Expanding Enterprise, Lifting the Poor

The Private Sector in the Fight against Global Poverty

Brookings Blum Roundtable
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The Global Economy and Development Center at the Brookings Institution seeks to advance research, dialogue, and innovative solutions to address the challenges of global poverty and the forces of globalization. Its goal is to take the policy debate in new directions by providing thought leadership on the road out of poverty, the drivers shaping the global economy, and the rise of new economic powers. Recognizing that the forces of globalization range across disciplinary boundaries, the Global Economy and Development Center draws on the creative thinking of scholars from the fields of economics, development, and political science, building on Brookings' worldwide reputation for high quality, independent policy research.

The Aspen Institute seeks to foster enlightened leadership, the appreciation of timeless ideas and values, and open-minded dialogue on contemporary issues. Through seminars, policy programs, conferences, and leadership development initiatives, the Institute and its international partners seek to promote the pursuit of common ground and deeper understanding in a non-partisan and non-ideological setting.

Realizing Rights: The Ethical Globalization Initiative (EGI) is a new project led by former President of Ireland and United Nations High Commissioner for Human Rights Mary Robinson. EGI brings key stakeholders together in new alliances to integrate concepts of human rights, gender sensitivity, and enhanced accountability into efforts to address global challenges and governance shortcomings.

Global Economy
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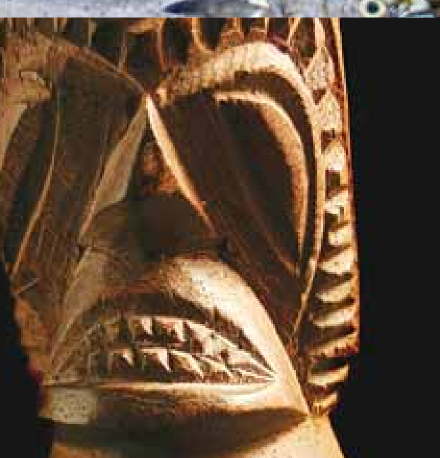


(from left to right) Strobe Talbott *(President, The Brookings Institution),* Smita Singh *(Special Advisor for Global Affairs, The William and Flora Hewlett Foundation),* Lael Brainard *(Vice President and Director of the Global Economy and Development Center, The Brookings Institution),* and Mary Robinson *(Executive Director, Realizing Rights: The Ethical Globalization Initiative)*

Foreword

FROM AUGUST 3 TO 6, 2005, FIFTY PREEMINENT INTERNATIONAL LEADERS from the public, private, and nonprofit sectors came together at the Aspen Institute for a roundtable, "The Private Sector in the Fight against Global Poverty."

The roundtable was hosted by Richard C. Blum of Blum Capital Partners and Strobe Talbott and Lael Brainard of the Brookings Institution, with the active support of honorary cochairs Walter Isaacson of the Aspen Institute and Mary Robinson of Realizing Rights: The Ethical Globalization Initiative. By highlighting the power of the market to help achieve social and economic progress in the world's poorest nations, the roundtable's organizers hoped to galvanize the private, public, and nonprofit sectors to move beyond argument and analysis to action. Put simply, as Brookings president Strobe Talbott explained, the roundtable's work was "brainstorming with a purpose."

With experts hailing from around the world and representing diverse sectors and approaches, the dialogue was as multilayered as the challenge of poverty itself. Rather than summarize the conference proceedings, this essay weaves together the thoughtful observations, fresh insights, and innovative ideas that characterized the discussion. A companion volume, *Transforming the Development Landscape: The Role of the Private Sector*, contains papers by conference participants, providing in-depth analysis of each conference topic.

Acknowledgments

The roundtable was made possible by a generous grant from Richard C. Blum, chairman of Blum Capital Partners, with additional support from the William and Flora Hewlett Foundation and the Ewing Marion Kauffman Foundation. The meeting's success was greatly due to superb research and planning support from Raji Jagadeesan, Zoë Konovalov, Emily McWithey, Nicholas Warren, and Molly Langer.

Turning the Tide

The Private Sector's Role in Development: We Cannot Afford to Wait

A TRIO OF KEY INTERNATIONAL meetings marked 2005 as a pivotal year for the global antipoverty movement: the Gleneagles Group of Eight (G-8) Summit in July, where British prime minister Tony Blair pledged to put Africa's challenges front and center; the United Nations General Assembly's review of the Millennium Development Goals in September; and the World Trade Organization's Ministerial meeting in December, where the fate of the Doha Development Agenda hung in the balance. Each meeting offered opportunities to help turn the tide on global poverty.

At the same time, civil society groups were mobilizing worldwide to prod political leaders toward action. From the ONE Campaign in the United States to the United Kingdom's "Make Poverty History" movement, broad-based coalitions were pressuring national governments for vastly increased aid, fair trade, and debt cancellation.

Meanwhile, prominent public figures added celebrity appeal to the cause. The rock group U2's front man Bono's tireless work against poverty earned him a Nobel Peace Prize nomination; Bob Geldof staged six "Live 8" rock-stravaganzas in advance of the G-8 summit; in Trafalgar Square, Nelson Mandela urged young people to wear a white armband to demonstrate their commitment to combating poverty; and Bill Clinton hosted the high-profile Clinton Global Initiative in New York, which focused in large part on the escape from poverty.

The media also trained its powerful spotlight on the world's poorest people—from *Time* magazine selecting Bono and Melinda and Bill Gates as its Persons of the Year to MTV broadcasting *The Diary of Angelina Jolie and Dr. Jeffrey Sachs in Africa*. And a string of natural disasters—the South Asian tsunami, the Niger drought, Hurricane Katrina, and the earthquake in Pakistan and Kashmir—reminded the world's people of their common humanity and galvanized an outpouring of assistance.

This heightened public awareness of global poverty—and renewed spirit of generosity—are welcome advances in the work of development. So far, however, the public agenda has focused primarily on boosting official assistance and canceling official debt. Even though the past two decades have witnessed an enormous shift in resources away from the public sector to private hands, and private flows to developing countries are now more than twice the level of public flows, scant attention has been directed at the most dynamic engine of growth and poverty alleviation: the private sector. Indeed, the private sector merits only two very narrow mentions in the Millennium Development Goals.

Yet private enterprise belongs at the very center of the development enterprise. By generating jobs, serving the underserved, promoting innovation, and spurring productivity, indigenous private sector development can raise living standards and promote opportunity. The most dramatic example is

China, where surging growth has raised 400 million people from poverty in the past two decades.

Moreover, rich and poor consumers alike benefit from the lower prices and greater choices that competition brings. Private firms are also the main source of tax revenues for social services like health care and education. And given the right circumstances, the entrepreneurial spirit can be sparked within any society—bringing a spirit of internal empowerment. No wonder, then, that leaders of poor nations have placed private sector development high on their own priority list—as shown, for instance, by the homegrown New Partnership for African Development.

But just as an indigenous private sector can be a powerful force for change, so too does the global private sector have a positive role to play in development. As the Harvard University scholar Jane Nelson notes, business leaders can make a difference through "the implementation of responsible business practices and standards, in areas such as ethics, the environment, labor, and human rights,… [by] harnessing the core competencies, resources, and problem-solving skills of private enterprise to create new social and market value; and… [by] working in partnership with others to help establish the appropriate enabling environment or conditions for good governance and private sector development."[1] Whether by paying premium prices for coffee produced with sustainable practices, donating resources to build schools and hospitals, or championing improved market access for developing country exports, a multinational firm can bring unique resources, leverage, and experience to the development table.

Moreover, the private sector can bring to the fight against global poverty the same spirit of leadership, innovation, and initiative—and the same skills in scaling size up, driving costs down, and reaching out to new clients—that are required for success in the global marketplace. And in contrast to the slow and uncertain pace of the public sector in making budget appropriations or adopting reforms, the private sector has the power to take meaningful steps against poverty right away.

For the world's neediest people, such a commitment by the private sector cannot come soon enough. Children are starving in an age of abundance, ailing in an era of medical miracles, and perishing in extreme poverty at a rate of 1,200 each hour. The ways and means exist to save these children, if the world can find the will. In the words of Richard C. Blum, the chairman of Blum Capital Partners, "Some people say you can't afford to invest in poor countries until governance is right and corruption has been reduced. I say that we can't afford to wait."

Bringing Prosperity

Empowering Business to Do Business in the Developing World

THE DYNAMIC GROWTH OF THE private sector in poor countries is indispensable if the international community is to meet its pledge in the Millennium Development Goals to halve extreme poverty by 2015. As UN secretary general Kofi Annan has said, "We cannot reach these goals without the support of the private sector. Most of all, we cannot reach them without a strong private sector in the developing countries themselves, to create jobs and bring prosperity."

Indeed, because top-down approaches to development have failed to produce consistent results, appreciation for the role of private enterprise in generating durable growth is increasing. International agencies like the United Nations Development Program are assigning a higher priority to the issue; the program's influential Commission on the Private Sector and Development produced a report titled "Unleashing Entrepreneurship," which the G-8 leaders endorsed at their 2004 summit. Meanwhile, the World Bank is strengthening its traditional commitment to private sector development; its *World Development Report 2005* drew on surveys of nearly 30,000 firms in fifty-three developing countries to explain and measure the forces shaping their investment climates.

At the same time, civil society groups are showing a greater interest in working with private partners on poverty reduction, and vice versa. Gone are the days when nongovernmental organizations (NGOs) demonized big business as the enemy and corporations caricatured activists as tree-hugging idealists. After all, private enterprise is the greatest source of self-employment and jobs—the two factors poor people themselves rank highest as means to improve their own lives.[2] Together, business and civil society are devising creative alliances to advance shared development goals in areas such as microfinance and resource transparency.

Yet despite a growing recognition of the importance of entrepreneurship in defeating poverty and spurring growth, private enterprise still is not thriving uniformly across the developing world. Why does it flourish in some societies while suffocating in others? What can be done to unleash entrepreneurship's contribution to development?

Among the many avenues to explore are three fundamental questions: How can the climate be improved for private enterprise in developing countries? Do certain sizes or types of enterprises contribute more powerfully than others to productivity growth, innovation, and employment? And how can more private capital investment be channeled to poor countries?

Improving the Climate for Private Enterprise

In the words of Warrick Smith of the World Bank Group's Vice Presidency for Private Sector Development, "Firms and entrepreneurs invest and make productivity improvements

not out of any sense of philanthropy but to make profits. Their decisions are thus influenced by the expected risks and rewards associated with alternative courses of action. Those risks and rewards are in turn shaped by the investment climate—but what shapes the investment climate?"[3]

Some of the factors shaping the climate for private enterprise are difficult to change. A geographically remote or rugged country will inherently face transportation challenges, just as a small or sparsely populated country will have a limited market size. Social attitudes toward risk and failure can constitute serious barriers to entrepreneurial growth; in some countries, creativity and innovation are not adequately rewarded or valued. Cultural barriers and norms may disproportionately impede certain groups such as women and minorities.

But research shows that government policies and behaviors have a critical role to play. If governments can put the right market-friendly framework in place, the private sector's ability to spark growth and alleviate poverty can be markedly improved.

Several policy and regulatory levers can prove especially significant: ensuring effective financial intermediation; assigning property rights—including those of poor people, as Hernando de Soto has persuasively argued; enforcing contracts; and fostering predictable policies and a sound macroeconomic environment. In fact, World Bank research shows that "improving policy certainty alone could increase the likelihood of new investment by over 30 percent."[4] Where the rule of law is weak, transactions must rely on personal relationships, which greatly undermines the efficiency of financial intermediation and reduces productive investment.

Regulations facilitating firm entry and exit—along with relatively open trade policies—can contribute to a greater degree of competition, lower prices, and more consumer choices. World Bank research shows that the number of days required to open a business tends to be significantly higher in low-income countries; it ranges from 2 in Australia to 203 in Haiti. In an unprecedented move, the U.S. Millennium Challenge Corporation has adopted this competitiveness indicator as a criterion for eligibility. But other procedures can exact a huge toll on the private sector in poor countries as well; for example, enforcing a simple contract takes 1,459 days in Guatemala, according to the World Bank, as compared with only 48 in the Netherlands.

Of course, while identifying key drivers and constraints to private investment is relatively straightforward, actually making lasting policy reforms is not. For one thing, those who benefit from the status quo may have significant political clout to resist change, and incentives may not be sufficient or appropriately aligned to achieve results. In addition, conditions for private enterprise may vary not only among countries but within them, as different sectors or different

"We need to remember that the private sector is a lot of individual people; every SME is built from one entrepreneur."

Jo' Schwenke
Managing Director, Business Partners Limited

classes of enterprise face different hurdles. And complex unknowns surround the sequencing of reform efforts and the interaction of different policy and regulatory changes. Setting priorities is difficult when so much is crying out to be done.

Although the necessary political will must come from within developing countries themselves, the international community does have some useful points of leverage—such as supporting the development of pro-reform political forces, small business associations, and influential diaspora communities, all of which can create demand-side pressure for otherwise unpopular reforms. And trade agreements can help developing country governments lock in a reform agenda, reinforcing investor confidence that reforms will be sustained.

Similarly, though legitimate debates persist over how to prioritize reforms, the challenges of sequencing should not become a smoke screen for complacency. Creating a good climate for private enterprise is a long-term process. The full set of necessary reforms cannot and need not be attained simultaneously. What counts is sustained progress.

A corollary is that adopting appropriate laws and policies is necessary—but will not be enough on its own. Often, deeper challenges inhibit private sector growth—such as a lack of policy credibility and poor public trust. Corruption is a particularly corrosive force that undermines vibrant private sectors and helps to perpetuate poverty. In the words of the Tanzanian entrepreneur Ali Mufuruki, "The biggest problem in Africa today is not poverty caused by historical conditions but by people themselves. We have good examples of countries built and wrecked again by their own people. People need to take responsibility to make their governments deliver."

And of course, private enterprise depends as well on important enabling factors, ranging from a skilled workforce and adequate infrastructure to contact with potential customers, connections to suppliers, access to know-how and technology, and, crucially, access to capital—a problem that is especially acute with regard to seed funding for early-stage enterprises and risk capital for expansion.

Liberating entrepreneurship in developing countries is not as simple as "If we build a business-friendly policy environment, they will come." Instead, it involves meeting the manifold challenges sketched in this report, which in turn requires commitment and creativity from a range of stakeholders. It also requires a clear understanding of ultimate goals and objectives; there may be a trade-off between those measures that will help the very poorest citizens of a country and those that will spark the long-term growth of its whole economy.

But most immediately, unleashing entrepreneurship requires the courage to act—recognizing that while a vigorous private sector is not enough by itself to end poverty, poverty will never be eradicated as long as the private sector is stifled.

Does Size Matter?

Even with growing agreement that vibrant private enterprise is essential for vibrant economies, the question remains: Should particular sizes and classes of enterprises be targeted? If the development goals are job creation, poverty reduction, and productivity growth, are equally important roles played by a seamstress making clothes on a sewing machine financed through a microcredit loan, a farmer with fifty employees expanding his business to reach both local and export markets, and hundreds of workers at an automobile plant churning out components for foreign cars?

Rigorous empirical research provides little support for the notion that business size matters for advancing economic growth; instead, the academic literature finds that an enabling environment is critical for healthy enterprises of all sizes.[5] But many practitioners nonetheless see important differences in the importance of enterprises of various sizes in reducing poverty and promoting innovation and employment. Broadly speaking, practitioners divide enterprises into four classes: microenterprises, small- and medium-size enterprises (SMEs), large-scale national enterprises, and huge multinational firms. Microenterprise, while probably not an engine for overall growth, is invaluable for improving the lives of the poorest members of society. SMEs can provide bottom-up growth and innovation, while large nationals and multinationals can link local markets to broader, global opportunities. (For more details on these four enterprise classes, see the box on the facing page.)

Regardless of whether looking at different sizes of firms constitutes a useful framework for thinking about growth and development, ***size definitely matters when it comes to evaluating enterprise needs and constraints.*** Financial constraints remain paramount in many poor countries, hitting microenterprises and SMEs particularly hard.

More than two decades of experience have yielded a number of successful models for overcoming the acute constraints that microenterprises initially face. Today, NGOs such as ACCION, FINCA, Unitas, and the Grameen Bank operate effective microlending programs on a large scale with the support of private philanthropy, official donors, and multinational businesses. From Bangladesh to Zambia, their work has demonstrated that poor people are bankable—indeed, poor clients, especially women, have repayment rates that exceed the formal financial sector in many industrial countries—and that microfinance institutions can be profitable and self-sustaining.

Such efforts have provided a much-needed impetus for the development of financial intermediaries and other complementary institutions in support of the microfinance sector. One of the goals for 2005, the International Year of Microcredit, was to encourage innovation and strategic

Microenterprises

Microenterprises are on the front lines of poverty alleviation. Supported by microfinance loans ranging from as little as fifty to as much as ten thousand dollars, millions of enterprising poor people worldwide are launching and expanding small restaurants, crafts shops, market stands and more—and empowering themselves to move from struggling for survival to saving for the future. According to the Consultative Group to Assist the Poor (CGAP), microfinance institutions served more than 80 million clients in 2003. And microfinance's impact on development extends beyond the immediate wage earner, especially when the loan recipient is a woman; indeed, studies show women are most likely to invest in better nutrition, education, and health care for their families.

While microenterprises are individually unlikely to become globally competitive, they are an important means for those at the bottom to climb the rungs of the economic ladder. Success stories abound, like that of FINCA client Luz Diamantina Càceres and her husband, whose shoe business grew from a two-person operation that made six dozen pairs of shoes per week to one that employs ten full-time workers and whose output has grown tenfold—thanks to five cycles of microfinance loans totaling $1650.[6] Thus, while microenterprise may not be the best engine for innovation or capital investment, it is a vital tool for self-employment and lifting the lives and prospects of the poor.

Small- and Medium-Size Enterprises

SMEs (defined here as enterprises with between ten and 100 employees) offer a promising channel for employment, investment, innovation, and growth. In the United States, for example, small businesses provide roughly three out of four of the net new jobs added to the economy.[7] Within SMEs, some enterprises' size and scope may be inherently limited, such as those engaged in the provision of local services (for example, a local construction business). But a potentially critical group pursues opportunities for high yielding investment and innovation that could have a clear multiplier effect on employment, productivity, and growth (for example, a cell phone provider).

Large Enterprises and Multinationals

Large national enterprises and multinationals are critical contributors to capital investment, productivity, and growth. The UN estimates there are more than 60,000 multinational corporations in the world, with hundreds of thousands more foreign affiliates, suppliers, and distributors. Because of their extensive linkages to international trade and capital markets, large firms may offer higher quality jobs, better pay, and more stability than SMEs, as well as be able to supply foreign markets directly, import technology, and undertake research and development that lead to innovation and productivity improvements. They are also critical conduits linking SMEs and microentrepreneurs to broader market opportunities.

“So far the biggest challenge to bringing microfinance to scale is not credit risk but high operating costs. The two types of people who meet most frequently with their bankers are the world’s richest—whose bankers don’t leave them alone—and the world’s poorest—think of Maria in Latin America meeting her investor every month under the tree to talk about her goats.”

Robert Annibale
Global Director of Microfinance, Citigroup

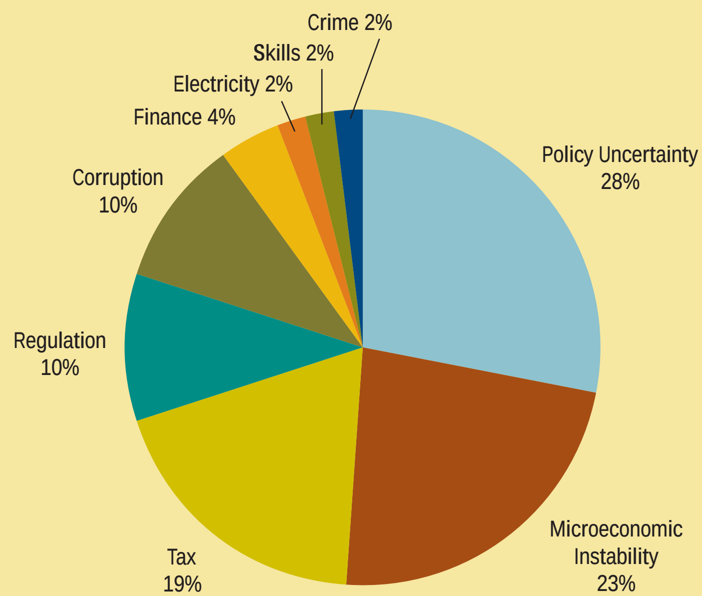
partnerships to expand the reach of microfinance to the hundreds of millions of poor people with no bank resources at the bottom of the economic pyramid. One such partnership has been developed between Hewlett-Packard and seven leading microfinance institutions, which have worked together to develop a remote transaction system that effectively turns a microfinance loan officer into a human automated teller machine—thereby reducing cost barriers to microfinance in far-flung rural areas. In some cases, microfinance intermediaries are being transformed from nonprofits to commercial enterprises, although the high transaction costs associated with direct contact with clients suggest a continuing role for philanthropy and public support.

With scalable models for microfinance increasingly well established, attention is shifting to the SME sector, where enterprise needs are more complex and there are fewer successful models. Although SMEs have correspondingly higher needs for capital than microfinance, the problem is not so much the amount as the type of capital needed.

The class of SMEs with the greatest potential for high-yielding investment and innovation is too small and unproven to depend on commercial loans or internal cash flow, and simultaneously too large and risky to rely on modest short-term microcredit loans. In sophisticated markets like the United States, a promising business could attract patient risk capital from venture funds or angel investors, as well as strategic oversight and management know-how. This sort of financing and support remains virtually nonexistent in most poor countries in part because of investor concerns about exit risks.

As a result, developing country entrepreneurs must often struggle to build a business based entirely on their scant personal assets. Or they may be forced to borrow capital and then must pay to service their loan, wiping out any opportunity to invest, take risks, and grow. As the financial practitioners Alan Patricof of Apax Partners and Julie Sunderland have observed, if iconic American firms like Apple Computer, Microsoft, and FedEx had been obliged to finance their early growth with “the short-term, collateralized, high-interest loans currently available in developing countries, they would not even have gotten off the ground.”[8]

Promising initiatives are beginning to emerge. Organizations such as Technoserve in Africa and Latin America, Business Partners Limited in South Africa, ShoreBank in the United States, and Enablis in South Africa are pioneering programs to address critical SME needs for financing together with marketing and management advisory services, while the Self-Employed Women’s Association in India has launched a Global Trading Network to help microentrepreneurs and SMEs seize global market opportunities. Nourishing this dynamic class of businesses can have a self-reinforcing effect because successful entrepreneurs serve as employers,



Major Risk Concerns of Firms in Developing Countries

Source: World Bank Enterprise Survey Database 2005.

“People go to an official finance institution for investment guarantees, and they’re two years older by the time they’re done. The difficulty of the process is a disincentive to potential investors. Official finance institutions need to develop easy to understand programs and guidelines. They have to move from the tailor-made to the ready-made business.”

Richard Blum
Chairman, Blum Capital Partners

“Many small- and medium-sized enterprises are not being well served by the financing options currently available in most developing countries. I visited a farm equipment producer in Mozambique that used 19th century equipment for metal bending and wanted to buy new equipment—it employed 40 to 50 people. Then there is the printing company that does $600,000 of business a year. In order to invest in new equipment, they are about to take a 2-year loan from a donor organization at a 12% interest rate. That’s an invitation for restructuring.”

Alan Patricof
Co-Founder, Apax Partners

trainers, and role models for others.

Clearly, there is no single path to private sector development, and targeting support to one class of enterprise should not mean neglecting the others. That said, SMEs in developing countries are a starved segment with unique potential, and the next few years should see great emphasis on their role as engines of growth and employment.

Strengthening Private Investment in Poor Countries

But how can the capital that indigenous private sectors need to grow be unlocked? And from where will the money come?

Although official aid flows may remain a vital source of financing for a considerable time (particularly for countries with heavy debt burdens), private capital flows already outstrip aid flows for many developing countries and have far greater potential over the medium term. Today, more than $19 trillion is invested in the U.S. securities markets alone. If little more than half of one percent of that private capital shifted to investments in developing countries, the increase would radically alter the development landscape. As the social investor Tim Freundlich of the Calvert Social Investment Foundation points out, $100 billion in private capital invested for ten years “could finance 1.14 billion microenterprise jobs, 160 million affordable housing units, and 70 million cooperatives or nonprofit facilities.”[9]

Yet getting private investors to bet on poor country markets is a difficult proposition, largely because of perceptions of unacceptably high risk. These perceptions are partly grounded in the reality of political instability, expropriation risk, currency and commodity price swings, and the insufficient legal protections often associated with developing country markets. And such negative perceptions are compounded by a lack of familiarity with developing country environments and inadequate information, financial and otherwise, available to investors who reside on the other side of the world. Capital is notoriously cautious about taking risks—perceived or real. According to some estimates, to offset the perceived risk differential, the expected profitability of a typical SME in a developing country would need to be 50 to 100 percent greater than that of a similar business in a more developed economy.[10]

Diaspora communities can be mobilized to support development in their ancestral homelands, as Ireland, China, and India have shown. Some African countries are attempting to learn from these successes by identifying and tapping into their far-flung diasporas.

Leaders of poor countries can and must make a difference by implementing effective policies. But achieving an attractive environment for private enterprise is a long-term endeavor that requires sustained political will, patience, and not inconsiderable luck.

In the meantime, changing risk perceptions and reward expectations for investments in

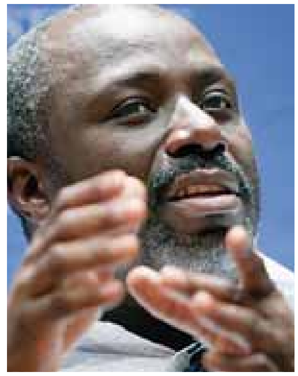
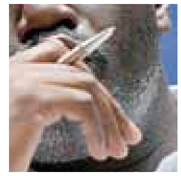
Changing Perceptions

The difficulty of turning around misinformed perceptions is illustrated starkly by Dr. Mohamed Ibrahim, Chairman of Celtel International B.V. "I remember the first guy I talked to… who designed a number of the networks in Europe and in Asia. I said, 'Let's go and build a telecom network in Uganda.' And he said, 'Mo, are you crazy? There's a guy called Idi Amin in Uganda. Do you want me to drag my company to work in a country run by a crazy guy called Idi Amin?' I said, 'Listen, Idi Amin left 15 years ago.'"[11]

Despite these obstacles, Dr. Ibrahim went on to found Celtel International, B.V., which now operates cellular networks in 14 countries, and serves 6.5 million customers with revenues of $1 billion.

"Let me give you a personal example of the importance of equity capital. Six years ago, a friend and I wanted to start a franchise of stores. The banks didn't want to lend because we had no track record. We found a venture capital fund with investors and angels. The business culture they instilled in us was almost as important as the dollars. This business discipline is not common in our country, and we argued about whether to accept it. But I think that it saved our business in the long run; today we're employing 100 people in two countries."

Ali Mufuruki
Chairman and Chief Executive Officer, Infotech Investment Group Tanzania


development will require official donors and lenders, NGOs, and private investors to exercise greater creativity in designing or adapting mechanisms to mitigate risk, building on the wide variety of tools and techniques available in the most sophisticated financial markets. In considering what kinds of new financing options to develop, the place to begin is with the problem to be addressed and the goal to be achieved, as Brookings scholar David de Ferranti points out.[12]

There is already considerable experience with different forms of official guarantees provided by organizations such as the World Bank Group's International Finance Corporation and the U.S. Overseas Private Investment Corporation on a case-by-case basis. But these approaches have often proven laborious and time consuming for willing investors to use; a goal for these institutions should be to move from "tailor-made" to "off-the-shelf" products wherever possible.

The public sector has also helped to establish and subsidize venture funds focused on investments in transitional and developing economies. The Polish-American Enterprise Fund was an early success, and the European Bank for Reconstruction and Development has subsequently launched a variety of funds for the former Soviet Union. But these venture funds usually have not met expectations, and many funds originally intended to support SMEs have drifted toward bigger deals, in the face of high SME transaction costs and the pressure to produce commercial returns.

Inevitably, there will be tough challenges and trade-offs in setting up these new efforts. Some experts question whether using public funds to support the private sector is the best use of limited resources for poverty alleviation. How do we measure whether a dollar is better invested in a girl's education or in building the business that will provide that girl with a livelihood as an entrepreneur or an employee?

Others point to the danger of distorting the market with too much cheap capital or support for uncompetitive businesses. Will government guarantees lead to lax project assessments and poor investment decisions? Will funders have the courage to cut off underperforming clients?

In addition, there is tension between the desire to reduce transaction costs for developing country investments and the recognition that technical assistance can be as important, if not more important, than finance for many ventures. Many organizations provide financial support in combination with strategic advice and business skills development to help promising entrepreneurs reach their fullest potential. Yet the more features that are added to a program, the more costly it becomes to replicate and scale. Recognizing this, some are devising creative approaches to providing technical assistance on a not-for-profit basis while offering financial support at closer to market terms.

Finally, some experts believe these efforts are misguided, noting that history is littered with failed attempts to finance the private

Global Development Bonds (GDBs)

Magnifying aggregate private flows into poor countries by attracting commercial and institutional investors remains achievable. One promising approach might be to satisfy these investors' fiduciary responsibility to invest conservatively through the adaptation of sophisticated financial techniques originally developed for rich country capital markets. A group of experienced business executives, economists, and government experts is currently developing a promising concept called "Global Development Bonds," which seeks to boost development capital abroad much as the municipal bond market has done for states and localities in the United States. While some official support would be required, the GDB architects underscore that the goal is to have a market product supported by the government, not the other way around.

SME Financing: Equity or Debt?

Another objective is to direct patient investment capital to the hungry SME sector. While accepting the need for lower returns or subsidies due to high transaction costs, there is still considerable debate on whether long-term loans or equity are better suited to address SME financing needs.

Alan Patricof and Julie Sunderland have proposed a venture capital fund to invest equity or equity-like instruments in growth-oriented SMEs in poor countries. The fund would combine resources from development financial institutions, local governments, and private local investors. Most of the investors would accept a below market rate of return in the hopes of leveraging and building the indigenous commercial risk capital market.[13]

In contrast, Jo' Schwenke of Business Partners Limited has pioneered a model built around long-term loans. In his words, "It's not about equity, it's about attitude. If a business is in trouble and you foreclose, that's thinking like a banker. If you stick it out, that's thinking like an entrepreneur. The problem with an equity deal is that if you take the fair share you need, your entrepreneur will start thinking like an employee."

So far, the lending approach is getting more of a test run. The Shell Foundation recently teamed up with African-based specialist financier, GroFin, to launch a $100 million loan fund for small business investments in Africa, funded mainly by the U.K. and Dutch governments and two African banks. But going forward, both equity and lending approaches should be put to the test.

“There is still mutual mistrust on both sides. The public sector is terrified that the private sector will divert the money to investments with poor social value. The private sector is terrified that their fund will be full of poorly performing socially responsible stocks.”

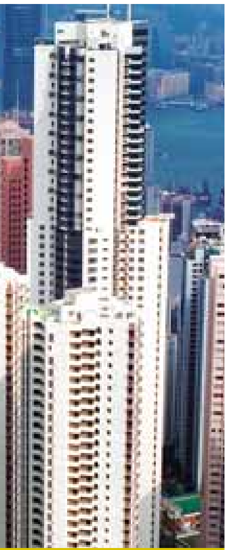
Paul Applegarth
Former Chief Executive Officer,
Millennium Challenge Corporation

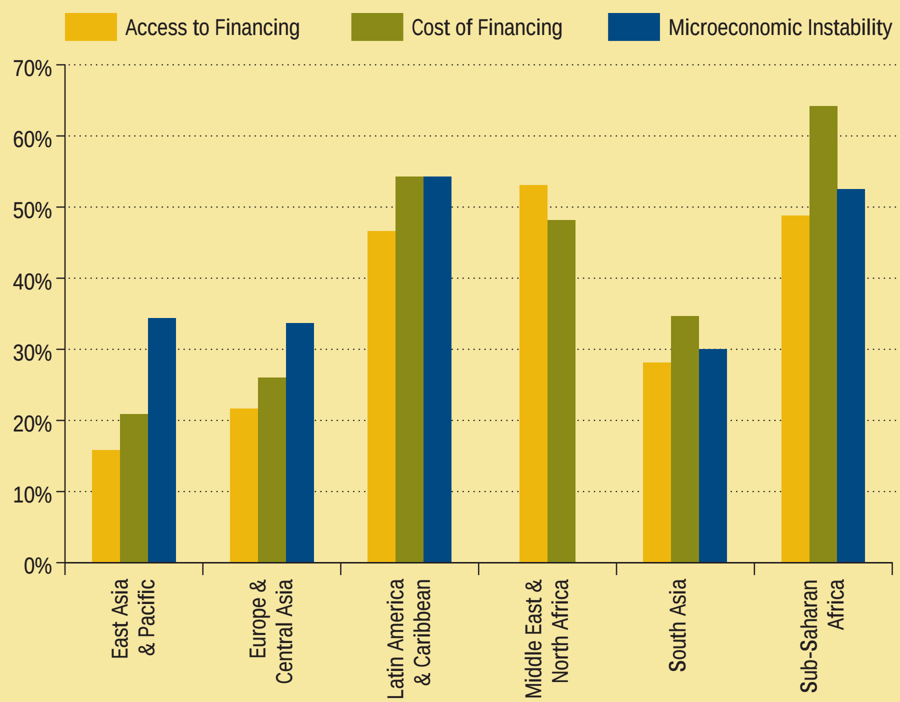
sector in developing countries—from directed credit to development banks. They believe that maximum development impact is more likely to be gained by supporting macroeconomic policy change than by trying to provide financial support directly to private enterprises. However, most earlier efforts failed because the government tried to play the role of the capital market without enforcing market discipline or demanding returns. The new generation of innovative financing approaches aims to put market discipline at the core, with an emphasis on performance and accountability. Far from supplanting market mechanisms, the goal of new risk-sharing tools is to create appropriate incentives for private investors to venture into markets they would otherwise write off as hopeless.

The time has come to turn more of these ideas into reality and give them a test run—with close collaboration among official donors, NGOs, and experienced financial market players. Rather than seeking a silver bullet, those committed to spurring development should pursue a range of promising endeavors. In the words of former U.S. vice president Al Gore, “Because we're facing an emergency, this is not a question of *either/or*; it's a question of *and*.”

“Risk mitigation is only part of the service we provide; people come to us for our stamp of approval, as well as more open access to government and help if those governments misbehave. For us it's very important the risk/reward ratio be acceptable; our shareholders are very concerned about moral hazard.”

Assaad J. Jabre
Acting Executive Vice President,
International Finance Corporation





Firms' Perceptions of Financial Obstacles in Developing Nations*

Source: World Bank.

* Percentage of firms identifying the following indicators as major or very severe obstacles to business operation and growth

Greater Awareness

The Business of Poverty Reduction: The Global Private Sector's Role

FROM THE CLASSROOM TO THE boardroom, debates have long been under way about the appropriate role for business and its responsibility to society. One school of thought follows Milton Friedman's view that corporate executives, provided they stay within the law, have no business responsibilities beyond making as much money for their shareholders as they can. Another school argues that corporations are social institutions and have an obligation to lift lives and livelihoods in the places in which they do business—or, at a minimum, to do no harm. That obligation increasingly has global dimensions.

The issue has moved well beyond abstract discussion, as greater awareness on the part of consumers, investors, and workers—along with the increased presence of transnational NGOs and the interest of the media—have put corporate practices under the microscope. In an age when civic activists are quick to point out that the annual revenues of many global firms dwarf the gross domestic products of the world's poorest nations, modern businesses find themselves scrutinized not just on their profitability but also on their broader social, environmental, and human rights impact. Moreover, the same tools of globalization that have enabled companies to grow have been used by corporate critics to launch sophisticated campaigns against firms perceived as falling short on the social front. Today more than ever, good corporate citizenship is tied to the bottom line.

In response, many companies have adopted corporate social responsibility approaches that seek to mitigate negative social and environmental consequences through adherence to minimum standards. Many multinationals have agreed to comply with voluntary standards and corporate codes of conduct in areas such as labor protection, transparency of resource flows, and environmental stewardship in poor countries.

Increasingly, these codes are being negotiated in international forums, such as the UN's Global Compact, which now involves almost 2,000 companies worldwide. Some are being made operational through multilateral institutions. For instance, the World Bank's Equator Principles encourage the world's leading financial institutions to incorporate social and environmental considerations into large infrastructure projects.

Pressure is mounting to give these codes teeth through regular audits and third-party monitoring in industries such as apparel and footwear. Although some corporations have been reluctant to embrace these enhanced approaches, a few industry leaders such as Nike have progressed well beyond basic compliance to develop an elaborate and now transparent set of supply chain management practices to ensure robust implementation.

Indeed, some top executives themselves would argue that the scope of corporate social responsibility is too narrow—to the detriment of business and society alike. As Ian Davis, the worldwide managing director

"We need to create conditions that will bring social values into the equation. Businesses can and do play constructive roles, but you have to induce them by showing that socially responsible managers do better. The extractive industries are a case in point—some management, such as at British Petroleum, is at the forefront, while Exxon has made it a point to disregard these issues. We must ensure that investors—not just civil society and consumers—view the BP management more favorably."

George Soros
Chairman, Open Society Institute

"We are exploring the ways that long-run socio-cultural forces affect a company's long-run strategic options, such as the enormous impact of HIV/AIDs on the productivity of the work forces of our South African clients. The societal influence on business decisions include the formal contract (laws governing business practice), the semi-formal contract (such as labor standards), and frontier issues, which some businesses are only now starting to take into account."

Judy Wade
Partner, McKinsey & Company

of McKinsey & Company, has written, these kinds of commitments are "too limited, too defensive and too disconnected from corporate strategy."[14] Visionary corporate leaders are revising the definition of business value beyond pure shareholder value—or are looking beyond the horizon where the two converge—and seeking to proactively manage their corporations' social footprint as a fundamental part of strategic planning.

This growing movement to build social values into core business strategies can have a transformative impact on development and poverty. At the same time, it can bring real benefits to companies—including improving customer loyalty and employee morale and helping to refine brand identity. It is not simply a matter of responsibility but also more and more of opportunity.

Three angles in particular merit exploration: how to think about the private sector's contribution to development, what can be done to maximize the effectiveness of public–private partnerships, and what can be learned from the private sector's mobilization in the global health arena.

The Private Sector's Development Footprint

The development footprint of corporations ranges from their core business activities to their philanthropic activities to their policy and advocacy activities, and it increasingly is reaching into a realm where social value and market value converge.

Core Business Activities

Perhaps the most important and still least recognized potential opportunity for business to influence development is through their core business activities—from what and how they sell to how they operate.

For example, many businesses are engaged in creating social value by addressing the underserved needs of poor consumers within the traditional for-profit model. Indeed, the business scholar C. K. Prahalad has drawn attention to "the fortune at the bottom of the pyramid"—the vast market potential associated with the billions of consumers who survive on less than $2 a day.[15] As Prahalad argues, poor consumers have both choice and dignity—something that is easy to forget when they are viewed solely through the lens of charity. Indeed, poor people are some of the most value-conscious consumers in the world.

Pioneering firms from Brazil to India are finding new ways to address this huge market's underserved needs—from selling individual sachets of shampoo to creating a systematized and standardized eye-care process that allows a doctor and two technician teams to perform more than fifty cataract surgeries a day. The challenge for businesses attempting to serve this market is to develop appropriate products, marketing, and distribution—meaning "small unit packages, low margin per unit, high volume, and high return on capital employed."[16]

Other corporations are delivering important

"In Central America I was part of an initiative that brought together 70 companies to work with the government to find long-term solutions for social issues, especially issues that directly affected the future of their business such as raising educational standards to promote innovation and creativity, which are so essential today in the global marketplace. Of these 70 companies, only three were international—Proctor & Gamble, Abbot, and Intel—but they brought knowledge and best practices to the table that were invaluable."

Luis Javier Castro
Managing Director, Mesoamerica Investments

development benefits through their core business activities in poor countries by developing human resources, building infrastructure, and introducing new technologies. In the words of former Overseas Private Investment Corporation chairman Peter Watson, "The most valuable contribution of foreign investment does not come from the addition to the domestic pool of capital and the creation of jobs per se, but from the transfer of globally competitive technologies and business practices"—such as quality control procedures, time management, project management skills, and experience in handling external relationships.[17]

The next frontier may be for businesses to deploy their core competencies against tough development challenges—as will be discussed below in the context of partnerships and of health. Enterprises that have passed the market test on a global scale often have world-class capabilities in areas that are of great importance and short supply in the development field. These include capabilities in fostering research and development, marketing goods and services, successfully adapting business models to vastly differing markets, and driving down costs.

Corporate Philanthropy

Corporations have traditionally viewed their positive development impact primarily through the lens of philanthropic activities in local communities—such as supporting education and youth development projects, building community leaders' capacity, training local specialists in environmental management, and establishing microcredit programs. Companies may give financial resources, offer employee volunteers, donate materials and equipment, or even provide space. These efforts can often be leveraged through partnerships with local NGOs and businesses, the host government, and official donors.

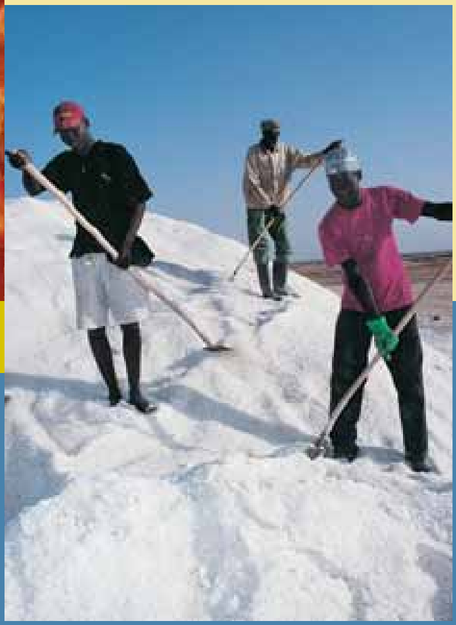
The potential reach of corporate philanthropy is huge. In Jane Nelson's estimation, the philanthropic resources of the top fifty companies equal the United Nations Development Program's annual operating budget of $4 billion. Visionary companies are starting to think about philanthropy in strategic terms—making longer-term, holistic commitments to communities rather than a series of individual, one-time donations. For instance, Chevron has undertaken a comprehensive approach to development in Angola in partnership with the national government and official donors, recognizing that it has a long-term strategic interest in the region's successful development. At the same time, there are challenges involved in fully leveraging corporate philanthropy's development promise; big firms may be reluctant to pool resources with competitors or to work with partners if it means sharing the public relations credit.

Policy Dialogue and Advocacy

Another important channel for leveraging business influence is through policy dialogue

Business Advocacy for Development

In 2003, a group of business leaders in Seattle joined forces to advocate on behalf of the world's poor. Bill Gates Sr., Daniel J. Evans, William Ruckelshaus, Bill Clapp, and John Shalikashvili founded the Initiative for Global Development (IGD) as an alliance of business and civic leaders dedicated to reducing extreme global poverty. Starting from its roots in Seattle, IGD has expanded to ten cities across the U.S., with plans for further national outreach.



“We must find a way to convince fiduciaries to monetize values that are currently excluded from consideration. If the only thing we use to assign value is a price tag, then everything that doesn’t have a price tag starts to seem like it has no value.”

Al Gore
45th Vice President of the United States

“We are publishing the oil revenues by each tier of government in the newspapers every month. Believe me, it’s the most popular reform because people can say to their local government chairman or their state governor, ‘You got X amount of Naira, 20 billion, why are our roads not fixed?’”[18]

Her Excellency
Ngozi Okonjo-Iweala
Minister of Finance of Nigeria

and advocacy—such as business pressure to improve the climate for private firms in poor countries and corporate lobbying in support of more development aid or enhanced market access for poor countries.

Increasingly, private, public, and nonprofit partners are joining forces on behalf of shared goals. For instance, business and civil society are natural allies in the fight against corruption, which, by strangling trust, hinders investment and enterprise no less than effective government. BP and Shell have teamed up with NGOs such as the Open Society Institute, Global Witness, and Transparency International in partnerships such as Publish What You Pay and the Extractive Industries Transparency Initiative that use the power of transparency to lift the “resource curse” of dysfunctional governments and predatory elites that too often afflict countries rich in natural resources.

Marrying Social Value and Market Value

On a parallel track, innovative ventures such as the Acumen Fund are marrying philanthropy with commercial savvy to invest venture capital in developing country enterprises that can provide health, housing, water, and other basic services to poor people in a sustainable, scalable way. These hybrid approaches place a premium on generating social value, but they have the potential to generate profits over the longer term. Promising areas for hybrid ventures include agribio, health, and clean energy.

Another cutting-edge approach is “blended-value investing,” which argues for a redefinition of market returns to incorporate social and environmental value. This type of investing is still at a relatively early stage of evolution and will require advances in social and environmental accounting, as well as the creation of supporting institutions to achieve scale. But growing numbers of investors already are expressing the desire to create social value when allocating their portfolios—whether through strategies to limit investment in companies that pollute the environment or exploit their workers, or through proactive investments that accept below-market returns in exchange for enhanced social value.

In sum, numerous avenues exist for the global private sector to help create social value. But the path ahead is neither clear nor easy. There is often a difficult tension between long-term development goals for poor people and corporations’ short-term pressures to deliver shareholder profits.

What then will it take to channel the power of private enterprise in these directions? How can society create conditions for the private sector to do the right thing?

Given that business continues, appropriately, to be motivated by financial returns, one key requirement is to demonstrate that failure to focus adequately on social impact can ultimately reduce a corporation’s strategic options, or, conversely, that social value and market value converge over

time—as Starbucks is doing by demonstrating that consumers are willing to pay premium prices for a business system that invests in its suppliers and employees.

Perceived public relations benefits or costs also influence corporate decisionmaking. The more that the media, NGOs, civil society, and shareholders reward the reputations of socially responsible corporations and their leaders—and tarnish those of offenders—the more incentives firms will have to burnish their corporate citizenship credentials.

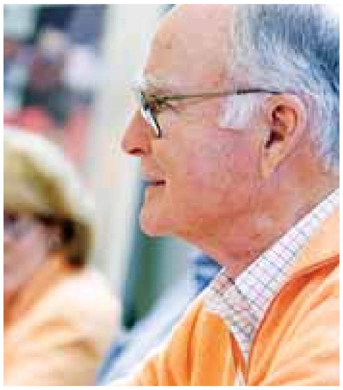
Similarly, companies value the connections emerging between doing good in the community and building employee satisfaction. For example, the executives of Voxiva, a for-profit data solutions provider that uses technology to address public health needs in poor countries, believe their emphasis on doing good and doing well at the same time has been an asset in attracting and retaining highly motivated employees.[19] And some jewelers who were targets of the "Clean Diamonds" campaign reported that they felt the biggest loss not on their bottom line but in employee morale.[20] With more MBA programs focusing attention on social enterprise and corporate citizenship, tomorrow's top recruits may hold out for jobs that offer meaning as well as money.

Realizing the Full Potential of Public–Private Partnerships

As multinationals and large-scale national enterprises embrace a broader mission, many are seeking ways to leverage their resources through partnerships with local NGOs and businesses, host governments, and official donors. For many large companies, working with official donors bestows a range of advantages. Donor involvement can often confer legitimacy on corporate social responsibility efforts such as product trademarks or natural resource transparency programs. When corporations work to promote social value in areas related to their core business proposition, such as on social marketing efforts, they may enter into partnership with government to support marketing and distribution targeted at the poorest consumers. And when corporations seek to contribute to social welfare in the poor communities where they do business, partnerships with host governments and official donors ensure synergy with broader development plans and programs.

Moreover, public sector partners can help corporations gain policy access to governments, provide convening authority, mitigate risk, and share significant accumulated expertise in developing countries. Often, firms investing in developing countries seek the involvement of the official, multilateral International Finance Corporation—not primarily for financial reasons, but rather because it conveys an official stamp of approval with regard to environmental and social standards.

Likewise, official donors increasingly value public–private joint ventures. During the past few decades, as aid agencies have shifted

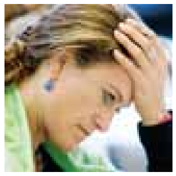


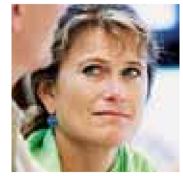
"Some companies make it their livelihood to make strategic partnerships work. Many of the same principles are transferable to partnerships with the public sector. These include time upfront to structure the partnership, exit strategies, establishing common interests, and understanding shared goals, with periodic review to make sure that people are on the same page. Often these dry issues, if ignored, are what make partnerships break up."

William Ruckelshaus
Strategic Director,
Madrona Ventures Fund

"On goal alignment, it's often hard for companies to admit there is a profit opportunity, so they speak in disingenuous, veiled language that makes it hard to communicate. This causes mistrust."

Jacqueline Novogratz
CEO, Acumen Fund





"With private/NGO partnerships, communication is an important issue. The first point of contact is usually a human rights activist talking to a PR manager; that's not the right place to talk about a shared value proposition because neither of those people has the appropriate authority. If you want to do a serious deal, you have to legitimize it at the top of the pyramid."

Ray Offenheiser
President, Oxfam America

from viewing the local private sector as a target for development to looking to the private sector for social service delivery and infrastructure provision, governments have grown to rely on the private sector's significant project management expertise, established local presence, and valuable political support.

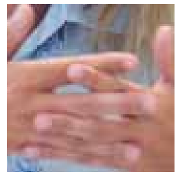
Although many assume that the public sector is seeking to leverage financing from corporations, in reality governments often serve as the "resource" partner, seeking to use the private sector's know-how and commitment. Thus, for instance, when Hewlett-Packard collaborated with the U.S. Agency for International Development and several leading NGOs to develop technology for microfinance operations, it was the government—not the private sector—that supplied the money, while Hewlett-Packard provided project management skills, personnel, and technology.

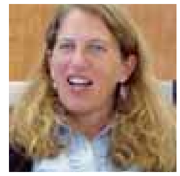
The United States has long been prominent in these efforts, in keeping with the dominant domestic role of its private sector and the abundance of American-based corporations with global reach. But European business leaders, such as the global banking group ABN AMRO, have been taking the lead on partnerships with governments and civil society organizations to advance social responsibility—an area from which the U.S. government has mostly remained aloof. Among international institutions, the World Bank has traditionally had an outsized role in private sector development, with the United Nations Development Program making big strides in recent years.

Yet for all this activity, challenges remain in maximizing these partnerships' potential. In the corporate world, it has been estimated that roughly half of strategic alliances underperform or fail. The public–private partnership arena faces similar hurdles.

At the most basic level, public–private partnerships must overcome cultural clashes. Corporations may feel that government collaboration weighs down their agility and makes projects hard to scale, while official donors may feel that their reliance on public funds, and procedural concerns about fairness and due process, make it difficult to grant shared responsibility to a corporate partner. Multilateral institutions are further hamstrung by national rivalries among member states, which may lead one country to resist another's firms receiving public sector support.

In addition, many donor agencies view public–private partnerships "almost exclusively in terms of corporate social responsibility and/or as a marginal supplement to their other programs for promoting private sector growth," according to Larry Cooley, the president of Management Systems International.[21] As a result, their partnership offices are often understaffed and lack bureaucratic clout. The U.S. Agency for International Development, however, has integrated public–private partnerships across its development efforts—and has taken commensurate measures to fund and train staff, as well as change relevant





Public Private Partnerships: Lessons Learned

1. A private entity has surprisingly great power to bring together people who often have never met before.
2. There's always a lost year; these projects take a while to structure and set up.
3. Success poses its own challenges, especially when it bumps up against capacity constraints.
4. Money talks.

Sylvia Mathews
Chief Operating Officer and Executive Director, Bill and Melinda Gates Foundation

operational and procurement procedures to foster the use of this business model. Similarly, corporations that strongly value strategic alliances place a premium on designating and retaining good people to manage these relationships over time.

Another key challenge is misaligned expectations among various parties to a partnership—from the motives for undertaking a partnership in the first place to expectations about the pace of decisionmaking and resource allocation. To avoid this problem, both sides need to agree early in the project design process on what each side hopes to gain from the endeavor and who will bring what to the table. Open communication, transparency, clarity of roles and ground rules, and regular opportunities for review can help get a partnership going and keep it moving forward. Just as important is mutual agreement on an appropriate exit strategy in case the alliance outlives its utility. Time invested in the planning stages of a partnership can pay important dividends, and save disappointment, down the line.

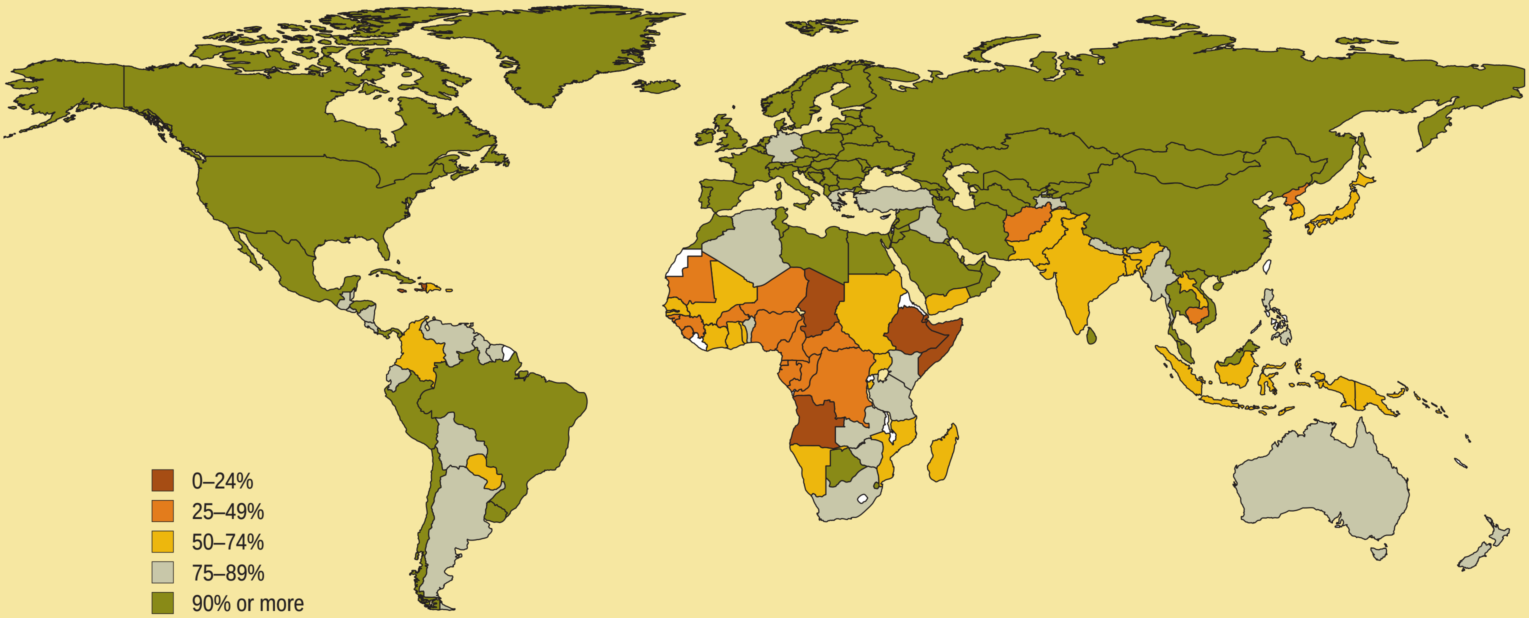
In the coming years, a well-tested set of best practices should help guide public–private partnerships in achieving their full potential—including ways to scale good programs, replicate successful configurations, and exit gracefully from bad ones. It already seems clear that certain sectors are better suited for these partnerships than others—among them, health, water, natural resources industries, and information technology education.

And as forward-looking business leaders increasingly broaden their definitions of value creation, and government executives grow to appreciate the operational savvy and local presence that private partners can bring, public–private partnerships are bound to grow in reach and impact. Though development and poverty reduction primarily remain challenges for governments, effective partnerships are proving every day that corporations can be capable, creative allies.

Learning from Success: Advances in Health

Nowhere is the proof of public–private partnerships' potential more compelling than in the health arena. Defying development pessimists, global health has witnessed some dramatic successes in recent decades. Unlike economic interventions, which are highly dependent on context for their success, many health interventions have been effectively implemented—even in countries with dysfunctional governments, poor public health systems, and civil conflict.

Improved sanitation, combined with inexpensive oral rehydration therapy, helped to achieve a two-thirds drop in deaths from diarrheal disease between 1980 and 1999. And in one of the biggest triumphs of science and political will, smallpox has been completely eradicated—and polio is well on its way to disappearing. Today, the World Health Organization estimates that it is possible to eradicate measles—the single leading cause of



Percent of Children Immunized by Country, (DTP 3 coverage) Diphtheria Vaccine 1999

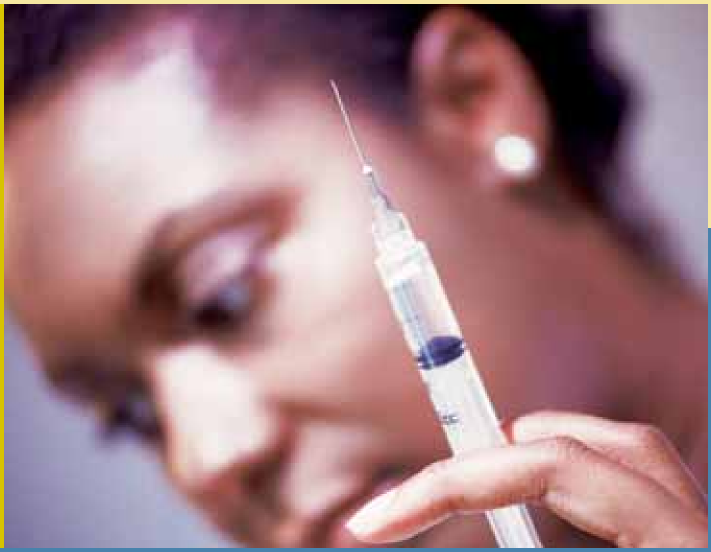
Source: UNICEF/WHO 2001; Gates Foundation.

Partnering to Deploy Vaccines for Poor Children

The dynamic public-private Global Alliance for Vaccines and Immunizations (GAVI) is pioneering important innovations in both the financing and delivery of public health in poor countries. Established to bring new vaccines to and improve immunization systems in the poorest countries, GAVI secured in September 2005 a $4 billion International Finance Facility for Immunization (IFFIm) that will leverage long-term donor funding commitments through borrowing in private capital markets. Initial pledges have come from the United Kingdom, France, Italy, Spain, Sweden, and the Gates Foundation. The large scale of financing and its predictability will enable GAVI and its poor country partners to engage in longer-term immunization systems improvements and purchasing contracts. GAVI estimates the IFFIm resources will save the lives of more than five million children over the next decade.[22]

Partnering to Eradicate Polio

An innovative partnership between the Gates Foundation, the World Bank, Rotary International, and the UN Foundation deploys performance-based buy-downs of World Bank loans to encourage poor countries to pursue the final stages of polio eradication. Nigeria and Pakistan have already taken advantage of this program; India and a number of African countries are interested as well. The initiative could help close the gap between the enormous social value of complete global polio eradication and the unattractive cost-benefit calculation faced by poor country governments, which incur steep costs and only modest benefits from addressing the very last cases.



death among Africa's children—through vaccinations costing only 26 cents a child.

The successes with polio and smallpox are instructive in other ways as well. In both cases, the immunizations already existed, pulled along by rich country demand. In contrast, encouraging spending on research and development and expensive clinical trials for poor country disease treatments that are not likely to ever be profitable presents a singular predicament for policymakers. According to the Global Forum for Health Research, only 10 percent of global medical research is devoted to diseases that cause 90 percent of the world's health burden. And of the more than 1,200 drugs that reached the market between 1975 and 1997, a scant 13 were intended for treatment of tropical infectious diseases in developing countries.

Public–private partnerships are beginning to turn those statistics around. A report from the London School of Economics and Political Science found that between 2000 and 2004, public–private partnerships invested $112 million to stimulate research on ten neglected diseases, including malaria, tuberculosis, and leprosy. As a result, more than sixty new drug research projects are under way, with the potential for half a dozen new drugs being registered by 2010. In the words of Chris Hentschel, the chief executive of the Medicines for Malaria Venture, "In our Public Private Partnership for Health there are 80 products in the pipeline. We aim to have drugs become instantly generic, while companies retain the rights to a small profitable market. This is mostly dependent on philanthropy—however, the tsunami showed that people don't mind having their money spent on these things."

There is simply no substitute for the private sector's research and development capacity in medicines, but it will not be deployed for poor country diseases on the basis of anticipated profits. Brookings and Harvard scholar Michael Kremer has put forth the powerful proposal that public and philanthropic funding should provide incentives to pharmaceutical and biotechnology companies by mimicking the market, offering guaranteed purchase commitments for successfully tested vaccines and disease treatments. The Bill and Melinda Gates Foundation has helped turn this idea into an actionable policy proposal, Advance Purchase Commitments.

For diseases where rich country demand has already created profitable investment opportunities, the challenge is to make the resulting drugs available in poor countries at affordable prices. The late Brookings and University of California, Berkeley, scholar Jenny Lanjouw proposed that pharmaceutical companies allow generic versions of their drugs to be produced for the poorest countries without requiring royalties. Under her proposal, pharmaceutical companies would lose nothing because these markets are unprofitable anyway, while the poorest countries would gain access to life-saving drugs at close to cost. Turning this proposal into reali-

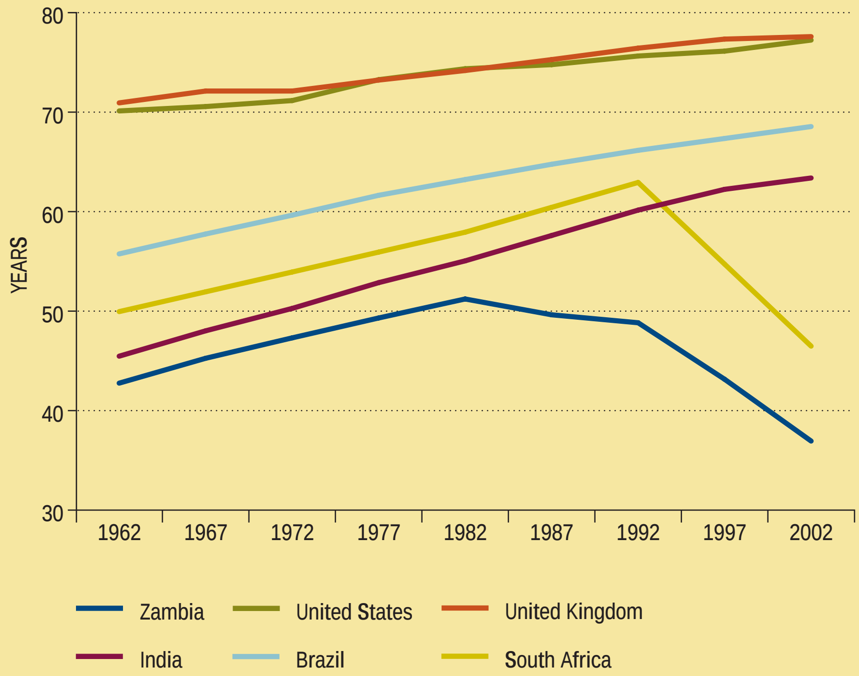



"It is immoral to live in a world where the life expectancy in developed countries is 80 years while it's 40 years in poor countries."

Mary Robinson
Executive Director, Realizing Rights: Ethical Globalization Initiative

ty, however, will require not only securing the active support of pharmaceutical companies concerned about the erosion of intellectual property rights but also enlisting generic producers in developing countries, recipient governments, and official and philanthropic donors.

The growing list of innovative global health initiatives demonstrates the power of the private sector to address social challenges when it teams up with private philanthropy, official donors, NGOs, and local authorities. These initiatives also provide a fascinating case study of how the strategies of pharmaceutical companies have evolved as they have found themselves on the front lines of the global poverty debate. Though some companies remain wedded to a narrow shareholder-value approach, others have embraced social responsibility and employed philanthropy and partnerships to advance social welfare.



Life Expectancy at Birth, 1962–2002

Source: World Development Indicators 2005.

Cause for Hope

Answering the Call to Action

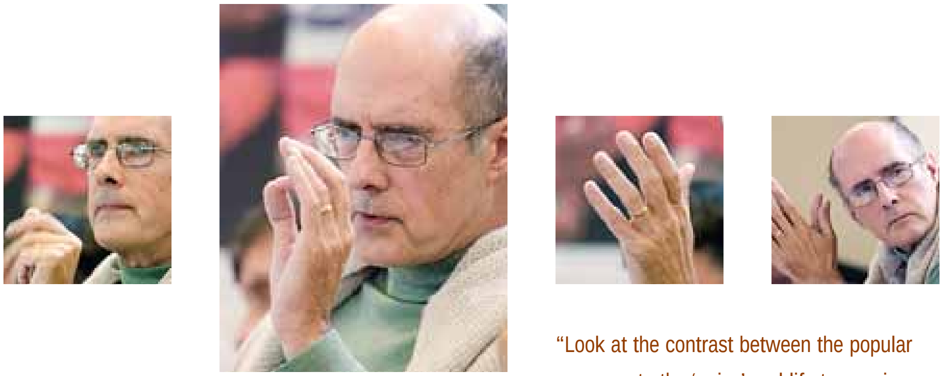
IN MANY RESPECTS, THE WORLD'S track record on development is disheartening. Someone born in Zambia today has less likelihood of reaching the age of thirty than someone born in England in 1840. Eighteen countries have seen declines in the quality of human development since 1990.

Yet there is cause for hope. With visionary leadership, the world community can turn the tide. The *Human Development Report 2005* challenges governments to "show that they mean business."[23] The private sector, too, must step up to the plate—not just as a matter of conscience, but also because business cannot hope to thrive in countries and communities that fail. A clear call to action emerges from the yawning gulf between today's heartrending reality and the promise inherent in our unprecedented resources and scientific and technological capacities.

Private enterprise is a powerful engine for transforming the development landscape. Forward-looking executives are weaving social and environmental goals into their core business strategies. Top corporations are banding together in groups like the International Business Leaders Foundation and the Business Leaders Initiative for Human Rights, joined by an explicit commitment to build a better, more equitable world. World-class business schools are increasing the prominence of corporate social responsibility in their curriculums. Development experts in government, civil society, and the philanthropic arena are devising new ways to join forces and resources with private sector partners.

Helping poor people is a smart investment in the future all people are destined to share. In this interconnected world, no society can advance as long as most of humanity is left behind. That is simply common sense—and more than ever, business sense as well.

Today's dynamic, value-driven private sector has the ability, incentive, and duty to act. The dream of development is within reach.



"Look at the contrast between the popular response to the 'noisy' real life tsunami and the 'silent tsunami' of poor children dying of preventable causes every week. How do we deal with these problems when it seems to take a catastrophe to make people pay attention?"

Strobe Talbott
President, The Brookings Institution

Participant List

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Richard C. Blum: Chairman and President, Blum Capital Partners, LP

Strobe Talbott: President, Brookings Institution

Lael Brainard: Vice President and Director, Global Economy and Development Center, Brookings Institution

Honorary Co-chairs

Walter Isaacson: President and Chief Executive Officer, The Aspen Institute

Mary Robinson: Executive Director, Realizing Rights: The Ethical Globalization Initiative

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Alice Albright: Vice President and CFO, Vaccine Fund

Madeleine K. Albright: 64th Secretary of State; Principle, The Albright Group LLC

Robert Annibale: Director of Microfinance, Citigroup

Paul Applegarth: Chief Executive Officer, Millennium Challenge Corporation

Zoe Baird: President, John and Mary R. Markle Foundation, Inc.

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