organization can also benefit from it:

That's why we need local partners. ... If you look at it in the long term, we're talking about actual, initial transfer of expertise, but after that about the continued development of expertise, technology, and concepts that takes place in the target country. That can actually be exported and even brought back, so that we can see, if we look at our lifecycle and the lifecycle of the project, that this is in fact a two-way street. (C2)

Some companies (n=4) – three engaged in BEAM-funded projects – emphasized the involvement of locals and local organizations in concept design and development. This collaboration with locals ensures that solutions address local needs. According to one company:

We don't go in with the good old colonialist spirit of, 'We know what you need and we do what you need, and shut up and do as you're told.' (C5)

In addition, some respondents (n=5) stated that they have the opportunity to influence attitudes towards environmentally hazardous behaviour, for example, and thus make an impact by reducing unsound practices: changing attitudes is not easy, but still possible – and is often also a precondition for future business growth.

To summarize, all interviewed companies have local partner organizations and all of them train their local partners in one way or another, but only a minority strives for deeper collaboration and has involved locals in product development or service design.

4.3 MODERATE LOCAL PRIVATE SECTOR DEVELOPMENT AND EMPLOYMENT GENERATION

Private sector engagement for development is often justified by policy makers' arguing that it supports the development of the local private sector better than when it takes place through development co-operation. For example, positive impacts on local client companies are listed as the imparting of increased knowhow through capacity-building efforts and, helping local client companies to improve their service, save costs, and increase operational efficiency. One respondent's company applied a 'payment as per savings' model whereas another was committed to purchasing the end-products. However, it could be argued that the development of the local private sector through Finnish business interventions remains limited, as findings from this study suggest that local enterprises mainly take a place in the value chains of Finnish companies as clients.

Both BEAM and Finnpartnership stipulate the importance of partnerships between Finnish businesses and developing country organizations. For many of the companies that have utilized Finnpartnership- funding, the partnerships translate as developing-country clients and / or agents / re-sellers' supported by local service partners responsible, for example, for installations and maintenance, whereas products are manufactured in Finland by the companies themselves or by their subcontractors. In two cases, companies have either established subsidiary firms for sales purposes or set up joint ventures with local partners during their Finnpartnership-funded projects. Only one company currently develops local sourcing.

Among the companies participating in the research, there are four which at present are exporting their own products but could consider local production. This decision is affected by commercial realities even though one respondent noted the aspirations – of

both the target country and the company – to create more local employment in the future:

In the long run, all these countries dream that we, or anyone else, won't come just to bring equipment and take the money but that we'll create jobs. (C10)

The creation of employment is perceived as a private sector strength in comparison to traditional ODA-funded projects. However, among the companies participating in the study, the generation of new local employment is to date very moderate: a couple of companies employ local experts directly whereas other companies' businesses create some jobs more indirectly within the partner networks.

The respondents seemed to acknowledge that their business model and their products do not necessarily create more jobs, but felt that they provide new, better, and more meaningful employment in developing countries:

Well if we think in a social sense ... when we're moving to more industrialized activities, working conditions improve, work safety improves; and you know, when people who work at landfills move, for example, to an industrial environment in front of an assembly line, then that can be seen as improvement. (C2)

In addition, the companies – including those operating through their partner networks – try to make an impact on working conditions and health and safety issues by training their partners in these fields and showing them a good example. However, as already noted, job opportunities mostly arise for people who are already skilled whereas the most vulnerable are unlikely to be employed by Finnish companies.

There are some exceptions, as four projects not only address social and / or environmental problems, but also aim to generate large-scale economic impacts that include the development of new roles for local business which are broader in scope than those of agents and service partners. Two of the projects address the development of local value chains whereas the other two focus on new production technology. Although they have not yet been fully implemented, the projects have the potential to create completely new local business, increase the local added value, improve the utilization of local raw materials, and ultimately reduce dependency on imports and potentially enable local exports.

The study revealed that the local companies are mainly Finnish companies' clients and employment opportunities arise mainly to those with skills. In this regard, the evidence gathered through this study supports the Development Policy Committee's recommendation that, apart from the current instruments supporting Finnish private sector companies, additional means are required to develop the local private sector in developing countries (Development Policy Committee, 2017).

4.5 A DIFFICULT MATCH: DEVELOPMENT OUTCOMES VS. COMMERCIAL REALITIES

When assessing the impacts generated by any actor involved in development co-operation, it is very important to measure and define how the operations reduce poverty and inequality in the developing countries (Development Policy Committee, 2017). As noted earlier in this report, the studied companies felt that they – and the private sector in general – have the potential to promote development but, ultimately and in reality, the selection of target markets and target groups sets limitations on the private sector's contribution towards poverty reduction. It should be noted, however, that the interviewed companies were aware of the shortcomings and many (n=10) discussed the reasons for the limitations on their capacity to promote development and to reduce poverty, raising the following issues during the course of the interviews:

Firstly, commercial realities override the interest in fostering development. No matter how good the solutions are or how well they might meet the needs of low-income communities, companies must primarily target those communities which have enough paying capacity to make it worthwhile. As one respondent bluntly put it:

We need to focus on selling our products. ... That we need to do at the moment: get money out of everything that we do. (C8)

Another noted:

The raw fact is that the poorest probably won't be able to afford it [to purchase our product] no matter how cheap we make it. ... We need to get money out of our business. ... We need to work according to commercial realities. (C3)

However, commercial realities do not necessarily dictate that business will be conducted no matter the cost. One respondent company illustrated this by offering an example of their having refused to take an environmentally harmful shortcut in the project proposed by the local partner:

I said quite frankly that Finns will not participate in projects where the soil is [being] poisoned; that very soon, according to our estimate, ... you're poisoning your ground water. Then this so-called act of goodwill produces something a lot worse than the situation was in the first place. (C5)

Secondly, a few companies (n=3) acknowledged that they work at a different level in societies than, for instance, NGOs, and rarely cater for the basic needs of the local population. One respondent from the healthcare sector summarized their role – in a characterization that applies to most private sector entities – as follows:

[W]e do not work with so called disaster relief but we help to ensure that the services in the society are safe, and that operating in the society is safe. (C9)

One of these companies noted that it is difficult to design a revenue generation model where social development is combined with business.

Thirdly, some companies (n=3) noted that they are very small players and therefore their ability to influence development at scale is limited, even though one saw an opportunity to act as a catalyst for more substantial change:

Those dreams that one company or a few people could make something – could make big things happen – you have to be careful with those. But sometimes it might happen that we get this catalytic process [of creating the change] going on. (C12)

Fourthly, some companies (n=4) stressed that each market, especially in developing parts of the world, is unique. Expansion opportunities are limited by the fact that SMEs cannot make several market entries simultaneously as their resources are limited and risks related to developing-country markets are huge. Thus a few companies (n=4) emphasized the need to focus on specific markets. Finally, one respondent stated that the main obstacle to development is the poor governance in developing countries. Another said that the private sector is driven by economic viability and it is the local government's responsibility to create favourable conditions whereby the private sector may promote social or environmental sustainability.

Nevertheless, nearly all the companies participating in the study were planning to expand their operations into new markets in the future. Many had an interest in low income countries and communities and saw that their solutions would be also very useful in that context; yet the reality of limited resources and the need to concentrate them – along with the goal of immediate return on investment – direct their attention towards markets with a clear demand for existing products rather than those where they would need to develop new concepts to respond to local needs. One of the interviewed companies, for example, had studied several markets: one was considered to have some potential, but since entry would have

required strong localization and probably local manufacturing, it was decided to enter one with fewer localization requirements.

Another challenge related to business models and ecosystems is that the degree of Finnish orientation towards technology is incompatible with that of many developing countries. At the very least, this calls for patience. As one company representative explained:

Even if we have the finest technology, sure to work for 20 years or 25 years and so on, we need to be able to explain it [the technology and its benefits], and that requires time. So, if we then talk about difficult technology that the whole continent doesn't have, it's hard to expect the others to be able to go, 'Oh well, let's buy a facility worth 15 million.' If you think about the corporate sector, we're talking about huge investments, so I think more patience is needed. (C6)

Another respondent mentioned the same mismatch of technology

There's a lot of technology expertise in Finland, but the companies run into the problem of systemic demand in that they don't get to push their own piece in there, because the whole [system to fit in the technology] at the receiving end is missing. (C2)

However, the respondents thought the problem could be solved by developing the systems on the demand side in the developing markets so that Finnish SMEs are able to fit their offered solutions into the available technological frame.

Two of the key informants had positive views of a collaborative approach in which other expert organizations, like research institutions, could perform the background work, studying the market in detail. In this scenario, SMEs, with their limited resources, would step in only after initial demand has been assessed or the initial concept responding to the demand has been created. All the respondents, including the key informants, emphasized that collaboration leading to jointly created offerings is a pre-requisite for entering developing markets and addressing development-related challenges: Finland is a small country and global competition is tough; Finnish companies need to join forces to be able to compete with solution providers from large markets. Interestingly, while the key informants suggested a continuing lack of collaboration amongst Finnish SMEs, most of the BEAM-funded projects researched (n=4/5) incorporated collaboration not only between companies in Finland and developing countries but also between Finnish companies.

4.5 LIMITED IMPLEMENTATION OF CR AND INCLUSIVE BUSINESS APPROACHES

CR is an important element in private sector engagement for development that is also highlighted at policy level in Finland, with the Government of Finland considering it important that the private sector adheres to best CR practices and obligations. Implementation of responsible business practices is a government requirement for all companies that receive funding (Ministry for Foreign Affairs, 2016a). Positive development impacts are a pre-requisite for BEAM funding, and Finnpartnership outlines criteria specifically for CR: all companies receiving Finnpartnership BPS funding need to comply with internationally accepted social and environmental standards as well as local legislation related to environment, employee rights, and so forth (Finnpartnership, 2017). Based on the typology presented in Chapter 1, CR consists of philanthropy, CR Integration, and CR Innovation (Halme & Laurila, 2009). Those companies (n=10) that promoted solutions addressing development-related problems can be considered as falling into the category of CR Innovation, as their products and services provide solutions for social or environmental problems, while CR Integration was especially relevant to those companies that had received Finnpartnership BPS (n=10) with responsible business practices as a pre-requisite for funding.

Up until 2016, Finnpartnership offered companies a CR voucher which the companies could use to hire a consultant for CR assessment. In 2016, the voucher was replaced by a common CR workshop (Finnpartnership, 2017). Three companies had used the voucher at the time research took place, as it was still available in 2015, and all saw value in it, as it involved someone analyzing their business from an outsider's perspective; two companies added, however, that assessment did not result in anything new as the issues raised had already been identified. Only one company saw the assessment as important with regards to the development of its practices as it meant that social and environmental issues were scrutinized in more depth than usual.

In terms of CR Integration, along with taking environmental responsibility, topical concerns for the respondents included withdrawing from corruption, tackling health and safety issues, and ensuring that Finnish values and principles also guided the company's work in developing countries. Some companies (n=5) emphasized the importance of 'the Finnish way of working' when asked about their CR efforts. Companies stressed the importance of finding the right partners with whom to work, which incorporated other efforts including training the partner network in social and environmental issues (n=5), showing a good example (n=2), and including CR clauses in contracts (n=2). Extending CR beyond the value chain and combining Finnish CR requirements with local cultural elements are some of the issues that companies are also thinking about.

Even though many of the studied companies (n=10) promoted products and services addressing development issues, current CR innovations do not include business model innovations such as incorporating low-income communities into supply chains as consumers, retailers, suppliers, or distributors. Only two of the studied companies fulfil the criteria of inclusive business; in the rest of the cases low-income communities are not included as retailers, distributors, or suppliers, and products do not target them. Even though some of the studied companies were familiar with the inclusive business approach, the interviewed key informants confirmed that the idea of employing inclusive business models was still alien to most Finnish SMEs. The Development Policy Committee also notes this poor understanding of inclusive business opportunities and trends in Finland in its Annual Report, indicating the lack of tailored consultancy services in this regard (Development Policy Committee, 2017).

Even if a company is familiar with the opportunities offered by inclusive business models, developing a product, or designing a business model for delivering the product or service at lower price to low income markets, is a complicated challenge. As one respondent observed:

[T]he idea is that ... everywhere in the world everyone has the same needs no matter how much money you have, and you don't want muck. You want the good stuff. And the problem is that you need to use your head and reason to figure out how to get the costs down. (C14)

Companies may turn away from markets when current solutions do not fit them, without analyzing the possibilities of moving forward despite the obstacles. One respondent responsible for a company's business expansion in developing countries stressed the point by giving an example from a discussion with a colleague from the same company:

[F]irst, let's develop the business model; what works in Finland doesn't necessarily work, for example, in Africa or Asia. ... [T]he model doesn't work there as people are not used to paying for that [service, as they are in Finland]. Well, then we immediately say, 'Hey, then this won't work.' No, you need to think about it differently, to start again in order to find a working business model. (C6)

To summarize, few additional efforts are being made by the interviewed companies to develop their CR practices. The majority promote solutions that address development issues, but the current product and service offering and business models do not include innovations in the sphere of inclusive business that would allow low-income communities to benefit from what is being offered.

5

PERCEIVED OPPORTUNITIES AND HINDRANCES IN DEVELOPMENT CO-OPERATION

This chapter looks at the opportunities that the Finnish private sector sees in development co-operation, including collaboration with the development community; it also addresses issues concerning current funding instruments.

5.1 DEVELOPMENT ORGANIZATIONS PERCEIVED AS POTENTIAL CUSTOMERS

Because the studied companies do not see themselves as actors in development co-operation, they do not greatly consider the opportunities that it could offer beyond that of providing a market for their products or services among ODA projects or international organizations such as those connected with the UN. One respondent saw participation in development co-operation as something different from everyday business, but suggested it could provide a less risky market entry into developing countries than ordinary business trajectories:

Yes well, it's its own world a little, that side [of doing business with development organizations]; but if you get to swim with the projects, then it's maybe less risky and easier business, and then you work on a budget of some sort. (C10)

Some respondents have recognized the opportunities that development finance institutions can provide for the private sector. Three said that their companies had discussed project, pilot, and investment finance with finance institutions. Meanwhile, two of the key informants stressed the opportunity for the Finnish private sector to get involved in development co-operation by promoting their solutions to international organizations and projects funded by development finance institutions. However, according to the interviewed experts, Finnish companies do not know how to get involved in the projects or tendering processes, and do not have the resources to explore these possibilities; thus Finnish companies seldom manage to capitalise on such opportunities. A similar observation was also noted in the Development Policy Committee's Annual Report (Development Policy Committee, 2017).

According to one respondent, the bureaucracy of international organizations is huge from the perspective of Finnish SMEs and it is very difficult for a small Finnish company to do business with them – at least without appropriate references:

And there [during a visit to a development organization's sourcing unit] I learned that it's impossible to sell to them; that since we're this tiny fly-crap shop, we don't have anything more than quite a lot of expertise. ... [T]he expertise is quite amazing and we could take advantage of that, along with a great deal of enthusiasm and a vision of what we're doing. But selling that to UN organizations is impossible in practice if you don't have a reference. (C14)

Another company had recently hired an expert to explore the opportunities within projects funded by development finance institutions and other international organizations.

The findings from this study indicate that the Finnish SME sector needs backing to tap into this opportunity. SMEs could, therefore, benefit from concrete support by experts who can advise companies on how to get access to opportunities offered by big international organizations and development finance institutions. Delegation visits to organizations like the UN have their role, but from there it is still a long way to actual business.

5.2 COLLABORATION OPPORTUNITIES WITH DEVELOPMENT NGOs ARE HARD TO IDENTIFY

Donor countries, including Finland, note the importance of collaboration between companies and developing NGOs in order to advance development (Development Policy Committee, 2017; Ministry for Foreign Affairs, 2016). Indeed, the study discovered that some companies have actually formed various partnerships, but not with development NGOs. Instead, their networks consist of other companies, both Finnish and local, universities / research centres, and, in some cases, local industry or expert associations. Support is also provided by consultants, embassies, and other public sector organizations, once again both Finnish and local. According to some respondents there is very little experience of collaboration with development NGOs amongst Finnish SMEs and when there is, it is limited to discussions or brainstorming sessions (n=4) that, to date, have not resulted in joint projects.

There does not seem to be much idea of what potential collaboration might entail. Those companies thinking about it either consider development NGOs as their potential clients (n=6), recognize the value in information exchange (n=3), or rely on local NGOs' support for licensing procedures. Amongst those companies that see NGOs as potential clients, two – representing the healthcare and education sectors – emphasize the collaboration aspect: combining NGOs' local knowhow with private sector solutions would provide the likeliest opportunity to enhance development. Alternatively, development NGOs could define the problems and the private sector could help them by developing solutions. Only one company noted that development NGOs could help companies understand development impact better.

Six respondents elaborated on the strengths of development NGOs, the most important being local knowhow and valuable work at the grass-roots level. Thus, according to the respondents' views, such NGOs could support companies by providing them with local expertise and local contacts, as these are elements that SMEs often lack. One respondent put this into words when observing that companies rarely have in-depth understanding of local cultural and social dynamics, as their focus is very much on developing the core business. Yet it was also argued that unsuccessful business ventures derive from a lack of the cultural understanding that can be obtained from presence in the market, and observing and listening to the local people:

Certainly, often in these initiatives in faraway lands, small businesses have been disappointed when they've checked the business realities and ... the facts, but then the cultural environment and the social structure there – which has not been looked into very well – produce hindrance factors ... that have even led to the situation where a business is not sustainable. (C12)

The need for local level business development support was confirmed by all three key informants, which, they stated, was rather difficult for Finnish SMEs to source.

About half of the respondent companies (n=6) had similar views on the obstacles to their collaborating with development NGOs, the main ones being the variation in target groups and different focus areas (n=3): even if companies, in principle, were open to collaboration, they did not recognise opportunities in their field. One respondent noted that they would be happy to work with local NGOs but that the non-profit sector in the target country was weak. A couple of respondents (n=2) also complained that NGOs were a bit too traditional and lacked innovativeness:

As a development aid organization, they have good and very stable ways of working but these are also inflexible and old-fashioned and don't advance things. And they work a lot in the educational sector too, but you don't see radical solutions there either; rather it's working by candlelight. (C8)

Other barriers perceived by the respondents include the rarity of mutual encounter (n=2) and the difference in time spans of business and NGO operations (n=1), while one healthcare company simply found it difficult to figure out what the company could offer to a development NGO.

Prejudiced attitudes regarding potential relations between NGOs and companies were discussed by three respondents with conflicting views. Two respondents thought that there was now more understanding between companies and NGOs:

It's a fact that somehow both sides have tried to meet halfway; they see that it's possible to do good in that way as well. (C9)

On the other hand, one respondent felt that there was still a lot of prejudice, especially about whether companies aiming to make a profit could also benefit those in need – the same bias that the private sector encounters regarding its development efforts:

The traditional dilemma rises from the fact that companies only want to make money, others [NGOs] want to do good. But to be realistic, everyone, NGOs as well, needs to get their money from somewhere; no-one can work for free. (C8)

To summarize, it could be said that the private sector finds it hard to see collaboration opportunities with development NGOs and is unlikely to approach them unless the collaboration is, for example, mandated by the funding instruments.

5.3 INSUFFICIENT FUNDING HINDERS THE REALIZATION OF FULL PROJECT POTENTIAL

The companies agreed that the development of financial instruments would improve their ability to promote development through their businesses. For them, the biggest challenge was the current level of funding which is seen as inadequate. With small sums of money one can only do small things, noted one of the respondents when criticizing the Finnish tendency to distribute the funds to everyone, not to those projects that offer the most potential:

Probably as a result of the social democratic system, when you have an organization like Finnpartnership or Tekes, they distribute equally small amounts of money to all. (C14)

Respondents hoped for an increase in funding to allow them to develop their businesses beyond the initial phases of market entry to market research and partner search, and provide them with the opportunity to construct real pilots.

[W]e do get support for these travel expenses and labour expenses and stuff. And for all kinds of surveys, feasibility studies, whatever. But the question remains of how to get to prove the technology. (C6)

The companies participating in the research looked for support for the first references, and the meagre funding made it difficult for them to exploit identified opportunities:

[T]o get these crazy risk-takers there – myself included, but I luckily didn't know what I was getting into - we'd need a [funding] instrument with which we'd dare to go to Africa. (C10)

This 'missing middle' – the lack of funding for medium-sized projects falling between Finnpartnership BPS and Tekes BEAM (which target initial project phases), and Finnfund funding for large-scale projects – was also identified in a Finnish 'Aid for Trade' evaluation report published in 2016, as well as in the Annual Report 2017 of the Finnish Development Policy Committee. Both are in line with respondents' views that there should be instruments available for all the phases of business engagement for development in emerging markets: from market entry to concept development, concept localization, and growth. (Development Policy Committee, 2017; van Gerwen, Poutiainen, Weitzenecker, Alanoca, & Efraimsson, 2016.)

Furthermore, delayed reimbursement was seen as a disadvantage, especially for those companies that were new and did not have a steady cash flow. Overall, respondents felt that the focus should be more on business potential rather than on past financial performance. Current development policy aims at reinforcing start-up companies' contacts with developing countries (Ministry for Foreign Affairs, 2016a), but current instruments requiring a sound record of past commercial performance are not start-up friendly.

A few companies would also like to see a bit more flexibility in the current funding instruments, for instance in terms of initial choice of target markets. Respondents familiar with a number of instruments and with experience of their application and reporting procedures do not consider Finnpartnership or BEAM requirements complicated. However, they agreed that reporting on the results of the funded activity requires a certain expertise, and they also called for a little more flexibility in reporting requirements: substance should be more important than presentation, not vice versa. Yet one of the company representatives pointed out that changes in the instruments take place at a very slow pace; indeed, the only change he had seen in Finnpartnership's ten-year history was the opportunity to include visa costs in the project budget.

Other ideas presented by companies regarding the development of the funding instruments include:

- Government guarantees: The government could introduce a performance guarantee that would allow Finnish SMEs to expand their business by reducing the risks when developing-country buyers invest in development-enhancing technology offered by Finnish SMEs.
- Accelerators, especially for start-ups: Instead of providing start-ups with money, funding could be utilized to provide them with facilities such as office space, IT equipment, and so forth.
- Loan and grant combinations: One respondent noted that he would be very happy to pay back the support money if the project were ultimately successful, provided the money were treated as a grant in the case of failure due to reasons external to the company.
- Follow-up during the project period: More systematic follow-up during project implementation would, on the one hand, support SMEs in their business development and, on the other, keep the donor up-to-date on the project's advancement.

The research findings support the Development Policy Committee's recommendation that the needs and requirements of SMEs should be taken into greater consideration. However, at the same time, the criteria for development impact, the related guidance, and the monitoring and evaluation mechanisms associated with the funding instruments are to be developed (Development Policy Committee, 2017). The studied companies need donor assistance and they would like to see improvements in funding instruments so that they could better develop their businesses and advance development through their solutions. Yet it was also noted that companies develop their businesses at their own risk and many emphasized that the resulting responsibility is their own. Ultimately, support is needed for developing something new – not for running the business in the ordinary manner.

What the study has not managed to establish, however, despite the concurrence of views from the private sector and the Development Policy Committee that SME requirements should be taken into greater consideration when encouraging companies to engage for development, is whether increases in funding for Finnish companies would help them to contribute in concrete ways to the reduction of poverty through their business expansion into developing countries.

6

CONCLUSIONS

Despite the international trend towards emphasizing the role and potential of the private sector to achieve development policy goals, such as those stated in Agenda 2030, there has been very little research carried out on private sector engagement for development. Thus, the objective of this study was to generate data and analysis that would provide a better understanding of how the Finnish SME sector is positioned to respond to increasing government expectations that it will start to generate positive development outcomes. The topic was addressed by exploring private sector perceptions of development and development co-operation, the role of companies in this field, and the development impacts delivered through their activities in developing countries. Moreover, the study looked at the private sector's operations in developing countries alongside their business goals and how they relate to Finnish development policy objectives. The results can be summarized as follows.

FIRST OF ALL, the companies that participated in the study did not share a uniform perspective on ongoing changes in the development paradigm. Views ranged from the recognition that a stronger integration of aid and trade and increased private sector participation in development was taking place, to a lack of awareness that anything was happening in the field of development co-operation. Other notions about changes that had taken place included suggestions of increased collaboration among actors, increased private sector concern with sustainability issues, cuts in ODA funding for NGOs, and NGOs' resulting interest in sourcing business partners.

One aspiration that has appeared in relation to SDGs and Agenda 2030 is for the private sector to take an active role in development. Yet analysis of the research data indicates that the studied Finnish SMEs do not consider themselves actors in development co-operation, even if they utilised BEAM or Finnpartnership funding for their emerging-market business development. Despite the relatively small sample size, it is safe to assume that similar views are shared by the SME sector in general, particularly when it is taken into consideration that most Finnish SMEs only conduct business in Finland. Nonetheless, the SMEs seemed to perceive that that private sector can promote development through its actual business activities, and that the sector has several strengths compared to traditional development actors, such as the continuity provided through successful market entry compared to the discontinuities produced by project-type work. It was also argued that business efforts are based on the real needs of clients, that they are innovative compared to traditional ways of working in development co-operation, and that they deliver benefits to both the Finnish and developing-country economies. In general, however, perceptions of development co-operation were more critical than positive. Traditional development co-operation was seen to be inefficient and dependent on old-fashioned methods.

SECOND, as the existing literature points out, donors are nowadays calling for private sector engagement for development on the assumption that, by taking an active role in development co-operation, the private sector can create positive development outcomes through its business activities. This also applies to Finnish development policy. The majority of the studied SMEs aimed to address development-related problems either through the creation of new concepts, or through their existing products and services. This stems partly from the fact that most of those interviewed represent sectors wherein the potential to achieve development impact is considered high – such as education, energy, the environment, healthcare, and food and agriculture. Thus, in this regard, they comply with the general criteria for private sector engagement for development and meet government expectations. However, there are also some companies amongst those interviewed that are looking for new markets for existing products or services that do not address development issues *per se*, and have utilized

the support provided by funding instruments in rather traditional market expansion projects. This course of action, in terms of the transferral their technical expertise, also satisfies the development needs communicated in Agenda 2030 and is in compliance with Finnish development policy; furthermore, the studied companies are rather well placed to address social and environmental problems. Nevertheless, the data indicates that Finnish SMEs seldom reach the most vulnerable groups in developing countries with their products or services, or address complex societal issues which require more ecosystem- and system-based solutions: that is, in-depth knowledge of the context.

THIRD, one of the key findings of the research was that there is a clear discrepancy between business goals – profit generation – and development goals: namely, eradication of poverty amongst the most vulnerable groups in the least developed countries. There are several reasons for this. For example, most of the SMEs have limited resources and limited risk-taking capacity, and therefore they seek stable operating environments with sufficient infrastructure and solvent clientele to make expansion worthwhile, whereas, in order to meet development policy objectives, more efforts should be targeted towards the least developed countries and low-income communities. It was admitted by several interviewees that a paying clientele equates with a rich and middle-class, urban and semi-urban population for whom the products and services are developed, so far leaving the majority of poor populations in rural areas outside the scope of their entrepreneurial activity.

FOURTH, creating development impact is a key prerequisite in development co-operation and the ultimate goal for all actors engaged in it. This should also be a concern with regards private sector engagement in development, especially when ODA funding is used by the companies so engaged. However, discussions of impacts are confused and problematic; companies do not distinguish between output, outcome, and impact – a task that is also difficult for development professionals at times – but rather consider all changes occurring as a result of their activities to be impacts. The precise and actual development impacts which the private sector has had in emerging-market countries are beyond the scope of this study, but the findings suggest that the studied SMEs do not produce them for several reasons: 1) employment opportunities, if any, arise mainly for those with skills and thus offer few opportunities to the most vulnerable groups; 2) local private sector development remains limited as in most cases local enterprises are mainly clients – or alternatively agents or re-sellers – of the goods and services of Finnish companies; 3) apart from a few exceptions, the interviewed SMEs have not had the opportunity to explore the benefits of inclusive business models that incorporate low-income communities into supply chains as consumers, retailers, suppliers, or distributors. And as indicated above, the so-called business and development ‘markets’ have compatibility challenges, meaning that the SMEs are very unlikely to address poverty-related issues – at least directly.

FIFTH, the SMEs themselves acknowledge some of their limitations: their often relatively small size, the nature and challenges of developing markets, and the type of funding available. According to the SMEs, they could achieve more if there were more comprehensive funding available to allow proper piloting of new concepts or the sharing of risks associated with entry into developing-country markets. Still, based on the research results it cannot be confirmed whether any increases in funding would result in SMEs' addressing the issue of poverty or even considering the connection between their business and development impact in more depth than currently.

SIXTH, as far as other perceived opportunities to participate in development co-operation are concerned, the data reveal that it is difficult for the private sector to think of possibilities beyond offering products and services to the development community. Development NGOs lie outside the SMEs' current partner networks and even if the SMEs are, in principle, open to collaboration, it is difficult for them to envisage co-operation opportunities within their sector and within their area of operations. Thus SMEs are unlikely to approach NGOs for purposes other than sales and marketing. On the other hand, several SMEs involved in this study indicated the need for support at the local level in developing countries. In particular, development NGOs were expected to have the solid contextual knowledge that the companies often lacked. It is important that development NGOs that might be interested in collaboration with SMEs are made fully aware of the latter's limited understanding of the potential benefits of such collaboration.

FINALLY, what do these results indicate for the government officials that aim to enhance private sector engagement for development? It is true that Finland has a large SME sector, but it is highly unlikely that large numbers of SMEs are interested in, or willing to take the risk of, entering the emerging markets. Even if some SMEs make the effort to do so, it is unlikely to generate development results and impact for the most vulnerable groups, such as children, that in many developed countries represent more than half the population. The societal issues are extremely complex and require holistic and contextualised problem-solving, which is beyond the knowledge and capacity of many Finnish SMEs. Thus, there is a tendency to offer solutions based on existing products or services, and even if there is a genuine will to develop new products that would better meet local needs, the SMEs do not consider the assistance offered by current private sector funding instruments sufficient for market penetration. Thus, should the Government of Finland be determined to support the engagement of the Finnish private sector for development, critical assessment and rethinking of its current approach is required in order to develop a clear vision and goal for this, based on a theory of change backed up by a solid implementation plan and relevant key performance indicators (KPIs) to monitor the results and impact.

7

LIMITATIONS AND FUTURE RESEARCH

7.1 LIMITATIONS OF THE STUDY

This study has some limitations. First, the sample consists of only fourteen companies out of nearly 360,000 SMEs in Finland (Tilastokeskus, 2015). Thus the findings cannot be generalized to represent the Finnish SME sector as a whole or even those SMEs that are active in developing countries. Interviewing a larger number of companies or extending the research to cover also those companies that are not active in developing countries, or that until now have not utilized funding instruments like BEAM and Finnpartnership, would possibly have altered the findings. Complementing the qualitative interview data with a quantitative survey would have allowed a greater number of companies to be targeted and thus would have provided a better foundation for the generalization of research findings. However, as the sample was deliberately chosen to represent different companies

from different fields that utilise existing funding instruments to enter developing-country markets, there is reason to argue that, despite their small number, they comprise a representative sample of those SMEs that were the study's main locus of interest. It should also be emphasized that primarily qualitative research is a form of knowledge production that aims at increasing our understanding of the topics at hand as well as factors contributing to how things are, thus having the ability to show the real-life complexities of issues we study.

Research mainly focused on industries where there is a good potential to promote development through products and services, such as agriculture and food, education, the environment, energy, and healthcare. However, as BEAM and Finnpartnership funding is also available for more traditional industries, it could be useful to research how they see their role in development co-operation and how they promote development through responsible business practices.

The study was wide in its scope. There is very little research into private sector engagement for development and thus this project aimed to generate overall understandings of the theme. However, it was not possible to study all the covered topics in depth, leaving many of those raised here open to further research.

The study examined how companies promote development, identifying strengths and several limitations regarding the private sector's qualifications to generate positive development outcomes. However, actual private sector impact on development was beyond its scope as data were obtained solely through interviews with company representatives. Also relevant was that the interviewed companies were at different stages of their entry into developing countries and thus, especially those in the early stages, could only speak about their potential rather than actual contribution to development. Moreover, development can be framed and understood in many ways but there was not the space for this study to enter the field of conceptual analysis to determine precisely what the companies meant by development; more comprehensive understanding of development impact on the part of SMEs would require case studies with multiple data collection methods.

Finally, the interviewees included mainly company owners and CEOs but also employees. The role and background somewhat guided the interviews and defined the focus, especially in terms of the depth in which individual projects funded through BEAM or Finnpartnership were discussed.

7.2 RECOMMENDATIONS FOR FUTURE RESEARCH

As mentioned in the previous section, the research perspective was very wide and thus it left – and opened – many areas to future research. All topics covered by the study could be examined separately in depth, but below are some more detailed recommendations for future research that stem from the findings presented in this report.

Firstly, an area that should be explored more deeply concerns development outcomes of business as there is very little evidence-based knowledge of the topic. Future research could examine the outcomes of individual projects or take into consideration the entire value chain. SDGs could provide an interesting starting point for analysing the impacts in more depth.

Secondly, it would be interesting to explore private sector perceptions of development co-operation and company / development NGO collaboration more fully by investigating a larger sample or looking at the questions addressed in this report from the perspective of a large enterprise.

The third area that requires further research relates to business and human rights in the context of development co-operation: how should a human rights-based approach be applied in a business context and especially in the SME context? Other CR aspects deserve further attention as well: how should companies that have the potential to advance development through their product and service offerings integrate the CR into their operations?

The fourth area that calls for further attention is that of the inclusive business models that have been proposed as a method of advancing development through the efforts of the private sector. So far, inclusive business models have been studied mainly in the context of international and large-scale enterprises. It would be interesting to see how good practices in this area could be applied to the Finnish SME sector and be used in the ODA context.

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