FOCUS SESSION 13:

Partnering with Private Investors for Development Impact

Global Partnership HLM, Mexico, 15 April

Speakers/Panelists:

- Bob Annibale, Global Director, Community Development and Microfinance, Citibank
- Owen Barder, Senior Fellow, Center for Global Development
- Michael Eddy, Co-founder and Partner, Instiglio
- Christopher Egerton-Warburton, Partner, Lions Head Global Partners
- Pertti Majanen, Co-chair, Intergovernmental Committee of Experts on Sustainable Development Financing
- Mahmoud Mohieldin, Special Envoy for Post-2015, World Bank
- Christian Paradis, Minister of International Development, Canada
- Daniel Pastor, Managing Director, The Abraaj Group
- Marie-Ange Saraka-Yao, Director, Research Mobilization, GAVI Alliance
- Erik Solheim, Chair, OECD Development Assistance Committee
- Gavin Wilson, CEO, IFC Asset Management Company
- Veronica Zavala, Chief Strategic Planning and Development Effectiveness Officer, Inter-American Development Bank

Conclusions and key messages:

Scaled-up private investment is needed in countries which suffer from a lack of resource diversity and private capital. Private investors are looking to a growing range of developing countries as the new investment frontier and potential future markets. However, public and private development resources are not currently aligned to maximise financial and social return. In this context, there is considerable scope to develop innovative partnerships between the private sector (both corporate and financial entities), development finance institutions, governments, and social impact investors, including foundations.

Working with private investors is ultimately about attracting much more finance from many more sources. In this context, panelists agreed that the private sector needs, above all, a **good investment climate** to operate in a country. Governments can play a crucial role by helping reform tax systems, improving infrastructure, and encouraging investment more broadly. In addition, Daniel Pastor (Abraaj Group) specifically called for a focus by official actors on putting in place the market conditions that would allow early-stage equity investors to exit their investments.

Businesses are ultimately interested in the specifics of investment, not only the general goal of working together for development. As such, business leaders are more likely to engage with development dialogues focused on specific sectors, such as energy or agriculture, rather than general discussions. In this vein, Erik Solheim (OECD, DAC) called for summits centered on specific industries to address both poverty and climate change agendas. Pastor also noted that there can be more alignment of business and social interests than is often recognized; he has found that in Abraaj's investments, companies that align environmental, social and governance concerns with their business models tend to perform better financially.

Multilateral development banks (MDBs) can act as a bridge between governments and the private sector. MDBs already work quite heavily on investment climate issues. Gavin Wilson (IFC) also described how MDBs can act to lower the perception of risk in their countries of operation, a major barrier to investment. Veronica Zavala (IADB) introduced IADB's new social impact bond pilot.

Wilson stressed that using **concessional resources or grants** for working with the private sector is only appropriate for a small part of the development budget. Mahmoud Mohieldin (World Bank) also warned against concessional lending crowding out private-sector participation in some sectors – such as infrastructure – where projects are bankable.

Minister Christian Paradis (Canada) announced the Impact Investment in Frontier Markets project supporting the development of small- and medium-sized enterprises in developing country markets.

There is a need to expand both the **spectrum of investors and the structure of investments**. Institutional investors, both international and domestic, should be engaged, including pension funds, educational endowments, and sovereign wealth funds, among others. Lending with longer tenors and in local currency should also be further explored, said Bob Annibale (Citi).

Several innovative financing mechanisms were showcased. Marie-Ange Saraka-Yao (GAVI Alliance) described her organization's progress in accelerating the development of new vaccines and toward better regulation of prices. Michael Eddy (Instiglio) explained the model of social impact bonds, whereby donors enter into a performance-based contract and only pay out upon results, with private investors getting a financial return. This model requires alignment of interests in order to work. Owen Barder outlined how this results based model was being developed into development impact bonds. While partnerships between government and private sector actors can be key to getting many innovative models off the ground, Owen Barder (CGD) cautioned that governments and donors should not artificially push products to scale; this should occur organically based on success.

Panelists noted that the development community has not been adept at transferring successful innovations across sectors and countries. Barder stressed the need for information sharing on private-sector solutions as they constitute global public goods.

Finally, innovation needs to be combined with lessons learned in order to finance the **post-2015 development agenda**. Domestic resources must be harnessed. Development also needs a more careful mixing and matching of types of resources with financing need, according to Mohieldin. Solheim called for reform of development assistance, particularly for a broader definition of Official Development Assistance. Pertti Majanen (Intergovernmental Committee of Experts on Sustainable Development Financing) emphasized the importance of enabling domestic conditions for investment: political stability and security; respect for human rights; and physical capital.