

Untapped wealth

Climate protection is an issue of global importance. Greater progress would already have been made had policy-makers paid more attention to the concerns of the financial sector from the start. Without public-private partnerships it will be impossible to rise to the major challenges of our time.

[By Thomas Loster]

In the 1990s, when floods devastated parts of Europe and other continents, the future insurability of flood risk in the affected countries was a key concern. Responding to loss trends, the insurance industry called for partnerships to be set up to manage the risk. State authorities were to implement regulations governing land use and other relevant factors, the insurance companies to develop specific products, and those potentially affected by floods to improve protection of their homes and other property.

Because of globalisation and the cash-strapped public coffers, policy-makers are now proponents of public-private partnerships (PPP). Such partnerships place emphasis on the social responsibility of the business sector. Various civil-society associations and initiatives are also considering private enterprise a possible partner or donor. It is hoped that businesses will be encouraged to become agents for change by showing “corporate social responsibility” (CSR). The range of potential issues is wide, including disaster prevention, environmental protection and development cooperation. The growing significance of PPP and CSR is reflected in the prominent coverage it receives in the international business press, from Germany’s *Handelsblatt* to *The Economist*.



Flooding of the Rhine in 1983, Cologne
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Many businesses, including both small-scale companies and multinational corporations, are already heeding the call to action. For instance, the US-based financial services provider Citigroup and the Dutch logistics group TNT are collaborating with the UN World Food Programme in a partnership known as “Moving the World”. Nike and Microsoft are working together with the UN Refugee Agency and the International Red Cross. The Swedish mobile phone giant, Ericsson, has set up a disaster

response programme (“First on the ground”) in partnership with the United Nations and the International Red Cross. At the regional level, corporations are active, too – for instance, Coca-Cola has initiated the distribution of condoms in remote areas of Zimbabwe to help reduce the spread of HIV/AIDS.

German Technical Cooperation (GTZ), a government agency, has established approximately 300 partnerships with private companies in more than 60 countries. Investment amounts to €140 million, with the public share being equivalent to about 40%. In addition, the GTZ has implemented a code of conduct with the German Coffee Association (DKV) and the German Development Ministry (BMZ). The “Coffee Code of Conduct”, which defines social, environmental and economic standards for the production, post-harvest processing and trading of coffee, is monitored at an international level.

At the same time, corporate foundations are playing a growing socio-political role. Warren Buffet, the second richest man in the world, made worldwide headlines in June when he pledged more than \$30 billion to the Bill and Melinda Gates Foundation. The Gates Foundation now has an impressive \$60 billion in assets, which it uses to promote global health and education and other worthy causes.

In 2005, donations to foundations reached an unprecedented level. There are now approximately 13,000 foundations in Germany, although only a very small number of them are devoted to development issues. Foundations are the expression of companies’ growing willingness to take on social responsibility. Strictly speaking, however, they do not belong into the category PPP, which is based on long-term, contractual cooperation between public authorities and private enterprises.

Global environmental issues

International policy-making on the environment exemplifies the potential value of the PPP approach. The UN’s “Principles for Responsible Investment” (UNEP PRI) are a case in point. UN General Secretary Kofi Annan initiated the proceedings in the spring of 2005, when he invited the world’s largest investors to draw up guidelines for responsible investment. He constantly emphasises that, because markets cannot grow without security and development, globalisation has been the catalyst to close some of the gaps between UN objectives and those of the private sector and financial markets.

A task force of experts, comprising 20 major institutional investors from twelve countries, drafted the principles, with the support of other specialists in the field. Six principles were officially launched in April 2006, and the signatories have pledged to continue developing these guidelines. Those involved included 39 institutional investors, who together administer funds of about \$2 billion, as well as 36 investment companies with a cumulative financial power of over \$3 billion.

Munich Re, the leading international re-insurance corporation, was a major driving force in the process of drafting the principles – for good reason. By taking into account environmental and socio-economic criteria when making decisions, institutional investors avoid damage claims for which the insurance industry is liable. As a leading provider of such coverage, Munich Re plays a special role in determining companies’ policies.

The UNEP PRI has already proved successful. The principles are being expanded rapidly, while the number of signatories is growing. Most are still based in the industrialised countries, but many are active at a global level. In the medium term, therefore, the principles will also have a positive impact on the developing countries. Among other things, the PRI emphasise the link between human rights and environmental issues. They also focus on the importance of microfinance, thus taking up another topic which is high on the development agenda.

On the other hand, the Kyoto Protocol of the Framework Convention on Climate Change illustrates the problems of not engaging in PPPs early on. Since 1995, world-climate summits have worked on reducing emissions of greenhouse gases internationally. The alarming rate of global warming will affect all countries, but the main victims will probably be the developing countries – and especially their poor populations.

The Clean Development Mechanism (CDM), as agreed under the Kyoto Protocol, was meant to be a market-based instrument with a crucial role to play in climate protection. It depends on the close cooperation of governments and businesses. According to the CDM, rich nations receive credits towards their emissions quotas defined in Kyoto for the amount they invest in improving environmental matters in developing countries.

Unfortunately, the CDM's design is extremely complex and bureaucratic. Moreover, its initiators disregarded one central factor. Setting up new energy-supply systems, which will not damage the climate, depends on funding concepts and insurance coverage. Nonetheless, policy-makers failed to envisage an adequate role for the financial sector in the CDM.

The UNEP Finance Initiative (UNEP-FI) may yet provide relief. For years, this coalition of state agencies with over 160 banks and insurers has been trying to raise policy-makers' awareness of economic principles. UNEP-FI wants to see climate policy take greater account of the concerns of financial-service providers, but it has not succeeded in bringing both worlds together yet. If the financial sector's knowledge and procedures had been considered in policy-making right from the start, the CDM would certainly have had a greater impact.



Windmills in Brazil, Fortaleza

The "Hyogo Framework for Action 2005-2015" is another example of the inherent potentials of PPP. Launched in Kobe, Japan, in 2005 in the context of the World Conference on Disaster Reduction, the framework's agenda promotes the development of early warning systems. It also advocates providing people in highly-vulnerable regions with clear information about the risks they are exposed to and the protection options available to them. Now, more than ever, civil-society organisations need data about natural hazards, to enable them to advise donors accordingly. Hardly a thought has been paid to the fact that international re-insurers have abundant supplies of such data, just waiting to be used. PPP could tap into this wealth of knowledge at no great cost.

The above examples clearly show that dialogue between policy-makers, civil society and business does pay dividends, and that accommodating the interests of other parties produces results. Without PPP, it will not be possible to rise to the major challenges of our time – such as reducing extreme poverty and starvation, guaranteeing water supply and sanitation facilities to all or protecting the environment. It is all the more important, therefore, that such cooperation be designed to succeed.

Prerequisites of success

There is no magic formula for PPP success, but certain criteria are vitally important.

- Spell out the value added: Strong commitment can only be expected if the true value of cooperation is clear to all participants. For instance, a system of crop insurance against harvest failures due to drought or pests would make sense in many developing countries. But it will only function well if donors, governments, local authorities, insurers and the people affected all understand the importance of close cooperation. Risk needs to be spread wide over geographical regions, and the long-term commitment of all parties is essential. If this could be achieved, insurance systems would be more reliable, more effective and perhaps even less expensive than international humanitarian aid, which has been the solution until now.
- Dialogue and understanding. Usually the parties concerned – policy-makers, researchers, businesspeople, members of the public – speak different languages. The risk of misunderstanding is great. Agreements therefore need clearly defined objectives and timeframes. One of the most basic prerequisites of PPP is keeping dialogue alive. Full accord on all relevant points, however, is not essential. Partial disagreement can be productive, as long as participants do not lose sight of their common goals.
- Tangible agreements. Partners must reach agreement on tangible projects, and plan realistically. There is a good prospect of success when progress is consistently measured, and when as many decision-makers as possible are involved from the initial stages onwards. Also, it should not be forgotten that the higher the hurdles at the start, the longer it takes for a project to gain momentum. Correspondingly, motivation and mutual encouragement become all the more important. For this reason, small projects are more likely to really get going. Prospective partners should not overextend themselves with ambitious projects at first.
- Continuity of personnel. The importance of personal acquaintance is often underestimated. Multi-faceted corporation, in particular, often depends on staff knowing, understanding and trusting one another.
- External communication. Finally, it is crucial that success stories be told in public. Information about obstacles encountered and progress made should be disseminated, and lessons learned from experience. Otherwise, to use a metaphor, the wheel will have to be re-invented again and again. PPP projects that involve market leaders normally have strong multiplier effects.

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