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**Eradicating
Poverty
through Profit**

Making Business Work for the Poor



An International Conference on the Private Sector & the Public Good

Session Summary Reports: Track 7

The Policy Dimension

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Summary:

A recent World Bank report noted that the regulatory and legal situation in a given country has a direct effect on the business climate. Throughout the three sessions examining the Policy Dimension, a variety of international panelists discussed their own experiences, shedding light on the importance and role of government in the development of public-private partnerships and facilitating the economic development of the Base of the Pyramid.

Session 1: From dialogue to profit – Eliminating Red Tape through Public – Private Partnership Engagement

The World Bank's "**Doing Business**" report makes clear the importance of eliminating red tape caused by cumbersome and outdated laws and administrative procedures. Through the examination of two case studies, one in Tanzania and the other in Bosnia, the first session highlighted the dynamic reform process that can occur through a productive dialogue between entrepreneurs and their government on investment climate and competitiveness issues.

Moderator: Benjamin Herzberg, *Investment Climate Unit, The World Bank*

Panelist: Amela Malicbegovic – *Head, Association of Central Bosnia Entrepreneurs*

Panelist: Natwar Gotecha – *Chief Executive Officer, Founding Member, Tanzanian Investor Council*

Key findings:

The case studies of **Bosnia Herzegovina** and **Tanzania** demonstrated some key characteristics of successful engagement between the private sector and government to ensure that improved regulation for economic development is both sustainable and beneficial. In both cases, key policy reforms to antiquated legislation were enacted to facilitate economic growth. Both examples also highlighted the enormous impact of such partnerships in building consensus, trust and understanding for increased growth among a variety of economic actors including the government, the private sector, international agencies, and NGO's.

The panel emphasized the importance of the design issues of the public-private partnership to the successful instigation of growth. Across the board, the goals of partnership were clearly set out during initial phases and efforts were strategically focused to secure "win-win" reforms early on to establish trust and legitimacy of each partner to its constituency. The significance of communication in achieving both tangible and qualitative results was clear in both cases.

The importance of establishing legitimacy as a partnership, balancing participation with efficacy, and creating momentum for development were all key points of consensus. There are general risks to the success of such partnerships, namely reinforcing vested interests, over- and under- representation, and sustainability. The culture of mistrust between the public and private sector, as well as between different economic sectors must be overcome through the strategic design of the partnership, which should include participants that bring credibility to the collaboration, and differentiate lobbying from business advocacy. Commitment must be maintained from all parties, as well as a high degree of communication and transparency.



Other challenges include being able to adapt the partnership dynamics to changing conditions, adding value on more complex policy options, and overcoming the fundamental weaknesses in public administration, especially in terms of creating a more pro-business culture in the public sector. Safeguards must also be put into place to guarantee that environmental and social regulations are preserved and poverty reduction is adequately addressed, ensuring that public interests are not lost within the public-private partnership for reform.

Session 2: Developing Mortgage Markets

The contribution of housing finance to an economy can be substantial - in developed economies housing and housing finance contribute up to 25% of GDP. Housing finance also leads to an increase in household wealth, a deepening of retail banking activity, and helps to develop local capital markets. Session 2 examined the state of housing finance in developing countries looking at its primary components: delivery mechanisms, funding, and credit risk. In addition, it explored the role of government in helping to foster housing finance.

Moderator: Steven Bernstein, *Senior Advisor, U.S. Treasury Department and Director, White House Initiative on African Mortgage*

Panelist: Bruce Ferguson – *Senior Housing Urban Economist, World Bank*

Panelist: Sally Merrill - *Senior Associate, The Urban Institute*

Panelist: Alex Pollock - *Fellow, American Enterprise Institute*

Panelist: Phillip Thigpen - *President, 1789 Capital Advisors*

Key findings:

The banking system in developing countries tends to only target commercial lending and those with the highest incomes. The lack of retail focus and unwillingness to go 'down market' results in huge missed opportunities in an economy where many lower income households, including the informal sector, are still credit worthy. Developing countries also have unique needs, such as micro-lending for rehab housing, better managing of credit risk, and an obligation to underwrite informal sector applicants.

Mortgage market development is taking off, and currently receives a growing amount of donor money. Building a mortgage market is easiest in countries with a stable economy, enforceable property rights, and a legal system that allows efficient foreclosure and eviction. Even in countries with ideal circumstances, however, mortgage markets face a chicken and egg problem: analysis can't be done unless systems are in place, but the systems are not in place unless the markets are already there. Government intervention can be beneficial to jumpstarting the market, but should be utilized with caution. Legal and administrative supports, credit bureaus, timely foreclosures and valuation skills are all necessary for a healthy market to develop.

Mortgage insurance was identified as one way to catalyze a mortgage market, making home ownership possible through low down payments. The win-win mechanism provides affordability for borrowers, risk sharing for lenders, improves the standardization for financial sector development, offers supervisory benefits for regulators, and encourages streamlined foreclosure practices.

Eight principles to achieve the goal of creating a property-owning democracy were identified: simplicity is preferable to complexity; property rights are necessary; self-help groups can be crucial; private incentives are essential; governments can help to



jumpstart the process, but the risk must be with the lender; the bond market can supplement investments; governments should be wary of the dangers of printing money; there must be shared international enquiry; and the long-term goal should be a robust private market.

Session 3: Improving the Business Climate

In recent years there has been an increased emphasis by multilateral and bilateral donors on improving the business environment to promote private-sector development. Session 3 explored the application of new data to identify weaknesses in the business environment, to help international businesses decide where to invest, and to improve understanding of the factors behind economic growth.

Moderator: E. Anthony Wayne, *Assistant Secretary of State for Economic and Business Affairs, U.S. Department of State*

Panelist: His Excellency Dionisio Borda, *Minister of Finance, Republic of Paraguay*

Panelist: George Manu - *Chief Executive Officer, Creative Squares Ltd.*

Panelist: His Excellency Alwi Shihab - *Minister of Welfare, Indonesia*

Panelist: Rafkat Hasanov - *Executive Administrator, Investment Round Table, Kyrgyz Republic*

Panelist: Axel Peuker - *Manager of the Investment Climate Unit, Private Sector Development Vice Presidency, World Bank*

Key findings:

Throughout the third session, the panelists stressed that meaningful policy and regulatory reforms can make an incredible difference to supporting growth at the bottom of the pyramid. Mr. Shihab of Indonesia spoke of his government's goals of improving welfare for the people and attracting foreign investment. Indonesia faces many obstacles in its economic development, including many regulatory and public administration issues; yet optimism is high in the country. The government's future goals ranged from improving law enforcement to labor protections to combating corruption. Many of these priorities will have a direct and positive effect on investment.

Mr. Borda of Paraguay discussed the pro-business reform experience he has overseen in Paraguay. Paraguay has created an Office of Transparency with a high involvement of civil society to reduce corruption and publicize the Finance Ministry's activities and decisions. Dialogue between the private and public sectors has also been proactively improved.

Using the World Bank's recently published [World Development Report 2005](#) as a reference, Mr. Peuker discussed the investment climate and its relevance to economic growth and job creation. The WDR 2005 has a number of key messages, including the fundamental importance of improving the investment climate, changing regulation and enforcement, the importance of persistence over perfection, and the need for more international development resources.

Mr. Hasanov presented a case study example of how Kyrgyzstan boosted investment through a major public-private partnership. In his country, the [Consultative Council on Foreign Investment](#) was created as the medium through which the government would be able to undertake the necessary reforms to boost investment. Although it is an NGO, it is led by the President of the Republic and has members from both the public and private sectors. Cooperation and feedback were both very important, and they have achieved real and ongoing success.



Mr. Manu closed the session by presenting his work on behalf of the Investment Climate Facility for Africa, an organization whose explicit aim is to boost foreign and domestic investment throughout Africa. With a foundation of \$60 million, the organization funds a wide variety of initiatives meant to boost investment. One specific avenue is to change the misperception among investors that it is impossible to reap high returns in Africa. This is not the case, as Mr. Manu showed with statistics. The facility is African-led, and complements rather than contradicts donor agency programs in the region. Public-private partnerships are integral to all of the successes of this facility.

