International Development Conference

Achieving effective delivery of the development agenda
Lessons from the front line

Conference summary

20 November 2008
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The day in brief
Introduction

On 20 November 2008 PricewaterhouseCoopers (PwC) brought together some 200 people from government, international organisations, the private sector and civil society for its fourth international development conference.

The conference was organised by PricewaterhouseCoopers (PwC) and a steering committee comprising of The British Institute of International and Comparative Law, Business Action for Africa, Capital for Development, the Chartered Institute of Public Finance and Accountancy, the National School of Government and Tiri.

The objective of this flagship event is to share the practical lessons that participants have learned in designing and implementing development projects. The conference provided a forum to share innovative responses to the challenges encountered in the field and to identify ways to achieve more responsive, effective and sustainable development on the ground.

As in previous conferences, the main conference was preceded by a discussion between DFID's Procurement Group and its main suppliers, giving an opportunity for open dialogue on the most important procurement aspects of DFID's outsourced programmes.

The event was opened by Paul Cleal, a partner at PwC, who emphasised the firm’s commitment to and pride in its development work carried out through our network of member firms and his own interest in development issues through his personal experience in Cameroon. He spoke on PwC’s firm commitment to promoting corporate social responsibility and diversity, combating climate change and supporting local communities wherever PwC works.

Two dynamic and thought provoking keynote speeches were then delivered by:

- Mark Lowcock, Director General for Country Programmes at DFID; and
- Giles Bolton, author, formerly of DFID and now head of Ethical Trading Policy at Tesco.

The keynote speeches were followed by five parallel discussions, giving more active discussion among the conference’s participants. These were:

- Security sector reform in conflict-affected environments;
- Placing a spotlight on transparency initiatives: The Extractive Industries Transparency Initiative (EITI), Construction Sector Transparency (CoST) Initiative and the Medicines Transparency Alliance (MeTA);
- Managing funds for development impact;
- Putting private sector development strategy into practice; and
- Climate change.

The conference closed with a lively plenary debate – “When is it acceptable for aid agencies to bypass the state?” The session was facilitated by Stephen Groff, Deputy Director for Development Cooperation, OECD, and panellists represented a diverse range of perspectives, including: Paul Collier, Professor of Economics at Oxford University; Gita Welch, Director of the United Nations Development programme in Angola; Christine Allison, Head of Policy and Learning at Plan International; and Mark Robinson, Head of Profession for Governance and Conflict at DFID.
Keynote speeches
Mark Lowcock, Director General, Country Programmes, DFID

Good morning everybody. I’m delighted to have an opportunity to come and talk at this event again. I’m also delighted, I must say, to be sharing this platform with Giles. We worked together in East Africa. Giles helped DFID set up its freestanding office in Kampala and he was also the first head of the substantial office we have in Kigali, where we think the contribution we’ve made to help the government and people of Rwanda recover and move forward from the genocide in 1994 has been important. Giles helped a lot with that. I’m really looking forward to hearing how these issues look to you now from your rather different vantage point, as Paul Cleal has outlined.

I’d also like to just congratulate the organisers and sponsors of this event. I remember that when I came to talk here in 2005, we had a discussion over lunch about what the right success measure would be for this. Our business is full of key performance indicators and milestones and benchmarks and all that, isn’t it? Where we got to in that discussion was that if this is the success then audiences would want to come back – and I think this year has a record attendance. I think that’s all we need to say about the importance of this as an annual milestone in the discussion within the UK on development. DFID is very pleased to continue to be able to continue to support that.

“When history, as it will, comes to look back at the current crisis it’s going to judge us partly by how well the poorest and most vulnerable are protected. The burden of that always falls primarily on the governments and institutions of developing countries themselves, but they need prompt, agile, generous and high quality help.”
Forecast

When I came in 2005 I offered a number of forecasts on how the government’s approach to development would evolve and what that would mean for the partnerships and relationships we have with a lot of you – contractors, consultants, the academic community, think-tanks, civil society and so on. I ought to say that prophecy is not normally my strong suit. I put £10 on John McCain the day that Sarah Palin was added to the Republican ticket. But, I did say one thing in 2005, which has unfortunately turned out to be a forecast worth revisiting, when I said that in the period ahead the DFID would be putting more and more prominence on economic issues and growth in particular.

The economic crisis

What I really want to do today is first talk about how the economic crisis is affecting the poorest countries and what the immediate future might hold. I want then to say something about the response of the international development system, especially the multilateral agencies – what’s going well, what needs to be improved. Then I want to say something about what the current crisis means for DFID more directly, in particular how we are adapting the programmes we finance to support the poorest countries and the poorest people in them.

It’s worth noting at the outset, I think, that the last 50 years have seen improvements in the human condition beyond any previous imagination. Between the Stone Age and the 1950s, life expectancy grew from about 25 to about 40 years.

In the little slice of history that’s represented by the last 50 years, life expectancy has grown from 40 to about 60. In 1970, most of the adults on this planet were illiterate. Now most of them can read. In 1970, three people out of five did not have access to safe water and now that’s been reduced to one in five. Progress has been differential but even in the most difficult environments – Paul talked about Africa where I spent most of my career – there has been over the last 10 years significant progress. 25 countries in Africa have grown at 5% per year over the last decade. There are 30 million more girls and boys in school than there were at the turn of the last decade. There are 30 million more girls and boys in school than there were at the turn of the last decade. Immunisation rates in many countries are growing from 30% to 70% or more.

So the bottom line is that real gains have been made over the recent past. The issue we now face is how we avoid them being eroded as we enter the downturn.

The immediate financial crisis that broke in September will not, in our assessment, have a direct impact on many developing countries. The poorest countries are largely cushioned by dint of the fact that they are not well integrated in to the global financial system. But those countries will be heavily affected by the subsequent economic downturn. While the poor might not necessarily be the hardest hit, they will, because they are the poor, hurt the most and it’s for this reason that support for development is more important now that it has ever been. History has taught us that recessions can have a devastating and potentially long lasting impact on poor countries, because they’re dependent on exports, remittances and aid flows. If those sources of finance are constrained during a downturn, spending on food, education and health is going to suffer.

Varied effects of the downturn

The World Bank has estimated that the impact of the food and fuel price hike in 2007 and 2008 has been to force 100 million people around the planet back down below the extreme poverty line. It is also hardest for the poor to bounce back when there’s a reversal. It’s been estimated that about half of Indonesia’s poverty headcount in 2002 was attributable to the 1998 Asian financial crisis, even though macroeconomic recovery had arrived quite a long time before. The reductions we have seen in oil and food prices over the last six months have helped a lot of poor countries, but overall we still don’t know what impact the global slowdown is going to have on different countries.

Tolstoy’s observation in Anna Karenina, about each family being unhappy in its own way, is a relevant observation here. The effects of the downturn are going to be varied and protracted depending on each country’s starting position, its resource endowment, its vulnerability, and also its policy response. But what we do know is that some of the first effects are going to be through two main channels, through trade and investment. Although a few developing countries are growing based on domestic demand, for the majority, exports have been a critical source of growth and that means that they are vulnerable to the ebb and flow of their terms of trade. That is the biggest issue for the commodity export in countries.

The effect in Africa

In Africa, there are 17 countries which have a single non-oil commodity accounting for more than 40% of exports. Zambia is just one example of a country where the tumbling price of copper will have a detrimental impact on an only recently rejuvenated industry. In turn that will have a massive impact potential on the whole of the economy. Recent years have seen a surge in investment in developing countries. As Paul Cleal said, ‘Africa is still the fastest growing market for mobile telephony’. And there is a lot of innovation in that market with the technology being used to provide financial services and other services in ways which leapfrogs the kind of infrastructure that industrial countries developed, but the effect is that the financial crisis has left investors much more risk adverse.

As uncertainty pervades the international capital markets, some investors may be nervous about their exposure in developing countries. A combination of all these effects together with pressures on currencies and fiscal pressures will
impact negatively on developing countries. The IMF is projecting that the growth rate in Africa this year will be around 5.5% lower than it has been and will come down to 5%, maybe a bit less in 2009. Other regions may be more affected; the projection for Pakistan for example, which has been growing quite fast in recent years, is now only at 3.5% growth in 2009.

**International response**

Can we now turn to the international response? The current crisis is truly a global crisis and that means it requires coordinated and coherent international action. That means there is a fundamental role for the shared global institutions, in particular the IMF and the World Bank. The heads of government of the G20 countries meeting in Washington last weekend placed, in their communiqué, significant emphasis in the role of the international financial institutions (IFIs). They committed themselves, importantly, to advancing reforms for the Bretton Woods institutions. Those institutions need more adequately to reflect changing economic waves in the world's economy in order to increase their legitimacy and their effectiveness. That means that emerging and developing economies, including the poorest ones, should have greater voice and representation. It also means the IMF, World Bank and the other multilateral development banks need to have sufficient resources to continue playing their role in overcoming the crisis. Much of the current debate about the role of the IFIs focuses on the emerging economies. I want to spend a few minutes now looking at their role in the poorest countries.

First the IMF. The fund needs to continue to be the central source of IFI advice to low income countries on monetary policy and financial management. It needs to make its advice available to all low-income countries irrespective of whether they have a fund programme or surveillance arrangements. It needs also to review its financing facilities to make sure they are fit for purpose, given the quite varying and different needs of its low-income clients. It needs, in particular, to reform the procedures through which resources can be accessed so that low-income countries can promptly and get the support they need in an agile and responsive way. In particular the exogenous shocks facility, to which the UK has made a commitment of £50 million over five years, needs to be made more agile and easier to access. The IMF is beginning to play the kind of role that is needed. Pakistan, for example, has approached it formally for a support programme. We think the staff of the IMF have responded very well to that. I think that the IMF board should over the next few days agree a $7.6 billion programme for Pakistan, which will give the policy-makers in the country the space they need to implement their necessary reform programme.

In Malawi, the IMF has agreed a programme under the exogenous shocks facility to help deal with, among other things, the macro economic implications of the astronomical price hike in fertiliser, which threatens to erode the very substantial gains Malawi has made on food security over the last five years.

In Ethiopia where it is estimated that the fuel and food price hike has wiped out the benefits of 60% of aid receipts over the last year or so, the IMF has moved to more frequent six-monthly consultation missions at the government’s request and they are open to consulting support under the exogenous shocks facility.

**The World Bank**

Let me turn to the World Bank. The bank has a major role as a provider of resources. Coming into the crisis, it is well capitalised. It has been able to provide $1.2 billion of assistance through its new global food crisis response programme. For the poorest countries, the replenishment agreed last year of the International Development Association, a facility for the poorest group, raised $41 billion. That was a record replenishment. The UK was actually the largest contributor and because of the strength of this balance sheet, the bank also has the ability to double IBRD lending to the better off, more creditworthy countries with the scope for that to reach $100 billion over the next two or three years.
As well as maximising resources available though, the bank also needs to ensure that its finance flows quickly, in a way that is responsive again to the widely varying needs of its clients and which is accompanied by high quality, client-focussed policy advice. That means discussing with governments whether the balance of overall finance they receive needs to shift to fast disbursing budget support rather than slower project investments. It also means, as in the case of the IMF, adapting procedures to reduce transaction costs. It means increasing resources by scaling up existing operations where feasible, rather than designing and appraising new investments because of the time involved in that. It also means, in some countries, a serious review of the portfolio stock to unblock slow moving programmes or possibly shift resources into other priorities. Crucially, the bank needs professional staff close enough to its clients and able to respond quickly to the evolving situation that they face. That means more professionals in the field with more responsibility delegated to them.

The UK’s response

Let me finally say something about the UK’s response – and specifically that of DFID. The first point to make is about the government’s overarching political commitment. The prime minister was very clear in addressing the United Nations in September. He said, “This time of financial turbulence is not the time to put our ambitions on hold, to cut back or postpone the dream of achieving millennium development goals.” But this would be the worst time to turn back. The government has repeatedly made clear its continued commitment to UN target that British development assistance should reach 0.7% of our national income by 2010. We’re on track to reach 0.56 by 2010 and we’ll continue to push this issue internationally: The G20 leaders at the weekend reaffirmed the importance of the MDGs and for the countries that made commitments to finance them to follow through.
DFID's bilateral response includes financing for countries facing the most difficult adjustment challenges. Budget support was £350 million in the last financial year across 10 countries. Financing basic services like health and education also helps reinforce macro stability and fiscal management. In Pakistan, not least in support of the new IMF programme, we're looking at allocating resources to help address macroeconomic reform needs. In Malawi we’ve brought forward £5 million of budget support to address help pro-poor activities there. We’re also providing more expertise and assistance for countries for economic management and the development and implementation of growth strategies. The new international growth centre based at the London Stock Exchange that Paul Collier and others in Oxford are also involved in will be launched in December. That will put at the disposal of the poorest countries some of the world’s best analytical and technical expertise on policy making for vast and more broadly based sustainable growth.

We also need to provide direct support to those tens of millions of people who have already been pushed by high fuel and food prices below the extreme poverty line. DFID has actually pioneered innovative social protection programmes providing small but regular cash transfers to the most vulnerable households during periods of crisis. Our £15 million of financing for those programmes currently supports some 10 million households across Africa and we’re ready, as needs dictate, to do more of this.

Ultimately, a revival of private sector activity is going to be the main engine of growth. Douglas Alexander, the Secretary of State for Development, announced earlier this month that CDC, one of this conference’s sponsors and which is the government investment arm for poorer countries, will over the next five years focus three quarters of its new business in low income countries and at least 60% in sub-Saharan Africa. The value of CDC has grown from £1 billion at the end of 2003 to £2.7 billion at the end of last year. It invests in 600 businesses across poorer countries. Those businesses between them employ a million people and provide livelihoods for probably four times that number. They also pay some £250 million a year in taxes and charges to the governments in which they operate, which helps provide the tax base for financing health, education and other basic services. Through its fund managers, CDC will help deliver billions of pounds of new investment to the poorest countries over the next five years. Much of that money should come from pension funds, sovereign wealth funds and other private sector investors – capital that may otherwise not flow to the poorest countries. It is going to help finance the infrastructure, the finance sector, agricultural and industrial service bases that will underpin future prosperity. So CDC and its fund managers, who are cash rich just now are in a very good position to play an important counter-cyclical role, actively investing in the period ahead and hopefully bringing other investors with them as well.

Conclusion

We will also, in DFID, continue to finance technical assistance to help countries with economic management. We want our technical assistance to be country-led and coordinated. We have already met the 2010 Paris Declaration target for 50% of technical assistance to be coordinated in programmes consistent with national development strategies:

- In Afghanistan, financial consultancy work carried out by Adam Smith International is helping strengthen the national and provincial tax administrations;
- In the Gambia, we’re working through Atos Consulting on legal capacity building programmes;
- In Uganda, KPMG is helping the government deal with public sector pay bill and payroll issues; and
- In a number of countries through the Construction Sector Transparency Initiative (CoST), PwC is improving the integrity of construction financing through the public sector.

I could give you similar examples for the next 20 minutes from Crown Agents, HTSPE, DAI and a whole range of other organisations. That role that DFID plays working with you on providing expertise to the poorest countries is another prediction I made three years ago which is still true, and is going to continue to be an important priority for us in the period ahead.

Let me finally say that when history, as it will, comes to look back at the current crisis it’s going to judge us partly by how well the poorest and most vulnerable are protected. The burden of that always falls primarily on the governments and institutions of developing countries themselves, but they need prompt, agile, generous and high quality help and in DFID, we are determined with you help to play our part.

Thank you very much indeed.

“While the poor might not necessarily be the hardest hit, they will, because they are the poor, hurt the most and it’s for this reason that support for development is more important now that it has ever been.”
An alternative view

Giles Bolton, Author

It’s a real pleasure to be here and I’m very flattered to have been invited. I’m also a little bit nervous, to be honest, about speaking in front of Mark, not just because I used to work for him, but when we overlapped briefly in Nairobi in 1999-2000 and I was just about to go off to Rwanda, I failed to sell my rusty and very dirty old Land Rover before I moved, and it sat on Mark’s drive for a year until I finally managed to get rid of it. I’d like to pretend at the time that this was all to do with internal barriers to trade in Kenya but I’m not sure that’s very convincing and I’m still grateful for Mark’s forbearance. Hopefully my words today won’t try his patience quite so much.

Probably, like a lot of people in this room, I started off extremely idealistic about wanting to work in the aid industry when I came to work for DFID. Shortly after leaving university, I probably had an image of myself driving along red earth roads, solving problems and then singing songs with the locals under a shimmering sunset. I started working at DFID and fortunately they disabused me of this patronising idealism. Now, instead, I find myself in a very dramatic room but with a very grey sky outside in London still trying to make progress on the same issues.

I know that my role here is to try and give an alternative non-industry view on things as Michaela Wrong did in this conference last year, and Jon Snow a couple of years before that. So I’m going to go back to basics a bit and talk about some of the fundamental challenges I think the aid industry as a whole faces. They are problems which I think we are all aware of. But I think we sometimes forget to debate them and I believe that they actually lie at the root of many of the problems we see that the aid industry, as a whole, faces and all of us who work in it deal with every day.

The aid industry

So I’m going to talk about why the lack of accountability in aid is unparalleled in any large global industry or public sector area, how this leads to a fundamental and critical lack of incentives to deliver good quality aid – even for donors that are well intentioned. I will try and cover what we might start doing to address some of those problems. We don’t have long so I’m going to get some things out of the way first of all, so you know where I stand. I am a believer in aid. I seen aid work well and when it does, it’s very powerful and I’m also a big fan of DFID. In fact, it was standing back from DFID to write a book about broader western policies on aid and trade towards Africa that made me appreciate quite how good a donor it is. Fortunately for you I don’t intend to talk about DFID today, because it would be clearly be quite boring and supportive. I am going to talk about the wider aid system of which, of course, DFID is a part.
A lack of accountability in aid

There is an inherent lack of accountability in aid. What do I mean? Well, compare it to other public services. The biggest challenge for public services institutions anywhere in the world is how to remain efficient in the absence of the private sector’s disciplining bottom line of profit. What helps for the likes of education and health systems is that the same taxpayers – you and me – who pay for the service also use it. Our kids go to schools and we see the quality of the education, we go to hospital and we get to see the quality of healthcare. The media, our parliaments and we are all relatively good at holding governments to account about their performances in public services. Our governments know they have to deliver reasonable services or risk criticism and possible rejection at the ballot box.

Aid paid for as it is through our taxes is another public service. The problem is that the people who paid for it are not the same people who receive it. It takes place too far away for us to know if we are getting value for money, with little real media or political interest. The consumers of this service, poor people in Africa and elsewhere, have no vote or real influence to improve it. In sum, the people who have a real interest in how aid works have little influence and the people who have real influence have little interest. This might not be surprising or easily remedied, but it goes along way to explaining why the structure and content of so much aid from rich countries is not delivered in the interest of people it is supposed to serve.

That’s the rhetoric. What are some of the impacts? There are three areas we can talk about in relation to the lack of accountability and show where it has a negative impact on the industry. Those three areas are: quality; the structure of the aid industry; and quantity.

The Accra agenda itself contains important commitments to improve aid transparency. Do we really believe that these initiatives are going to be enough to change the behaviour of slow-movers and the newest donors, as well as the ‘like-mindeds’?

Quality of aid

So first, quality: there has been a historic and major failure to measure aid effectiveness. Of course, we all know that measuring aid effectiveness is complex, but it is astonishing for a near 50 year old industry that we don’t already know more than we do about what works and what doesn’t and how to measure it. Indeed, the first step in measuring effectiveness is being clear on what you’re spending, not just for recipients, but sometimes even internally within donor agencies. Have you asked the US government how much it spends in total in Tanzania? It’s worth trying. How can recipient countries seriously make informed countries about which donors to work with and which areas without an idea of who is good at what, with proof? Who tends to deliver on their promises, with proof? Who is sincere about working with you and not simply imposing their own ideas? Three initiatives agreed recently at the Accra high level forum on aid effectiveness show growing international acceptance of this problem and the need to start addressing it. And of course the UK is at the forefront of pushing for those changes.

Three initiatives, so the first: the Accra agenda itself contains important commitments to improve aid transparency. The international aid transparency initiative, launched by the British and Dutch governments, sets useful timetables to agree some robust transparency standards and the new Publish What You Fund campaign sets out some important transparency principles. Although these are all really important bits of work, it does worry me a bit that it’s the usual suspects in the donor world that are driving the agenda. If you’re in interested in development impact, surely you must be as concerned about improving the quality of Italian aid as British aid. In fact, given the relative effectiveness of what we do, we should be rather more concerned about developing the impact of Italian aid.

Do we really believe that these initiatives are going to be enough to change the behaviour of slow-movers and the newest donors, as well as the ‘like-mindeds’? It’s important work; I’m not sure it’s enough. Perhaps, more importantly, do we really think that these initiatives will help lower-capacity, perhaps less committed African governments to receive more coherent aid? We tend to get too caught up, I think, in what’s happening in the best practice countries, such as Mozambique and Tanzania, forgetting that the majority of African recipient countries are not as advanced in their understanding and experience of aid management. I want the Accra initiatives to work, but history teaches us to be cautious as to whether they will deliver a step change across the majority of recipient countries.
Structure of the aid industry
The second set of impacts about accountability I want to talk about is in the structure of the aid industry itself – the structure through which, globally, aid is delivered. Lots of this is probably going to be quite familiar to you, but here are some statistics. The average African country, at least until recently, drafted around 10,000 quarterly reports for donors. It hosted a thousand donor missions. Ethiopia recently had 40 different donors and Zambia had 20, I’m told, in the education sector alone. Bad donors don’t go bust, good donors don’t necessarily grow, and there are no mergers and acquisitions. And there are some other statistics that might be slightly less familiar to you. The World Bank estimates there as many as 100,000 technical experts in Africa, mostly funded by different donors. The LSE calculates that the average African country plays host to 828 branches of international NGOs.

I just want to stop on that point and ask for a show of hands. I hope you won’t be unduly influenced by what I just said, but how many people in this room think that the way global aid is structured through 90 official donors, including tens of multilateral agencies is the best way for poor countries to receive aid?

So why don’t we talk about this more? I know we talk about country level coordination and harmonisation, but why don’t we talk about it at an international level as well? I can’t think of any successful industry or sector, which has delivered its basic aims without having a structure that’s sensible to try and deliver it. If anyone’s got any ideas, please let me know. I’d be fascinated, but I’m really supportive of what good donors do, I’m just nervous that we’re never going to achieve these things unless we address the fundamental structure of the way aid is delivered. The duplication is immense.

I remember when I moved to run the DFID office in Rwanda, the one bit of the job I was really nervous about was the whole diplomatic cocktail party circuit. Frankly, I was dreading it, but I soon discovered that it was essential to find out what other donors where up to and to make sure that they knew what DFID was up to. And there I was, representing the UK in Rwanda. I had British and Rwandan colleagues in the office, a big team in London running a programme and a team in Scotland doing the administration. And of course, the French had their own operation – different views, but the same number of people. The Dutch, the Americans, the Canadians, the Swiss, the Belgians, it goes on – duplicating each other. Rwanda was well run, but with very low capacity.

There were maybe four or five people in the finance ministry which was my lead interlocutor, which would really be the right people to talk to if I wanted to talk to about a big issue.

Well, it was the same for the other donors. In fact, it was working for a really good donor in DFID, in a really interesting country, that needed and wanted assistance, that was relatively well-run, that made me first get really frustrated and quite disillusioned about the likelihood of aid to achieve its long term goals. We can’t pretend that we’re not part of a wider system and no individual donor or indeed consultancy project has much chance of affecting sustained change by itself. I think that means we need to take some responsibility for the structure of the wider system of which we’re part. Isn’t it strange that one of the requirements of EU accession has been for accession countries to establish their own aid programmes? Why reinvent the wheel? Why aren’t we specifically asking them to develop a budget, but proposing that that money is all channelled through the best existing established mechanisms, rather than on a bilateral basis?

Bad donors don’t go bust, good donors don’t necessarily grow, and there are no mergers and acquisitions.
Quantity of aid

Third and last of the impacts of the lack of accountability in aid I want to talk about is the most obvious. It’s aid quantity. The lack of accountability in aid to both recipients and to the tax payer that fund it, stretches right up to the highest level to the promises about aid financing. This is the only explanation that I can come up with for the recurrent failure for rich countries as a whole to ever get close to their promises on aid spending.

You’ll remember 1970. Here we are – 0.7% of GNP. It’s been about 0.3% ever since. It’s never gotten above 0.4% and, despite the great political consensus achieved in 2005, if we are honest, it looks like the global recession means that we’ve tailed off again and we’re not going to get substantially closer. It doesn’t remind us of course, that we’re lucky in this country to have a government and now a political consensus on the need to raise aid. I hope it will hold.

“How many people in this room think that the way global aid is structured through 90 official donors, including tens of multilateral agencies is the best way for poor countries to receive aid?”
Solutions

So, if the lack of accountability both to beneficiaries and to taxpayers lies at the cores of some of its problems in quality, quantity and structure, what can be done about it? Accra should be a positive step forward. But I’m not sure that I believe we’re going to see substantive progress, particularly among less committed or well informed donors and in recipient countries that are less understanding of the challenges of aid management, unless we’re prepared also to address the fundamentals – a lack of incentives for donors to really be successful.

1. Seriously consider development education

This leads in two directions. First, I’m sorry if it’s a bit old hat nowadays, but we have to take development education seriously. I realise that I would say this, as someone who has written a book intended to make the issues more accessible to non-experts, but that is why I did it. This doesn’t just mean finding better ways of telling human stories about complicated aid instruments, it means being braver about the risks and complications. We need to be more honest about what works and what doesn’t, or we will lose globally the arguments for intelligent long term instruments, including budget support – and we may even lose support for development consensus in the UK.

2. Address the lack of incentives

It’s the second direction I’m more interested in talking about today and I’m going to close on it here. Is there really anything we can realistically do to address the fragmented structure of the aid industry? Can we really address the lack of general incentives on donors to be measured and to be rewarded on success, which is not what happens at the moment?

I think there might be. I want to be really clear here. There is a little more important going on in the aid world at the moment than efforts to improve coordination transparency and harmonisation at a country level and those need to go forward and they need to be prioritised. But anyone who’s worked in some of the better regarded countries for coherence and coordination knows the reality of complexity, high transaction costs and only moderate success. These problems affect the effectiveness of the initiatives that everyone in this room works on and I am not sure that these initiatives at country level will address the fundamental problem of incentive. So we need to address structures at an international level.

3. Adjusted to address structures at international level

Now, I suspect it will be just as hard to drive such coherence and coordination at a global level as it is at a country level, but to rework an old joke, what’s worse that working painfully, thoroughly and time-consumingly at an international level to improve the harmonisation of aid? The answer: working painfully, thoroughly and time-consumingly to improve it in every single major recipient country. In terms of what’s politically possible in what might be done, I’d really welcome hearing your view on this. I know that turkeys don’t vote for Christmas and donors don’t tend to vote for their own rationalisation, but I’ve got one proposal which I think would be worth at least exploring as a major way forward. If successful, it might play a part in addressing the major lack of incentives for effective aid and the destructively fragmented structure of the system that governs it.

The objectives of this proposal are threefold. First, to drive greater harmonisation of aid at an international level, so that we can more easily deliver useful aid at a country level. Second, to deliver improvements in the overall quality of aid by diverting aid from bilateral agencies which generally is less effective, despite some better donors like DFID, into generally more effective multilateral aid. Third, to create some genuine incentives for improvements in the quality of that multilateral aid.

I’d like to explore whether donors, such as DFID, could commit alongside others to spend a rising proportion of their aid budgets every year through multilateral agencies, gradually reducing the proportion of bilateral aid. Ideally, it might start at the European level with a commitment to spend that rising proportion each year. This would create a growing fund which the donors would commit to allocating each year or two years to multilaterals. Importantly, these allocation decisions would be made according to evidence of effectiveness, so this would finally create strong incentives for multilaterals, both to measure and to improve the quality of their aid and of over time. It would intrinsically help the process of country level harmonisation by streamlining the delivery.

There’s a further opportunity here, which lies in careful choosing of those allocation criteria to decide which multilaterals to increase funds to. We want to create a competitive process.

There’s a great opportunity to use the criteria to support efforts to improve accountability at a country level too, including, by way of example, asking for evidence that the multilateral has aligned to recipient country systems, that they are predictable in their disbursements, i.e. they can prove that they plan three years ahead and they provide evidence of how closely they keep to these commitments, and that they are transparent – not least, for example, following the standards set out in the international aid transparency initiative. So I’d love to have that idea discussed.
Conclusion

I’m going to end with a bit of a story from when I first moved out to Kenya. I developed a very good friendship with a guy, whose father was English and whose mother was from Northern Kenya and it turned out his father – whom I got to know a bit, a guy called Keith Foot – died a couple of years ago, had gone out to Kenya in the late 1940s and, in his early twenties, and he’d been out there every since. He’d gone out as a colonial district officer and it was fascinating for me because I felt here was a real link with the past. But I’ll confess I used to think of him as a symbol of the anachronism of times past. Now I look back and I think when I went out with a bilateral donor at a junior level to somewhere like Nairobi, will the next generation look at me, working for a bilateral donor – because every country had to have their own donor systems – as much of an anachronism as I used to of my friend Keith Foot?

I’m really looking forward to the rest of the conference. Thank you for inviting me.

Isn’t it strange that one of the requirements of EU accession has been for accession countries to establish their own aid programmes? Why reinvent the wheel?
Final panel
When is it acceptable for aid agencies to bypass the state?

This session considered the circumstances in which it is deemed acceptable or desirable for donors to by-pass the State and work directly with non-state actors (NGOs, the private sector) to promote development. A secondary consideration was how such interventions should be shaped so as not to undermine the vision of building a state in fragile and post conflict countries.

Each participant made a presentation on their own thoughts in relation to the questions framed above. Mark Robinson of DFID had first reply, and then the session was opened to the floor for questions.

Panel

Stephen Groff Deputy Director for Development Cooperation, OECD, Chair
Paul Collier Professor of Economics at Oxford University
Gita Welch United Nations Development Programme Director, Angola
Christine Allison Head of Policy and Learning at Plan International
Mark Robinson Head of Profession for Governance and Conflict, DFID

“Do you rebuild the state or bypass it? I want to say you do neither. Rebuilding the state is the development fantasy.”

“Donors should not bypass the state, neither in principle nor in practice.”

“It’s by no means the case that we have firm evidence that NGO provision, for example, is inherently cheaper. Nor does it inherently reach the poorest, nor inherently does it always reach the most remote locations.”

Introduction – Stephen Groff

Stephen opened the session with a few words on what the topic meant to the OECD and to donors. He recognised that the humanitarian imperative to address basic needs in the short term and operating in countries with repressive governments might compel donors to work with NGOs in preference to the state.

The OECD Development Assistance Committee (DAC) has recently researched the issue of the contracting out of core government functions in these types of situations. Stephen has noted that doing so carries a high risk of undermining the state’s opportunity to achieve legitimacy through service provision, and suggested the question should not be about engaging or not engaging but rather about the degree of engagement that donors should pursue, which should differ depending on the capacity and interest of the government. This also has the advantage of building capacity through responsibility.
Paul Collier

Paul echoed Stephen’s thoughts that different governments required different levels and emphasis of engagement. Certainly those countries with stable governments can receive large amounts of support and engage fully with donors. However, he also felt that those states at one end of the spectrum – those not committed to the wellbeing of their populations – required a completely different approach, for which he suggested using ‘independent service authorities’.

This model echoes the independent revenue authorities that are common to most countries, even fragile ones, and which are a public agency, but not part of the civil service. Paul suggested that an independent service authority would receive donor and government funds that it could then use to contract whatever organisation is best placed to deliver the services in question – NGOs, churches, local governments etc – and would monitor performance.

Paul emphasised that this model is not akin to a social fund, which he sees as flawed because of its reliance on the intangible ‘community’ to run services.

Gita Welch

Gita opened her discussion by suggesting that terms such as good governance and transparency can mean different things to different people and countries, and warned against using our definitions of this to label some states as ‘good’ and others ‘bad’ which then shape policy.

Gita believes strongly that development aid cannot work properly if it bypasses any actor. However, she also echoed Stephen and Paul’s conviction that the state in particular should not be bypassed. This is because the state has responsibilities and accountabilities to its people. Bypassing the state relieves it of this.

Gita also reminded us through presenting Angola as an example that engaging with the state also means at the provincial or local level, and not just with central government. This is fully consistent with her view that the citizen, the consumer, ought to be more engaged by doors than is the reality at present.

Christine Allison

Christine acknowledged that as she works for an NGO, she might be expected to argue that the state should be bypassed in favour of NGOs. Instead, she clearly stated that this should not be the case.

She suggested that the aim towards which all development aid should be oriented is for a country in which citizens know and exercise their rights; and governments that accept the burden of meeting them. This means not only engaging with the state, through such means as providing budget support to facilitate service delivery, but also supplementing this with additional initiatives to strengthen civil society so that it can better monitor the trust that donors are putting into governments.

Christine agrees with Paul that separating public finance and service delivery can be beneficial. She cited the example of Afghanistan whereby the Ministry of Heath with only weak capacity has successfully contracted basic services from across arrange of providers.
Mark Robinson

Mark responded to the presentations by agreeing that sovereignty was an important aspect of development and that this included the state meeting its responsibilities. He then turned to discuss Paul’s model of independent service authorities.

Mark said that in the UK and other OECD countries’ experience, it has been difficult to create and sustain such ‘arms length’ service delivery entities. He would be keen to gather evidence on the costs, risks and standards of provision by a multiplicity of non state service providers.

He also reminded us that the state would nonetheless require a certain level of capacity to run such an agency, such as capacities in contract regulation, service delivery monitoring, and coordination. Mark invited the audience not to rethink the state entirely but to return to the generally accepted view of basic state functions that a legitimate state must provide. In this case, using a ‘triangular model’ such as an independent service authority could postpone legitimacy.

Mark concluded his reply with an attestation to the positive contribution that NGOs and non-state providers can perform in transitions from conflict through to early recovery and medium term peace.

Selection of discussions from the floor and panel responses

• As an example of the questions raised during this part of the session, one participant noted that NGOs in India, Pakistan and Bangladesh seem to be well attuned to working with government in mutual funding arrangements. He found that they were very much less comfortable in positions where they were the agent for government, involved in a vertical contract. The same participant also shared a belief that private providers are largely ignored in opportunities to contract services. Paul Collier responded to this that, contrary also to Mark’s opinion, there is evidence to suggest that NGO and non state delivery is much more effective than state provision in fragile environments. He advocates further testing of this through piloting the independent service authority model.

• Another participant asked whether donors should not be focusing limited aid resources on better performing countries, leaving those states in which the governments should be bypassed to receive only humanitarian aid that anyway bypasses the state routinely. To this, Christine replied that it would be very wrong to treat fragile states as long term humanitarian clients without making any effort for state development.

• A further question was raised on the idea of rebuilding the state. It was suggested that whilst donors and NGOs enjoy this concept, in reality it is impossible. Gita replied that it is not the donors’ intention to rebuild the state. Rather, that job belongs to the state itself and donors can and should only support this process.

“ I think it’s beholden on the donor community to think of creative ways to engage with these countries, with the bits of these countries and the bits of the apparatus that you can do something with.”

“ States achieve legitimacy when they deliver services or facilitate service-delivery in accordance with social contract and citizens’ expectations and needs.”
Discussion panel summaries
Donors are increasing their range of security sector reform (SSR) activities to assist countries make the transition from conflict to sustainable development and greater human security. DFID is only one of a number of international actors involved in this effort. By virtue of its objectives and experience to date, the department has a crucial role to play in supporting SSR. However, the discipline is evolving and still a contested one in donor circles.

The starting point for the panel was to look at the existing approaches and capacities for SSR in conflict-affected environments, and in particular some of the following themes:

- Whether approaches to SSR are overly focussed on design at the outset, rather than being able to evolve and adapt to changing conditions;
- What complementarity exists with other programmes – both within and between donors and what more needs to be done?
- What do we mean when we talk about ‘ownership’, beyond the elites that so often form the direct counterparts in a programme of SSR?
- Just how different are the challenges that SSR is encountering as distinct from other development efforts?

You steal the toaster, you go to jail and you’ve got to give back the toaster, but the toaster no longer exists so you stay in jail. That happens! So what do we do? How do we help that kind of system? Now, people may argue, well that’s just Timor. No, this is Nigeria.
Towards an evolutionary approach to security development

Peter Wilson

Peter opened saying that the approach to SSR programming is often the wrong way around: that a ‘strategic design’ approach – the linear view that underpins SSR (and, in fact, other) programmes does not take into account how institutions evolve and how the underlying political changes work. He started by illustrating the concept of good government, a picture which SSR debate is constantly modifying. The SSR debate has revolved mainly around what this ideal state looks like, with less time spent on how we get to this happy state. Countries such as South Africa illustrate the pitfalls in such an approach, having an apparently perfectly designed security system with at best a marginal impact on security.

He then addressed his main theme of the weaknesses in the strategic design approach to programmes, based on an inception phase and a logframe to which one must stick for three to five years. This takes place at a phase when consultants’ local knowledge and tacit knowledge – as well as relationships – are at their weakest.

Another strong criticism is that this approach is directly inimical to local ownership in the sense that strategies are designed when the ability of the locals to own is also at its weakest. Leading on from this is the question ‘which are the locals we are talking about’? Very often, when this strategic, linear approach to change is adopted, the ‘locals’ we are talking about are one or two members of the local elite.

Peter therefore proposed an ‘evolutionary model’ – through which change does not happen through ‘intelligent design’, but by trial and error, or to put it more formally, in a Darwinian sense, a variation – trying different things by selection. Some initiatives survive because by some measure they’re seen as successful, and then one replicates those successful measures. This approach has its roots not just in Darwin, but in earlier thinkers such as Adam Smith and John Stuart Mill, and is mirrored in contemporary economic discussion.

Peter accepted that it would be difficult for donors to create, much less outsource, programmes adopting this iterative approach. But he gave illustrations of where he was able to put it into practice – in Iraq and Sierra Leone and emphasised donors’ employment of the approach in specific programmes.

He concluded by arguing this approach is a fundamentally democratic one, which tackles poverty and which also sees local ownership not as a means, not as a tactic of getting local ownership to help projects succeed. This is local ownership as the end not the means. The purpose of SSR is the ability of local people – all local people – to own the day to day behaviour of their security issues.

“…strategic design tends to be done in the very early days when practitioners and consultants know least. You get off the plane, you wander around…and you design your plan, and you’ve got a log frame which you then try and stick to for three to five years.”
The need to switch from elite to local concentration

Eric Scheye

Eric opened by emphasising the universal agreement that our record of state building has been a failure. The criticisms are that we concentrate on capacity building, we overlook indigenous systems and institutions, we slight the policies of the country, and we ignore balances of power and political processes and running quickly through the literature. So what are we doing? What is the state we are talking about?

First and foremost, the post-colonial state is not a bureaucratic state. It is not the state that we understand with state society relations. Civil society in the west usually means defining out the family and religion, the clan and affinity groups. In these post-colonial civil society states, these are ‘defined in’ rather than ‘out’. The academic consensus is that these states are hybrid, mixed states. Usually the “writ of the state does not pass the tarmac of the capital”.

In building responsive and resilient states, Eric advised starting with that state which is mixed and hybrid and multiple, overlapping and confusing and which donors will not understand because it is not what we know and not how we think and it is not what we believe and it does not share their values. He highlighted Nigeria, where 60-80% of the security is provided by local justice networks. The state is viewed in policing terms – predatory, bad and human rights violating. Eric’s advice was that for sustainability reasons donors should accept the hybrid mixed state and work with the various non-state services providers. In practical terms this means a hybrid approach – addressing the local needs of neighbourhoods and communities to build local capital, social efficacy. That is the way donors can measure performance of their programming.

Eric finished by saying that when we talk about the relationship between informal and formal systems, instead of looking for consensus we should be negotiating to keep people at the table. SSR programmes almost always going to be negotiating with people who are less than savoury. The people donors send out have to understand that internal politics must fit into the mix in the hybrid state where SSR work takes place.

“" That is the nature of the post-colonial state: mixed hybrid, not ours. You can’t deal with a western state in those circumstances because it is not sustainable… because it doesn’t fit with the values and beliefs of those societies.

“" Usually the writ of the state does not pass the tarmac of the capital. “"
The role of external actors in security reform

Nicole Ball

Nicole brought into the debate the role of external actors in supporting security sector reform, drawing on her substantial experience in security and development and the growth of the discipline since the Cold War. She emphasised that addressing problems of insecurity and lack of access to justice is not just an issue in conflict-affected environments, but a necessary function in any kind of development work. And whilst there has been progress in SSR, she stated the need for external actors to define the discipline more closely and to regard it more as a work in progress than an end in itself.

She traced three important developments:

- The growing agreement that dealing with insecurity created by unaccountable security and justice systems lies with the people and the elected representatives of the countries themselves – the local ownership issue.

In spite of these advances she highlighted the persistent problem of what SSR actually is, using the example of work in Liberia characterised as SSR but which has been in reality old-fashioned security assistance, or Chad, where ‘security’ has taken to mean the security of the ruling elite. There are not just differences of opinion between donors, but questions over how to tackle the vested interests of authoritarian regimes, and the issues of international security that donors are concerned about.

She thought it important to understand that resolving this tension is not an ‘either / or’ proposition; instead, both concerns are linked. At the same time, the synergies are not well understood, as demonstrated by the recent review on SSR financed by the (now merged) Global Conflict Convention Pool that she carried out under PwC in 2008. In this she demonstrated the importance, from an operational point of view, of developing joined-up approaches that can identify areas of overlap between the development approach and the traditional approach to security. In order to do this, evidence-based programming is very important, and donors such as DFID have a number of analytical tools that can be helpful, although in practice it is difficult to get joined-up approaches to using such tools, which are often viewed as an encumbrance to daily activity.

Nicole concluded by saying that the focus needs to shift from SSR to the types of outcomes that we would like to see in terms of reducing insecurity and improving access to justice in partnered countries. SSR is not a tool to be used in isolation; there are many others. Flexibility and an iterative process are extremely important. Looking at desired outcomes, rather than saying “we are doing a security sector reform programme”, would be a helpful start.

“Whose security are you concerned about?”
Q&A

The Q&A session highlighted:

- The gap between what is beginning to emerge in SSR doctrine and what is delivered in the field by thousands and thousands of US military personnel. Who is going to be delivering this support over the next 5-10 years?

- The role of non-OECD countries, particularly in Africa, where they are impacting on the OECD’s standards of governance reform and, some would argue, undermining them, especially insofar as SSR is a subset of government reform.

- The tension between practice in the field and headquarters – how can the ‘intelligent design’ approach be reconciled with donors’ monitoring requirements and needs to measure output?

- The instances where SSR programmes are working successfully in the field through joined-up working across donors’ government departments.

- How to deal with the elites with whom donors invariably deal in SSR programmes; how to broach programmes which affect elites’ self-interests and which necessitate different and pragmatic approaches.

“I think non-OECD countries’ promotion of justice and security will increasingly trump anything we do … when Angola decides that they want to reform the police of the DRC and the DRC wants Angolans to do it or the military, that’s where it is going to happen.”
The starting point for the session was provided by the following questions:

- How can the EITI, CoST and MeTA feed into broader initiatives to stimulate greater openness and sustainable development?
- How is it possible to develop a genuine multi-stakeholder approach to more recent programmes that, given their more advanced starting points, may evolve less organically?
- How are we going to measure the impact of these initiatives? How will we judge if they have been worthwhile?
Introducing the EITI, CoST and MeTA

Danny Graymore began his presentation by noting that all three initiatives have the potential to have a major impact on global poverty by improving governance. They are country driven activities and ones that push the boundaries by establishing unconventional relationships to tackle complex issues. Prime Minister Gordon Brown has emphasised that we are in danger of missing the millennium development goals (MDGs) not through a lack of resources or effort, because we have not managed to crack the issue of working properly together.

The perfect storm

Danny gave an overview of the EITI, explaining that it arose from a perfect storm of many factors coming together at the right time in the right way. Academic research had for years shown that many developing countries suffer from a ‘resource curse’ which provided a base for the initiative.

An effective advocacy network driven by the Publish What You Pay coalition made a strong case for why the resource curse undermined development objectives, and engaged successfully with business and the private sector. This led to a clear recognition on the part of investors that a failure to tackle poor governance and corruption led to higher costs for business.

There are now 23 countries signed up to the EITI and the initiative is supported by most oil, gas and mining companies.

You need to be committed – companies, governments and others – and be prepared to see how these initiatives bear fruit.

Corruption in the health and construction sectors

The EITI has maintained its pace which led to increased pressure to apply the principles of the initiative to other sectors. The starting point for this was those sectors considered to be most corrupt. Health and construction immediately became obvious candidates.

In the health sector, there are enormous risks throughout the pharmaceutical supply chain that are only exacerbated by opacity and inefficiency in poor governments. Low quality counterfeit drugs leak into the system, the wrong drugs are purchased in the first place and illegitimate price mark-ups or tariffs often exist.

Recent studies have shown that corruption in public construction contracts is widespread, with bribes accounting for 10% or more of the contract price. Poor construction means poor quality roads which prevent people from getting to market and leads to publicly funded schools that do not withstand earthquakes, as was recently witnessed in China.

DFID set about working with a range of institutions to develop a model based on the EITI multi-stakeholder approach over a two year consultation process.

Multi-stakeholder initiatives (MSIs) in action

Richard Calland emphasised that MSIs come in all shapes and sizes but the core ingredients are trust and the ability to overcome pre-existing positions and ideologies in order to look afresh at a problem and come up with new solutions.

Contrasting MeTA and the EITI

The objectives of the EITI were absolutely clear: to compare payments and revenues in countries where the extractive industries are operating. This is a linear enquiry. With MeTA, the situation is far more complex, giving greater potential for uncertainty. A key issue for MeTA is to focus on particular aspects to the supply chain, for example, so that everyone understands its purpose and scope.

There should not be a ‘one size fits all’ approach – the initiatives must have some elasticity otherwise the local participants will despair.

The power game

What MSIs do best is change the power game. They change power relations within different sectors because if you get the process right, you not only bring to the table people who would not otherwise be at the table, but you create a level of equality amongst them. In the sectors in which the EITI, CoST and MeTA are operating, private sector power dwarfs that of other social actors which the private sector may choose to ignore. It is therefore crucial to establish a genuine MSI.

Representation and credibility of MSIs

One of the most important issues is how to get representation right when you form an MSI? How do you ensure the people involved are not bogus or there as Trojan horses? How do make sure they are not involved simply because they want to find employment with one or other of the sectors? The driving principle of MSIs should be one of finding a consistent process which has clear objectives and rules.

Conference summary

Discussion panel summaries
The way ahead

All MSIs are likely to encounter challenges around language and culture, but a consistent process and clear rules of the game will enable relationship building across different borders. However, throughout the process you must not lose sight of the fact that greater transparency provides information which can be used by people to advance and protect their rights and their interests.

Azerbaijan: An EITI success story

Ingilab Ahmadov gave an overview of the EITI’s development and focused specifically on the validation context. He explained that the purpose of validation is to make sure that EITI countries are compliant with the principles and processes established by the initiative. Validation will reveal which countries are ‘doing what they say they are doing’. He concluded that this is a very important point to arrive at for the initiative.

In Azerbaijan, a key issue has been that of disaggregated reporting. The purpose of this is to paint a clear picture of each company’s direct contribution to the Azeri economy. Some extractive companies are resistant to this approach on the grounds that it will compromise their commercial interests but others, such as the national oil company, have agreed under certain conditions.

The biggest achievements for Azerbaijan are having regular reporting and encouraging all 25 extractive industries operating in the country to join the EITI. There are now 133 civil society group representatives involved. However, there are also concerns. There is a real need for greater capacity building of these civil society groups. There is not yet any concrete evidence of the links between the EITI and improved financial management and good governance. The focus of the EITI is also very narrow which does not fully solve the problem it seeks to address. There is a larger problem of how to manage, use and spend the finances generated by the extractive industries.
The investor perspective

Robert Barrington began his presentation by setting out the basic assumptions that are at the root of the investor perspective. There should be a common interest between a company and a shareholder. At a basic level, this common interest is a financial one. It is also true that shareholders have an incredibly strong influence. But it is important to remember that companies are not interested in corporate responsibility but making money. Therefore, the way in which investors view transparency initiatives is: if the pharmaceutical industry becomes more transparent, will I make more money?

There are two roles investors can play in these initiatives. The first is that they can encourage companies to participate in the first place. The second is that once companies participate, they can help hold them to account, making sure their commitment is genuine.

They can also act as a broker between the different interest groups, as an honest third party.

Investors may put out a joint statement or set up a group on a particular issue and therefore play a public role. However, critical investor involvement is actually private and behind the scenes, which characterises the way the City works in general. Through private meetings, investors can embarrass CEOs into making commitments.

Whilst investors can be involved in these initiatives, there is limited capacity for them to participate in too many. It is also still unclear whether it is a success for investors to be involved in EITI and MeTA. Whilst there is not yet evidence to show that there is a significant benefit to investors, it is generally thought that we would all be worse off if these initiatives did not exist. At least the odds are being stacked in favour of the companies in which investors are investing.

Shareholders are extraordinarily powerful but find it difficult to take part in joint initiatives with other parties. They are not comfortable dealing with NGOs or even government. However, there may be clear changes in a post-Lehman world. There is already much talk about financial institutions adopting longer term, lower risk user initiatives.

Key discussion points:

- Incentives for private companies to become involved in the three initiatives;
- The pros and cons of streamlining the initiatives so that they are not sector specific but rather part of a broad, cross-cutting movement to improve transparency; and
- The role of the EITI, CoST and MeTA in educating investors about the impact of corruption.
The key role of the private sector in creating sustainable economic growth, and thereby helping to reduce poverty and sustain development, is now widely accepted. As a result, governments and donors are increasingly interested in developing strategies to promote private sector development (PSD). This session examined the private sector’s practical experience of PSD strategy and its delivery, and sought to highlight areas where the development and implementation of PSD strategy could be improved.

The session was structured around discussion of five key questions:

- How should donors and governments measure the impact of their private sector development strategies?
- How can DFID create public buy-in for its private sector development strategy?
- How can DFID and other donors be more user friendly in their engagement with the private sector?
- How can donors and governments improve the delivery of their private sector strategies?
- In what areas should private sector development strategy be focused on achieve the greatest impact?

As a precursor to the main discussion, there were short presentations from three speakers.

Andy Wales of SABMiller described the company’s wide-ranging enterprise development activities, which included:

- Supporting smallholder farmers through the agriculture supply chain;
- Value chain initiatives which support local non-agricultural raw material suppliers as well as distributors and retailers of SABMiller’s products; and
- Schemes to encourage entrepreneurship in local communities.

Andy showed how SABMiller has taken a focused approach that involves:

- Giving local managers the information, capability and flexibility that they need to develop and implement initiatives;
- Designing initiatives that maximise both business benefits and socio-economic impact; and
- Learning from work in different regions, sharing tools and developing global partnerships.

It is really important to foster the idea that business knowledge within a country is a very valuable thing and almost the only way to build this is by doing it.

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It is really important to foster the idea that business knowledge within a country is a very valuable thing and almost the only way to build this is by doing it.
Tom Pedrick of Atos Consulting described his experiences in working to create an enabling environment for PSD. He highlighted the importance of competition policy, public procurement and donor coordination, and discussed a recent project where private sector telecoms and internet providers had allied with civil society organisations to lobby governments in order to remove regulatory and competition constraints in the telecoms sector and thereby improve access and reduce prices for consumers.

Lea Borkenhagen of Oxfam discussed the key themes of size, quality and locality. She stressed the importance of SMEs – which have more linkages locally, employ more poor and marginalised people and often soak up people in times of crisis in the labour market – and highlighted the importance of removing barriers to setting up small businesses and creating linkages with large companies and international markets. The role of big business was also discussed, particularly in terms of the quality of their investment in developing countries, with emphasis on the need to create incentives for multinationals to invest for the long-term and to circulate capital locally. Finally, Lea discussed the importance of recognising that one size shouldn’t be used to fit all and that we need to have different approaches to PSD in different regions.

How should donors and governments measure the impact of their private sector development strategies?

The discussion on this topic highlighted three key areas where impact could or should be measured:

- The drafting and, more importantly, implementation of commercial laws that would make licensing easier and regulation less burdensome, thereby encouraging small businesses and creating an investment climate that larger companies might want to participate in;

- Revenue increases, as an effective private sector development strategy will translate into increased tax revenues from businesses; and

- Increased levels of employment, which has the added bonus in conflict-affected areas of giving young men an alternative occupation.

It was also noted that quantifying outputs of PSD initiatives was often less straightforward than in other areas as the vital ingredient of ‘building business knowledge’ was essentially intangible.

How can DFID and other donors be more user friendly in their engagement with the private sector?

The discussion of this topic started with a challenge: should DFID try to be all things to all people, or should it recognise that it has core skills in some areas and not in others? Therefore one response to the question was that DFID needs to decide if it wants to specialise in the area of PSD. If DFID does want to specialise in this area then it needs to integrate the idea of growth into everything that it does, for example by considering projects’ PSD impact in the same way that it considers their environmental impact. It was also suggested that if DFID really wants to engage with the private sector, it needs to have people in its organisation who have private sector experience.

Another focus of the discussion was the importance of finding out what the private sector wants from DFID: otherwise it will be hard to know how best to engage with it. Moreover, the private sector is not a monolithic structure, so what the private sector expects from DFID will vary according to size, location and so on.

It is a lot better to employ a young man by giving him a shovel than by giving him access to a gun.

"
How can donors and governments improve the delivery of their private sector strategies?

One of the key points emerging from the discussion of this question was the importance of greater coherence between different parts of DFID: businesses often report that when they talk to DFID in London they get different messages than when they talk to DFID in country offices. As a result, there was felt to be a need to mainstream private sector strategies across the organisation so that there is a consistent message.

Other key issues were the importance of taking an inclusive approach to a wide range of stakeholders, and of growing local expertise and local capability in order to ensure greater continuity in PSD delivery.

“... If families do not have income in their pockets they are not going to send their children to school.”
In what areas should private sector development strategy be focused on achieve the greatest impact?

The discussion highlighted the difficulty of deciding between industry-sector specific initiatives or dealing with more generic national issues, but concluded that in the interests of fairness and equity donors should generally focus on national strategies that embraced all industries.

Key areas where it was felt that PSD strategy should be focused included:

• Support for chambers of commerce and similar organisations which provided training and general support to local businesses;

• Secondment of people with private sector experience into government, and vice versa, accompanied by an effort to demystify the language of government; and

• Public-private partnerships where everyone has a stake in the success of the project, and which recent experience in a number of countries shows can succeed when there is a strong framework in place.

The reach of PSD strategy was also discussed, highlighting the difficulty of engaging the informal sector, many of whom were women, and the implications that this had for the promotion of equitable growth.

DFID’s position on private sector development

The session concluded with a presentation by Mavis Owusu-Gyamfi of DFID, who outlined the key features of DFID’s PSD strategy and addressed a number of the points raised in the previous discussion.

DFID is clear that inclusive growth is the best way to get people out of poverty, that economic growth is driven by the private sector, and that for a vibrant private sector to exist it needs a conducive environment in which to operate. That environment can only be created by an effective government, a fair and efficient market and strong human development in the country. Unfortunately there is a tendency for governments to squeeze their emerging private sectors for revenue, thereby restricting their growth, so the challenge is to increase the pace of reform so that governments’ revenue can increase without destroying the base they have right now. In meeting this challenge DFID’s PSD framework has three objectives:

• To work with business to support sustainable development;

• To work with governments and other international agencies to promote inclusive market development; and

• To improve research and knowledge management in DFID globally.

“Partnership is probably the most abused word in the English language but nonetheless it is important in PSD.”
There is an increasing number of funds being established by donors and other organisations that seek to address specific development challenges in a targeted and efficient way. These funds have a range of sources of finance, from national governments, donor agencies, philanthropic foundations, to private capital. They also have a range of applications of finance, from funding service delivery and government priorities and responsibilities, to providing risk capital for commercial investments.

This session explored some common issues that arise when managing such targeted funding instruments including how to:

- Apply a commercial approach where market signals may be weak;
- Avoid ‘crowding out’ private capital and distorting markets;
- Leverage business to manage implement funds but preserve the public policy objective;
- Support capacity development in the public sector to manage service delivery;
- Monitor and assess effectiveness and impact; and
- Utilise funds to pool resources and help simplify aid architecture.

At the micro level it is fairly easy to communicate development impact. At the macro level there are also familiar indicators such as taxes paid, and at the societal level there are also well-understood impacts. The problem comes when an institution or fund manager sets itself up as having a choice to make.
Market development funds and service delivery funds

The panel briefly introduced the wide range of funds that they are involved with followed by an introductory presentation grouping these funds into two broad categories.

Funds that support market development

These can be further divided into funds that directly transact in markets, and funds that facilitate more effective private sector participation in markets.

Funds that support service delivery

These include a wide range of funds working with a combination of government, civil society and the private sector both in the management of funds and the delivery of the services that are funded.

Some of the funds represented include:

- The Emerging Africa Infrastructure Fund, providing long term (15 year) debt for infrastructure projects in Sub-Saharan Africa;
- Private equity funds managed by Aureos, investing in the $2 – $10 million range in Africa and Asia;
- A range of DFID private sector challenge funds, supporting financial deepening, smallholder and the informal sector development and market access, supply chain partnerships, and investments in the home that create additional income earning opportunities;
- The German Public Private Partnership facility, co-funding private sector led development projects that leverage the capacity and core business expertise of the private sector;
- The Global Fund, an international financing institution investing to fight AIDS Tuberculosis and Malaria; and
- DFID's Health Fund in Liberia, supporting the Ministry of Health to manage and monitor a targeted fund.

Addressing market failure

A range of issues were raised in relation to the market failure and market development funds:

- How to set the right price with no market signals;
- At what stage to exit the market;
- How to avoid crowding out private sector providers; and
- When to facilitate others to enter the market, rather than transact in the market directly.

The Emerging African Infrastructure Fund was set up to address market failure – commercial banks were not willing to fund long term infrastructure. We have leveraged our funds with four times the funding from commercial banks, but increasingly we are under pressure to show outputs: ‘How many people did you connect to electricity today?’

Demonstrating investments can be profitable

Some infrastructure such as power plants remains difficult to finance through the market. There is a role for donors to support market provision through initiatives such as the Emerging Africa Infrastructure Fund, which lends for long term infrastructure projects in Sub-Saharan Africa where there is no existing finance. The objective is to demonstrate to commercial banks that such lending can be profitable.

Mobile telephony is a good example where development finance institutions provided finance for early investment, but now mobile phone companies can raise funds through the market and development finance institutions have exited.
Filling a gap in the market
Funds managed by Aureos address market failure for investments in the range $2 - $10 million. At this end of the market there is a lack of available finance, but also a lack of non-financial support. Aureos provide crucial value added in areas of marketing, planning, financial control and governance alongside the capital they provide that helps companies grow and evolve.

Transient support where markets do not exist
The DFID private sector challenge funds provide grants to companies to share risk in potentially commercial project. The subsidy provides an implicit market distortion but also represents the price of shifting a project from ‘almost commercial’ to ‘just commercial’. Such transient support can accelerate a process of market development and also encourage innovation.

Some practitioners felt that issues of market distortion can be overemphasised. Markets in which these funds operate are often heavily distorted or so undeveloped that no functioning market exists. Subsidy, if used appropriately, can help develop better functioning markets rather than distort existing markets.

“Funds have the potential to help address one of the issues Giles Bolton mentioned in the morning session – too many players in the aid game causing confusion.”
Getting the price right through engagement

The experience of the German Public Private Partnership facility is that close engagement with private sector partners rather than ‘selling money like sliced bread’ is the best way to avoid market distortions, over-funding or windfall profits. Such partnerships have successfully engaged the private sector in areas such as establishing common standards for agricultural supply chains which they continue to develop without further donor support.

Getting the price right through competition

The element of competition within DFID private sector challenge funds was identified as an effective mechanism to help get the price right, achieve value for money and generate the maximum ‘bang for your buck’. The use that challenge funds make of independent assessment panels allows very different projects to be compared and ranked by drawing on a wide range of expert opinion.

Sharing just enough risk with the private sector to trigger an investment remains an imprecise science, but competition based on cost benefit considerations helps bring the price down.

Market distortions in accessing donor funds

The Economic Empowerment of the Poorest Challenge Fund targets NGOs to help develop market opportunities for the poorest in Bangladesh.

Their experience is that larger NGOs with international links are better skilled in completing application forms and more successful in securing funding. Many locally based NGOs failed to secure funding despite an average cost of 50 pence per £1 disbursed for local NGOs compared with £1.40 per £1 disbursed for international NGOs.

Capacity building and exit strategies

Various issues were raised in relation to building capacity, working with government and exiting in relation to service delivery funds:

- How mechanisms included in the management of funds can ensure capacity of applicants or government partners is built; and
- How funds are aligned with national priorities and governments long term objectives.

Transfer skills and capacity to government

For many of the funds that support service delivery and work with government to direct funding to specific areas, capacity building is the overriding objective of the fund. Donors work with government during the implementation of the fund and the ‘exit strategy’ is for government to take over the management of the fund, or absorb the objectives and activities of the fund into government policies and financing activities.

Build capacity in fund recipients as well as fund managers

Capacity building is important for recipients of funding as well as government agencies that may manage funds. Many funds such as the Liberia health pool fund include specific technical assistance support for applicants.

In addition to capacity building for recipients of funding, there is also support for the government of Liberia in two areas: first, by developing the financial management capacity in government to manage the fund effectively; second, by building the technical capacity in the Ministry of Health to fulfil its role to deliver effective health services to the people of Liberia.

Work with existing government systems

The Global Fund to Fight AIDS, Tuberculosis and Malaria operates on the ‘three ones’ key principles: one national action framework, one national coordinating authority, and one national level monitoring and evaluation programme.

This ensures global fund activities are in line with government objectives and that monitoring requirements to not add additional layers of administration on government systems. Working closely with existing government systems builds capacity for government implementation and provides an exit strategy for the donor.

Monitoring and evaluation

Various issues were raised in relation to monitoring and evaluating funds, and assessing development impact:

- Should development impact be measured?
- When is market development adequate as an objective?
- How best to balance various information needs and desires?
- What are the appropriate metrics to assess impact?

Clarify is the objective

Clarity is required at the outset as to what funds are trying to achieve, and an evaluation framework established around that. There is a risk that stakeholders seek more short term development outcomes which may take focus away from broader objectives and longer term poverty impact.

Preserving policy objectives through the prism of private sector implementation is one of the key design challenges. But often there is no compromise between operating commercially and delivering strong development impact.
Success may be operating commercially
Investing profitably is an indication of success and an encouragement to others to enter the market. However there are increasing demands from stakeholders to understand the development impact of investments, but this can be difficult to assess cost-effectively or with any degree of certainty.

Large investments and poverty impact
The development impact of larger infrastructure investments on economic growth and industrial development is significant. But assessing this is a different challenge to looking at the numbers of poor people directly employed.

Issues of size and sector are relevant. For large extractive sector investments, development impact may be targeted through ‘bolt on’ social investment and local economic development programmes. However, for investments in the transport and power sectors, development impact through the core business may be easier to track. Attribution remains a complex challenge, particularly where development finance institutions are providing capital alongside many others.

Small investments and poverty impact
For smaller investment, such as those managed by Aureos, it is easier to link commercial success of investments with a strong development impact.

At the micro level, it is fairly easy to communicate impact of investments through increased jobs created or volumes traded. Issues of potential trade off between development impact and commercial return are less relevant when working with very small businesses or entrepreneurs. Development of the micro and SME sectors is a well understood and accepted approach to supporting pro-poor growth.

Monitoring market development
Monitoring at the fund level is important, as well as looking at the impact of individual investments. Many market development funds are established to do precisely that – develop the market, so monitoring the demonstration effect and the development of capital markets and the way that providers or risk finance act and operate will be important.

It is important to link monitoring at the activity/investment level with the larger objectives of the fund, and this requires balance and skill to get right.

Funds and aid architecture
Reference was made back to Giles Bolton’s talk in the morning session of the conference, where he highlighted two problems in the current aid architecture, i.e. a lack of accountability between the taxpayer sources of money and the recipients, and the proliferation of players in the aid market leading to confusion and complication for developing country governments. Funds have the potential to help address the increasingly complex aid architecture and can contribute to more effective aid coordination, if well designed and well managed.

Coordination
Issues around coordination are very different for different types of fund. For service provision funds that link to government objectives, coordination and alignment with national priorities are key issues. For market development funds that transact at commercial rates coordination may not be as critical. However, heavy subsidy by one donor or development finance institutions may hamper a more commercial approach applied by others. In such circumstances good coordination should help limit market distortions.

Joint financing
Funds provide a mechanism for joint donor financing. A number of private sector challenge funds and similar initiatives have been developed by DFID and other donors. Some jointly funded challenge funds such as the DFID led Africa Enterprise Challenge Fund are now emerging, demonstrating joint financing can be achieved.

Competition for donor funding
Funds that operate at scale such as the global fund for fight AIDS tuberculosis and malaria, global alliance for vaccines and immunisation, and advance market commitments, can often challenge the existing aid architecture.

If we embracing the notion that an element of competition helps drive performance and value for money, funds can then ‘compete’ for further support based on their performance to date. Those funds and approaches that are deemed more effective will secure more donor funding, helping drive a more coordinated approach.

However, concern was also expressed about bilateral donors applying funding through inefficient multilateral routes. DFID is well respected in the donor sector and applies approaches to development that are often cutting edge. Yet this edge can be blunted when funds are channelled through multilateral partners.
“If we accept the principle of competition as being a good driver for performance and value for money then funds can help simplify the aid architecture – there are new players like the Gates Foundation who could spend here or could spend there, and if a fund can show strong management and good performance, it can attract such funding.”
This session explored some of the challenges and opportunities developing countries face in a context of a changing climate. The panel shared experience of the impacts of climate related markets incentives, regulation, technology transfers and their direct and indirect impacts on communities and vulnerable groups. Particular emphasis was placed on real examples of how communities in developing countries have benefitted from the transition to clean energy.

The session stressed the complexity and scale of the problem and that effective regulation is vital in turning climate change from a challenge to an opportunity. The private sector alone cannot be expected to address all the relevant issues as the market signals are not sufficient.

The current financial crisis presents an opportunity to change the way business is done and the role of public oversight in it. This will involve the redeployment of capital on a better risk basis taking account of the cost of carbon to create the change needed to stabilise our climate. If we do not we will have lost an opportunity and we will lock ourselves in high carbon economic development for the next 30 to 40 years.

The main question explored in this session was how climate change affects the ‘permanent’ and ‘transient’ poor and existing and possible scenarios for them to benefit from efforts to contain climate change.

The session analysed the respective roles of the public and private sector, the limits to what the two have been achieving and can do separately and the potential for a more coordinated approach to climate-friendly poverty reduction.

The panel also explored examples of local and global solutions to climate friendly poverty reduction and the links between the two.
Pro-poor climate change adaptation and mitigation

Regulation to ensure action

Regulation is the only mechanism to ensure the needed sizeable and comprehensive action. The US and Europe have experience in good and bad regulation that the rest of the world can take note from. An example is the Clean Development Mechanism (CDM) market that placed a premium on reducing carbon emissions. A less positive example is the US bio-fuels regulation, often seen as a direct cause of food prices increases and shortages in the developing world.

To benefit the poor, the cost of the increasingly complex set of rules and laws applicable to business needs to be carefully managed. Businesses must not be suffocating due to prohibitive climate related costs. The Ashden award winners and numerous participants in the JP Morgan environmental markets prove that business can profit from climate friendly activities. Some may need initial support with the transition and investment. This is where initiatives such as carbon credits could help.

Businesses in Africa need support in accessing the opportunities CDMs and carbon credits offer. Currently they are practically inactive in such market mechanisms.

Climate change and poverty

Three challenges were identified that impact in particular on the poor – climate change effects (as drought and floods), access to affordable energy and the current economic crisis. These challenges increase the pressure on both the ‘permanent’ and ‘transient’ poor, and can push some transient poor into the pool of permanent poor from which they are not able to recover.

The Ashden Award winners provide numerous examples of how the challenges could be resolved in a beneficial to the poor manner. Examples across the different types of sustainable energy sources – solar, hydro, biogas and others – illustrate the power of sustainable entrepreneurial solutions.

Biogas, in particular, has proven beneficial to local communities under the SKG Sangha model as it provides clean, affordable and accessible energy, a natural and potent fertiliser, and gender equality in access to its benefits.

The problem is not the cost of clean technological solutions and enterprises but their unequal distribution among developing countries. While clean stove technology could cost as low as £2 per unit, this and other sustainable energy initiatives tend to be clustered in India. There is also some activity in East Africa but it is insufficient to reach the poor and vulnerable.

Despite local entrepreneurs and big international companies moving into the business of local and affordable clean energy, there are still major discrepancies in countries’ regulations.

““The improved charcoal stove (£2) has an estimated annual emission reduction of 0.4 tons of carbon… The really fantastic story is biogas, where a system costing less than £200 can save four tons of carbon per household per year.””

““The overall carbon market last year yielded about $60 million in revenue of which up to $10 million went to countries… Carbon markets have incentivised the transformation in developing countries as part of the clean development mechanism… a combination of public finance and public expenditure moving with a price signal. The unfortunate part of this price signal is that effectively it dies at the end of 2012.””
The energy issue

Projections for energy demand suggest a doubling of global demand by 2050—yet we need to halve carbon emissions at the same date.

Energy companies offer a range of responses to this increasing demand, top of the list still being energy efficiency. Carbon capture and storage is also an important area of research, and there is recognition that partnership approaches will be necessary to address future energy challenges.

While such carbon management technologies are beneficial in limiting carbon, they do not benefit the poor and vulnerable as directly and comprehensively as the provision of local renewable energy. This is another area where regulation can contribute significantly.

Sustainable and pro-poor energy

Examples of scalable sustainable energy initiatives were presented and analysed as follows:

- Solar energy: ‘software’ and business models are as important as hardware; linking solar projects to microfinance benefits the poor;
- Fuel efficient, clean stoves are efficient and reduce risk of inhalation of toxic fumes during cooking; commercially viable models have been developed;
- Biogas: a business model that enables the poor to generate returns and benefit fully from the energy and fertiliser produced biogas is in implementation and has been scaled up successfully;
- Local business models for micro-hydro schemes exist and have been commercially successful in Brazil and elsewhere; and
- Pumping technologies: the link between water and energy is of particular relevance for the poor and treadle pumps have had a significant impact on irrigation and access to affordable energy for farmers.

These provide a range of adaptable poor and climate friendly technologies for affordable and accessible energy. Their scaling up and replication could be an effective application of finance for donors and carbon funding.

Discussion questions

How can technology transfer be scaled up?

One opportunity for scale up is the desire from the private sector to support carbon reduction projects and become carbon neutral. Some of the Ashden Award winners, including treadle pumps and efficient cooking stoves, have been scaled up commercially. In another example, for every new car bought from Land Rover, the first 40,000 miles are offset by various carbon credits through a range of projects that Land Rover supports.

There are a number of issues within technology transfers, one being intellectual property. Where public funds are involved, there is a strong rationale for technology to be shared. As the private sector is investing significantly in research and development, investment needs to be properly rewarded. Compulsory licensing and stricter enforcement of intellectual property is one solution.

How can funding be raised for the level of investment required?

Cap and trade schemes provide the potential for substantial financing flows between developed and developing countries, but current levels of transfer are still very low. However, particularly if the United States joins, volumes could quadruple (projected to reach one trillion dollars annually).

The public sector is also likely to step up with significant funding. There is a particular opportunity with current economic stimulus packages to apply public sector funding to help mitigate against climate change, with investments in efficient construction insulation, for example.

Why countries in Africa do not access carbon finance more?

Currently less than 2% of CDM projects are in Africa. Yet the need there is greatest. There are a number of reasons why Africa is less successful in securing finance through such mechanisms.

- Constraints in access to information and capacity;
- Existing financing mechanisms lend themselves more to larger one-off projects – it is easier to absorb and manage transaction costs;
- It is more difficult to bundle a number of smaller projects together in Africa, due to complexities within legal systems and the general scarcity of such projects; and
- Afforestation and reforestation have been excluded from the European emissions trading system.

“The reality is that the resource consumption models that we in Europe, North America and the developed world have enjoyed will simply not be sustainable in any sense economically, socially or environmentally when we get to 10 billion in 2050.”
How to address the expanding transport demands in developing countries?

The demand for cars and other transport cannot be limited. Electric cars are likely to be a more realistic immediate solution. In the long term renewables will have to be a large part of the answer.

Can technologies enable developing countries to leapfrog stages in the development cycle?

There may be opportunities to leapfrog some stages in development, much as India leapfrogged landlines for mobiles.

Markets alone are not enough of a driver for change in carbon technologies. There is also a need for consistent regulation. For example, the motor industry could be forewarned that in x years, stricter regulations will be introduced that will require alternative power sources or other technologies. This would allow the private sector time to innovate and restructure commercially.

Is there a role for subsidies and taxes in a cap and trade system?

There is a general consensus that avoiding excessive use of taxes and subsidies keeps the trading model pure. This then allows markets to drive an efficient response.

However, when it comes to stimulating investments in new technologies, in particular carbon capture and storage, there is a rationale for subsidy to trigger technological development given the scale of investment required.

What is the role of the private sector in adaptation?

For countries with struggling economies and low energy access, economic development is the immediate priority. Some areas of adaptation such as water storage and irrigation may be areas where the private sector can play a significant role profitably, while supporting economic development. This demands a supportive regulatory environment.

Concluding comments

Complex adaptation issues such as migration and mitigation issues, as encouraging clean local energy, demand decisive government action, as well as effective policies to stimulate an appropriate response from the markets. There are good examples from India and East Africa which can help us design actions that address climate change and poverty simultaneously.

There may have been ideas; industry may have been looking to do this, or various pressure groups may be asking for it, but it is regulation that cements that change.
Contacts

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Paul Cleal
+44 (0) 20 7804 5603
paul.cleal@uk.pwc.com

Luc Moens
+44 (0) 20 7804 6966
luc.moens@uk.pwc.com

Chris Frost
+44 (0) 20 7804 2556
chris.frost@uk.pwc.com