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JUMP-STARTING INCLUSIVE GROWTH IN THE MOST DIFFICULT ENVIRONMENTS

BROOKINGS BLUM ROUNDTABLE 2014 POST-CONFERENCE REPORT

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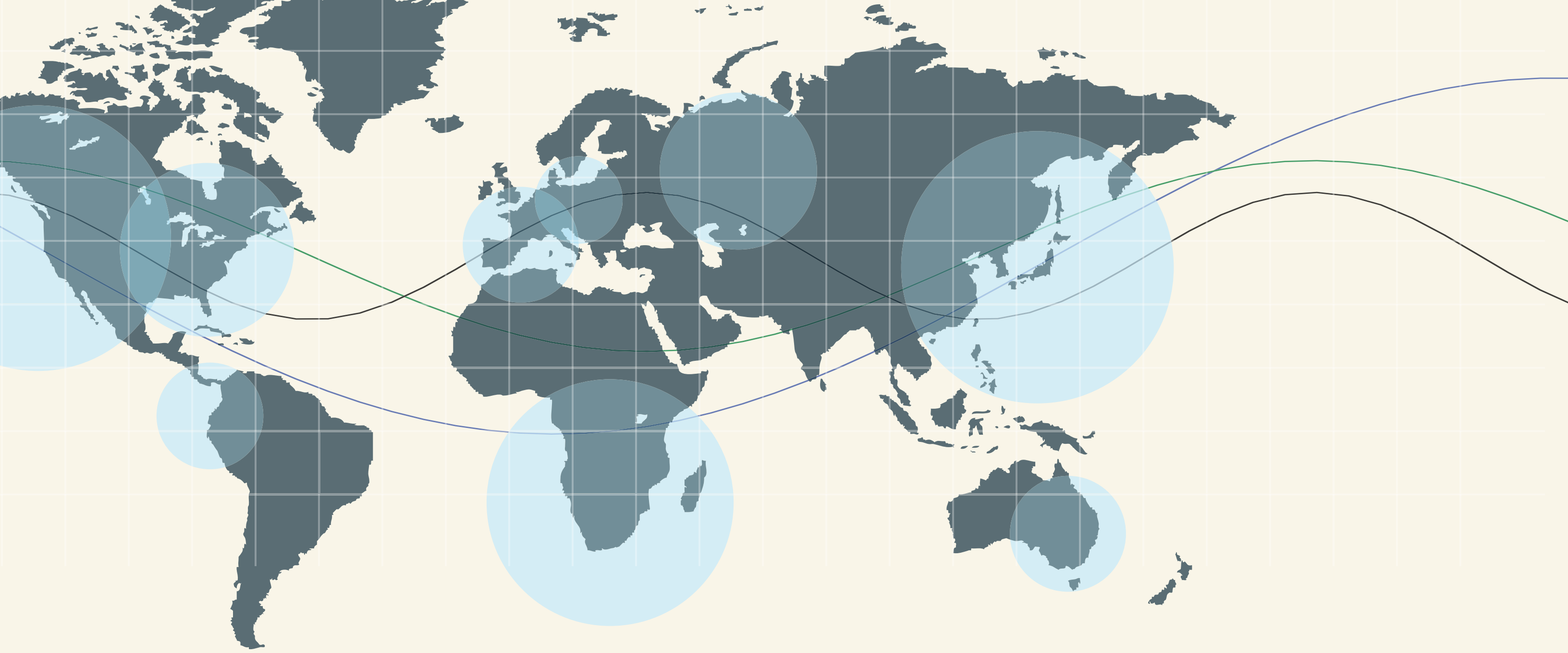
Global Economy and Development at BROOKINGS



The 2014 Brookings Blum Roundtable was hosted by Richard C. Blum and the Global Economy and Development program at Brookings, with the support of honorary co-chair Walter Isaacson of the Aspen Institute. The Global Economy and Development program 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 research by scholars in 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 anticorruption, and the reform of U.S. 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 and practice academic concentration is the fastest-growing undergraduate minor on the UC Berkeley campus, giving students the knowledge and real-world experience they need 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 50 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.

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Foreword

From August 7 to 9, 2014, nearly 60 prominent policymakers, development practitioners, and leaders from industry and academia came together from the public, private and nonprofit sectors for the 11th annual Brookings Blum Roundtable in Aspen, Colorado. Participants from around the globe exchanged innovative ideas and concrete strategies for tackling the challenge of jump-starting growth and overcoming economic challenges in the most difficult places in the world. This report includes three topical essays that highlight some of the most prominent themes discussed at the conference, while both summarizing the roundtable discussions and further exploring the issues through independent research.

The roundtable was hosted by Richard C. Blum and the Global Economy and Development Program at Brookings, with the support of honorary co-chair Walter Isaacson of the Aspen Institute. Previous Brookings Blum roundtables have focused on the private sector's inclusion in the post-2015 development agenda (2013); on innovation and technology for development (2012); on the challenges for global development cooperation (2011); on development assistance reform for the 21st century (2010); on tackling climate change in the midst of a global economic downturn (2009); on building climate change resilience in the developing world (2008); on the expanding role of philanthropy and social enterprises in international development (2007); on the complex ties between poverty, insecurity and conflict (2006); on the private sector's role in development (2005); and on America's 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 37).

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 Andrea Holcombe, Michael Rettig and Steven Rocker for their excellent event planning and coordination; and to Aki Nemoto, Neil O'Reilly, Kristina Server and Jacqueline Sharkey for ensuring the meeting's success. We also extend our appreciation to the William and Flora Hewlett Foundation, to the Australian Department of Foreign Affairs and Trade, and to 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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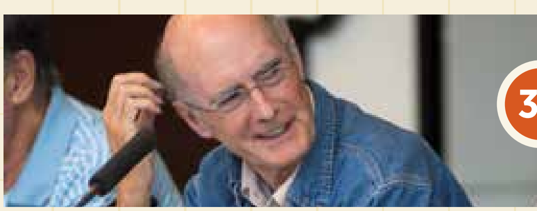
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Introduction

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The start of the 21st century has been an auspicious period for global economic development. Developing economies have, on average, enjoyed faster rates of growth, lifting hundreds of millions of people out of extreme poverty. As a result, the first UN Millennium Development Goal—to halve the rate of extreme poverty between 1990 and 2015—was achieved seven years ahead of schedule.

Yet in a number of countries, growth has been fitful or has failed to take off entirely. And in others, growth has only benefited the few, leaving certain populations or subnational regions impoverished. In many cases, these places face structural challenges to growth such as conflict, a high exposure to shocks, weak institutions and governance, or entrenched discrimination.

In these very difficult environments, jump-starting inclusive growth is a prerequisite for any hopes of ending extreme poverty in the next generation. And this kind of rapid growth will require new models of cooperation between stakeholders, better ways of managing risk, harnessing new technologies, better approaches to managing resource extraction, and transformative investments.

In the path to eliminating global extreme poverty, two factors become apparent. First, fragile states require new solutions and strategies to reduce poverty. Poverty reduction has been virtually absent in these states, which are home to an increasingly large share of those living in poverty globally.

Second, the private sector will need to play a large role in these solutions and strategies. Historically, the private sector has opted to invest in emerging markets that suffer less from structural problems of instability. A critical question is how this could be changed. The latest incarnations of the global development agenda recognize the importance of the private sector but

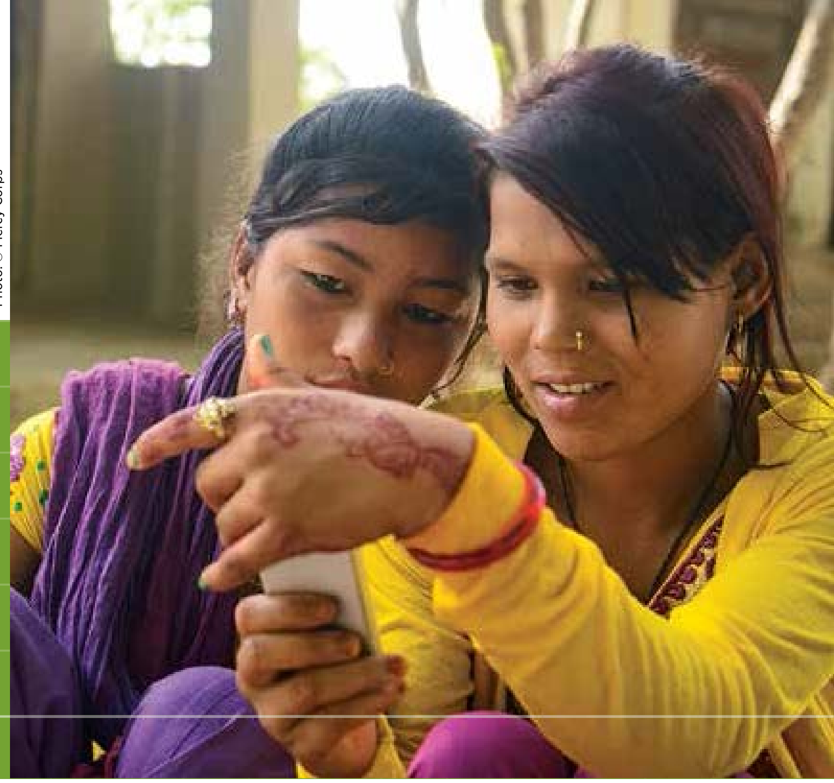

Photo: © Mercy Corps

struggle to precisely define three key dynamics. These are: where private sector responsibilities start and end; the characteristics of an effective partnership model; and how the positive impact of the private sector can be fully exploited while its potentially harmful effects are mitigated. The 2014 Brookings Blum Roundtable provided an opportunity to explore these issues.

The introductory essay in this report, “Development Potential of Extractives and Large Infrastructure Projects,” explores the ways in which multinational corporations can invest in deals in fragile environments. It posits ways for multinationals to join governments and other actors in creating projects that use each party’s unique skill sets and resources. The essay discusses how such partnerships can best be structured and the use of royalties, taxes and fees to improve countrywide development prospects.

The second essay, “Advancing Technological Diffusion in Developing Countries,” discusses opportunities for the use of so-called leapfrog technologies to accelerate development in some of the world’s poorest countries. While the dissemination of these technologies to developing countries has been expanding rapidly, the gap in technology adoption rates between the West and the developing world has grown. This essay inquires into what lies behind these trends and factors that could spur more leapfrogging technologies to be brought to scale in poor countries. Finally, it assesses the pipeline of new technologies that could provide a shortcut to prosperity.

The third and final essay, “Public–Private Partnerships, Strategic Planning and Capacity Building for Better Development” shows what steps modern corporations can take, in cooperation with governments, to have a greater impact than what either can achieve independently. These mutually beneficial partnerships are well suited to corporations that are concerned not only with profit but also with their social and environmental impact. It explains how the government and private sector are mutually dependent, and it outlines what each can do to get more out of deals, while highlighting pitfalls that could prohibit cooperation on a project, or its completion.

The 2014 Brookings Blum Roundtable on Global Poverty was convened in August 2014 to explore innovative ideas for tackling development challenges in the world’s most impoverished states. The three essays in this report highlight some of the most prominent themes discussed at the conference—both by synthesizing the roundtable discussions and by further exploring the issues through independent research.

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The Development Potential of Extractives and Large Infrastructure Projects

Today, investors are showing considerable interest in large mining and infrastructure projects even in difficult places where conflict, poor governance and extreme poverty collide. Major multinationals are far less shy about investing in challenging parts of the world.

One driver of this change is the need to meet growing demand for raw materials. For example, there are 75 different minerals in every smartphone, and as the number of smartphone sales explodes, the supply of minerals has to expand. Electricity demand is also growing rapidly as countries grow and urbanize, creating new interest in hydro-projects and oil and gas exploration in remote areas.

In this context, large multinational corporations (MNCs) are recognizing that opportunities will slip away if they do not proactively originate and participate in deals. Established firms are now prepared to take on greater risk in the face of competition with firms based in emerging economies and second-tier firms from advanced countries. As Michael Farina, senior manager of strategy and analytics at General Electric International, put it, “When the team first had the opportunity to pitch the Gas-to-Power initiative internally

Photo: © Coca-Cola

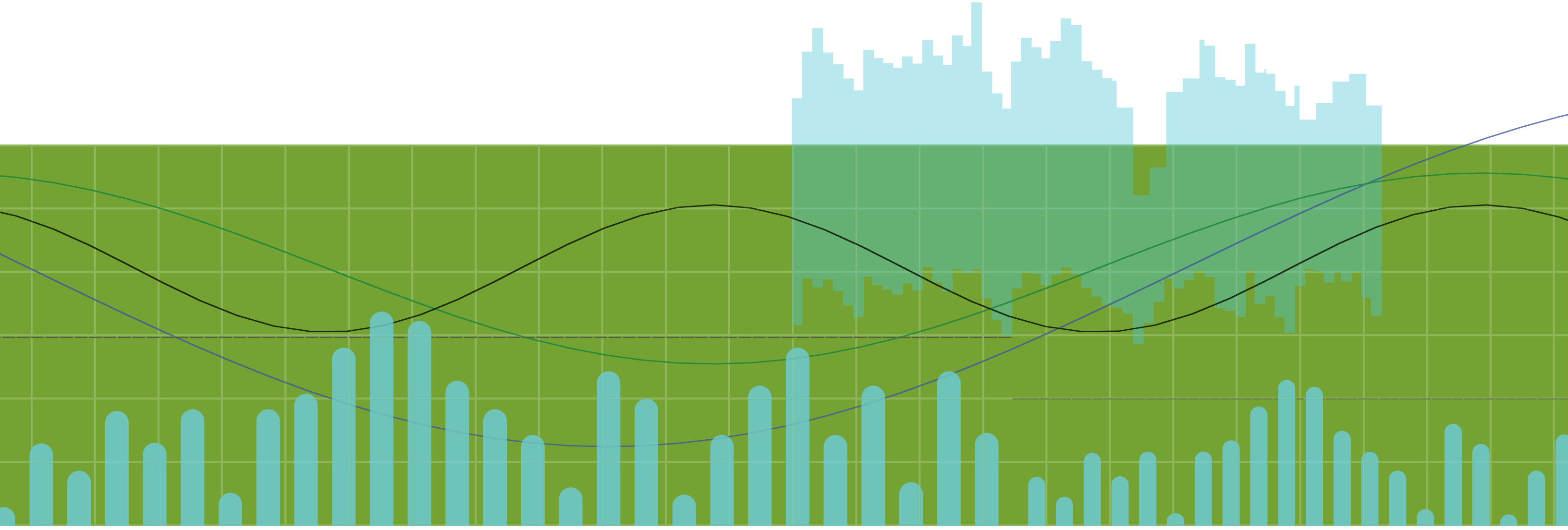
at GE, the initial reaction was 'That is hard, we're not sure we want to do that, we'd much rather just sell equipment in existing markets.' Yet, we have overcome most internal concerns and are now aggressively working on new partnerships and structures to unlock the huge potential for Gas-to-Power in emerging markets." MNCs now have people on the ground to drive deals, and they have more contacts with strong and confident local partners, sometimes from the diaspora community, who can help mitigate risks.

A second driver of change is a readiness by multilateral and bilateral aid agencies to utilize their participation in large projects as an entry-point into a dialogue with governments on specific policy reforms. This is a reversal of the traditional sequencing of donor agency processes that emphasized reforms as a prior condition for investment. Historically, there has been an insistence on the creation of a sound enabling environment for private business, involving improved governance, combating of corruption, and other elements to ease the costs of doing business. But implementing these reforms can take a long time. Many fragile states do not have the political consensus or technical capability to enact and implement reforms in an effective way. And therefore reforms have lagged, and development agencies have become disinclined to support major projects. But without major projects and tangible development progress, fragile states slipped back into conflict or economic stagnation. So a new paradigm has emerged that entails starting with a large project and using its transaction to identify the key reforms that are needed to overcome obstacles faced by the project. This transaction-driven approach has created a more focused dialogue between governments, aid agencies, businesses and civil society organizations.

Three basic questions were discussed at the roundtable. First, how do you get more, and better, deals? Second, how can you improve the development benefits that come from the sizable expansion of resources flowing to the government through such deals? Third, how can you use large deals to encourage economic diversification, capacity building and a further growth cycle? Although there was considerable optimism that global conditions for implementing large deals had improved, there was also a healthy skepticism that all the obstacles could be overcome. As some put it, there is a need to go beyond the "Kumbaya" generalities and to be grounded in the reality of what is actually going on.

GETTING MORE AND BETTER DEALS

The number of large projects in developing countries is growing. The International Finance Corporation is tracking over 20 projects that are worth more than $1 billion and could have a transformative impact in the host country. It is also monitoring some 200 public–private partnership projects in Africa alone, compared with only a handful a few years ago—although, admittedly, many of these projects will not come to fruition. So the ideas are there, but what is missing is an effective organizational structure to bring deals to the finish line.



Organizing Deals

Deals do not happen without "boots on the ground." The roundtable participants frequently returned to this theme. Although there was considerable discussion of the need to standardize contracts and procedures, all agreed that this had to be considered and modified to suit the local context. The "boots" usually need to be on several feet. Thus, development agencies need dedicated staff in the field. Businesses need their own deal drivers, either within a country or regionally. And international nongovernmental organizations (INGOs) need to engage with local civil society organizations.

However, large projects are complex and thus require an organizational structure that brings together many different disciplines, skill sets and partners. Some referred to this as the "systems integrator," a function that requires its own dedicated staff and funding if it is to become institutionalized to deal with more than one project. The systems integrator role is often neglected, but without it a series of large transactions are unlikely to get off the ground.

A practical example of the systems integrator approach is the creation of Power Africa, a platform that organizes U.S. government agencies into a whole-of-government approach to address electricity supply issues in selected countries in Africa. It has been able to break through bureaucratic obstacles that previously prevented the U.S. government from deploying all the instruments at its disposal to solve a problem—grants, guarantees, technical assistance and even diplomatic support for the governments in recipient countries. Power Africa acts like a secretariat for all government agencies where ideas can be exchanged, people can grow to trust one another, transaction teams can be identified, and policies can be developed that different agencies with different perspectives and operating procedures can live with. Because it works in difficult environments, the Power Africa team often works in a way that makes people uncomfortable, but that keeps them focused on moving a specific transaction along.

Other organizations are moving in the same direction. The European Investment Bank has implemented an idea to have four-person "deal teams" for large projects to play a similar coordination function within the agency.

There was a lively discussion about the role that international NGOs could play in this process. Several examples were described of new ways in which INGOs are forming partnerships with MNCs to help them resolve issues pertaining to conflict, local community development and other

Photo: © Asian Development Bank

aspects of sustainable development, like water pollution. INGOs have traded staff members with MNCs as a way of forging stronger partnerships and relationships. But successful partnerships will require a new INGO mindset, a switch away from the traditional areas of service delivery and on bringing to light community and local civil society grievances. Instead, INGOs offer platforms for more proactive engagement and broker solutions to disputes between companies and local communities.

Some government development agencies are actively promoting these new forms of partnerships between NGOs and MNCs, believing that when MNCs understand priorities at the local level they can integrate these into project design and mitigate risk. One roundtable participant suggested that a working group among NGOs to derive best practices on community consultations would be useful. Another participant proposed that more foundations and aid agencies support new types of NGO partnerships. Yet another admitted that if a fragile state became a focus country for his program it would keep him up at night.

Some sectors, like mines and minerals, are more advanced in setting up institutional structures to exchange information, set standards and engage in partnerships. The International Council on Mining and Minerals has taken a progressive stance to shed the image of the exploitative mining company. The new Canadian International Institute for Extractive Industries and Development could become a world-class center for information sharing and academic study. But other sectors are less progressive. The roundtable participants commented on the pushback by oil companies against Dodd-Frank regulations requiring transparency in payments and contracts. There are no global knowledge-sharing platforms for large infrastructure projects, although several regional ones exist. (After the roundtable, the G-20 announced the formation of a Global Infrastructure Initiative and a Global Infrastructure Hub to promote knowledge-sharing, address data gaps and provide model documentation.)

Structuring Deals

Deals require people with many different skills. First

Photo: © Miguel Samper for Mercy Corps

is an understanding of the complex structure of a large deal. Knowing which capital player should sit in which chair is critical. The second needed skill is subject matter expertise, especially when addressing regulatory issues, design issues or prospects for local content sourcing and procurement. Third, multistakeholder negotiations need to be conducted, with all parties feeling they can have a fair outcome. But the stakeholders in a deal of course go beyond the principal investors to also include local communities and, in the case of infrastructure, the consumers of the service. The deal driver must be perceived as an honest broker. Fourth, there needs to be an understanding of the specific market realities of operating in a given geographical region. Where conflict is an issue, conflict assessments can be useful tools. But local knowledge—whether embedded in local partners or explicitly commissioned in expert studies—is crucial.

Most participants subscribed to the view that there was plenty of capital for large deals, but wondered about specific types of capital. Some argued that project preparation is a natural niche for aid agencies. Costs can be recouped from project sponsors when a deal is closed. Some emphasized the development of a project prospectus as a critical initial step. Some governments may need financing to acquire a share of the equity. Aid agencies also need to provide more guarantees and other forms of financial incentives, but to manage these with care to avoid charges of corporate subsidies, especially on unsolicited bid projects.

Roundtable participants were split in terms of whether sovereign wealth funds represent a likely source of capital for infrastructure projects, and what the implications might be. Mostly, sovereign wealth funds were thought to follow similar objectives to other types of private capital, namely, maximizing risk-adjusted returns to their shareholders. But it was clear that these organizations take into account political considerations in various ways, which results in considerable heterogeneity. Their appetite for investing in infrastructure

> **Community consultations should be conceived of as part of the core business practices of companies, rather than as part of their corporate social responsibilities.**

in developing countries might be higher if there was an arrangement that pooled several projects, to diversify risk, but such a structure is not yet on the horizon. Proximity makes a difference, so the establishment of an infrastructure asset class might first take off at home, generating a benchmark against which riskier investments in fragile states could be assessed.

Considerable emphasis was placed on capacity building as something that needed to be embedded in the structure of a large deal. Large MNCs have their own universities or certification courses to build local capacity for the project itself, including for engineers, suppliers and the like. Also crucial, but harder to accomplish, is capacity building for government officials, in order to be able to staff regulatory agencies or ministries' planning and strategy units. Scholarship programs to bring government officials to universities in developed countries are less used in the United States than in the past, but one participant asked if it would be possible to link private universities with companies in a scaled-up system of capacity building. A difficulty that was noted is that trained staff members may be rotated, or even leave government. One participant asked if there were opportunities for creating specialized, semiautonomous public agencies as a way of retaining trained staff.

Community Consultations

There was a consensus that community consultations should be conceived of as part of the core business practices of companies, rather than as part of their corporate social responsibilities. Of course, there are benefits to be gained from delivery of local services (schools, clinics) that respond to local priorities, but the larger gains accrue from a shared value perspective. Examples were provided of how professionally run consultations can defuse local conflicts, or create solutions to environmental hazards such as water pollution. But these kinds of consultations require independent, third-party intermediation, and they work best when local civil society bodies are in turn well organized. Development organizations and foundations could be well placed to support such processes.

IMPROVING THE DEVELOPMENT BENEFITS FROM LARGER PUBLIC REVENUES

The roundtable participants agreed that a good use of the royalties, taxes and fees paid by large extractive and infrastructure projects is the desired "home-run" outcome. But they also concluded that in many fragile environments, the transparency and accountability of public expenditure systems could not be expected. Governance is a key challenge.

There is no easy answer on governance. Several participants noted a preference for small-scale engagements in countries with poor governance, but acknowledged that any large project inevitably must engage with governments. There was great support for transparency on what is paid as well as on contracts, but the participants also noted that it is governments rather than companies that oppose greater transparency. The degree of leverage that companies actually have was hotly debated. In

Photo: © USAID

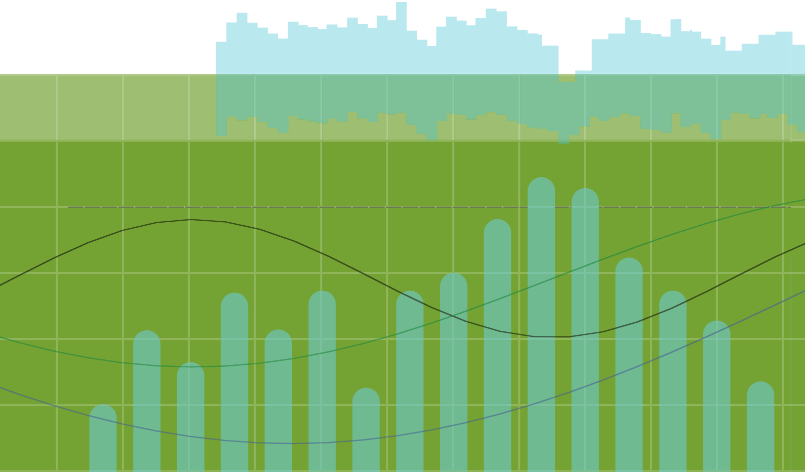
a competitive environment, companies may not have much leeway but to acquiesce to government wishes. But in a context where they have specific skills and expertise to bring to a project, there may be more scope for taking a tougher stance.

The role of policies in advanced countries to encourage companies to do the right thing was also highlighted, with acknowledgment that the United States had been the first country to introduce anticorruption practices, which were later rolled out to all the countries that belong to the Organization for Economic Cooperation and Development in the 1997 Convention on Combating Bribery. Participants commented on the importance of China adopting similar legislation. The greater transparency on payments and contracts required by Dodd-Frank was applauded, but its final status is still in doubt, with various court cases pending.

When governments are left to pursue corruption cases themselves, the proceedings tend to be long, drawn-out affairs. This makes companies very reluctant to consider undertaking projects in countries with poor governance. But if there were a global public–private partnership to investigate corruption in a quick and professional fashion, it could defuse the situation. This would operate in the same way as off-shore dispute resolution mechanisms and other contractual agreements that isolate companies from legal jurisdiction in host countries.

The participants agreed on the desirability of introducing better public expenditure management systems, but they debated how this could be done and institutionalized. There are great pressures on governments to provide instant benefits to their citizens or local communities upon the announcement of a large deal. The creation of sovereign wealth funds (as in Nigeria) and the use of licensing systems to avoid "Gold Rush" excesses were recommended as ways to manage resource rents.

Managing people's expectations is not easy. They expect jobs and other benefits. Often, there is a tendency to exaggerate the size of the resource rents, making the problem worse. Political leaders



have to manage the politics; most large deals must have the go-ahead from the head of government. But projects can also be designed to bring about quick results in some instances.

One suggestion was to use cash transfers more aggressively. The process of cash transfers has become easier, with biometric identification cards now being issued in many countries, including fragile states. Early results from randomized control trials are positive in terms of development impact. An advantage of the new technologies available is that they provide a digital audit trail and have far lower overheads. This, in turn, serves to reduce petty corruption.

Another option is to tie resources explicitly to various forms of poverty reduction programs, as in the case of the priority poverty programs identified for funding in the Laos Nam Theun 2 hydropower project that was the subject of a briefing note for the roundtable. Some participants argued that agricultural programs should be given special attention, given that they provided direct vehicles for achieving inclusive growth. Others argued for structuring resource rents into off-take guarantees for infrastructure projects.

Given the long time frames from project announcement to the flow of cash and benefits to the government, there is a need for complementary projects that can provide benefits quickly. Development agencies are able to provide these kinds of projects, and they can also provide considerable technical assistance in modernizing public expenditure management systems. But to make these systems stick, to prevent unrestricted

Photo: © MasterCard

increases in the size of civil service salaries and other administrative expenses, governments also need to be accountable to their citizens. The roundtable started off with debates on the role of national and sector plans and strategies as vehicles for formalizing people's expectations as to exactly what they could expect in terms of service delivery and other development opportunities. Governments that use national plans to establish a social development compact with their citizens are more likely to prioritize revenue and spending management and to be realistic about the revenues flowing from large projects. Indeed, improving revenue and expenditure management is one of the five priority development areas identified by the g7+ group of fragile countries.

ECONOMIC DIVERSIFICATION

The direct benefits to economic diversification from a large project tend to be small. One brief written to clarify the roundtable discussions—Diversifying Growth in Light of Economic Complexity by Muhammed Yildirim—indicated that spillovers of capabilities from mining to other sectors are very small. There is some employment opportunity associated with large projects, but even this may be driven out by new technology. For example, the roundtable participants heard about remote-controlled vehicles replacing truck drivers at major mines. Large infrastructure, like hydropower, often produces electricity that is largely exported and thus does not benefit local industry. So is there any realistic chance of achieving a transformative impact through these projects?

One source of optimism is the commitment of a new generation of CEOs in major multinationals to be development actors, not just project sponsors. The 17 major mining firms appear committed to this. Shareholder emphasis on sustainability as a risk management tool also matters. Large projects can increasingly engage with multiple stakeholders on the basis of the concept of shared value.

For many MNCs, shared value means providing jobs and local content provisions. There is a significant emphasis on training, capacity building, and management skills, but these are all geared toward providing a corps of local employees for the project. Scale has not yet been achieved. Nor has the complementary training and capacity building of government ministries and regulators. Even civil society organizations need staff members who have a new outlook on solving problems.

Some local content can be generated in countries with a sufficient local market size. The willingness of MNCs is there. Localization can help develop true local partners, an important ingredient in project success. But in smaller countries, or more remote localities, the scope for local content goes down. Government then must provide the connectivity to regional or global markets in order to create diversification opportunities.

One initiative with promise is paying more attention to local financial intermediaries. Roundtable participants noted that even in fragile areas there was a nascent private sector with established traders and markets. But these lacked access to finance. Building up local financial intermediaries, who could then lend to small-scale traders and entrepreneurs, was proposed as a useful way of encouraging some economic diversification in a local area.

Similarly, there was strong support for community development programs in areas where large projects were located. These could be intermediated by civil society organizations, by local banks or by community-driven development programs sponsored by government or development agencies. And there would be an added benefit if funding were made available to accelerate the market penetration of products with a significant social impact. The roundtable participants heard about the rapid scaling up of solar lights and solar charging stations. Linking social entrepreneurs with large projects could create a bridge between the large contributions to national development through revenues and the needed smaller contribution to local development to provide fairness and create social harmony through the project.

Photo: © Gates Foundation

Localization can help develop true local partners, an important ingredient in project success.

Overheard at the Roundtable

TACKLING INFRASTRUCTURE AND NATURAL RESOURCE CHALLENGES...


RICHARD BLUM


HELEN CLARK


MICHAEL FARINA


RANDALL KEMPNER


HOMI KHARAS

Richard Blum

Chairman and Chief Executive Officer, Blum Capital Partners

"So much of this really is about infrastructure, because if you don't build roads, you don't have communications. And if you don't have electricity, you don't develop."

Helen Clark

Administrator, United Nations Development Program

"The challenge in development is to give countries the chance to turn having these incredible resources into a blessing, because you can receive the revenues, appropriate them for good purposes, get a skills and infrastructure legacy from it, and make it a virtuous cycle for development."

Michael Farina

Senior Manager of Strategy and Analytics, General Electric International

"If [the government] solves the network problem, the connectivity issue, we really feel like the private sector can do a good job of putting supply on the system or creating markets on the other end of the system."

Randall Kempner

Executive Director, Aspen Network of Development Entrepreneurs, Aspen Institute

"I think that one of the key long-term economic benefits in these large infrastructure and resource extraction projects is the potential to create a corps of locally trained engineers and supply chain managers that will stay in the emerging market. But I don't believe that most funders and project implementers typically consider this goal as a core business objective—and they should."

Homi Kharas

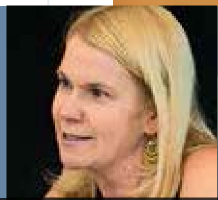
Senior Fellow and Deputy Director, Global Economy and Development, The Brookings Institution

"I don't think it's a particularly new phenomenon that we think about countries in their current situations as being basket cases, but I also don't think we should lose sight of the fact that in many, many instances those obstacles have been overcome—and the challenge obviously is to figure out what works in those specific contexts."


RAYMOND OFFENHEISER


EDUARDO PORTER


VINCENT RIGBY


PAMELA SMITH

Raymond Offenheiser

President, Oxfam America

"There is a very large mine in Peru that...underwent years of conflict with local communities, costing BHP Billiton lots and lots of revenue. BHP then successfully invested in eight years of community consultations and encouraged the government to take action to better redistribute royalties and revenue from mining to the regions for development purposes."

Eduardo Porter

Columnist, The New York Times

"For the countries that really have big windfalls [from resource extraction]...poverty reduction is likely to be more about government transfers than developing some industrial sector that is unlikely to be able to compete with imports."

Vincent Rigby

Assistant Deputy Minister, Department of Foreign Affairs, Trade and Development, Government of Canada

"When you go into a fragile and conflict-affected state, it's for the long term. It's multi-generational, not just for governments but for the private sector as well. They have to remember that a quick return is not necessarily going to be the case."

Pamela Smith

Deputy Director of U.S. Government Relations, The Bill and Melinda Gates Foundation

"While a smaller shareholder [in sending capital flows to the developing world], I think there are still some things that a donor government can and will do—whether it's promoting the rule of law and fighting corruption, building the infrastructure that's so critical to allowing private investment to thrive, and strengthening local institutions so that solutions are sustainable and countries can eventually graduate from aid."

Photos this section: © Alex Irvin

Photo: © Gates Foundation

Photo: © d.light

Advancing Technological Diffusion in Developing Countries

Visit any village, town or city in Africa today, and mobile phones will be ubiquitous. The mobile handset has become a potent symbol of the continent's rise and its propensity for further change. How did this technology, which was pioneered in the West not so long ago, come to be associated with the world's poorest continent?

This question was explored at the 2014 Brookings Blum Roundtable in the context of growing interest in the role of disruptive technologies in powering economic growth and improving people's lives—especially in the world's most difficult environments. Technology enthusiasts argue that new products such as the mobile phone can provide shortcuts to prosperity by enabling poor countries to leapfrog some of the old technologies that now-rich countries used as they traversed the stages of development. The roundtable provided an opportunity to assess the veracity of this claim.

Photo: © Gates Foundation

TECHNOLOGY, GROWTH, CONVERGENCE AND GLOBALIZATION

The spread of technology is one of the central ideas underpinning growth theory in economics. Rich countries are positioned at the technology frontier—meaning that their economies make virtually full use of the best available devices, practices, ideas and know-how to generate their output. For these countries, marginal productivity gains depend on the discovery of new technologies that push the technology frontier further out. In contrast, poorer countries are positioned some distance back from this frontier. Poor countries' opportunity to make use of proven technologies without having to develop them from scratch is one factor that allows them to grow faster than rich countries under the right conditions, and thereby accelerate closer to the frontier.

Globalization acts as a catalyst for this phenomenon. During the last two decades, the boom in global trade driven by the containerization of traded goods and the elimination of tariffs and other barriers, cheaper communication made possible through information technology, and a dramatic expansion in foreign direct investment have all likely played a role in accelerating the diffusion of technology from rich to poor countries. This period of "hyperglobalization," during which the growth rate of global trade volumes has far exceeded that of the global economy, has seen three times the number of developing economies converging on the rich world's living standards and at an average of twice the speed of the preceding era. [1]

At the roundtable, participants were furnished with evidence showing how adoption lags between developed and developing countries have indeed narrowed dramatically—and thus, new technologies forged in Silicon Valley today can find their way to the shores of developing countries within a negligible time frame. [2]

CIRCUMVENTING MARKET AND GOVERNMENT FAILURES

The idea that poor countries can borrow the rich world's technologies and thereby catch up with its living standards is an attractive proposition on its own. But an additional aspect of leapfrogging makes it especially seductive: Leapfrogging enables developing countries to leave behind yesterday's technologies, whose provision is encumbered by market and government failures, and to replace them with a new set of disruptive frontier technologies that are seemingly less vulnerable to these effects.

To demonstrate this argument, let us return to the example of mobile phones. To understand the transformative impact of this technology in the world's poorest countries, it is crucial to first

1. Arvind Subramanian and Martin Kessler, The Hyperglobalization of Trade and Its Future, Working Paper 13-6 (Washington: Peterson Institute for International Economics, 2013), http://www.iie.com/publications/wp/wp13-6.pdf.

2. Diego Comin, "The Evolution of Technology Diffusion and the Great Divergence," paper for 2014 Brookings Blum Roundtable, http://www.brookings.edu/-/media/Programs/global/bbr2014/Session%203%20%20Leapfrogging%20%20Comin_FINAL.pdf.

Photo: © Gates Foundation

The critical question is what factors will enable new technologies to succeed where others fail. Understanding these factors can help in identifying the role of the development community in supporting leapfrogging.

note the dismal performance of the preceding technology, the landline telephone, in these countries. The sad fate of landlines is explained by the characteristics of the technology it employs. Landline infrastructure exhibits some of the characteristics of a public good and is a natural monopoly with especially high fixed costs. Therefore, it has typically been provided by the state and has been underprovided in low-income, poorly governed countries. Mobile phone infrastructure has some of these same characteristics, but to a much lesser degree. The result is that the quality and coverage of mobile phone services are far superior to landline services in virtually all developing countries.

As a general rule, the worse the provision of an incumbent technology, the greater the attraction of new technologies that can replace it. This has been demonstrated in the well-documented rise of the Kenyan mobile money service M-PESA. One of the factors to which M-PESA's initial success was attributed was the woeful provision of brick-and-mortar banking and domestic remittance services to the general populace before M-PESA's launch. Another factor was the soft regulatory environment that allowed M-PESA to establish itself as a competitor with the traditional banking sector. That same regulatory environment was regularly criticized before the disruption of mobile phones and mobile money, when both the banking and communications industries saw little competition, generated large rents and made minimal effort to serve low-income customers. Thus, the perception of Kenya's regulatory regime reversed from vice to virtue.

ASSESSING THE PIPELINE

At the roundtable, participants had a chance to hear from leading entrepreneurs and thinkers who are seeking to develop and market the next generation of leapfrogging technologies. These technologies are at various stages in the pipeline, ranging from proven technologies that are in the process of being scaled up in the developing world to those that are still being refined.

After many false starts, the latest range of off-grid solar power solutions are bringing energy access to tens of millions of households in Africa and South Asia. A combination of lower costs, better financing options and more durable and varied products has spawned a number of viable business models, whose success has prompted the U.S. government to increase by threefold the targets for its flagship Power Africa project.

The growing ranks of the middle class, combined with rising Internet connectivity and more affordable smartphones, have prompted increasing interest in e-commerce in several African economies. Nigeria has been leading this charge by establishing a number of new platforms that allow third-party retailing, following the model of Amazon.com. The country's weak physical

infrastructure and the poor quality of its brick-and-mortar stores have been cited as catalytic factors in these platforms' early success. [3]

Among the technologies discussed at the roundtable that are still in earlier phases of development and adoption in the developing world are massive open online courses that promise to deliver high-quality, tertiary education around the world at a marginal price close to zero; digital libraries for schools that are connected to low-cost, free-standing online servers; and computer labs, in Haiti and elsewhere, employing tablet computers that are easy for those less familiar with IT systems to master. Several stages further back from commercial readiness are the use of drones for commercial transportation, including heavy cargo.

Each of these leapfrogging technologies has both its enthusiasts and its skeptics. The critical question is what factors will enable some to succeed where others fail. Understanding these factors can help in identifying the role of the development community in supporting leapfrogging.

SUCCESS FACTORS

The increasing speed with which new technologies gravitate toward developing countries is a welcome phenomenon. But access to these technologies offers no guarantee that they will be broadly adopted and applied to their full range of possible uses. Indeed the evidence of technology adoption rates in poor countries is chastening. Once technologies establish a foothold in the markets of industrialized countries, it is virtually certain that they will spread widely within these countries. But in developing countries, technologies are very rarely adopted on a large enough scale to ensure genuine leapfrogging. On this measure, the difference between developing and developed economies appears to be widening.

The roundtable discussion honed in on two issues that can explain why new technologies only rarely achieve widespread adoption in developing countries. The first is insufficient knowledge, both tacit and explicit, of the kind that is required to employ, adapt and incorporate new technologies into business practices and people's daily lives. This knowledge is important both for the designers, engineers and entrepreneurs who seek to market new technologies in developing countries and also for the end users whose adoption of the technology is the ultimate gauge of success. The roundtable participants heard first-hand accounts of the hard work involved in persuading consumers and other users to recognize the benefits of new technologies.

Acknowledging the importance of such knowledge highlights the complexity of leapfrogging and upends the simplistic narrative of the so-called advantage of backwardness. An economy is more capable of mastering a new technology if it has already demonstrated its command of a preceding, similar technology. Thus, while a failure to successfully employ old technologies may make the introduction of new technologies especially transformative, as was the case with the mobile

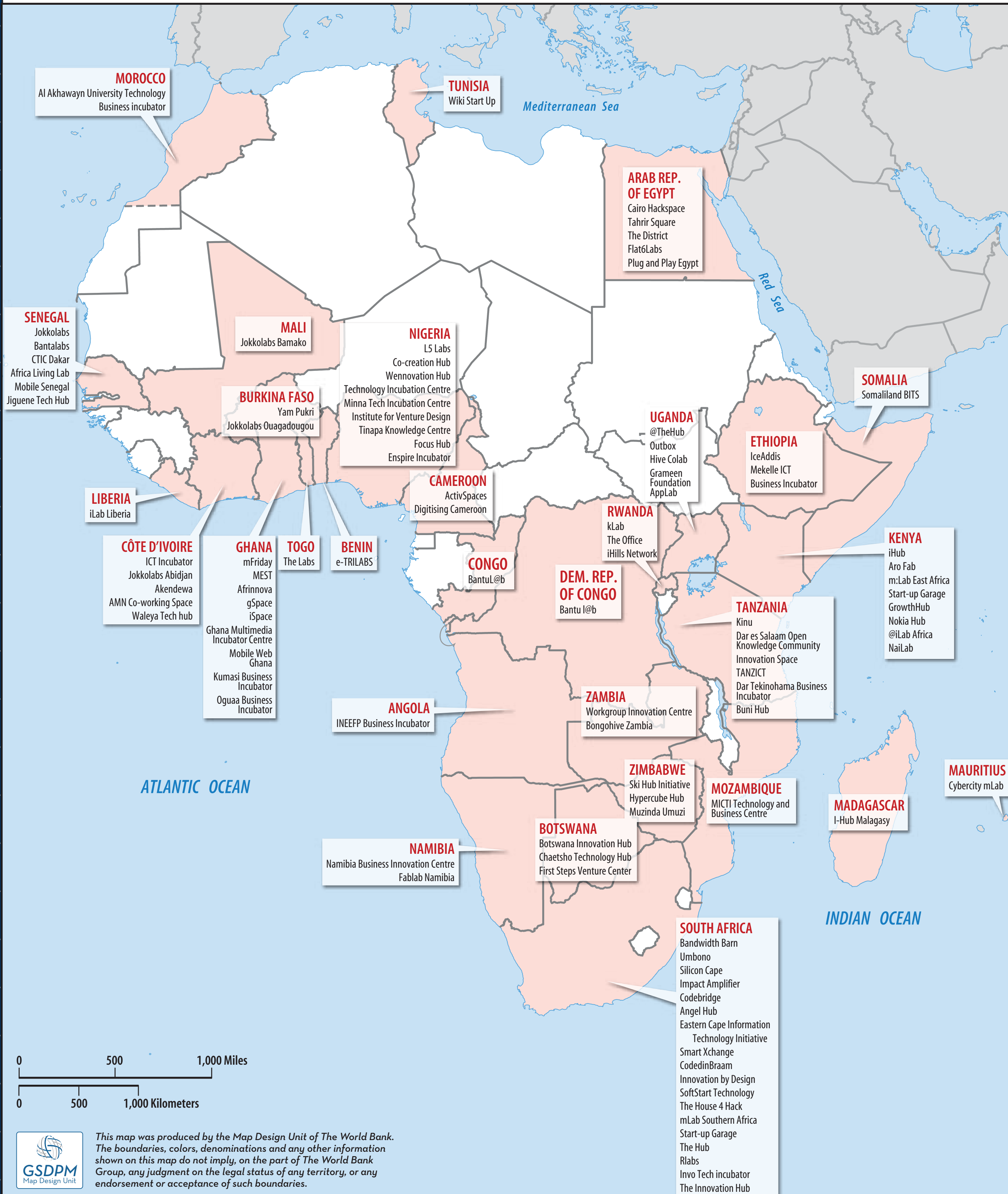
3. Xan Rice, "Internet Sales Flourish in Nigeria," Financial Times, http://www.ft.com/intl/cms/s/0/3f455b7e-b1bb-11e2-9315-00144feabdc0.html#axzz3I8UZLzSa.

FIGURE 1. TECH HUBS ACROSS AFRICA

(as of June 2014) *Source: iHub Research/World Bank/Bongohive*

ECONOMIES WITH A KNOWN TECH HUB

INTERNATIONAL BOUNDARIES



Source: World Bank, http://blogs.worldbank.org/ic4d/weve-updated-africa-tech-hub-map-using-your-suggestions.

Photo: © Syed Muhammad Rafiq for ADB

phone, it also implies that the transition to new technologies will pose a bigger challenge for users. The leapfrogging technologies that have the best chance of being scaled up today are precisely those that seek to avoid the need to build on previously learned basics.

A priority for poor countries is to invest in the right kinds of knowledge so that imported technologies can be more effectively harnessed and adapted for productive use. But it is fiendishly hard to identify these kinds of knowledge.

In Africa in recent years, a popular approach to fostering such knowledge has been to create technology hubs. These hubs provide environments where new businesses can be incubated and commercial partners can be linked to designers and entrepreneurs. Figure 1 shows the location of over 100 hubs as of June 2014. But it remains to be seen if these hubs can succeed in fostering a new culture of digital entrepreneurship and can adequately address the broader knowledge deficit that constrains technological adoption.

The second issue that explains the limited adoption of new technologies in developing countries is the broader ecosystem within which the enterprises that market these technologies operate. An unsupportive ecosystem makes viable business models harder to identify, and makes scaling up a more elusive goal.

An ecosystem can be unpacked into three parts: value chains, public goods, and policy and regulation.[4] Weak value chains are a much-cited problem facing enterprises in poor economies. Common problems include unreliable or uncompetitive suppliers, which increase costs for enterprises and their customers; limited financing along the value chain, which creates bottlenecks; and the limited availability of high-quality professional services, such as those provided by accountants and lawyers. The weak provision of public goods, ranging from power to ports, can easily cause prices to spiral out of control and undermine business models. Quality standards, consumer education and market information are also often deficient in low-income markets, and their public-good characteristics present obvious challenges for how their provision can be expanded and coordinated. Constraining, ambiguous or absent policies and regulations pose another obstacle for enterprises introducing new technologies and add to investors' uncertainty.

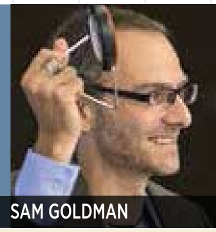
The entrepreneurs who participated in the roundtable stressed the importance of ecosystem factors in enabling the leapfrogging technologies that they are seeking to propagate to succeed. Strikingly, some stressed that they needed more entrants, or competitors, into their market in order to foster greater ecosystem effects. Others suggested that being too far out in front of the market posed excessive risks. Such arguments are unlikely to be heard among technology firms in Silicon Valley.

A focus on ecosystem conditions is a useful way of delineating both the limits and the opportunities posed by leapfrogging technologies. The roundtable participants agreed that no amount of leapfrogging can overcome inadequacies in some fundamental capacities of an economy—including its institutions and human capital. At the same time, some new technology platforms, such as the Internet and mobile payments, create new ecosystems of their own, which provide opportunities to redefine an economy's characteristics and for new technologies to piggyback on others, so that scale will beget scale.

4. Harvey Koh, Nidhi Hegde and Ashish Karamchandani, "Beyond the Pioneer: Getting Inclusive Industries to Scale," April 2014, http://www.beyondthepioneer.org/wp-content/themes/monitor/Beyond-the-Pioneer-Report.pdf.

Overheard at the Roundtable

LEAPFROGGING AND INNOVATION...



Bruce Baikie

Executive Director, Inveneo

"Two years later I'm running around Rwanda and in Senegal to find out technology isn't always a silver bullet. As an engineer, I had blinders on. There's a whole human factor, human capacity building, and big lessons learned there."

Nancy Birdsall

President, Center for Global Development

"I want to mention the value of putting public resources into building the infrastructure in post-conflict countries for using biometric IDs, following a model that has been developed in India and in Pakistan. It's a way to leapfrog using a new technology that can, for example, allow cash transfers without leakage and corruption."

Douglas Clayton

Chief Executive Officer, Leopard Capital

"One of the themes that we use is leveraging new technologies to solve traditional problems, and it's amazing how much technology is available that doesn't reach where it's needed most. A private-equity model can form a bridge between ideas and needs, whether it's agriculture, renewable energy, communications, and affordable housing or water solutions."

Sam Goldman

Chief Customer Officer and Founder, d.light

"At d.light, we design, manufacture, and distribute a $10 solar study light, solar lanterns, and solar home systems to more than 60 countries, including to remote off-grid villages. The payback is sometimes as little as one month, and can completely transform a family's life. Getting reliable energy dramatically increases well-being, but all energy is not created equal; the first watts are far more urgent and important than subsequent kilowatts."

Andrew Herscowitz

Coordinator for Power Africa and Trade Africa, United States Agency for International Development

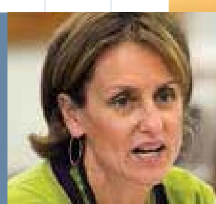
"But on Power Africa, we're being very clear as a secretariat showing that we're adding value, but not trying to control what other people are doing. It took time, and I think people now trust us, that we're not trying to take over what they do, or do things that we weren't doing before, unless everybody agrees that it makes sense."

Dana Hyde

Chief Executive Officer, Millennium Challenge Corporation

"The idea that you can lift up beyond your particular program, you can have authority to convene and to put the pieces of the puzzle together, you can measure it, you can report it, and you have the backing of the White House, is something that I think has made Power Africa a success, and I think has the potential to make other programs a success as well."


MICHAEL KUBZANSKY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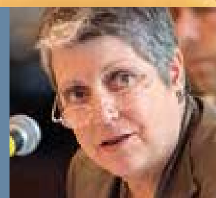
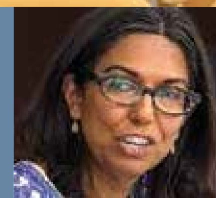

JANET NAPOLITANO


VISWANATHAN SHANKAR


SMITA SINGH


ALEXANDER THIER

Michael Kubzansky

Vice President of Intellectual Capital, Omidyar Network

"Where are these opportunities to create vast new markets?...We've been looking at those technological innovations that can lead to radically lower cost points and cost positions that then make services available to massively larger numbers of people."

Sarah Lucas

Program Officer, Global Development and Population, William and Flora Hewlett Foundation

"So often the desire to collaborate across agencies requires a lot of work above and beyond your day job, so it does not work, or cannot be sustained. Some of the most important things about Power Africa are having clear leadership, bringing additional staff to the table through transaction advisors, and having a hub that is a resource for other agencies to call on. That makes a big difference."

Janet Napolitano

President, University of California

"University to university exchange across the world, I think, is a great avenue for building human capacity, and avoids some of the government to government issues that have been discussed this morning. It also meets some of the particular needs of investor-owned companies as they are conducting their work around the world."

Viswanathan Shankar

Group Executive Director and Chief Executive Officer for Europe, the Middle East, Africa and the Americas, Standard Chartered Bank

"Any fool can build an electric power plant but, to make the ecosystem work, it takes a lot more. You need to look at the issue holistically—about the transmission, about the distribution, about the collection mechanisms—to make the generation of electricity really sustainable."

Smita Singh

Member, President's Global Development Council

"I'm wondering if we ought to be thinking about more models that are outcomes-based like Cash on Delivery, not compliance-and-control or plan-driven. Maybe these models are actually quite appropriate for these fragile and conflict settings in ways that we haven't really explored."

Alexander Thier

Assistant to the Administrator, Bureau of Policy, Planning and Learning, United States Agency for International Development

"When we create pockets of competence in environments that are fundamentally dysfunctional, it allows people to see what a functioning environment looks like. It creates a hunger for effectiveness. It creates a training ground for good people to gravitate towards."

Photo: © Edwin Huffman / World Bank

Photos: © Gates Foundation

Public–Private Partnerships, Strategic Planning and Capacity Building for Better Development

The interaction of the public and private sectors—at both the operational and strategic levels—was a major theme throughout the 2014 Brookings Blum Roundtable's discussions on how to generate economic growth in difficult environments.

These discussions reflected several basic themes: (1) The more progressive modern corporation "is not your father's exploitative multinational," but rather a more socially and environmentally conscious enterprise, and innovative entrepreneurs are creating ways to deliver essential services to the poor and underserved populations; (2) governments need the private sector to generate economic growth and jobs and to help address national and community issues, and the private sector needs a functioning government to create the climate and rules and regulations it requires to be able to maximize the benefits it can bring to the economy and society; and (3) transparency and risk mitigation are mechanisms for attracting investment into uncertain circumstances.

Photo: © Mercy Corps

THE 21ST-CENTURY CORPORATION

The corporation of today—at least the growing number whose executives think strategically about their firm's future and recognize that they depend on sustainable communities and environments—is a more socially and environmentally conscious actor than its predecessor. It is still driven by the bottom line, but this line has shifted and broadened, from just a focus on quarterly profits to a recognition that long-term profitability is linked to social and environment outcomes and impact. A cultural shift is happening in business, as executives expand their vision of what it means to be successful, including the responsibility to create jobs, provide opportunities for suppliers and contribute to government revenues. There is an intersection between what is good for business and what is good for society. Governments need to understand that this changed mentality provides the opportunity to find shared space, that 21st-century corporate managers can contribute to addressing difficult social and economic challenges, and that engagement with the private sector can help create an environment more amenable to helping communities and states move beyond conflict and fragility.

Why are multinational corporations involved in poor and fragile states? Inherently, they are involved to pursue business opportunities in these countries. But they can also be driven by a diversity of other motives—potentially outsized returns, following clients to service them (e.g., banking), loyalty to national interests, and the sense that this is the only game in town (e.g., resource extraction).

A more socially and environmentally conscious approach to business is represented by the Mining Company of the Future. This project—a product of the Kellogg Innovation Network Development Partner Working Group, which comprises the Kellogg School of Management, mining companies, and civil society—presents a road map for mining companies to ensure long-term profitability by adopting a triple bottom line and engaging local communities.

As a specific example of this changed corporate mentality, one roundtable participant explained the altered approach that has been taken by a foreign mining company in Peru. Its traditional operating procedure had been to obtain its operating license from the national government and to then avoid engaging with the local government and community. But continuous conflict at the local level and a loss of revenues led it to adopt a more inclusive approach. Through the facilitation of an international nongovernmental organization (INGO), the company has engaged in a dialogue with the local community that has led it to support a local development fund and investigate allegations of abuses against the population and water sources. This process has helped galvanize a broader dialogue about mining in Peru, which has resulted in Peru joining the International Extractive Industries Transparency Initiative and improving the distribution of mining revenues at the local level. The government has also passed a law recognizing the right of local communities to be consulted before a firm undertakes an extractive project.

Photo: © Mercy Corps

In contrast is the story of the large-scale palm oil plantation investment by Herakles Farms in Cameroon. The investor had a positive track record in other investments, and the company presented the project as "contributing to a sustainable future for Cameroon" and as engaging at the local level. However, the project began without proper authorizations; local engagement was restricted to village "leaders," who appeared to represent their own self-interests and opinions rather than the broader interests of their villagers; its alleged local social and economic benefits are uncertain and otherwise questionable; and the project is being criticized for endangering the local environment and surrounding parks and nature reserves.

CORPORATE ENGAGEMENT WITH THE GOVERNMENT

The government needs to recognize that corporations have broad interests and can be engaged on the government's priorities. Identifying and working toward common objectives can serve as the foundation for building trust. In turn, companies should engage the government on its agenda and step up to making a positive contribution to the formulation and implementation of policy. But to do this effectively, firms need to understand the government's core interests.

An example of how business can engage with the government at the policy level is the public–private collaboration in Cambodia. The private sector meets to identify issues, it raises those with government officials, and the culmination is a meeting at the cabinet level.

The private sector can offer approaches to address the ramifications of fragility and conflict. A key problem often is financial, the lack of credit and cash for business activities. The private sector can overcome the absence of a banking sector, or the interruption of banking services during conflict, by creating mechanisms to transfer cash via mobile phones and by circumventing the need for cash through electronic payments, which can help advance financial inclusion.

A particularly innovative suggestion for a public–private approach to overcome the lack of cash and credit at the local level following a disaster is to establish a standby liquidity arrangement. After a disaster, there is an urgent need to get liquidity into the hands of individuals and small businesses. Just as donors and civil society have emergency supplies prepositioned and emergency experts on call to rush in to save lives after a natural or human-made disaster, so create a prearranged capability to stem the economic dislocation that typically follows a disaster. Homeowners lack funds to rebuild homes, farmers lack cash to purchase seeds and fertilizers, and businesses lack credit to restock stores. There needs to be a mechanism to infuse liquidity into affected villages and towns. Local financial institutions are either nonexistent or lack liquidity. Large financial institutions lack on-the-ground presence and a willingness to take risk. So there is a need to engage the U.S. Agency

for International Development's Development Credit Authority, or another mechanism, in order to create a standby authority that will share the risk with financial institutions of injecting liquidity into the local economy.

A key mechanism for business and government engagement is public–private partnerships (PPPs). These arrangements can be between two or more parties and may involve government donors collaborating with corporations, foundations, NGOs and foundations. PPPs are not a new phenomenon for the development business. The Green Revolution in the 1970s was a public–private effort that involved all the above-mentioned entities. What is new is that in the past decade, PPPs have grown exponentially in number and scope. Increasingly, corporations are seeing themselves as development players, and the government is recognizing the private sector as essential to creating jobs and economic growth and contributing to public goods.

There was considerable discussion among roundtable participants of what makes a good public–private partnership. To start with, there must be a clear agreement on goals and rules and an alignment of interests and incentives. This alignment must include a joining of benefits for both business and society. Other elements of successful PPPs are transparency, rigorous governance and dispute resolution mechanisms. The right cultural fit is also important, as the partnership must fit the company's heritage and values. Too often, the government turns to the private sector only after it has already designed the purported solution to a problem. This is the wrong approach—it should be turned on its head in the form of joint problem solving that involves both the private sector and civil society organizations from the beginning. The government should identify the desired outcome and engage the private sector to help design the appropriate intervention. And the government can then be very clear in targeting the right parties (e.g., for-profit companies, foundations, NGOs and other donors) to implement the project.

Photo: © Mercy Corps

One of the conundrums of PPPs is fitting the pieces together. The private sector has operational capacity, but it tries to squeeze out the complexity that is an inherent characteristic of social and developmental change. The government can reshape the enabling environment, but it is bound by regulatory and political constraints. Civil society groups offer innovation and links at the community level, but they are often overly tied to their methodologies and theories of change rather than to specific goals. What is needed is the integration of these various players—someone to play the role of systems integrator, and this requires a lateral thinker who can knit the pieces together. Some foundations are stepping into this role. In fact, this role is not that different from what some people do inside large organizations—government bureaucracies, companies and large NGOs—to make sure that the organization's disparate pieces work in harmony toward a common objective. It

Photo: © Coca-Cola

is the absence of someone playing this role that can cause PPPs to fail.

Several participants asked "how can donors be helpful—what is the private sector looking for from government donors?" There were a range of answers. The principal finance gap is on the front end; donors can be most useful in providing risk capital and patient capital and support during the period of incubation. Too often, donor processes are so constraining and discouraging that companies do not engage; the private sector is looking for speed in decision making and for the room to propose innovative, breakthrough ideas that lie outside stated government strategies and priorities. Donors need to avoid requests for proposals that prescribe the solution and require hiring expensive consultants. And the government can be supportive in helping with enabling policies and rational regulations.

TRANSPARENCY AND RISK

The role of transparency and risk management, and the intersection of the two, was a theme throughout the roundtable discussions. Mitigating risk is a key element for attracting private investment to countries plagued by conflict and fragility. One answer for risk mitigation is the diaspora, which can mean attracting back to a country emigrants who know the language, culture and politics and can deal in the local environment. Other suggested avenues of risk mitigation are to avoid government by staying small; to avoid buy-outs; to aim for both financial and social returns; to leverage new technology; to work in rural areas; and to be transparent.

It was noted that transparency in contracts and operations can help corporations avoid surreptitious squeeze by government leaders and bureaucrats. Publish What You Pay spearheads the Extractive Industries Transparency Initiative, a multistakeholder (government, companies, civil society, investors and international organizations) voluntary compact that commits governments to publish what they receive from extractive companies and companies to publish what they pay to governments. A broader concept, Publish What You Buy, proposes to make public all government

Poor governance and corruption are perennial obstacles to investing in poor and fragile countries…but large firms have no choice but to engage with government—so their best approach is to engage at the policy level with the government's agenda.

contracting. It was noted that often it is not the private sector, but government, that opposes transparency, in particular objecting to making public the terms of contracts for resource extraction.

Another approach for both government and business to circumvent corruption and stifling government bureaucracy is to create enterprise zones and one-stop shops for dealing with government permits and regulations.

In contrast to the usual negative view of risk, a particularly interesting perspective is the notion that risk wipes the slate clean and allows one to rethink assumptions and thereby creates new opportunities.

Poor governance and corruption are perennial obstacles to investing in poor and fragile countries. One approach is simply to avoid government by staying small and by keeping investment and business activities at a modest level, so as to operate below the government's radar. This can work for individual entrepreneurs and small investors, but not for large international corporations. Because these large firms are visible by size and profile, they have no choice but to engage with government—so their best approach is to engage at the policy level with the government's agenda. Further, the private sector needs to analyze and understand the root causes of conflict in order to avoid becoming part of the problem.

Photo: © Mercy Corps

Overheard at the Roundtable

PUBLIC-PRIVATE PARTNERSHIPS AND UNLOCKING BIG DEALS...


MADELEINE ALBRIGHT


NEAL KENY-GUYER


NANCY LINDBORG


JAMES MANYIKA


KATHLEEN MCLAUGHLIN

Madeleine Albright

Chair, The Albright Stonebridge Group

"I think the whole concept of public-private partnerships is one of the most interesting tools for development and investment. Yet, when you think about the toolbox that decision makers actually have, [engaging in a PPP] can be more complicated than meets the eye. And so I hope that we can unpack these issues a little bit, especially in terms of how to form personal relationships between parties and when to engage various sectors."

Neal Keny-Guyer

Chief Executive Officer, Mercy Corps

"I think it's important to keep in mind that economic job creation alone doesn't often change the trajectory in terms of stability. You really have to address those drivers of conflict and fragility, and there's no substitute for bringing in a holistic, systemic, resilient approach at the end of the day."

Nancy Lindborg

Assistant Administrator, Bureau for Democracy, Conflict and Humanitarian Assistance, United States Agency for International Development

"We need to think of security, governance, and development as an integrated package. That means fostering legitimate politics, rule of law, inclusive economic growth, and good governance that delivers to citizens. This is a mutual accountability framework that has the opportunity to align the development partners and the private sector investors against critical goals that the countries themselves have articulated and signed up to."

James Manyika

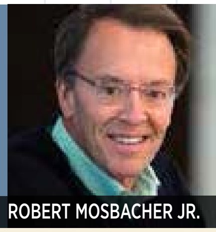
Director, McKinsey Global Institute

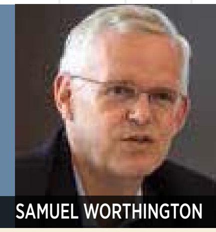
"In many instances you now have very self-confident, local actors—often businesses—and I wonder, as we think about how to do these big deals, about the role of the local private sector in some of these places."

Kathleen McLaughlin

President, Walmart Foundation
Senior Vice President of Corporate Affairs, Walmart

"The overlap between what's good for the business and what's good for society is almost always large; in developing countries there is a real opportunity for business to use their capabilities—demand assurance, infrastructure, logistics know-how, to name a few—to accelerate development in ways that also fortify the business."





David Miliband

President, International Rescue Committee

"The accountability I'm really interested in involves some very hard thinking about the difference between [our] inputs and outputs and also the outcome for the clients, the beneficiaries at the raw end of the struggle."

Robert Mosbacher, Jr.

Chairman, BizCorps

"I think the better question is…alignment of interests. And that's a word I suggest we think about because as you look at the capital flows issue and the drive of for-profit returns in these areas…there is an important amount of overlap or alignment already [between governments and multinationals].

Tara Nathan

Executive Director of International Development, MasterCard Worldwide

"Why would a multinational want to be involved in development? For MasterCard, I think the answer is very simple—because it's our core business."

Laurie Spengler

President and Chief Executive Officer, Enclude

"The second [missed opportunity] is south-south linkages, especially when you look at operating enterprises—real businesses from southern environments. When [southern enterprises] look at these challenges, and they look at the operating environment, it's not that unfamiliar. They don't need a white paper on risk-return analysis or risk mitigants. They actually have a degree of familiarity that they draw from."

Laura Tyson

Professor, Haas School of Business, University of California, Berkeley

"I tend to think the change in [CEO] leadership at the top level is, in part, reflective of the fact that…the shareholder base is, itself, changing and focusing more on nontraditional, environmental, social, and governance returns. The capital market is changing over time, and a growing number of investors care about these kinds of criteria when they make their decisions about how to invest."

Samuel Worthington

President and Chief Executive Officer, InterAction

"So to me the scale may come out on the international NGO side in the shared value efforts, but linking local projects at the community level to a national government strategy is a governance challenge that needs to be built into some of these deals."

Photos this section: © Alex Irvin

Photo: © Mercy Corps

Appendix

Each year at the Brookings Blum Roundtable, participants offer suggestions on a number of policies and platforms that could potentially improve development outcomes around the world. In 2014, these issues broadly fell under two categories: organizational changes and new policy instruments.

ORGANIZATIONAL CHANGES

To solve intra-government coordination issues, one idea discussed was to create one-stop-shops or secretariats within governments—following the PowerAfrica model—focused by sector or geography.

Among international nongovernmental organizations (INGOs), a complementary proposal was to establish an INGO working group to advance best practices for community consultations. This could ultimately spur the creation of new types of NGOs focused on intermediary or partnership roles that generate solutions and deals, rather than focusing on service delivery or grievance presentation.

Within the private sector, a specialized knowledge platform on infrastructure, modelled on the Canadian International Institute for Extractive Industries and Development, could facilitate better managed resource extraction and large infrastructure deals. This platform could advocate for conflict assessments as part of broader investment project preparations. Trading staff members

between INGOs and large multinational corporations could lead to better partnerships with local communities through widened perspectives.

NEW INSTRUMENTS

In order to increase transparency and encourage partnership deals, participants envisioned a new global public–private partnership to investigate corruption more rapidly and efficiently. Other priorities include bringing China into the Organization for Economic Cooperation and Development's 1997 Convention on Combating Bribery of Foreign Public Officials and developing further legislation in advanced countries to encourage sustainable development, building on the Dodd-Frank Act, which requires transparency on payments and contracts.

Crisis environments can benefit by employing new instruments that encourage nimbleness and flexibility and that avoid reliance on compliance and control. For instance, cash transfer systems can enable people to receive benefits faster to meet their most urgent needs. Promoting the use of local financial intermediaries during a conflict or disaster in order to encourage small-scale market development, for instance through the provision of guarantees to small and medium-sized banks, would reduce the risk of runs on banks. A standby guarantee authority for financial institutions, to be available immediately following a natural or man-made disaster, could provide a quick injection of cash and credit at the village level for families to repair homes, store owners to restock, and farmers to purchase seeds and fertilizer.

The roundtable participants agreed that supporting local institutions like the Africa Legal Support Facility and Cambodia's Government Private Sector Forum can increase local capacity and ownership in deal making. Additional ways to accomplish these objectives would be to specifically encompass training and capacity building for sustainability and deal making into large projects and to establish electronic libraries at universities, such as the MIT Library, to build scientific capacity.

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Note: The titles and affliations for
the participants are as of August 9, 2014.

2014 Brookings Blum Roundtable Policy Briefs

The 2014 Brookings Blum Roundtable Policy Briefs are available at www.brookings.edu/bbr.

Diego Comin
"The Evolution of Technology Diffusion and the Great Divergence"

Andrew Herscowitz
"Scaling a New Model of Development"

Homi Kharas
"From Mega-Projects to Transformative Change"

Jane Nelson
"Innovative Platforms for Public-Private Dialogue"

V. Shankar
"Accounting for Unpredictability in Private Investment"

Muhammed Yildirim
"Diversifying Growth in Light of Economic Complexity"

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