



**Global Clearinghouse for
Development Finance**

*mobilizing the private sector
for development*



PRESENTATION

Inter-Governmental Committee of Experts on Sustainable Development Financing

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with input from

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United Nations

5th December 2013

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Global Clearinghouse Tools in Support of Financing for Development (FfD)

Presentation Agenda

- Background on the research and consultative basis for our suggestions
- Five major points related to the two clusters – *how the mindset has to change for Sustainable Development Financing to be successful*
- Suggested specific actionable proposals per the exact wording of the two clusters

1.0 Background on the research and consultative basis for our suggestions

Our presentation today is based on 12 years of extensive FfD-related work from 2001 to now, as well as the perspectives of the leading African investment advisory and research firm in Africa,
Africa Investor

Input is grouped in four categories

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1) FfD Consultations with input from private sector (2001 to now)

- FfD Forums in advance of Monterrey 2002 Conference and input in to drafting of the resolution
- 2002 FfD Business Forum in Monterrey
- 2006 FfD Business Forum in Doha
- Business input at the six FfD High Level Dialogues
- Several FfD Business Side-Events

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2) FfD Projects & Programmes (2001 – now)*

- World Economic Forum Program: Building on the Monterrey Consensus: The Untapped Potential for Development Institutions to Catalyze Private Investment
- Infrastructure Finance Experts Group on Public-Private Risk Sharing, a group of 250 experts from the public and private sectors aimed at enhancing the capacity of developing country governments and development agencies to mobilize private sector investment and resources for infrastructure projects
- Two Discussion Papers sponsored by FfD-DESA: “Strengthening Information and Analysis in the Global Financial System: A Concrete Set of Proposals,” and “Capital Markets Financing for Developing-Country Infrastructure Projects”
- Creation of nonprofit Global Clearinghouse for Development Finance (GlobalDF) aimed at mobilizing private sector for development
- Three FfD Tools developed by GlobalDF based on two above DESA papers: INFRADEV, Government-Investor Networks, and Development Finance Portal
- Reuters DFI League Table, ranking DFIs by amount of private capital mobilized
**with support of FfD Office/DESA, Ford Foundation, Norway, Switzerland, Reuters, Samuels Associates, private sector experts*

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3) FfD Related Work

- Study “African Risk Mitigation Needs and Solutions” sponsored by the Infrastructure Consortium for Africa and the African Development Bank
- “Local Economic Development Finance Initiative” (UN Capital Development Fund Programme designed by GlobalDF) that addresses economic challenges through a targeted technical programme aimed at unlocking domestic financial sectors and improving business-enabling environments with pilots in Uganda and Tanzania
- Five Annual African Investment Summits organized by Africa Investor (headed by Hubert Danso) in association with the World Bank and the New York Stock Exchange Euronext

4) Africa Investor Consultations, Research, and Transaction Experience

- Hosting hundreds of Africa investment forums with senior investment leaders of African banks, pension funds, and companies, with international counterparts
- Evaluation of hundreds deals in Africa for infrastructure, agriculture, tourism, and other sectors, presenting awards for leadership
- Provision of investment advisory for over US\$ 3 billion in transactions
- Extensive investment research disseminated in the Ai magazine *Africa Investor*
- AI CEO Hubert Danso represents the private sector at key governmental forums such as ACP (African, Caribbean, and Pacific States), EU, Africa Union, and FfD

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2.0 Five major points related to the two clusters

*how the mindset has to change for
Sustainable Development Financing to be successful*

1. Change thinking of how the official sector thinks of “private sector financing”
2. Need to explicitly include private sector experts on innovative technologies and finance
3. Understand that local participants in developing countries must have their own capacity to identify, develop, and finance viable projects and businesses
4. Even if the local capacity issue is solved, the other two preconditions are risk mitigation and business-enabling environments
5. Rethink delivery options using modern technologies for results

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Mindshift #1: Change thinking of how the official sector thinks of “private sector financing”

The official sector speaks repeatedly of the need for private sector financing

However, it is futile to speak of financing without taking a wider view of the private sector beyond the provision of capital

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Mindshift # 1: Change understanding of private sector financing (continued)

- Private sector financing only can happen on a case-by-case basis – i.e., only if a business or project is financially viable
- For any one project to be viable, it requires:
 - Extensive private sector expertise
 - Involvement of the private sector in providing inputs such as equipment, technologies, etc.
- The need for sustainable finance is daunting:
 - Whole public sector (national and local government level) as well as an expansive private sector
 - Size range from massive national governments to small local governments, and large companies to entrepreneurs

Mindshift #2: Need to explicitly include private sector experts on innovative technologies and finance

Innovative new models in both finance and technology are needed to meet the goals of sustainability

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Three Examples of how Private Sector Inputs are Critical to Sustainable Finance

- New technologies can make projects that were once nonviable, sustainable and even profitable. This is especially important for advancing environmental sustainability
 - Example: Solar applications to irrigation and food storage
 - Finance expertise is critical to accessing finance for every single project and business
 - Example: Ramp up financial advisory
 - Financial engineering is critical to address systemic issues
 - Example: bank financing usually limited to maturities of 3-5 years in developing countries, rendering many critical projects unbankable; maturities could be lengthened through developing “Take Out Facilities” provided by institutional investors to bank up short tenor bank loans
- ISSUE: To access private sector, imperative for reducing the layers of bureaucracy that impede access to private sector expertise and technology
- Example: Create more flexible procurement processes

Mindshift #3: Understand that local participants in developing countries must have their own capacity to identify, develop, and finance viable projects and businesses

Finance is not the impediment, lack of capacity is

The prior two mindset points underscore the need for bankable businesses and projects, and for mobilizing the private sector talent needed to identify, develop, and finance these projects

We all need to understand that these preconditions require deep in-country capacity

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Needed in-Country Capacity-Building Across all Participants

- Public sector often does not have the internal capacity to identify what businesses might be viable, & needed interventions to be financially sustainable; also need to improve business-enabling environments
 - Needs to be a much greater focus on the local government level, as this is ground zero for development
- Most project sponsors and businesses do not have the capacity to define, develop, and finance their projects
- Financial institutions with ample funds in country often do not have the hard credit skills or processes required to properly assess projects and businesses based on credit fundamentals
- Existing risk mitigation and project preparation facilities are extremely underutilized; they need to be better channeled, marketed & adapted to meet the needs of projects and businesses at the country level

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Mindshift #3: In-Country Capacity Building: Implications for ODA and Government Funding

The mindset in “sustainable development financing” needs to focus on how to create transformative capacity-building interventions at both government and private sector levels. Public funding needs to be focused at 3 levels:

1. Early stages of project identification & development, with targeted interventions in the project development process
2. At the government agencies that are critical to ensuring a business-enabling environment
3. Building the training programmes for all in-country participants, from accountable government officials to project sponsors, consultants, bankers, etc

Mindset #4: Even if the local capacity issue is solved, the other two preconditions remain -- risk mitigation & business-enabling environments

Even if you isolate the financing for development challenge to securing experienced project sponsors, deals cannot be developed or financed without adequate risk mitigation and business-enabling environments

Mindshift #4: Focus on Project Preparation, Risk Mitigation, and Business Enabling Environments

- The private sector cannot take the risk for most investments in developing countries (need grants for early development, some can be reimbursable at financial close)
- While project preparation facilities and risk mitigation instruments have been increased in recent years, they are underutilized due to the lack of knowledge about them, the heavy transaction costs in accessing them, and the need to refine them (need to enhance existing programmes)
- The lack of business-enabling environments is critical, even on a deal basis (need to create new systems empowering accountable government institutions, such as Investment Promotion Agencies, local government commercial officers, etc)

Mindshift #5: Rethink delivery options using modern technologies for enhanced results

As amply demonstrated in other applications used in both political and economic spheres, using modern on-line technologies is the key delivery venue for creating transformative game-changing impact

While development programs use on-line expert networks and pioneering SMS applications for health, agriculture and other programs, there is ample room for increasing on-line applications focused on private sector mobilization and improved business-enabling environments

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Examples of Uses of Modern On-Line Technologies

1. Disseminate enabling information on sources of project development support, risk mitigation, and finance, available experts and technologies
2. Create networks of practitioners around key deliverables
3. Provide e-learning workshops and toolkits on project development and finance
4. Enable governments to improve business-enabling environments
5. Track issues, success stories, and failures using performance benchmarks, creating performance reports

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3.0 Specific actionable suggestions on what governments and their organizations can do to better mobilize the private sector for development

To enable the Committee to think through specific recommendations for the Post-2015 Agenda, we would like to offer specific actionable proposals that could be included in the Post-2015 Report for UN Member Countries and their development partners

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1) Cluster One: "Assessing financing needs"

- Recommend a new approach to assessing financing needs in developing countries (e.g., what projects are viable, what interventions are required to enable sustainability, what type of financing needed, etc)
- Enable the development, dissemination, and use of financial models that leverage limited official sector capital and increase the capacity to employ them
- Propose that all UN agencies explicitly redefine their operations based on the above approaches
- Propose that the Post-2015 Agenda and MDGs explicitly include accountable processes and metrics to track each above deliverable

2) Cluster One: "Mapping current flows and emerging trends"

- Set up transparent mechanisms for tracking flows enabling easy access by governments and the private sector
- Create a one-stop database of successful projects with hybrid funding to enable replication and learning
- Include performance benchmarks with metrics on source of funding, and risk mitigation leverage metrics
- State that the Post-2015 Agenda explicitly include accountable processes and metrics to track each above deliverable

3) Cluster One: "Impact of domestic and international environments"

- Support the ability of in country stakeholders to identify impediments and possible solutions
- Engage development partners to be more effective in working with governments to resolve these issues
- Propose that the Post-2015 Agenda and MDGs explicitly include accountable processes and metrics to track each above deliverable (including all MDGs – private sector as “cross-cutting” multiplier for aid effectiveness)

4) Cluster 2: “Mobilisation of resources and their effective use”

- Much greater focus on creating more bankable projects
- Scaling up use of financial support mechanisms
- Facilitating “market connects” between Technology & Experts around specific projects (infrastructure, agriculture-processing, health, etc)
- Improving the business-enabling environment

Recommendations on Next Steps

- 1) Ensure we do not “reinvent the wheel”: Make FfD and related work to date available to expert members (for example, create files for sharing, etc.)
- 2) Enable dynamic focused consultations for results: Have informal consultations around specific deliverables with private sector and other experts between and at upcoming Committee meetings

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