Second International Business Forum on Financing for Development

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Panel One: Proposals for Building a Stable Public-Private Framework for Development

"Maximizing Effectiveness of Development Finance Institutions: Dynamics for Engaging the Private Sector and NGO's"

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Excellencies, distinguished guests, ladies and gentlemen.

Today's extraordinary financial and economic challenges are at the forefront of everyone's thinking. Our most direct concern during this global economic downturn and at this important conference is: How can we in this crisis hope to meet the urgent financing needs necessary to achieve the ambitious and meaningful Millennium Development Goals (MDGs) ?

Let us all remember that before this recent crisis, the role of official development assistance (ODA) was no more than a small fraction of the capital flows to emerging market (EM) countries—excepting some of the least-developed countries (LDCs). Private capital has been the dominant force that has spurred the investments which have transformed the lives and incomes of a vast and growing number of our fellow citizens on this planet. Private capital has NOT been a "coward" when attracted by a growing number of emerging nations; countries have improved their institutions and governance, and have implemented sound macro-economic and social policies. Before today's financial turmoil, there was an ever expanding private-public framework to support sustainable development goals. Private international capital flows complemented official development funds (bilateral and multilateral) and domestic capital (public and private). The optimistic view was that this was going to continue without constraints indefinitely as globalization interconnected our planet. The growth of financial services, the diversity of innovative products and the increasing willingness of financial players to go into frontier countries and regions powered globalization and market growth. The past few decades saw higher flows of global private capital to the developing world and expansion of corporate social responsibility (CSR) funding for development initiatives. At the same time, robust economic growth in the industrial countries led to the higher tax receipts which permitted those governments to fund increasingly higher levels of ODA.

Now we are dealing with a different set of variables, a global contraction that will either be relatively short-term (2009 end of recession) or have a much longer negative impact on the world's economy. *This gives all of us an opportunity to challenge our own thinking about the intersection of the private and public sectors in supporting development: the methods, structures, partnerships, results, scalability and effectiveness.*

In my brief time on this panel, I would like to focus on a few of the dynamics of private sector relationships with Development Finance Institutions (DFIs) and what we have learned that may help institutions maximize effectiveness and results. A range of reports have focused superbly on the challenge of optimizing private cooperation with DFIs. These include the World Economic Forum's "Financing for Development Initiative", the World Economic Forum's "Global Corporate Citizenship Initiative", and the International Business Leaders Forum (IBLF) Business Action for Development Symposium in May 2005 with the UNGC and the UNDP.

From my own vantage point of serving between 2001 and 2005 representing the U.S. Government on the World Bank Board of Directors, I came away with impressions from direct interaction with private sector players (both corporate and non-profit) working on the ground with the bank, IFC and other DFIs. I would like to set out three priority areas which I believe are critical to dynamics to maximize the effectiveness of DFIs in their synergies with private partners to deliver the promise of the MDGs in the very narrow window of time that remains. My views relate both to individual institutions and their relationships with each other, as well as their cooperation with private sector counterparts.

First, Expand DFIs Results-Focused Engagement with the Private Sector In Client Countries

Most people in DFIs would argue that they do very much engage the private sector—both in their headquarters (HQ) and in the client countries they serve. That is true. However, building a bridge of trust and confidence at the base of all country operations that systematically engages the private sector wherever appropriate could catalyze tremendous synergies.

DFIs each generally do their own business plans. In the case of the World Bank, this business plan is a 3-year Country Assistance Strategy(CAS). The CAS is negotiated internally within the WB and with the client government counterparts to determine the specific level and structure of funding, priority projects and programs, and the goal/focus generally. For the poorest countries, there are nationally-developed and negotiated Poverty Reduction Strategy Papers (PRSPs), which become the country's official platform for engagement with donors to achieve development objectives. In both instances, private sector input is often only marginal and dependent on the interest of the DFI country representatives. The private sector CAS contribution, for example, is usually left to the International Finance Corporation (IFC) official. In the case of one PRSP, I recall specifically the tremendous achievement when the WB Country Director in Ethiopia was able to bring together private sector leaders with senior government officials for the first time in history to discuss priorities within the "official" development plan. Despite official documents which call for consultation with the private sector, this interaction appears often to be limited and ad hoc, with a "silo" approach that treats investment climate and private sector apart from the core of development planning with governments. And, often the consultations with the private sector are primarily with NGOs and/or local business associations. We are not yet systematically bringing the private sector into development planning in many cases. This is unfortunate, because local SMEs and business associations, international corporations with a presence in country and both local and international NGO have a strong understanding of the real, practical constraints to economic activity or social service delivery. I personally have learned as much in developing countries from local individuals operating SMEs than from official discussions/consultations with governments. In these direct interactions, one can see directly how government institutions actually function in delivering services and regulation, daily problems with operational supply chains or infrastructure failures, the access and costs of financing, wages and on-the-ground labor relationships.

As one colleague from the financial sector observed to me about DFIs: "We see in many cases the same people (DFI officials) talking to the same people on the official side all the time. They talk to each other and are not stepping out of their own comfort zone; many don't trust the commercial sector."

Proposed: The World Bank/IFC "Doing Business" annual reports have become a major benchmarking tool for governments' performance in supporting dynamic investment climates. I would propose that DFI's systematically mainstream consultations with the private sector in client countries across the range of social, economic and institutional programs, and in their institutions generally—with accountability for specific deliverables and time lines. The Doing Business scorecard is a good starting point for a regular quarterly dialogue with targeted priorities and deliverables. Rather than ad hoc consultations, depending on the skill sets or interests of a country team, a dialogue with the private sector must be become a structural component of DFI country programs and country teams across the board, and not only where direct private sector arms of DFIs (eg, the World Bank Group's International Finance Corporation/IFC) provide financial and technical assistance. ***A standardized template should be adopted by all institutions that establishes a regular process for engaging local businesses, foreign investors, and NGOs, with specific initiatives targeted for results. This systemic communication would underpin confidence-building across public and private initiatives in collaborating on specific project results on the ground, specifying accountability and evaluating them for results and scalability.*** *It also supports sharing knowledge in a real-time exchange that can contribute to due diligence, provide valuable feedback to DFI projects/programs, and identify potential private sector synergies and cooperation in meeting development objectives. The participation of private sector players should not only be viewed as a source of finance or (in the case of NGOs) a delivery mechanism for DFI projects ; DFI staff on the ground can benefit from private sector management experience and/or technical capabilities.*

Second, Improve and harmonize DFI institutional processes to catalyze private sector actors

DFIs have a range of products to finance development—from grants and highly concessional loans to the IDA countries, to commercially-priced loans, loan guarantees, PRGs, local currency lending, swaps, environmental bonds and a range of structured products and credit enhancements designed to specifically catalyze and leverage private finance for development. The DFIs have been tremendous innovative and achieved great breakthroughs in the range of products and services they currently can offer in their client countries. At the same time, many private companies and NGOs are frustrated by internal DFI procedures, rules and processes that raise transaction costs and inhibit the participation of private capital investment. DFIs each have their individual standards, documents, procedures, etc. which complicate engagement of the private sector, especially when several DFIs are engaged in the same major project finance. The DFIs have been working together on a"harmonization" agenda for several years, including cooperation on anti-corruption; however, more must be done on an accelerated basis to harmonize rules on procurement and lending operations, to simplify and streamline the processes for private sector engagement—without diminishing regulatory compliance or creating conflict of interest. Delegating decision-making to the country or region can improve the timeline for processes, with appropriate oversight. Virtually every company I know has complained that the public sector time line for processes in approving DFI projects and/or loan approvals (or equity participation) are substantially different from normal private business practices. But I have seen the other side of the story. When the World Bank completed preparation of a highway loan for Afghanistan for board approval in only 9 months (virtually normal time lines of 2-3 years in loan preparation), I commended the WB team who explained that they had streamlined processes on this priority project by getting approval to do a range of tasks more efficiently—including doing the social and environmental safeguard reports in tandem rather than sequentially! This was an innovative approach which was permitted for a high priority official sector project I've also seen official institutions better perform when partnering with the private sector on specific projects. In one case, it was the Cocoa Foundation's Sustainable Tree Crop Program (STCP) pilot village projects in Africa which doubled smallholder farmers' income within one year. When I asked the representative of the Institute of Tropical Agriculture (the public partner in this initiative) whether his normal time line for launching and delivering on a project was one year, he replied: "No, it is normally much longer. But our commercial industry partners set this goal for results and we had to meet it." I commented that those farmers had achieved the MDG in doubling income in one year INSTEAD of 15!

Proposed: ***DFIs should agree to set a results-based agenda for harmonizing DFI rules on the internal processes that are identified as priorities by private sector partners in support of project development and financing cooperation.*** *This can be done while still maintaining high standards. Improving standardized web-based documents and harmonizing fiduciary requirements would be a focus of this effort.* ***The Development Committee should also establish a high level private sector leaders consultation which meets regularly at annual and spring meetings of the institutions and is an official engagement which sets priority initiatives and monitors results.*** *I would note that when Jim Wolfensohn was World Bank President, he established a very senior level private sector advisory body that met every year with WB management.*

Third, Set DFI-Private Partner Metrics to Measure Achievement and Motivate Accountability

How many times have we heard the mantra: "You manage what you measure." Time and again, DFIs focus on appropriate metrics in building results-based projects and programs that have baselines with inputs, outputs, outcomes, impacts. Measuring economic as well as social results has driven corporations to develop strong corporate social responsibility (CSR)metrics. One such case is the impressive London Benchmarking Group (LBG) model which is a management tool that provides a standard approach for quantifying and valuing company-wide contributions to a community, including cash, time, in-kind and management costs as well as regulatory requirements. Different industries, sectors and business platforms, or NGOs operating in different sectors nonetheless all need to manage for results. Templates and measurement tools that are standardized can serve a very useful purpose. I remember the APEC E-Commerce Readiness Assessment, spearheaded by IBM and Harvard. It was a simple but superb tool for benchmarking APEC countries on their e-capacity in the 1990s; IBM, in partnership with the APEC-PECC Public-Private Partnership "RISE" (Regional Integration for Sutainable Economies" project applied that template to a medium-sized pilot city in China, Jiangmen City in 1998. IBM provided technical support and personnel to carry out that assessment with the city; it was the first done in APEC at a sub-sovereign level. What was the impact? Jiangmen become one of only 5 small cities in China to be named an experimental center for electronic data capacities by the government; these capacities were adopted for business, government services, cultural programs and social delivery systems. An indirect "impact" was that Jiangmen in 2002 was ranked as the highest secondary city in the World Bank's Investment Climate Survey for China. What you measure, you manage! Without appropriate management and accountability, a commercial business will fail or, in the case of an NGO, the necessary donor support will be withdrawn. When private partners are working with DFIs, the success of the partnership will depend upon the effectiveness of the business plan and "joint venture" structure. In every case, the venture must move from the general/macro development objectives to real issues. PPP's need to focus an agreement on a range of specific components that define the "venture" and purpose of the partnership—as well as identifying the actual project terms. These include: What is the responsibility/contribution of each party and each party's core business competence? Who is accountable for what components? How will those be measured? What is the time line/road map? How will the review process operate? What is the value-added of each party? What will the measurement be for ROI—economic and social? ALL of these components and the baseline must be established at the beginning of setting up any partnership; while there may be very different cultures in the DFIs, commercial businesses and NGOs and countries or regions, the basic format is universal. Unfortunately, detailed up-front preparation of private-public partnerships in a standard format that can then be benchmarked for results is not standard practice. This leads to "ad hoc" evaluations of results, and often only input/output spending calculations.

Proposed: It is time to establish a systematic process for effectively engaging private partners to maximize the performance of DFIs and benchmarking the performance of private:public partnerships on the ground. Only as projects succeed locally and in real time does development rhetoric become real improvement in the lives of people and their communities. ***DFIs should agree to jointly commit to a 6-month benchmarking initiative for "private-public partnerships" that draws on the work already done to standardize metrics for measuring results from DFI projects/programs and the joint activities of DFIs with NGOs and corporate partners. DFI and private sector partners would together develop a basic standard of good practices, an agreed matrix that becomes a set of templates with objective measurements of effectiveness in building solid partnerships that help DFIs improve their development effectiveness and real results****. There must be a shared commitment, supported by all stakeholders and partners; in other words they have to be on the "same page" and speak/understand the same language! These templates would make it easier to scale up, and scale out, good practices and reduce "ad hoc" agreements where key drivers of success are not specifically quantified. This can be a "dynamic" tool of engagement—by setting out transparent rules of engagement--for development effectiveness internally for DFI staff, management and country teams, as it reduces complexity and uncertainty for private business and non-profit partners.*

Closing Views

These suggested initiatives above may help build a better "roadmap"—or perhaps they might be the concrete and practical actions that will actually build a "global development expressway" catalyzing more effective resource use by private and public institutions. I hope that these proposals will provide a practical basis for improving the dynamic and effective relationships that are crucial to bringing real results to real people. Moreoso, I hope that they stimulate ALL OF YOU with vast experience in development to contribute your own ideas that will accelerate the achievement of the MDGs through increased effectiveness of partnerships.

We know that there are culture gaps between all three parties seeking to work together—DFIs, commercial enterprises and NGOs. All have a key role to play and the more that we all are willing to test out new ideas, explore business models that work, optimize shared management skills, adapt to local conditions and build confidence, the more that we can achieve together.

It is time for change in the way we "do" development, if we are to deliver the promise of real development. We must ALL become change agents, if we are to achieve the MDGs. Business as usual will not succeed. There is an urgent need for DFIs need to innovate and "globalize" to optimize their effectiveness-- just as commercial companies and private voluntary organizations are forging the joint ventures and mergers that optimize their results in global markets. They are leading and growing through "smart" business delivery systems and products lines. It is through this thoughtful, results-driven cooperation and shared commitment that we will create dynamic transition and transmission mechanisms that can benchmark performance, reward success and ONLY THEN achieve the necessary scale to deliver the promise of the MDGs. That is not only our hope. It is our moral commitment.

Thank you.