Global Monitoring Report 2009
Mobilizing the Private Sector for the MDGs
Concept Note

I. Thematic Focus and Overview

The Global Monitoring Report (GMR), prepared jointly by the World Bank and the IMF, provides an annual assessment of progress and priorities in the global development agenda, with a focus on the Millennium Development Goals (MDGs). Each year’s report also has a thematic focus—an aspect of the development agenda for which it provides a more in-depth assessment. The report, prepared in collaboration with regional development banks and other multilateral partners, serves as the main document supporting the agenda of the Spring Development Committee meeting. It is also published and disseminated widely.

As a report mandated by the Development Committee to assess progress on the development agenda related to the achievement of the MDGs, covering the policies and actions of all key actors (developing countries, developed countries, international financial institutions), the GMR has an inherently broad agenda to cover. Within that broad agenda, each report attempts to exercise appropriate selectivity, including through the selection of a special theme. As a monitoring rather than a research report, the GMR relies primarily on a synthesis of current material, drawing on recent and ongoing work at the Bank and the Fund, partner institutions, and outside sources.

As the year 2008 marked the halfway point toward the MDG target year of 2015, the 2008 GMR provided a comprehensive assessment of progress toward the MDGs and the related policy agenda. The update on the MDGs in the 2009 GMR will therefore be briefer. Particular attention will be paid to the implications for the MDGs of major recent developments, including the rise in food and energy prices and the crisis in financial markets and the associated slowdown in the global economy. The overall report also will be shorter than the 2008 report.

As communicated to the Boards of the Bank and the Fund in a July note\(^1\), the special theme of the 2009 GMR, that much of the report will focus on, will be the role of the private sector in the achievement of the MDGs. The role of the private sector in development has received much emphasis in discussions of past GMRs at the Development Committee and in the Bank and Fund Boards. Private sector–led growth was a focal point of the Hokkaido G8 Summit’s declaration on Development and Africa, which was underpinned by the “G8 Action Plan for Private Sector Led Growth in Africa: Improving the Investment Climate and Strengthening the Financial Sector” that was issued earlier at the conclusion of the G8 Finance Ministers’ meeting in Osaka. The “G8 Action Plan” also calls on the Bank, working with partners, to study investment climate

reform in Africa and report back to the next G8 Summit Finance Ministers' meeting. A GMR focus on the private sector will thus be a timely follow-up to these discussions.

A strong private sector is pivotal to the achievement of the MDGs. Poverty reduction depends on sustained economic growth and in turn on a dynamic private sector. Tackling hunger and malnutrition requires fostering a strong private supply response in agriculture. The private sector also plays a key role in the achievement of human development MDGs—in health and education. Globalization is increasing the premium on private sector development, as a vibrant private sector is essential for countries to take advantage of the opportunities globalization offers in trade, finance, and technology. Private capital flows, remittances, as well as aid to developing countries from private donors (NGOs, foundations, corporations) are increasing. There are continuing innovations in the role of the private sector, and in public-private partnerships, in infrastructure development, the provision of human development services, and more recently in environmental management and responses to climate change. The range of private sector actors is becoming more diverse, spanning for-profit businesses, non-profit organizations, hybrid entities and programs such as corporate social investments, and a variety of partnerships with the public sector. International financial institutions also are stepping up their efforts and devising innovative ways to support private sector development, e.g., the increased engagement of the IFC in low-income countries and Africa and closer IDA-IFC collaboration at the World Bank.

The report will take stock of progress countries are making in strengthening their private sectors and taking advantage of these opportunities. It will review how countries are being supported in their efforts to mobilize the private sector by their development partners—bilateral partners, multilateral initiatives, international financial institutions (IFIs). It will draw implications of this assessment for the policy agenda going forward.

As in the past reports, the analysis will differentiate between categories of developing countries as appropriate—middle-income countries, low-income countries, countries in fragile situations, countries classified by region.

II. Chapter Structure and Contents

The report will include an Executive Summary and Overview that integrate and summarize the report’s contents and set out its main messages and issues for discussion. As in the past, the Executive Summary and the Overview will constitute the main paper distributed to the Development Committee, with the full report serving as a background document.

At the outset of the report, a summary assessment of progress toward the MDGs will be presented, with more detailed MDG indicators provided in an annex. This will be followed by six chapters dealing with major elements of the agenda for achievement of the development goals—economic growth, private sector development, trade, human development, financing, and the role of IFIs. The thematic focus on the role of the private sector will run through all of the chapters.
Chapter 1: Global Economic Outlook and Implications for Growth and Poverty Reduction

Economic growth is central to achieving the MDGs and related development outcomes. This chapter will assess the implications of recent economic and financial developments for growth and poverty reduction in developing countries.

Global economic outlook and growth trends. This section will provide an overview of global economic developments, with emphasis on factors that matter most for developing countries, drawing in particular on the latest analysis prepared for the IMF’s World Economic Outlook. It will review the outlook for growth in developing countries, including the impact of the slowdown in the global economy. It will assess the implications for macroeconomic policy of the rise in inflationary pressures and review trends in macroeconomic management.

Financial market crisis and implications. This section will review international financial market developments and focus on two major implications for developing countries. First, it will assess the implications for private financial flows to emerging market and other developing countries. Trends in private capital flows and remittances (size, composition, distribution across countries) will be reviewed. Second, it will discuss lessons from the financial market turmoil for prudential regulation and supervision of financial markets and institutions in emerging market and other developing countries, drawing on, among other sources, the IMF’s Global Financial Stability Report.

High food and oil prices: impact and response. This section will provide an update on food and oil prices and an assessment of the fiscal and macroeconomic impact and vulnerabilities. It will review national and international responses to the surge in prices, drawing on ongoing work at the Bank and the Fund.

Poverty outlook. The implications of the growth outlook, and of the rise in food and energy prices, for poverty trends and prospects for achievement of MDG 1 will be examined. The implications of the poverty estimates derived from the new purchasing power parities for MDG 1 will be assessed.

Private sector development as an engine of growth and poverty reduction. This section will address macroeconomic aspects of private sector development, setting the stage for a fuller discussion of private investment climate in Chapter 2.

Chapter 2: Improving the Private Investment Climate

A vigorous private sector drives job creation, productivity increases, and economic growth. A key role of government is to establish a conducive climate for private entrepreneurship and exercise appropriate regulatory oversight. To spur higher and more productive private investment, countries are taking steps to improve the enabling
environment facing businesses—firms and farmers—and increase the attractiveness of their economies for foreign investors. This chapter will assess progress and the policy agenda with respect to three key elements of the private investment climate as outlined below.

**Regulatory and institutional environment.** This section will review recent indicators and trends in business regulation and institutional framework (covering various dimensions of business entry and operations, markets, property rights, and governance) drawing on Doing Business and Enterprise Surveys and related research. It will highlight areas of progress and those needing stronger attention and address salient issues of reform design, implementation, and impact, such as paying attention to reform complementarity, capacity for enforcement, differential impact of aspects of business environment on firms of different size and degree of formality, and constraints on women's economic empowerment.

**Financial sector development.** Enterprise surveys rank lack of finance as a major barrier to private investment and growth, affecting especially small and medium enterprises. Drawing on Bank/Fund financial sector indicators/assessments, this section will present summary indicators of financial sector development, including size, access, efficiency, and stability. Many countries are improving on size but less on access and stability. Findings on what constrains financial sector development will be presented—transaction costs of small size, adverse selection, moral hazard, information asymmetries, weaknesses in the institutional environment, links with political economy. The section will conclude with implications for policy—the role of micro-finance institutions, possible differences among countries by level of development, the scope for accelerated development of the financial sector (leapfrogging) arising from new technologies and the role foreign banks can play provided institutional and political economy barriers are addressed.

**Infrastructure.** This section will cover two aspects. First, it will present cross-regional/country evidence depicting how serious a constraint a lack of infrastructure (power, transport, telecommunications, water) is on private investment and activity (in industry, agriculture), review progress being made in addressing the underlying causes of infrastructure deficiencies (lack of investment, quality issues, institutional capacity, special challenges of landlocked countries and regional projects), and look at priorities in the agenda going forward. Second, it will present indicators of private participation in provision of infrastructure, review progress countries are making in improving the regulatory and institutional environment for private participation, and highlight key issues for policy, including fiscal issues related to public-private partnerships.

**Chapter 3: Promoting Market Integration**

This chapter will link the discussion of private investment climate in Chapter 2 to international trade. Trade liberalization to improve access to international markets is important for poor countries to realize the development promise of trade. However, there is increasing evidence that a major impediment to increased participation in world trade
and diversification is behind-the-border barriers that result in high trade and transaction costs and undermine competitiveness.

Monitoring trade policy developments. This section will review recent developments in trade policies—the Doha Round, preferential trade agreements (regional, bilateral), unilateral trade policy actions. It will update the measures of trade restrictiveness reported in previous editions of the GMR—the Overall Trade Restrictiveness Index (OTRI) and related measures. It will extend the reporting on services-related trade barriers, drawing on an ongoing Bank (DEC) project to collect policy data on services—by the end of 2008, data will be available for some 75 countries.

Behind-the-border agenda and trade integration. This section will present the most recent indicators collected by the Bank and other organizations regarding the magnitude of trade and transaction costs of behind-the-border impediments and their impact on trade performance, in particular the Logistics Performance Index and Doing Business trading-across-borders indicators. It will assess the relative importance of the different policy-related disincentives for firms and farmers to expand trade activities. It will compare the effects of trade restrictions with trade costs that result from domestic regulatory regimes and bottlenecks. This analysis will draw on a project in DEC to assess the determinants of sustained export growth. It will also seek to assess the impact of the services trade policies on countries’ trade performance. The objective will be to use this analysis to identify the policy areas that have the greatest potential to increase trade volumes and draw out the implications for national trade facilitation policies as well as for international cooperation.

Chapter 4: Leveraging Private Sector Role in Human Development

This chapter will assess private sector role in health and education and the potential for increased contributions to achieving the human development MDGs. It will highlight key factors in strengthening MDG performance that are related to public and private sector roles. It will review the impact of public-private alliances in terms of coverage and quality of service delivery. The chapter will propose key focal areas for action and further analysis to enhance private sector contributions to the achievement of the MDGs.

Framework for private sector role. This section will provide a brief rationale for public and private sector roles in health and education. While the public sector’s role in the provision of human development services is central, private provision is sizable and increasing in many countries, and the public sector can form alliances with private providers (for-profit and non-profit) to increase coverage and quality. It will be shown that strategies for public action differ according to which mix of public or private financing or provision is being targeted to enhance MDG contribution.

Service delivery in health and education. This section will review the current picture with respect to private sector role in service delivery for health and education MDGs. It will present multicountry data on the composition of public and private sector roles in health and education, including specific MDG-related services such as immunization and
elementary schooling. It will cite case studies of innovative examples of public-private partnership in service delivery and present evidence of impact on key outcomes (coverage, quality, equity). The case studies will be assessed from the perspective of scalability (cost, feasibility). Examples of case studies in health include the Chiranjeevi scheme in Gujarat, India, which contracts private obstetricians to deliver services to poor women; social franchising of pharmacies/drug sellers in East Africa; and contracting of NGOs in Afghanistan and Cambodia. Examples of case studies in education include subsidies in the form of school inputs or per-pupil grants to private schools run by non-profit organizations in some African countries (e.g., Gambia and Mauritius); IFC work in Kenya that involves a risk agreement with a local bank to lend money to private schools serving low-income households; the Foundation-Assisted Schools Program in Punjab, Pakistan, that aims to improve education quality by leveraging the capacity of the mushrooming private schools (there is evidence of better education outcomes in private primary schools in rural Punjab even though public schools are staffed by better qualified teachers); and concession schools in Colombia that provide quality education to low-income and high-risk students.

The changing environment for public and private action in health and education. While a focus on service delivery is critical, the larger context of public and private sector action is changing significantly. Several areas will be discussed including: the increasing scale and influence of private funders, such as the Gates Foundation; the increasing role of private "producers of inputs" (for example, in health, pharmaceutical and medical technology companies and private educational institutions that train health workers and teachers; in education, companies such as Intel that provide software to enhance teacher performance); and the changing patterns in other sectors that affect health and education outcomes, such as water and telecommunications (cell phones, internet, media). The increasing and diverse engagement of non-government actors implies the need for continuing innovation in public-private partnerships, both at the national and global levels.

Agenda ahead. This section will draw implications for policy. The rapidly changing environment, with more and more diverse actors, presents opportunities but also risks. Government policies and programs need to engage with the new actors—not necessarily an issue of less government but of different type of government actions. The government can have different roles: finance (e.g., output-based financing), regulation, provision. How one engages is very important, in order to get the incentives/accountability right. There is also a need for more research and evaluation.

Chapter 5: Mobilizing Development Finance in a Changing Aid Landscape

The aid landscape is witnessing significant change. There are a growing number of official donors and an increasing array of financing modalities and instruments. The role of private donors is rising. This chapter will review trends in development assistance—public and private—in this changing aid landscape and assess their implications. (Note: overall private financial flows, including foreign direct investment, portfolio equity, debt flows, and remittances, will be reviewed in Chapter 1; the focus in this chapter will be on
Monitoring developments in ODA. This section will assess progress on scaling up official development assistance (ODA), including how DAC donors are doing in meeting the Gleneagles commitments to increase aid overall and to Africa and the trends in flows from new, non-DAC donors. The sectoral composition of aid flows will be reviewed from the standpoint of support to private sector development. An update will be provided on developments in debt relief. The section will assess progress on the aid effectiveness agenda. The recently adopted Accra Agenda for Action calls for making aid more predictable and transparent, strengthening country ownership, promoting the use of country systems, building more effective and inclusive partnerships, and achieving a stronger focus on development results. The issue going forward is how donors and partner countries are gearing up to translate declarations into actions.

The rising role of private donors and public-private partnerships. Private actors—NGOs, foundations, business corporations—are becoming increasingly important players in aid financing. The sizable and rising private aid flows are taking a variety of forms, such as foundation grants, contributions from religious and educational institutions, voluntary individual contributions such as (Product) RED, diaspora contributions, corporate philanthropy and social responsibility programs, and hybrid programs that combine social and business objectives (“social venture capital”). A host of public-private partnerships have emerged, such as global funds and mechanisms (e.g., Global Fund to Fight AIDS, Tuberculosis, and Malaria; Global Alliance for Vaccines and Immunizations; International Finance Facility for Immunization; Advanced Market Commitments; and solidarity levies such as on airline tickets) that combine public and private actors in innovative ways to mobilize resources for development. Private financing and public-private partnerships through the carbon market and various carbon funds will be key in mobilizing resources for the climate change agenda in developing countries. This section will present a summary picture of the scope and nature of private assistance (size of flows, mechanisms, priority areas of engagement, public-private partnerships), drawing on, among others, ongoing work at the Bank on private aid flows to Africa (AFRVP) and innovative financing (CFPVP). It will assess the potential role of rising private assistance in supporting the MDG agenda, opportunities for catalyzing and leveraging more private financing through public-private partnerships, and the challenges in making private assistance more effective in terms of its development impact.

Chapter 6: International Financial Institutions and the Private Sector

This chapter will assess how the IFIs, including the World Bank Group, other multilateral development banks (MDBs) and their private sector arms, and the IMF, are doing their part in mobilizing the private sector for the MDGs—through supporting private sector development and partnering with the private sector in innovative ways. The assessment of the World Bank Group’s role will draw on, among other sources, the ongoing
implementation review of the WBG private sector development strategy and the IFC’s forthcoming strategic roadmap paper.

**IFI and the private sector:** strategic overview. This section will provide a strategic overview of the role of IFIs in helping to mobilize the private sector for economic growth and human development and hence achievement of the MDGs.

**Assessing IFI role in mobilizing the private sector.** This will be the main section of the chapter. Following the articulation of the IFI role in mobilizing the private sector in section 1, this section will review how the IFIs are actually performing that role. This will be done in three sub-sections, each covering a major means or instrumentality of IFI actions supporting or working with the private sector:

- **Financing:** How IFIs are using their financing to mobilize the private sector—Bank lending/grants to private sector support activities (e.g., infrastructure, financial sector), cofinancing, IFC lending and equity investments and its catalytic role through supporting pioneer projects (especially in “frontier” countries and areas that so far have benefited less from private finance), innovations in closer IDA/IFC collaboration, increased IFC engagement in low-income countries and Africa, including in social sectors (e.g., IFC’s Africa Private Sector Health Program), guarantees (MIGA and others), activities of other MDBs.

- **Knowledge and Technical Services:** Analysis/metrics/policy advice to identify and address constraints to private sector growth and competitiveness in a globalized economy; technical and advisory services—such as the World Bank Group’s investment climate advisory service (FIAS) and the public-private infrastructure advisory facility (PPIAF), and the multidonor global partnership on output-based aid (GPOBA); corporate responsibility standards (such as the Equator Principles, Standards and Codes for Corporate Governance, and multistakeholder initiatives such as the Extractive Industries Transparency Initiative); relevant activities of IMF and other MDBs.

- **Partnerships:** Innovative ways in which IFIs are partnering with the private sector and private finance (in many cases together with bilateral donors): IFI-private finance partnerships on global programs (e.g., in health, climate change) through global funds, trust funds, market mechanisms (carbon markets, AMCs); recent financial market initiatives such as the Global Emerging Markets Local Currency Bond (GEMLOC) program and insurance schemes related to disasters and weather risks; IFI role in catalyzing and promoting effective use of increased private aid flows to poor countries—issues of scaling up, coordination and coherence, private donations and IDA (based on ongoing CFPVP work on mobilizing private donations for development).

**Independent perspectives.** This section will present independent perspectives on IFI role and performance in private sector development and partnership, including the findings of IFIs’ own independent evaluation units on lessons of past experience as well as outside views.
Looking ahead. This concluding section will set out the main findings and policy messages going forward.

III. Process and Timeline

The GMR relies on close collaboration and contributions from many departments and staffs of the Bank and IMF. Given the private sector focus of this report, the IFC, as well as MIGA, will be closely involved in its preparation. Consultations and contributions from other international institutions are also central, including other MDBs, the UN, the OECD-DAC, and the WTO.

The report’s timeline will be as follows:

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<td>October 21, 2008</td>
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<td>Informal Bank Board meeting on key GMR messages</td>
<td>February 2009</td>
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<td>Bank CoW Meeting on draft report/ IMF Board review</td>
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<td>Development Committee meeting/publication</td>
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Annex:  Monitoring the MDGs: Selected Indicators