Profitable Development Solutions

How the Private Sector Can Contribute to the Post-2015 Agenda

BROOKINGS BLUM ROUNDTABLE 2013

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Global Economy and Development at BROOKINGS

The 2013 Brookings Blum Roundtable was hosted by Richard C. Blum and the Global Economy and Development program at Brookings, with the support of honorary co-chairs Walter Isaacson of the Aspen Institute and Mary Robinson, president of the Mary Robinson Foundation–Climate Justice. The Global Economy and Development program at Brookings examines the opportunities and challenges presented by globalization, and recommends policy solutions for a better world.

Recognizing that the forces of globalization transcend disciplinary boundaries, the program draws on scholars from the fields of economics, development, and political science, building on the worldwide reputation of Brookings for high-quality, independent research.

To address new challenges in development assistance, **the Global Economy and Development program** established the Development Assistance and Governance Initiative (DAGI). Through targeted areas of research on aid effectiveness, governance and anti-corruption, and reform of US global development efforts, as well as undertaking key convening activities like the signature Brookings Blum Roundtable, DAGI offers policy recommendations on how to improve the lives of millions around the world.

Propelled by the energy and talent of faculty and students committed to helping the nearly 3 billion people who live on less than $2 a day, the **Blum Center for Developing Economies** is focused on finding solutions to the most pressing needs of the poor. Spanning the University of California, Berkeley, Davis, and San Francisco, and the Lawrence Berkeley National Laboratory, Blum Center innovation teams are working to deliver safe water and sanitation solutions in eight countries, life-saving mobile services throughout Africa and Asia, and new energy-efficient technologies throughout the developing world. The center's Global Poverty & Practice concentration is the fastest-growing undergraduate minor on the UC Berkeley campus, giving students the knowledge and real-world experience to become dynamic participants in the fight against poverty. In addition to choosing from a wide variety of new courses, students participate directly in poverty alleviation efforts in more than fifty developing countries.

The mission of the **Aspen Institute** is twofold: to foster values-based leadership, encouraging individuals to reflect on the ideals and ideas that define a good society; and to provide a neutral and balanced venue for discussing and acting on critical issues. The institute does this primarily in four ways: seminars, young-leader fellowships around the globe, policy programs, and public conferences and events. The institute is based in Washington; in Aspen, Colorado; and on the Wye River on Maryland's Eastern Shore. It also has an international network of partners.

The **Mary Robinson Foundation–Climate Justice** is a center for thought leadership, education, and advocacy on the struggle to secure global justice for those many victims of climate change who are usually forgotten—the poor, the disempowered, and the marginalized around the world. It is a platform for solidarity, partnership, and shared engagement for all who care about global justice, whether as individuals and communities suffering injustice or as advocates for fairness in resource-rich societies. In particular, it provides a space for facilitating action on climate justice to empower the poorest people and countries in their efforts to achieve sustainable and people-centered development.

Foreword

From August 4 to 6, 2013, 60 preeminent development practitioners and thought leaders from the public, private, and nonprofit sectors convened for the tenth annual Brookings Blum Roundtable in Aspen, Colorado. Participants from around the globe exchanged ideas and concrete strategies about how the contribution of the private sector can be enhanced in the push to end extreme poverty over the next generation and how governments can work more effectively with the private sector to leverage global development investments. This report includes three topical essays that highlight some of the most prominent themes discussed and debated at the conference, drawing from the rich roundtable discussion and follow-up research.

Previous Brookings Blum roundtables have focused on innovation and technology for development (2012); challenges to global development cooperation (2011); development assistance reform for the 21st century (2010); tackling climate change in the midst of a global economic downturn (2009); building climate change resilience in the developing world (2008); the expanding role of philanthropy and social enterprises in international development (2007); the ties between poverty, insecurity, and conflict (2006); the private sector's role in development (2005); and the United States' role in the fight against global poverty (2004). Reports from these gatherings are available at www.brookings.edu/bbr, along with this year's companion set of policy briefs (for more information, see page 35).

Acknowledgments

The roundtable was made possible through a generous grant from Richard C. Blum, chairman of Blum Capital Partners and founder of the Blum Center for Developing Economies at the University of California, Berkeley, with additional support from the Bill & Melinda Gates Foundation. The roundtable's organizers extend special thanks to Brent Franklin, Christina Golubski and Steven Rocker for excellent event planning and coordination, and to Aki Nemoto, Kristina Server, Jacqueline Sharkey, and Mao-Lin Shen for ensuring the meeting's success. We also extend our appreciation to the William and Flora Hewlett Foundation, the Australian Department of Foreign Affairs and Trade and other donors for the broad support they have provided to the Brookings Institution's work on foreign assistance reform and aid effectiveness.

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Introduction

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Deliberations around the expiration of the Millennium Development Goals and what comes after them are infused with optimism that the end of extreme poverty is within the world's grasp.

When United Nations secretary-general Ban Ki-moon convened a high-level panel to forge a new global post-2015 Development Agenda, the centerpiece of the group's final report called for "eradicating extreme poverty from the face of the earth by 2030."[1] The prospects for achieving this goal do not seem so far-fetched; half a billion people have been lifted out of extreme poverty (those living under $1.25 per day) since 2000 alone. However, further progress will require broad-based and sustainable economic growth across the developing world, innovative and affordable ways to deliver basic needs for the poor as well as major new investments to tackle global challenges such as climate change. Addressing these issues will require an all-hands-on-deck approach from all the players involved in international development. Notably, the private sector—from small and medium-sized enterprises to major global corporations—must play an expanded role if this vision is to be realized.

By some measures, this shift is well underway. In 2011, the combined private flows of the 23 traditional donor countries (members of the Organization for Economic Cooperation and Development's Development Assistance Committee) were four times larger than their official development assistance.[2] Private equity funds have become increasingly significant players in the developing world, even in Sub-Saharan Africa, where the size of investment funds and private capital investment in the region expanded 15-fold and 5-fold respectively in the 2000s. Meanwhile, the developing world is benefiting from the proliferation of thousands of social enterprises that seek to lower the price and increase the accessibility of a range of goods and services for the very poor while still turning a (modest) profit.

But while the private sector's emergence as a major contributor to international development is gaining recognition, it remains the fact that the private sector's pursuit of profit is its primary purpose and responsibility—not achieving development impact in low-income countries. The question of how these divergent interests can be better aligned so that the private sector can more effectively play a key role in international development is the focus of the first essay in this report, "Reimagining the Role of the Private Sector in Global Development."

This introductory essay identifies actionable areas that can enhance the development impact of private sector activity while overcoming the mistrust of other development stakeholders. These include promoting norms and business standards that raise levels of transparency and accountability, as well as resolving the constraints to blending commercial with philanthropic and official finance. In addition, it puts forward a taxonomy of private sector actors that distinguishes the range of constraints facing private sector actors and points to the need for more effective measurement of the contribution of the private sector to development.

The second essay in this report, "Goods, Services and Jobs for the Poor: Creating the Conditions for Private Investment," argues that investments in individual enterprises serving low-income customers can be complemented by focused efforts to foster the industry "ecosystem" within which enterprises operate. Improvements in industry-specific value chains, public goods, and policy and regulation have a direct impact on the viability and profitability of businesses and can act as a draw on private capital. This approach, it is argued, may offer the most promising path for accelerating discovery of enterprise solutions and the speed with which they are brought to scale.

The final essay, "Advancing US Leadership in Development," explores key issues concerning the US government's engagement with the private sector in pursuit of development goals. Specifically, the essay suggests practical reforms for US development finance institutions against a complex political environment. It ends by charting a way forward for the US government as it deepens its engagement in the post-2015 Development Agenda process.

The 2013 Brookings Blum Roundtable on the Global Economy was convened in August 2013 to explore how the contribution of the private sector can be enhanced in the push to end extreme poverty over the next generation and how government and other actors can work more effectively with the private sector to leverage their investments. This report's three essays highlight some of the most prominent themes discussed and debated at the conference, while both summarizing the roundtable discussion and exploring the issues further through independent research.

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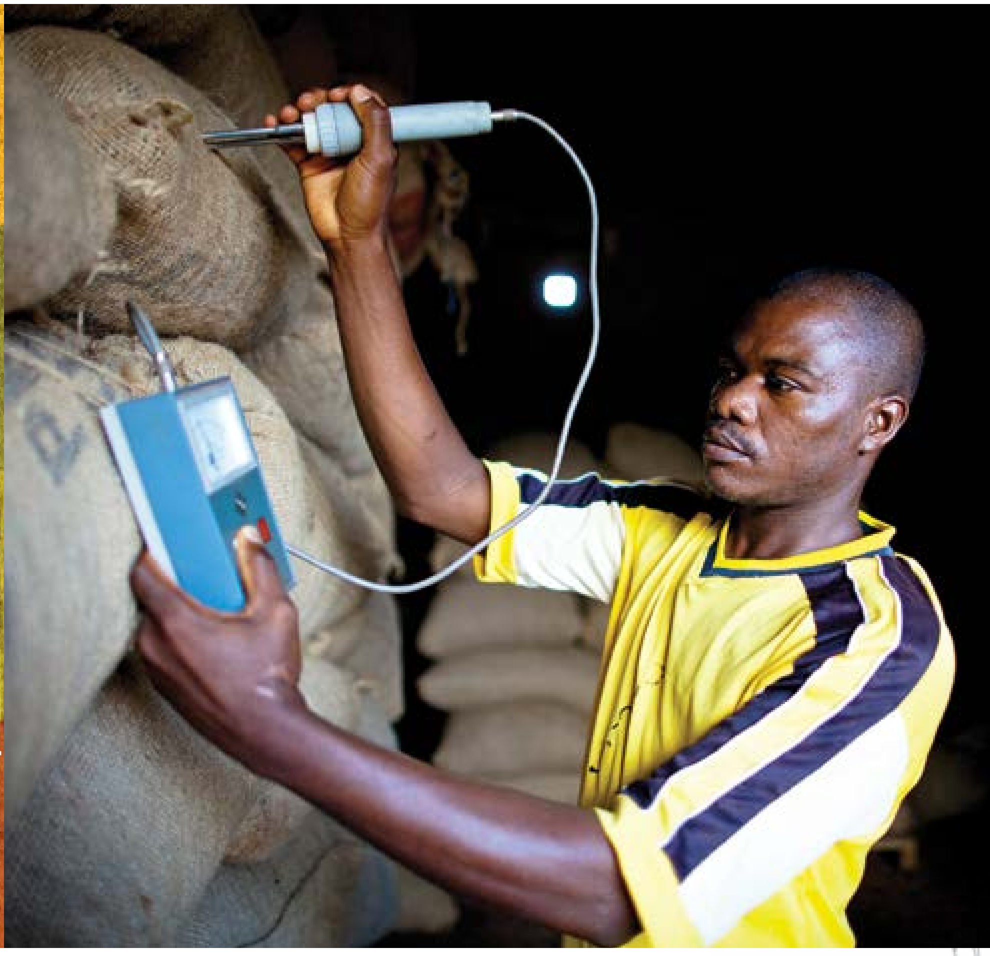
1. "A New Global Partnership: Eradicate Poverty And Transform Economies through Sustainable Development—Executive Summary," http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf.

2. Index of Global Philanthropy and Remittances 2013, http://www.hudson.org/files/documents/2013IndexofGlobalPhilanthropyandRemittances.pdf.

Reimagining the Role of the Private Sector in Global Development



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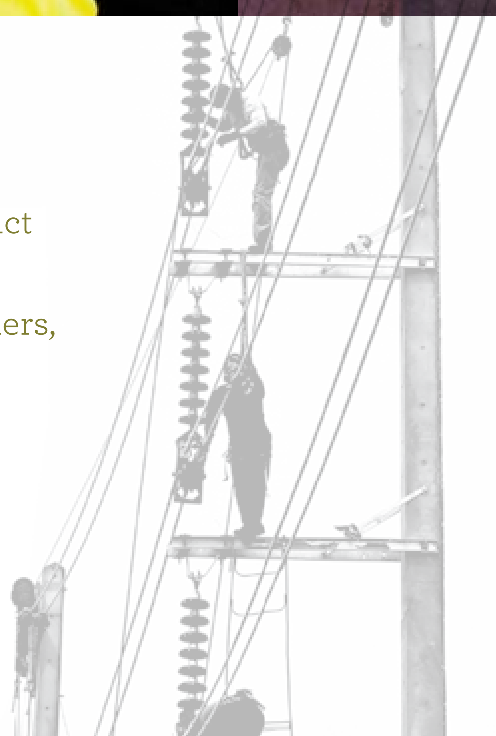

In the span of one decade, the private sector has become a prominent contributor to global development, even in low-income and postconflict contexts. But the principal purpose of private business activity is to make profits for shareholders, not to achieve development impact.

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These diverging interests can be aligned with better norms and standards, as well as voluntary improvements in business and aid agency practices, if efforts are made to blend commercial with philanthropic and official finance, and to build trust and accountability between development partners. However, to understand where the opportunities lie in these efforts, the private sector needs to be disaggregated into distinct types of businesses.

A Changing Context and Background

A decade ago, the idea that the private sector could become a major contributor to development was far-fetched. Today, it is acknowledged as not only a major player, but as potentially the major player. Since the 1980s, private foreign investment in developing countries has risen 15-fold; and since 2000, private capital has accounted for 80 percent of all capital flowing to these countries. Even low-income countries get one-third of their external funds from private sources. The private sector's role is so significant that it no longer even makes sense to discuss "the private sector" per se; there are many different types of private sector contributors, each making substantial contributions. The issues revolve around how these players interact with each other as well as with nongovernmental organizations (NGOs), with national governments, and with official development agencies.

Today, hundreds of private equity funds have a substantial track record of investing in small, medium-sized and scalable businesses around the world, with about 400 funds in China alone, as well as multiple funds operating in Africa, Latin America, Asia and elsewhere. These funds have demonstrated their development impact. Even using the narrowest measure of returns—after-tax financial returns—these funds appear to have performed better in developing countries than in advanced economies during the past decade. Yet, of course, these funds' ability to make money, not their ability to achieve development impact, has been the principal driver of private equity to developing countries.

Private equity funds in developing countries have made money through growth and scaled businesses, not through debt and leverage. Therefore, these funds put a premium on investing in countries with large, rapidly growing markets. Many developing countries have passed the threshold of minimum economic size that had hampered private capital flows, and so they are now better candidates for foreign private capital investors. With gross domestic product in many countries now running into the tens or hundreds of billions of dollars, it becomes worthwhile to consider whether there are enough opportunities for effective private investments. At the same time, households in these countries have more purchasing power. Several business models have cropped up showing that it is possible to make money all the way along the value chain when targeting households that spend more than $2 to $5 per capita per day, but that it is much harder to make significant profits when targeting consumers with income levels lower than this.

Another factor driving private capital toward developing countries is the emergence of better

Photo: © Julie Denesha for Mercy Corps

local partners and stronger local financial markets in these countries. Domestic entrepreneurs and investors help mitigate project and operating risk, provide significant informational advantages, and avoid foreign exchange risks. And local partners and businesses provide the "bankable" projects that were previously in such short supply.

Measuring the Private Sector's Development Contribution

Investment, jobs and tax revenues are all recognized contributions of businesses to development—as long as markets are operating reasonably freely, competitively and in undistorted ways. But in developing countries, these conditions cannot always be assumed to be a good reflection of how markets work. Absent them, there can be a major gap between what is good for business and what is good for development.

The most obvious example of this gap is basic corruption: when government officials grant companies special privileges in return for private gain. Though most businesses frown on this, they still fight regulatory measures in their home countries that would give teeth to monitoring and transparency—for example, rules on reporting payments made to foreign governments.

More and more companies are adopting voluntary measures for reporting these payments. Perhaps 2,500 multinationals already have some form of sustainability reporting, in an effort to make sure that management is aware of risks that could affect their brand. In addition, some companies are working with NGOs to assess their development impact more broadly; a good example is Oxfam's Behind the Brand initiative. These approaches strive to create a "race for the top" by encouraging firms to follow performance standards that closely align development impact with financial returns.

Multinationals' principles to maximize long-term shareholder value can be closely aligned with development impact because a long-term view of sustainability can raise brand value, improve hiring and recruitment, and generate cost savings through efficient reduction in natural resource use. As more large companies take such a long-term view, any gap between their activities and broader development impact becomes narrower.

This changed mindset suggests that the operations of large corporations can and do have a positive impact on development in countries that have well-functioning markets. A somewhat different question is whether private businesses can play a stronger role in creating new markets that can accelerate economic progress in countries that are at an earlier stage of development—that are, in other words, at the base of the pyramid.

It is difficult for major multinationals to retrofit their operations to serve low-income customers. A better approach is to design a start-up that explicitly targets the base of the pyramid. The profitability of such businesses has been hotly debated. Some have felt that the returns from producing and marketing the goods and services that are consumed by the 2 billion people in the world who spend less than $2 per day are too low to be commercially attractive to the private equity world. Data from Acumen are suggestive; it invested in 70 organizations out of a sample of 5,000 potential businesses, and its after-tax profit from the top 8 investments was reported to be only about 6 percent.

However, other examples, like that of Bridge International Academies, suggest that commercial returns are quite feasible once an operation has reached a critical scale. The issue then becomes one of attracting sufficient grant or social impact capital to reach scale. For this, official aid donors or private philanthropists are needed. These investors view "return" differently, in terms of development impact. And therefore, from this broader perspective, they see subsidizing the initial investments that enable firms to reach a viable commercial scale and that empower firms following innovative business models to create profitable markets serving the base of the pyramid as an effective way to leverage resources that make a significant difference in the lives of people living in poverty.

Initial up-front investments made by government or private philanthropists, and the growth of commercially viable businesses, is a new form of public-private-philanthropic partnerships.


Photo courtesy of The Coca-Cola Company

The potential for this combination of, first, initial up-front investments made by government or private philanthropists, and second, the growth of commercially viable businesses, is a new form of public-private-philanthropic partnerships that is attracting considerable interest as a way to catalyze businesses to create development impact.

Not all development problems, however, can be easily solved with market mechanisms. Cases where people living in poverty are geographically isolated, or where there is conflict, can make the costs of doing business too high to be profitable.

One exception to this is the case of major natural resource developments, like mining and hydropower, where significant returns can be made. The indirect contributions of such projects to development, operating through the social services and infrastructure that the government provides using the funds it receives from royalties and taxes, can be hard to trace for the local population or may simply never be generated. In such cases, it is preferable to create new platforms where direct, visible contributions from the project can be made that explicitly enable the project to serve as a framework for development.

This kind of framework is being tried in the Great Lakes region of Africa, where a major hydropower project is being considered. The risk is that peace may not hold without a tangible dividend for people whose expectations have been raised that a cease-fire will bring about a rapid improvement in their lives. Women's priorities are to address sexual violence and to improve livelihoods, but also to gain access themselves to power through off-grid solutions for households, and community clinics and schools. By linking and integrating these projects with the hydropower project itself, the chances for both sets of projects to succeed should rise. In this case, it becomes hard to separate the financial return to the hydropower project from the development impact of the off-grid platform. Each reinforces the other.

Another way of measuring the private sector's development impact is to consider the alternative of government activities for service delivery. Social enterprises are examples of businesses that do not necessarily strive to make money, but to provide services at lower cost than public providers. Their impact is therefore measured in terms of lower unit costs rather than profits. The financial deficit can be covered by public grants or private philanthropy.

Disaggregating the Private Sector

The alternative measures of private sector impact mentioned above highlight the need to disaggregate among the various players. Large multinationals and private equity providers are focused on making money (and are bound to this objective by fiduciary obligations), and they indirectly provide additional development benefits through employment, skills training, technology transfer and entrepreneurial development. But the main driver for these investors must be profitability. The role for public policy is to ensure that these firms' incentives to achieve both profits and development impact are as closely aligned as possible. And this alignment comes from lengthening time horizons for shareholder maximization, from open and competitive markets, and from a culture of zero tolerance for corruption. Norms and standards of good sustainable practices can be developed, with NGOs actively participating in setting such standards and monitoring their implementation.

The importance of protecting brands and commercial reputations in a world with an active press and social media and a demanding middle class is helping to drive a process that is aligning business interests and development impact.

Large infrastructure and mining ventures cannot afford to simply rely on governments to use the funds they generate in taxes and royalties for sound development. These pathways are too diffuse for average citizens to understand, especially in conflict environments where peace is closely linked to the prospects for immediate improvements in the people's living standards. Therefore, alternative platforms to showcase short-term development benefits (often in the local community) should be considered as part of a vital package of interventions that will jointly achieve both profits and significant development benefits. Partnerships with aid agencies, NGOs and philanthropists that generate this package of complementary investments are desirable.

Small and medium-sized enterprises, which are often oriented toward new business opportunities targeting moderately low-income households, achieve development impact through growth and the creation of new jobs. Although these ventures strive to become commercially viable, they may need up-front, patient capital to enable them to grow to a scale that is financially viable. This process can take several years, depending on the sector and the level of development of the needed supporting ecosystem of suppliers, infrastructure and off-the-shelf technology. Although, in theory, there is a role for public policy to provide the requisite capital, in practice private philanthropists appear to be operating more effectively in this space.

Social enterprises, specifically those targeted toward very-low-income households, often cannot be expected to make money directly; but they are still useful modes for delivering goods and social services at lower unit costs and perhaps more effectively than public alternatives. The role for public policy can be to fund such enterprises explicitly, and to encourage them to innovate and continue to drive down costs through new technological and business model solutions.

Blended Capital

Risk mitigation is the most important constraint on the private sector as it seeks to become more actively involved in development. Here, experience with official agencies has been disappointing. On one level, official agencies have failed to grow as much as the private

sector. Since 2000, global official nonconcessional flows (consisting of equity and long-term debt) have been negative, meaning that repayments on old loans have exceeded disbursements on new projects. Information on guarantees by official agencies is not systematically collected, but individual studies suggest that the scale of these is quite limited, and thus is unlikely to reach an average of even $10 billion per year globally.

On another level, commercially priced risk mitigation instruments are exactly what the private sector feels are most needed and desirable. The ability to combine official capital with private capital has many advantages. Not only can it spread financial risk, but official agency involvement can also provide a higher political profile for a project. Given the growing budget constraints facing many agencies, the promise of gaining greater leverage and catalytic impact on development from the use of public funds is alluring.

At the roundtable, many examples of the opportunities to blend official and private capital were discussed. Three main constraints emerged.

First, official agencies have had difficulty expanding their administrative capacity to participate in more deal flows. Agency budgets have been held down to cut costs, and recruitment of staff with the necessary skills has suffered.

Second, few agencies possess the needed array of instruments to be able to function as one-stop-shops for a private sector partner. Grants, guarantees, long-term debt and technical assistance and capacity building may all be needed to make a project work well. While all these instruments do exist in parts of the official system, they are scattered among different agencies. The need for multiagency collaboration—given that each agency has its own separate calendars, approval processes and priorities—creates a complexity for practical deal-making that has led to evident frustration.

Third, the culture and accountability of official agencies in dealing with the private sector can be overly risk averse. And this constraint applies not just to the actual financial decisions made about whether to pursue a project and on what terms but also to the speed with which decisions are made. The "time-is-money" culture that permeates private equity decisionmaking is not matched by official agencies.

A slightly different form of blending has to do with the sequencing of types of capital rather than the use of a range of instruments. Early-stage capital was seen as a gap, but even this can be subdivided into initial, small-scale funding (less than $1 million) to subsidize first-mover innovations (largely filled by private philanthropists), and somewhat larger early-stage, patient capital ($1 million to $20 million) to achieve minimum efficient scale. This scaling up capital is among the hardest to find.

Blended finance, therefore, remains an area of much promise, but one where practical obstacles to realizing the potential gains are significant. Efforts to chip away at these obstacles are being made with some success, but more could be done to institutionalize them.

Transparency and Accountability

A long-term strategy to change bureaucratic cultures in both the private sector and official agencies may be required to build the degree of trust and accountability that is needed to construct high-performing private-public-philanthropic partnership platforms. More dialogue on norms and standards could potentially improve speed and decrease bureaucratic risk aversion. For instance, a dialogue process to inculcate the idea that a primary role of government is to reduce risk would help. Speed, scale and sustainability must be balanced. The cultural changes and accountabilities are two-way. The private sector can do more to emphasize sustainability, while official agencies can do more to think about speed and scalability.

Multinational companies committed to the long-term maximization of shareholder value are managing the expectations of their shareholders. Some companies have become privately held. Others have stopped issuing quarterly financial reports and profit guidance. Sustainability reporting is being brought into the boardroom and taken out of departmental silos focusing on corporate social responsibility. Long-term strategies and scenarios that include, for example, implicit prices for carbon are being factored into current investment decisions.

Trust can also be built at the transactional level, through engagement with local and international civil society groups. As one example, corporations that have made pledges to reach 1 million smallholder farmers are asking how to manage this effort without being criticized for exploiting small farmers. Avoiding conflicts over land, water, technology transfer and other practical issues of control that emerge in partnerships are critical to successful development impact.

Trust is most important in situations of conflict and when dealing with historically marginalized and excluded communities. Some companies have introduced explicit grievance mechanisms to try to ensure that there are avenues for mitigating issues that arise in implementation.

Official agencies, for their part, are trying to improve speed and scalability. Some have introduced partner relationship focal points to improve responsiveness. Others are using private sector benchmarks for decisionmaking speed. There is more discussion about "transformative" projects that can potentially have an impact at scale. The nature of official agency involvement in conflict situations is being reviewed, although considerable issues arise of how to manage the ability to balance high-quality social and environmental safeguard standards with the ability to move at speed with private sector partners in the context of postconflict or fragile states.

Areas for Further Research

- **Context:** There is considerable private sector involvement in official conferences on development—including the post-2015 Development Agenda that will follow the United Nations' Millennium Development Goals, the Group of Twenty's B20 business forum, the World Economic Forum, the Global Partnership for Effective Development Cooperation and the UN's Global Compact—as well as numerous sectoral and country-based discussions. There is less agreement that these forums are generating real impact. How to bring the private sector voice more effectively into the poverty-reduction dialogue, especially in situations of conflict and marginalized communities, remains a work in progress.
- **Measuring the private sector's contribution:** Data on the development impact—social, economic and financial returns—of private equity is scattered and not generally available to researchers. Proper benchmarks against which returns for private equity in emerging economies should be compared are lacking. Industry practitioners feel isolated. Expectations can lag behind reality.
- **Disaggregating the private sector:** Practical advances will only happen when the private sector is disaggregated into specific elements—multinationals, infrastructure and extractives, small and medium-sized enterprises and social enterprises. Each face distinct issues.
- **Blended finance:** Risk mitigation has high theoretical potential, but little (and declining) practical implementation. If absolute volumes are to grow exponentially, bureaucratic and administrative obstacles in the boardrooms of private companies and official agencies must be overcome. Ongoing experiments to increase jointly financed projects could be studied to assess the impact on the volume of completed deals. Some gaps in specific types of missing capital could be filled, either by official or philanthropic agencies.
- **Transparency and accountability:** Assessments could be made of the impact of selected confidence-building steps, including reporting requirements, lengthening time horizons, grievance mechanisms, consultations with civil society, independent sustainability assessments, benchmarks for speed and a focus on scalability and transformative impact.

Overheard at the 2013 Brookings Blum Roundtable

From the private sector...

photos this section: © Alex Irvin

Richard Blum

Chairman and CEO, *Blum Capital Partners*

"I think you need to bring US government agencies and offices together that are working on development finance, commit a lot of money and make a one-stop shop so that it can respond like a commercial bank and give potential investors who want to partner with the US government an answer in a reasonable period of time and lay down some basic rules."

Shannon May

Chief Development Officer, Chief Strategy Officer & Co-Founder, *Bridge International Academies*

"Can you really do business with the poor? From where I stand, I find that such a crazy question, because that is all we do. The per capita income of parents of our pupils ranges between 65 cents a day and $1.25 a day, which is then shared across 2 or 3 children. And we are able to sell them something they desperately want, because we built our entire pricing mechanism around knowing what they already pay out of pocket today for pre-school and primary education, and then ensuring that we offer them a world-class service that will radically change their child's life, for a similar price point."

Bert van der Vaart

Executive Chairman and Co-Founder, *Small Enterprise Assistance Funds*

"Over the last 23 years, SEAF has developed a number of principles through its investment activities. My first principle would be that local entrepreneurs, in the environment where the poor live, generally know best what the poor need and can adapt quickly to their demand. The second principle is that scale is not only resulting from good design, but, most importantly, from delivery. Finally, technology that is developed in developing countries is great, but there is also proven technology in the West—or in the East—which we believe can improve the lives of the poor in energy, food, education, housing, and health."

Runa Alam

Chief Executive Officer, *Development Partners International LLP*

"What I have seen in the last 20 years is a wholesale change in the attitude of people in developing countries. People in these countries have changed their point of view in terms of professional aspirations. It used to be that if you were very smart, whether you were poor or rich, you wanted something very secure like working for the government. Now people want to be entrepreneurs. And it is true up and down the whole strata of poor, middle class, and rich. I get approached by people who are driving me somewhere, who have a business plan. And it is pretty extraordinary."

Robert van Zwieten

President and CEO, *Emerging Markets Private Equity Association*

"The good news is that people who have done work in both the private sector and in economic development increasingly acknowledge that there is actually a lot of alignment between the legitimate needs of for-profit businesses that are investing in emerging markets, and the development goals that we all agree are important. I think it is important to find ways to facilitate many more dialogues—and this is part of what the Brookings Blum Roundtable has been about—amongst private and public sector representatives."

Ajaita Shah

Co-Founder and CEO, *Frontier Markets*

"I think that social businesses end up becoming a very interesting bridge between the gap of the public sector and the private sector because they are in that mindset of thinking about risk mitigation, time value for money, and they are also trying to really work with that local consumer base that they believe is a consumer and not just a charitable case."

David Bonderman

Founding Partner, *TPG Capital*

"With respect to emerging markets, there are the usual problems which you all know about—corruption, lack of property rights, et cetera. Private equity guys can actually deal with all of those. The most difficult problem, though, is the size of the markets. If you go to a country like Nigeria, it has every possible problem ranging from civil war to corruption, but it is also a big market. There are 150 million or so people. There are people you can sell things to. If you go next door to Burkina Faso, there are only four million people in the market. Pursuing viable investment there becomes very hard to justify for private equity guys."

Vineet Rai

Managing Director, *Aavishkaar Venture Management Services Pvt Ltd*

"So the question is: Who exactly is an impact investor? My definition is investors who can innovatively rework the risk-reward paradigm and do so with a frugal investing thesis. And frugality is very important because the moment you start doing things differently from a traditional commercial investor, you have to reconsider many things including the salaries that you pay to your partners and hence the team that you build will look quite different. But if you can mix these two things (risk-reward paradigm with frugality) effectively, there is a chance that you may be able to build a model that can invest in companies that are considered commercially uninvestable because of issues beyond the business model."

Laurie Spengler

President and CEO, *ShoreBank International (now Enclude)*

"When I hear that private investors are in it for the money, this point resonates, but the good news is that I also increasingly speak to business people who are reframing their mandate to say, 'I am in it for my total return.' So people in the private sector are now defining return in a much more nuanced and complex way than just profit. The growing language around the diverse universe of impact investing, for example, clearly shows people being purposeful and deliberate in their allocation decisions of capital and using indicators of return that are beyond financial."

Jean-Louis Warnholz

Co-Founder and Managing Director, *fastafrica Ltd*

"When we talk about blended finance, I think a big opportunity that we are not yet capturing sufficiently, is actually forming joint deal and project teams, where donors, NGOs, private investors, and international financial institutions come together as one implementation team, with a clearly defined target list of deliverables for each party and an overarching objective to make some of these complex, transformative investment projects happen."

Viswanathan Shankar

Group Executive Director and CEO, Europe, Middle East, Africa & Americas, *Standard Chartered Bank*

"You can do well by doing good, by integrating sustainability into your core business agenda. If my company invested in a mine that did not adhere to the Equator Principles, or if we invested in a palm oil producer that did massive deforestation and killed orangutans, or if we invested in a petrochemical factory that polluted the atmosphere—guess what? It is not just a question of being environmentally unfriendly. We will also suffer financial losses because the projects will be eventually shut down."

Goods, Services and Jobs for the Poor: Creating the Conditions for Private Investment

Photo: © Nestlé

The post-2015 Development Agenda that is envisaged to follow the United Nations' Millennium Development Goals will likely have a greater role for the private sector as a source of both development finance and development solutions that can improve the lives of the world's poorest people.

Photos: © World Bank

Photos: © USAID

The hope is that the application of private sector resources and skills to tackle global development challenges will spur innovative and affordable products and services, as well as the business models that enable these to reach poor communities everywhere.

How this vision can be realized is less clear. Commercial capital is likely to follow when business models are already proven and have been shown to generate sustained returns. But such models have proven hard to come by and are unlikely to emerge without more private sector talent—researchers, product designers and entrepreneurs—working on these issues.

Impact investing offers a possible answer to this conundrum. Many impact investors are willing to accept lower financial returns from their investments for the promise of social, environmental or development impact. Their investments can support nascent enterprises as they test and refine their business models until they demonstrate their profitability and are capable of attracting major investors. In this way, impact investments can play a catalytic role in precipitating and directing larger commercial finance flows.

However, this almost certainly places too great expectations on what impact investors can deliver on their own. For a start, some enterprises serving low-income communities may never be capable of achieving sufficient profitability to attract commercial interest, given the exacting demands of these markets. This is precisely what motivates some impact investors to support such enterprises in the first place. (Others, it should be noted, vociferously reject the assumption that it is not feasible to meet commercial standards of profitability when serving low-income customers.) Furthermore, the challenge of molding blueprints into a proven profitable business model is tremendous. Most impact investors opt to support enterprises that are already matured or maturing, in order to avoid the "valley of death" that pioneering enterprises encounter in their early stages.

A Monitor Inclusive Markets (now a unit of Deloitte) study from 2011 analyzed 439 organizations that claimed success in offering market-based solutions to the base of the pyramid in Africa.[1] On a closer look, only 130 were on their way to commercial viability; and of these, only 59 were operating at "scale"—defined here as reaching 100,000 customers per year or engaging 10,000 suppliers or producers. For those that were generating profits, margins ranged between a lowly 10 and 15 percent.

A hypothesis advanced at this year's roundtable is that investments in individual enterprises serving the base of the pyramid can be complemented by focused efforts to foster the industry "ecosystem" within which enterprises operate. A more supportive ecosystem has a direct impact on the viability and profitability of the businesses that operate within it, acting as a draw on private capital. Ultimately, this can increase the discovery of enterprise solutions and the speed with which they are brought to scale.

In their policy brief for the Brookings Blum Roundtable, Ashish Karamchandani and Harvey Koh of Monitor Inclusive Markets distinguish three components of an industry ecosystem: value chains, public goods, and policy and regulation.[2]

In industries serving the base of the pyramid, value chains often suffer from poor quality and reliability, pushing up costs for enterprises and prices for customers. Key challenges include strengthening the competitiveness of suppliers and distribution channels, and increasing the availability of financing through the value chain. Also relevant are the broader


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Whereas an investor in an individual enterprise may seek to minimize or internalize these industry benefits to avoid giving an advantage to competitors, fostering an industry ecosystem implies consideration of the interests of all enterprises in an industry.

sets of ancillary services upon which enterprises may depend, such as lawyers and accountants.

Labor skills and consumer education are among those aspects of an industry that benefit all enterprises and are therefore designated public goods. These are often deficient in low-income markets, and their public good characteristics present obvious challenges for how their provision can be expanded and coordinated.

Unsupportive, ill-defined or absent policy and regulation are important constraints on many enterprises operating in the developing world. In extreme cases, enterprise activities can be explicitly forbidden; for instance, financial regulators in countries such as South Africa and India have prohibited mobile operators from offering mobile money services unless they partner with brick-and-mortar banks. More common is for consumer interests to be poorly served and for government policies and regulations to add to investor uncertainty.

Implicit in an ecosystem approach to enterprise development is the insight that a supportive industry environment cannot be assumed to emerge organically as enterprises grow. Market forces may be less responsive in low-income settings, and industry-enabling organizations such as industry associations and information exchanges do not arise out of nowhere but usually require cooperation between competing enterprises. Deliberate interventions to address ecosystem weaknesses are therefore justified to enable enterprise development and accelerate the propagation of market-based solutions.

A useful way to understand an ecosystem approach to enterprise development is in terms of an accounting standard. Just as impact investing distinguishes itself from commercial investing by its alternative, more expansive approach to accounting, so, in one sense, does a switch in emphasis from fostering individual enterprises to fostering entire industries. Impact investing places value on both the financial returns to investment that are private to the enterprise, and the social and environmental benefits that accrue externally, with the weightings attached to different benefits determined by the individual investor. Fostering an industry ecosystem implies consideration of the interests of all enterprises in an industry, including potential entrants. Whereas an investor in an individual enterprise may seek to minimize or internalize these industry benefits to avoid giving an advantage to competitors, an ecosystem approach, by contrast, demands that they be maximized.

An ecosystem approach also implies a different vision for how enterprise solutions might reach scale. Investors typically conceive of scale in terms of a winner-takes-all model, whereby a single enterprise comes to dominate a market through a superior busi-

Photo: © World Bank

ness model, along the lines of Coca-Cola or Google. However, other routes to scale exist and may prove to be especially relevant for bringing solutions to the poor. For instance, microfinance has reached over 100 million people through a replication-and-adaptation model, in which many microfinance institutions coexist and tailor their products to different customer segments. Contract farming, which has incorporated hundreds of thousands of African farmers into formal value chains, has followed a similar model. Another model is exemplified by the social franchising of health care, whereby existing, often informal, health providers have been rolled up and trained to improve and expand the provision of care. In these models, the pursuit of scale hinges on the performance of the industry as a whole rather than any one of its members.[3]

Discussions at the roundtable illuminated how closely the prospects of individual enterprises reaching scale are tied to ecosystem conditions. This was especially evident in terms of the optimism expressed for seeing new infrastructure platforms, such as mobile payments and the Internet, as stand-alone ecosystems or at the very least as a means of by-passing critical weaknesses in many industry settings. These technology-driven platforms are capable of unleashing entire new sets of business models delivering goods, services and jobs to poor communities by driving down transaction costs and achieving the right price point. This suggests that the ability of technology to transform the lives of the poor may be greater in terms of its ecosystem effects than in conceiving innovative final products, as is commonly assumed.

Evidence suggests that businesses are quick to respond to the establishment of new infrastructure platforms. Much of the response triggered is local, with domestic businesses emerging to take up market opportunities; these are the types of businesses that generally know best what the poor need, and can adapt quickly to their demand. Examples cited at the roundtable discussion included the rise of digital entrepreneurship and mobile-first markets. In Kenya, the world leader in mobile money, increasing business usage now largely accounts for the growth of the industry. M-PESA, the leading mobile money service, has over 1,400 bill partners and 500 bulk payment disbursers and is connected to 140 financial institutions, facilitating a variety of transactions, both business-to-person and person-to-business.

Of course, new infrastructure platforms do not have to be technology-driven. The hard-won success and scaling of microfinance have created a network infrastructure that reaches into remote communities across large swaths of the developing world, and on which countless businesses are now trying to piggyback. This is testament both to the strength and credibility of the microfinance infrastructure but also to the lack of attractive alternatives for businesses serving the base of the pyramid that cannot afford to build distribution channels from scratch.

An ecosystem approach to business development implies a role for a broad array of actors beyond the investment community. Initiatives to improve ecosystem conditions may be led by NGOs, foundations and governments. The risks and opportunities of

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such efforts have parallels with an activist industrial policy, where success hinges in part on how accurately industry constraints can be identified and targeted.

On the supply side, one well-documented gap in the ecosystem for market-based solutions is the skills required to build and scale up businesses. Roundtable participants were encouraged by the growing interest in business schools for learning about and working with social enterprises, and the impressive cadre of organizations dedicated to supporting enterprise skills, such as TechnoServe, Endeavor and Bizcorps. However, it was also noted that some of the traditional approaches to supporting the emergence of market-based solutions, such as "grand challenges" and other competitive grants, may be fostering the wrong set of skills by rewarding passion, creativity and grant-writing, which do not necessarily coexist with the skills required to manage and grow a business. One roundtable participant reported that two-thirds of the winners of competitions to design mobile applications for development in Kenya were out of business within one year.

Female entrepreneurs and business leaders can often face deeper ecosystem constraints—namely, limited access to credit, training, networks and information, alongside legal and policy constraints. Finance is a particularly common barrier; female entrepreneurs have less capital to start with, and struggle to grow their businesses beyond the scope of microfinance loans, given their limited access to equity finance. According to a report commissioned by the Group of Twenty, women-owned businesses around the world face an annual financing gap of $290–360 billion. Evidence shows that productivity differentials among companies owned by men and by women are mainly the result of differences in access to productive inputs.[4] Addressing these gaps through targeted—and ideally multipronged—interventions can have a transformational impact on the estimated 224 million women around the world running their own businesses or leading established businesses. Roundtable participants discussed some such promising interventions, often led through partnerships between the public and private sectors, including Goldman Sachs's "10,000 Women Program" and the Coca-Cola Company's "5by20 initiative."

For more information on the ecosystem approach to enterprise development, see the Omidyar Network's report *Priming the Pump*, and the research study by Harvey Koh, Ashish Karamchandani and Nidhi Hegde of Monitor Inclusive Markets, *Beyond the Pioneer: Getting Inclusive Industries to Scale.*

1. Michael Kubzansky, Ansulie Cooper, Victoria Barbary, "Promise and Progress: Market-Based Solutions to Poverty in Africa," Monitor Inclusive Markets, May 2011.

2. Ashish Karamchandani and Harvey Koh, "Goods, Services and Jobs for the Poor," Monitor Inclusive Markets.

3. Michael Kubzansky "Why Business Models Matter" in "Getting to Scale: How to Bring Development Solutions to Millions of Poor People," edited by Laurence Chandy, Akio Hosono, Homi Kharas and Johannes Linn, Brookings 2013.

4. Quy-Toan Do, Andrei Levchenko and Claudio Raddatz, "Engendering Trade," World Bank Policy Research Working Paper 5777 (Washington: World Bank, 2011). Mark Blackden and Mary Hallward-Driemeier, "Ready to Bloom?" Finance & Development (Washington: International Monetary Fund, 2013)

Overheard at the 2013 Brookings Blum Roundtable

From researchers and advocates...

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Smita Singh
Independent

"I was at the Brookings Blum Roundtable meeting eight years ago that also focused on the private sector and indeed much has changed. But one area where I am not sure enough has changed is the availability of early stage capital for promising investments in developing countries. This important function does not seem to be fulfilled by the large number of new private equity investors that are coming into these markets, nor does it seem to be a role that is being filled by the development finance institutions."

Chris Locke
Managing Director, Mobile for Development, *GSMA*

"A very exciting opportunity that we are seeing a certain amount of hype around in emerging markets is the concept of 'digital entrepreneurship' and the potential is there for a new kind of entrepreneur and for emerging markets that build on the experience of Silicon Valley. These emerging markets are mobile-first markets. We heard about Facebook and Yahoo recently having to develop mobile-first policies. Well, Kenya is a mobile-first country. It is only ever really known mobile as a way of accessing the Internet. So the potential there to see new entrepreneurs with new business models and technological innovations is phenomenal."

Laurence Chandy
Fellow, Global Economy and Development, *Brookings Institution*

"There are two competing visions for how to eliminate extreme poverty. One is inclusive growth, in which the private sector plays a key role, jobs are created, and the poor actively participate. The other is expanding the reach of social welfare to guarantee minimum living standards. And we have some data on the factors that account for poverty reduction over the last decade, and the split is around 50-50. That is, around half can be attributed to greater labor income for the poor, whether better wages, more hours worked, or more jobs per poor household. And the other half is attributed to non-labor income: transfers, subsidies, and remittances."

Nancy Birdsall

President, *Center for Global Development*

“Who do you mean by ‘the poor’ when you say ‘serving the poor?’ Is it only $1.25 per day and below? What is the bottom of the pyramid? The ‘poor’ is a much bigger group, from a business point of view. We have good evidence now that, under $10 per day, you are income-insecure. The evidence in the development literature is that only when people get above $10 per day, more or less, are most of them in the formal sector, with a pay stub. It would be good if more people thought not about ‘serving the poor’ as the objective, but instead about moving the currently poor above that $10 line, into the middle class.”

Homi Kharas

Senior Fellow and Deputy Director, Global Economy and Development, *Brookings Institution*

“It seems almost obvious that the private sector would play a big role in development, but I think it is worth remembering that when the Millennium Development Goals were formed in 2000 and shaped there was almost no voice of the private sector in that conversation and almost no role for them in the actions that came out. Here we are less than 15 years later and the topic of the day is essentially that one cannot solve development problems without having the private sector centrally engaged.”

Ashish Karamchandani

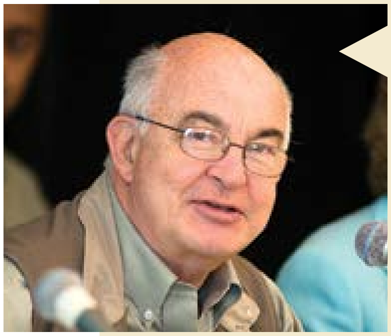
Executive Director, *Monitor Deloitte India*

“Why is it so difficult to create market-based solutions for the poor? The first point is, it requires a different business model. The second thing is, we are working in tough environments. Often, pieces of the value chain do not exist. The third point is public goods. You want to sell the person a water filter; he wants to buy a mobile phone. Who is going to invest in making him understand the value of the water filter? Think about training of people for jobs. Who is going to pay for the training, because then your competitor is going to use them? And last but not the least, regulation. Regulation usually favors the incumbent.”

John Norris

Executive Director, Sustainable Security Initiative, *Center for American Progress*

“For private industry and for private capital, I think there is a real existential debate whether they are going to use their influence in the global system to maximize short-term profits by influencing the regulatory environment, or are they going to play the long game and realize that really trying to combat income inequality to bolster middle classes around the globe, and to maybe see slightly less profit in the short term, will ultimately lead to much more profit and much more sustainable profit over the long term.”



Kemal Derviş

Vice President, Global Economy and Development, *Brookings Institution*

"Traditionally development finance is defined as resources to the poorest countries. But there is also the financing of global public goods. If India, for example, decides to build a much cleaner energy sector, that definitely benefits India to some degree. But another dimension of that is it benefits the whole world including the richest countries, so there is a blending, between development finance and global public goods finance, which is a big topic that needs to be explored further."

Randall Kempner

Executive Director, Aspen Network of Development Entrepreneurs, *Aspen Institute*

"I think there is a deep and fundamental difference between supporting base of the pyramid businesses and other businesses. At the base of the pyramid, small firms face deep limitations in their strategic choice options. In terms of core strategy, there is not much ability to differentiate, so you have to pick 'low cost.' You cannot spend a lot of money on marketing, advertising or distribution. You can't invest much on R&D or talent development either, unless someone else is paying for it. So, the tools that are available to you as a manager are curtailed, which makes running the business all the tougher. As an investor then, you are forced to consider firms that have some greater structural limitations than typical investment targets."

John Page

Senior Fellow, Global Economy and Development, *Brookings Institution*

"I think we need impact investing as part of the financial system, because there is still risk—notwithstanding our aspirations for growth in Africa—that a large number of people would otherwise be left behind. However, it is important not to lose sight of the rest of the financial system—banks and other forms of portfolio investment. What you find in the poorest countries is that these are underdeveloped in almost every aspect."

Sam Worthington

President and CEO, *InterAction*

"The end game in development partnerships is ultimately about forging relationships between the nation-state, local civil society and the local private sector. If trust is not built upfront, and if a role for civil society especially is not established upfront in these ventures, down the road you are going to have society critiquing you. So it is not just at the policy level that we are talking about leveraging partnerships but also at the actual design and implementation level, with different actors being brought in upfront to avoid conflicts in the long run."

Advancing US Leadership in Development

Two strains of thought on the US government's engagement with the private sector in development repeatedly arose during the roundtable discussions and led to ideas on how the US could strengthen its contribution to development. The first was frustration with interminable US government decision-making on finance, and with the inability to join together the multiple US government finance tools needed for a single investment project; and the second concerned opportunities for the US to exert its comparative advantage and leadership.

Photo: © USAID

Global Development and US Comparative Advantages

With the dramatically altered dynamics of development over the past decade, Western donor assistance in influencing development is diminishing:

- Financial flows to developing countries have flipped from being principally donor driven to 85 percent private.
- A number of countries have graduated from low-income to middle-income status.
- A total of 17 countries in Sub-Saharan Africa have been sustaining an annual economic growth rate of 5 to 7 percent.
- There has been a growing recognition of the central role of the private sector in sustainable development.

Official assistance is still important for some countries, in some circumstances, and still can be catalytic, but its relative role is in decline, especially given the drop in aid levels during the last several years.

The US needs to focus its development policies and programs on other government policies and tools that make an impact on development—trade, monetary policy, patent policy, immigration, and basic research and development. These engagements are also those which developing countries are increasingly seeking. US development agencies need the capacity and authority to evaluate and influence these policies. And the US development programs should be grounded in the country's comparative advantages—in science and technology, in innovation that comes from government-sponsored and privately sponsored research, from the private sector, from higher education and research institutions, and from the strength of civil society. This orientation is found in the themes of the first-ever Presidential Policy Determination on Development in 2010 and in more recent initiatives and needs to be reflected more in implementation.[1]

A Need for Coherence and Coordination to Facilitate Blended Finance

A consistent theme among private sector discussants at the roundtable was frustration with securing timely decisions from US development finance institutions and the array of financing tools that is often required to complete a deal. There also was a consensus that in certain environments and new markets, it is the combination of soft and private finance that can clinch a deal, and that often what is needed is early-risk finance that the government could supply but seldom provides.

The government often holds the missing pieces, but the array of tools—technical assistance, guarantees,

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Photo: © World Bank

equity, export credits—rests in separate government agencies, each with its own set of procedures and criteria that are difficult to mesh into a coordinated whole. The US Overseas Private Investment Corporation (OPIC) quantified the finance gap in a background paper that lists 24 projects that are held up by insufficient equity finance.[2] How can this void be filled?

The most radical solution arises from the irony that the United States, the country most identified with the theory and practice of private enterprise, has no agency devoted to comprehensively taking this model to the world. So why not combine the various tools—OPIC; the US Trade and Development Agency; the private sector tools of the US Agency for International Development (USAID); and the international programs of the Small Business Administration, the Department of State and the Treasury Department's Office of Technical Assistance—into a US Development Bank?[3]

Knowing that such a solution is too heavy a political lift, given entrenched political and bureaucratic interests, another approach is a one-stop-shop. Rather than a business person searching from agency to agency for the relevant government tools, this approach would provide the private sector with one place where it can find the full range of government programs. To take it a step further, agency procedures could be consolidated

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to provide a single format and a point person in each agency to work with other agencies that have tools relevant to a project. Or if not a physical one-stop-shop, what about a virtual one-stop-shop joined with a government-wide policy and incentives that reward employees for collaboration with other agencies? The solution: institute a unified time frame with a drop dead date for a decision—say 90 days.

OPIC's Authority

OPIC is the US international agency most associated with and knowledgeable about the international investment arena. It is self-financing through the fees it charges for its services: political risk insurance, finance guarantees and a small loan program. In 2012, its revenues were $412 million and its operating expenses were $140 million, the balance of which was deposited in the US Treasury in OPIC's reserves, which now surpass $7 billion. The tools that OPIC lacks that can make the difference in an investment project moving ahead are grant funds for technical assistance and the authority to take an equity position. OPIC has at times been able to make up for these gaps, by going cup-in-hand to USAID for grant money for a project and by using its guarantee authority to catalyze investment funds. But both take time and effort that could be employed more efficiently if OPIC had those core capabilities.

Given OPIC's strong financial and programmatic record of promoting economic development while helping US companies invest in developing countries, the US is shortsighted in not providing OPIC with these tools. The executive branch and Congress should redirect $25 million to $50 million of OPIC's annual revenues to providing the financing for technical assistance and equity.

A Post-2015 Agenda

The US has a strong history of leadership in the international development arena—the role it played in the founding of the World Bank and the other international financial institutions, its recognition in the early 1970s of the importance of human development, its contribution to the green revolution and specific health breakthroughs, its lead in responding to emergency situations, its early engagement a decade ago with the private sector and, more recently, its encouragement of innovation.

But the US does not always lead. It has been slow to move away from tied aid, and it remains the lone donor that responds to emergency needs by shipping food commodities thousands of miles from home rather than using more efficient and more rapid local and regional procurement.

This issue is relevant as we enter a period when the development dialogue will be focused on bringing the United Nations' Millennium Development Goals (MDGs) to a close and formulating the post-2015 successor goals. The US role vis-à-vis the MDGs has been mixed. USAID was a prime mover of the concept and specificity of the MDGs in the Development Assistance Committee of the Organization for Economic Cooperation and Development. Unfortunately, USAID was a lone actor within the US government in their formulation, and when the action moved to the United Nations for their adoption, the State and Treasury departments took the lead and became naysayers. It was several years before the US government acknowledged that the MDGs are a good thing, and it was even longer before they were fully endorsed. A repeat of this performance must be avoided with the prospective new set of global goals.

The report of the High-Level Panel appointed by the UN secretary-general lays out a framework and illustrative set of goals for 2015 to 2030.[4] Everyone has his or her own preferred tweaks to the report, but it has received widespread acclaim as the right frame for a new set of global goals. If the final set of goals adopted by the UN stays within the framework of the panel's report, they will then closely reflect a US perspective on global development. The report places a heavy emphasis on the central role of the private sector in promoting sustainable development, and the critical importance of a shared partnership between government, the private sector, and civil

Photo: © World Bank

society in advancing inclusive economic growth. Unlike the MDGs, which were developed in a different time when development was very much about donor assistance, the High-Level Panel's report is not about assistance but about the multiple means of financing sustainable development, particularly the mobilization of domestic resources and international capital flows. More specifically, the report endorses the various elements of liberal democracy that constitute an open, transparent and responsive political system, and it calls on governments to promote the rule of law, property rights and a proper regulatory environment that allows private enterprise to operate and flourish.

US leadership on the post-2015 agenda needs to be strong but nuanced, clear but not boisterous. Too loud a US voice would make some wary; but a US absence would be interpreted as a lack of support.

US leadership on the post-2015 agenda needs to be strong but nuanced, clear but not boisterous. Too loud a US voice would make some wary; but a US absence would be interpreted as a lack of support. Senior officials in the relevant US agencies need to be actively involved and articulate the US position on specific issues in the various forums that will be shaping the new set of goals. These officials also need to engage and share views with US civil society organizations, as was effectively done by USAID in the preparation for the Fourth High-Level Forum on Aid Effectiveness in Busan in November 2011. Having a new set of goals that have broad support among American civil society groups and businesses is critical to bringing along the American public and Congress.

Congress is always the big unknown. In 2000, and for several years afterward, it was largely absent from the discussion of the MDGs. There will be too much public attention for this to happen again. The Obama administration and civil society groups need to bring Congress into the dialogue, both to educate congressional members and staff and to listen to their views. There will be no unified consensus among the US government and public on the new set of goals, but there can be a broad coalition that is generally supportive.

1. On this policy determination, see White House, "Fact Sheet: US Global Development Policy," http://www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy.

2. John E. Morton and Astri Kimball, "The Case for Capital Alignment to Drive Development Outcomes," Overseas Private Investment Corporation.

3. Todd Moss and Benjamin Leo, "A Consolidated US Development Bank: Reorganizing Private Sector Policy Tools in Emerging Markets and Fragile States," Center for Global Development, April 2011.

4. High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development—Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda* (New York: United Nations, 2012), http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf

Overheard at the 2013 Brookings Blum Roundtable

From former and current public officials...

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Rajiv Shah

Administrator, *United States Agency for International Development*

"America plays a unique leadership role in global development—from working in fragile states to strengthening the resilience of vulnerable communities to forging public-private partnerships in energy and agriculture. If we remain focused and results-oriented, we can help lead the world to end extreme poverty in the next two decades."

Madeleine Albright

Chair, *The Albright Stonebridge Group*

"In my recent work on forming public-private partnerships, I have discovered that coming to a consensus on an overall mandate, structure and sectoral focus is challenging but doable. What is much harder is building and maintaining trust between the public sector and the private sector, and I believe it is partially related to difficulties in determining who delivers what in a partnership and then actually following through. I am an optimist regarding public-private partnerships, but we must figure out how the efforts of the public and private sectors can complement each other in order to resolve these trust issues. "

Mary Robinson

President, *Mary Robinson Foundation—Climate Justice*

Soon after I was appointed the United Nations Special Envoy for the Great Lakes region of Africa, the World Bank announced it would put up to $1 billion aside for projects to help promote peace, security, cooperation and development, which I call a "Framework of Hope." But my primary concern is that these projects are going to be for mega-hydro energy and other large-scale ventures that may not lead to a tangible enough dividend for the poorest people in the region whose expectations have been raised that somehow it is going to be different this time."

Carmen Niethammer

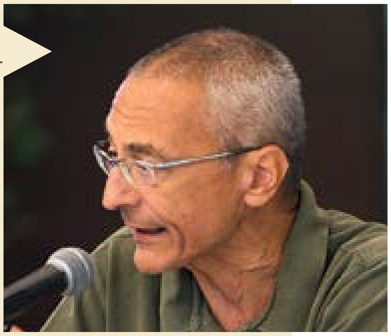
Seconded Gender Advisor to Odebrecht S.A.,
International Finance Corporation/World Bank

"When we at the IFC initially worked with commercial banks to figure out how to get finance into the hands of women entrepreneurs, what was really important was to talk about the business case for doing so. It turned out that many banks did not know that women were one of their fastest growing profitable customer segments. When women customers had a positive experience with the bank, they would often also bring the business of their entire family and have high referral rates—thus increasing financial returns for the commercial bank."

John Podesta

Chair, *Center for American Progress and the Center for American Progress Action Fund*

"I think we have to pay attention to the fact that the poor are cut off from the economy even in places that are growing. If the global goal is to end extreme poverty, we need to think about how best to use the private sector to build economies that create connectivity, particularly to energy, finance, telecommunications, and transportation."



Elizabeth Littlefield

President and CEO, *Overseas Private Investment Corporation*

"I think that as we look at US development policy, we need to look much more deeply at do we have the right resources, do we have the right incentives, do we have the right instruments, do we have the right focus and are those resources and instruments really in the right places? Or do we have an architecture that was designed fifty years ago for 21st century challenges?"

Laura Tyson

S. K. and Angela Chan Professor of Global Management,
Haas School of Business, *University of California, Berkeley*

"I am struck that the successful business models for serving the bottom of the pyramid are always partnerships. There is always a role of a public entity, whether it is a regional government, or a state government, or a national government. There is always a role of a grant-making or NGO entity, and there is always a role of a private, profit-motivated, commercially-motivated actor."

Appendix

Follow-Up Activities of the 2013 Brookings Blum Roundtable on Global Poverty

In the months following the 2013 Brookings Blum Roundtable, the Global Economy and Development program at the Brookings Institution has undertaken several follow-up activities to take forward the agenda:

- On November 4, 2013, the Global Economy and Development program convened a mini-conference of over 30 representatives from the US government, think tanks, international financial institutions, foundations, and the private sector. The group discussed reforms to raise the impact of the US government's support for private development finance. It also explored new frontiers and the most promising models of private development finance around the world that could help bring to fruition the post-2015 vision of a dramatically enhanced role for the private sector in spurring global development.

Photo: © Vincent L Long for TechnoServe

- As a follow-up to the mini-conference, deputy director of the Global Economy and Development program at Brookings Homi Kharas and senior fellow George Ingram published a policy brief titled "Strengthening US Government Development Finance Institutions" with Ben Leo, senior fellow and director of the Rethinking US Development Policy initiative at the Center for Global Development, and Dan Runde, director of the Project on Prosperity and Development and the holder of the William A. Schreyer Chair in Global Analysis at the Center for Strategic and International Studies.[1] The policy brief outlines practical near-term reforms to US development finance that could be implemented either through the fiscal year 2015 appropriations process or existing legislation.
- On January 15, 2014, the Global Economy and Development program hosted an event titled "Women, Business and the Law: Removing Restrictions to Enhance Gender Equality." Featuring panelists from the World Bank's Women, Business and the Law team, the Clinton Foundation and the US State Department's Office on Global Women's Issues, the event explored how laws and regulations around the world prevent or hinder women's economic opportunities and publicized the release of the third biannual World Bank report, *Women, Business and the Law 2014: Removing Restrictions to Enhance Gender Equality.*[2]

1. See http://www.brookings.edu/blogs/up-front/posts/2013/12/16-strengthening-development-finance-kharas-ingram.
2. See http://wbl.worldbank.org/.

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Participants

Co-Chairs

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Kemal Derviş, Vice President, Global Economy and Development, Brookings Institution

Strobe Talbott, President, Brookings Institution

Honorary Co-Chairs

Walter Isaacson, President and CEO, The Aspen Institute

Mary Robinson, President, Mary Robinson Foundation – Climate Justice

Photo: © Thatcher Cook for Mercy Corps

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Carolina Barco, Senior Adviser and Coordinator, Emerging Sustainable Cities Initiative, Inter-American Development Bank

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Nicolas Berggruen, Chairman, Berggruen Holdings

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David Bonderman, Founding Partner, TPG Capital

Laurence Chandy, Fellow, Global Economy and Development, Brookings Institution

Peggy Clark, Vice President, Policy Programs and Executive Director, Aspen Global Health and Development, Aspen Institute

Steve Clemons, Washington Editor-at-Large, The Atlantic

Alex Dehgan, Science and Technology Adviser to the Administrator, United States Agency for International Development

Paul Farmer, Chief Strategist and Co-Founder, Partners in Health

Henrietta Fore, Chairman and CEO, Holsman International

Bernardo Guillamon, Manager, Office of Outreach and Partnerships, Inter-American Development Bank

George Ingram, Senior Fellow, Global Economy and Development, Brookings Institution

Ashish Karamchandani, Executive Director, Monitor Deloitte India

Randall Kempner, Executive Director, Aspen Network of Development Entrepreneurs, Aspen Institute

Neal Keny-Guyer, Chief Executive Officer, Mercy Corps

Homi Kharas, Senior Fellow and Deputy Director, Global Economy and Development, Brookings Institution

Elizabeth Littlefield, President and CEO, Overseas Private Investment Corporation

Chris Locke, Managing Director, Mobile for Development, GSMA

Shannon May, Chief Development Officer, Chief Strategy Officer, Co-Founder, Bridge International Academies

Ewen McDonald, Deputy Director General, Humanitarian and International Group, Australian Agency for International Development

John Morton, Chief of Staff, Overseas Private Investment Corporation

Robert Mosbacher, Jr., Chairman, Mosbacher Energy Company

Jane Nelson, Senior Fellow and Director of Corporate Social Responsibility Initiative, Harvard Kennedy School

Carmen Niethammer, Seconded Gender Advisor to Odebrecht S.A., International Finance Corporation/World Bank

John Norris, Executive Director, Sustainable Security Initiative, Center for American Progress

Raymond Offenheiser, President, Oxfam America

John Page, Senior Fellow, Global Economy and Development, Brookings Institution

John Podesta, Chair, Center for American Progress and the Center for American Progress Action Fund

Dina Powell, President, Goldman Sachs Foundation; Managing Director, Global Head of Corporate Engagement, Goldman Sachs

Vineet Rai, Managing Director, Aavishkaar Venture Management Services Pvt Ltd

Ajaita Shah, Co-Founder and CEO, Frontier Markets

Rajiv Shah, Administrator, United States Agency for International Development

Viswanathan Shankar, Group Executive Director and CEO, Europe, Middle East, Africa & Americas, Standard Chartered Bank

Smita Singh, Independent

Javier Solana, Distinguished Senior Fellow, Foreign Policy, Brookings Institution; President, ESADEgeo, ESADE

Laurie Spengler, President and CEO, ShoreBank International (now Enclude)

Erica Stone, President, American Himalayan Foundation

Margie Sullivan, Chief of Staff, US Agency for International Development

Julie Sunderland, Director, Program-Related Investments, Bill & Melinda Gates Foundation

Laura Tyson, S. K. and Angela Chan Professor of Global Management, Haas School of Business, University of California, Berkeley

Noam Unger, Vice President, Partnerships and External Affairs, Global Citizen Year

Hubertus (Bert) van der Vaart, Executive Chairman and Co-Founder, Small Enterprise Assistance Funds

Robert van Zwieten, President and CEO, Emerging Markets Private Equity Association (EMPEA)

Tom Walsh, Senior Program Officer, Global Policy & Advocacy, Bill & Melinda Gates Foundation

Jean-Louis Warnholz, Co-Founder and Managing Director, fastafrica Ltd

Anthony Welters, Executive Vice President, UnitedHealth Group Ltd

Bryant Welters, Independent

Ken Wollack, President, National Democratic Institute

Sam Worthington, President and CEO, InterAction

Daniel Yohannes, Chief Executive Officer, Millennium Challenge Corporation

Mark Yudof, President, University of California

Special Guests

Jane Wales, Vice President, Philanthropy and Society, The Aspen Institute

Note: The titles and affiliations of the participants are as of August 4–6, 2013.

2013 Brooking Blum Roundtable Policy Briefs

The 2013 Brooking Blum Roundtable Policy Briefs are available in the September 2013 Brookings publication *Enterprising Solutions: The Role of the Private Sector in Eradicating Global Poverty*, available at www.brookings.edu/bbr.

Homi Kharas
"Reimagining the Role of the Private Sector in Development"

Jean-Michel Severino and Pierrick Baraton
"A New Economic Path for Sub-Saharan African Countries through Private Impact Equity"

Ashish Karamchandani and Harvey Koh
"Goods, Services and Jobs for the Poor"

John E. Morton and Astri Kimball
"The Case for Capital Alignment to Drive Development Outcomes"

Carmen Niethammer
"Women, Entrepreneurship and the Opportunity to Promote Development and Business"

John Podesta and John Norris
"The Role of the U.S. Government in Promoting Private Sector Development Solutions"

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