SPECIAL REPORT

Investing in Development Rethinking businesses' international strategy with multilateral agencies

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1. NEW PERSPECTIVES FOR THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT

As is evident from the big events and summits celebrated, 2015 is a decisive year for international development. Amongst the most important events we must highlight the Addis Abeba Action Agenda about the UN Financing for Development (last July), and the UN General Assembly in September (in New York) where the Millennium Goals will be debated. Such goals are key to continue the previous work, which is far from being finished. This year, the new design of the global agenda, which will guide the efforts of the international community (the UN, International Financial Institutions, NGOs, universities and companies) on development, is at stake. Yes, companies are included. Development is not a distant issue from business anymore; what is more, companies are currently key in the international agenda. Why?

The private sector promotes innovation and technology transfer, improves productivity and competitiveness, boosts the qualification of the labor force and creates employment. According to the calculations of the *World Development Report (2005)* of the World Bank, 90 % jobs in developing countries are created by the private sector.[1] In 2030[2] and according to a report carried out by McKinsey & Company, the demand of resources of the global middle class will have increased between 30 % and 80 %. In order to meet this demand, the growth of productivity is key and therefore, the role of the private sector is essential. Its role does not only regard the economic production. The public sector, which has less financial resources to face numerous and complex social challenges, needs to work together with the private sector to provide goods and social services.

Regarding the international financial flows, the importance of the private sector is already evident. When compared to the official development assistance, the FDI (Foreign Direct Investment) has clearly grown over the past decades. The FDI has now become the main external source of financial assistance in developing and emerging countries[3]. In 2012, there was a decrease on the FDI growth. However, in 2013 it increased by 9 % (reaching 1.45 trillion US$) and the forecast shows further increases for the next

[1] World Bank (2005) "World Development Report. A Better Investment Climate for Everyone"

[2] Richard Dobbs et al., (2012) "Mobilizing for a Resource Revolution", McKinsey & Company.

[3] Iliana Olivié and Aitor Pérez (2015) "Foreign Direct Investment and Development", from *Mobilizing resources and means of support to accomplish the Development Agenda Post-2015*. Working papers, Spanish Cooperation.

"The IFIs are more than just financial institutions"

years[4]. These tendencies show the potential of the FDI and its possibilities (together with other resources) to meet the goals of the future agenda for development. The growth of the world economy together with the increase on the flow of private resources, have relegated to a second place the International Finance Institutions (IFIs) as main investors for financial development.

Although the IFIs have lost their importance on developing countries regarding financial flows, they still remain as one of the main players as center of learning and knowledge exchange –thoughts, analysis and policy advice–, as well as real trends and connection hubs –connecting with governmental, business and social actors– and as resources mobilizers. In other words, the IFIs are more than just financial institutions, which give the chance to companies to rethink the way they approach their relationships with them. A more strategic approach to these forums and their main actors could offer medium and long-term benefits not only for companies but also for their impact on development.

2. WHAT ARE THE INTERNATIONAL FINANCE INSTITUTIONS (IFIS)?

The IFIs are public entities that aim to achieve an equal economic development in those countries where they are present. They mainly finance governments although over the past years they have also promoted direct financing for companies working on borrowing countries. These companies have a direct impact on the country's development by investing on innovation and technology, boosting production and creating jobs.

Amongst the IFIs, we must highlight the World Bank, which gathers 188 nations and is present in 173 countries, and the regional institutions, which are economic, cultural and political interest hubs in the regions where they are working. The most famous ones are the Inter-American Development Bank (IDB), the African Development Bank, the Asian Development Bank and the European Bank for Reconstruction and Development. Nevertheless, over the past years there have appeared some new IFIs promoted by emerging countries with a great finance capacity and aiming to lead global trends. Some examples of these new IFIs are: the New Development Bank (NDB) created by the BRICs (some developing countries) and based in Shanghai; and the Asian Infrastructure Investment Bank (AIIB) which counts amongst its members several developing countries and in which China plays an important role as shareholder.

On a daily basis, the IFIs hold a constant dialogue with

[4] UNCTAD (2014) "World Investment Report, 2014. Investing in the SDGs: An action plan"

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borrowing governments. In order to hold this dialogue there exist some planning tools created to guarantee the strategic coherence of the projects. For example, both the IDB and the World Bank, have country strategies where they set the priority goals of investment for the following 4 or 5 years. These country strategies are usually aligned in time with the beginning of new governments. There is an essential ally needed to carry out all the strategies and to achieve development in the borrowing countries: the private sector. There are two actors which eventually carry out big part of the IFIs financial activities: business –big, small or medium size–, and consultants –individual or associated–. For this reason, the relationship between financial institutions and the business world is essential to offer the best solutions for the complex challenges developing countries have to face in different areas such as health, education, energy, water and sanitation or transportation.

IFIS' ACTION LINES AND THE BUSINESS OPPORTUNITY

In 2014, the World Bank financed $65,579 million and in Latin America, the IDB financed $13,800 million. There is no doubt this financing offers a direct and interesting business opportunity for companies. Every year, the IDB creates between 20,000 and 30,000 job opportunities for companies and consultancies.

There are three main areas for business opportunities regarding the IFIs:

- **Corporate acquisitions:** In all their offices over the world, IFIs and organizations get a wide variety of goods and services for their daily activities. These acquisition opportunities usually require to be registered as a services provider. Through the institution's website, contacts are published and the acquisition process is carried out by a competitive bid.

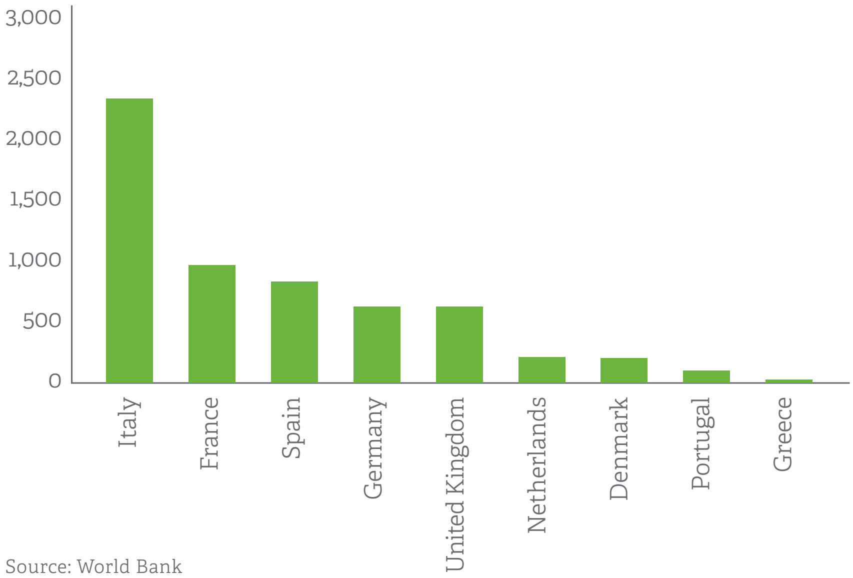
- **Operational acquisitions:** This area is usually one of the most demanded by companies. A big percentage of the IFIs investment is through loans and credits, which finance a wide variety of activities that create the physical and social infrastructure required to eliminate poverty and achieve a sustainable development. All these activities need goods, works, teams and consultancy services financed by the receptor government with these projects. In contrast with corporate acquisitions, operational acquisitions are carried out directly by the country receiving the loan. In other words, the IFIs simply monitor the project and guarantee compliance with the agreements

"The IFIs simply monitor the project and guarantee compliance with the agreements between the IFIs and the country"

between the IFIs and the country, and the bidding process is carried out directly by the government.

- **Projects' financing by the private sector:** IFIs not only finance governments or public entities through loans but also through direct financing to the private sector. Several IFIs have created specific institutions to finance the private sector. Some of these institutions are the IFC (International Finance Corporation) of the World Bank, or the IIC (Inter-American Investment Corporation) from IDB Financing is made through different instruments: debt, equity or investment guarantees against political risk, etc. The added value of IFIs in these areas comes from different aspects as for example: from its financing to entities struggling to access financing; the provision of technical support services and its consultancy services to guarantee the viability of some projects; the creation of a save framework to attract other financial entities, its demonstration of viability in new or difficult areas boosting the opening of new markets or from enabling business (networking) with other entities, IFIs, governments, etc.

Charter 1. Total amount of dollars coming from contracts (2007-2010)



Source: World Bank

3. THE BIG CHALLENGE: PLANNING A STRATEGIC RELATIONSHIP BEYOND SIGNING CONTRACTS

Many companies have an active role on bidding processes of some of the main IFIs. According to the statistics offered at the World Bank[5], website, during the worst period of the economic crisis, Spain has been one of the European countries where providers have signed more contracts concerning projects of the World Bank.

Figures show that Spanish companies have been able to compete internationally offering competitive solutions in different areas. Beyond the services' quality and competitiveness, there are some key elements needed to understand the great

[5] http://go.worldbank.org/FAOKR3OTW0

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performance of the Spanish companies. For example, the office of multilateral organisms of the Spanish Embassy in Washington has played an essential role by channeling these opportunities. This great performance shows that a constant contact an interaction is essential. In fact, many companies have decided to establish a permanent office in Washington, which is key to understand the dynamics and needs of different countries since Washington is also a key entry point to some regions such as Latin America.

As it can be seen in the acquisitions website of the World Bank[6], another key point to increase the chances to succeed is the contact with the agencies responsible for the implementation of the projects (agencies created by national governments to manage the loans). However, we must bear in mind that the specialists of the projects (in both, IFIs and the agencies responsible for the projects implementation) could be overloaded with "commercial" visits of companies' representatives. It is important that we understand the multilateral context as an opportunity for long-term investments. Such institutions work to offer real, new and sustainable solutions for the most urgent challenges of populations with a high poverty rate. Those companies willing to succeed in this area need to know in deep the problems governments are facing and offer concrete solutions backed with empirical evidences and case studies. On the other hand, contacting the companies is very important in order to know the last innovations and approach the market's trends.

However, these business opportunities not only concern contracts and acquisitions with IFIs. Quite the opposite. They are just a small part of the wide role companies can play on development working together with the IFIs, which can also be strategic partners to carry out projects in emergent nations. According to a survey on the aspects companies most valued regarding their relationship with the IFIs, several business mentioned: counselling on social and environmental issues and the global and technical knowledge of the IFIs stuff. They also mentioned their capacity to channel additional resources for ambitious projects as well as the seal of quality guaranteed by the presence of an IFI[7] in a project.

Moreover, their constant contact with governments and international actors from different sectors, makes them platforms that offer information concerning the newest investment trends, support investments of complex financial

[6] http://go.worldbank.org/84RK0WY3S0

[7] IFC (2011) "International Financial Institutions and Development through the Private Sector¨

"Development is not possible without the private sector"

and operational structures, channel the attraction of financial resources of third parties –a good example would be the China Co-Financing Fund from the IDB which has $2,000 million to co-finance private and public projects– and promote innovations and solutions at a regional level acting as a learning and knowledge exchange center.

These business opportunities with the IFIs imply a higher level of dialogue and interaction. Some companies have shown high competitiveness regarding acquisitions. Some can follow this path. However, in order to increase the possibilities of an economy which becomes every day more global, companies should start to think, in a more strategic way, about their role on development also including their relationship with IFIs. Therefore, they should increase their interaction with the IFIs, understand the wide variety of aspects needed to enter new markets or have a more active role on those forums where key points for the future are being discussed. There is no doubt, those developing economies are the ones with a highest growing potential for the next years. At the same time, development is not possible without the private sector. In the end, all the conditions are set, but: are companies willing to accept the challenge?

SUMMARY

- In order to provide goods and public services, the public sector needs to work together with the private one.

- IFIs are not just financial institutions, and that's precisely the reason why they represent a key opportunity for companies to rethink about their relationship with them.

- A more strategic approach to these forums and their main actors could offer medium and long-term benefits for companies and their impact on development

- Companies are essential to offer better solutions for the complex challenges developing countries are facing regarding difficult areas such as health, education, energy, water and sanitation or transportation.

- Spain has been one of the European countries where providers have signed more contracts concerning projects of the World Bank.

- It is important that we understand the multilateral context as an environment of opportunities for long-term investments.

*__Disclaimer:__ The findings, interpretations and conclusions of the present article are those of the authors and do not necessarily reflect the opinions of the World Bank Group, the Inter-American Developing Bank or its CEOs or the governments they represent.

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