International Finance Corporation

Berkeley Model United Nations

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LXIII

SIXTY-THIRD SESSION

Dear delegates,

Hello, and welcome to the International Finance Corporation. My name is Sergio Ruiz-Tello and I am looking forward to being your Head Chair for Berkeley Model United Nations' 63rd Session. IFC is an all-new committee and it will be unlike any other MUN committee you have experienced! IFC has been designed as a fast-paced crises simulation that will explore financing cases across different themes and regions. This committee will require you to think on your feet while giving you the opportunity to discuss critical issues that affect the international community. With that said, let's dive into BMUN LXIII's most dynamic committee!

The International Finance Corporation was created in 1956 as a member of the World Bank Group. Even though the IFC coordinates its activities with other institutions of the World Bank, the organization remains legally and financially independent. With development partnerships, 184 member countries, and a $50 billion yearly portfolio, the IFC continues to impact the lives of millions through projects that enhance the standard of living in over 100 countries. Today, the IFC operates under two overarching goals: end extreme poverty by 2030 and boost shared prosperity in every developing country (IFC 2014).

As an IFC delegate at BMUN LXIII, you will be representing one of the IFC Development Partners. The committee will include entities that range from governments and businesses to development banks and foundations. Ultimately, you will work with other delegates in devising innovative solutions to drive development. Specifically, the IFC will discuss an Open Agenda on Investment Climate and Public-Private Partnerships. Assessing a region's potential for successful investment and creating public and private sector interactions are crucial topics that IFC partners discuss when implementing projects. You will learn more about these terms as you read the topic synopsis.

Now, it is time for you to get to know the IFC dias a bit better. My name is Sergio and I am a fourth-year international student at UC Berkeley. I am majoring in Business Administration with a Global Management Concentration and a Minor in Public Policy. Creating this committee has been a great pleasure! Often times I find myself thinking about business and finance beyond their corporate context — thinking about them as tools that can foster multilateral interaction, advance regional integration, and promote development. Therefore, IFC represented a *wonderful opportunity to further explore these ideas and daydreams while sharing them with others. Last semester I had the opportunity of joining a team of Berkeley graduate students in consulting for a nonprofit organization in the area of international development. Throughout six months, I had the chance of helping this organization while witnessing its impact in accelerating trade and economic recovery in countries such as Vietnam, Cambodia, and Afghanistan. This experience taught me through real-life examples that third-party international efforts can truly have a strong effect at the domestic level. I hope that one weekend in IFC will help you reach similar realizations. I also hope that being an IFC delegate will be a fun and intellectually challenging experience. Outside of BMUN I work as a UC Berkeley Campus Tour Guide and serve as an Industry Advisory for the Latino Business Student Association. I love digital photography, movies, traveling, and running. I will now let my amazing Vice Chairs introduce themselves. If you have any questions or concerns as conference approaches, please reach me at sruiztello@bmun.org.*

Hello! I'm Vishal Kalyanasundaram and I'll be one of your Vice Chairs for the IFC this year, as well as the USG of Technology for BMUN LXIII. Outside of BMUN, my interests include music, stand-up comedy, comics, and learning new things. I'm so excited to be able to engage in this committee with you guys, and look forward to conference weekend! Please feel free to reach out to me for anything and everything at tech@bmun.org.

Hello delegates! My name is Jessie Mao and I will be your other Vice Chair for IFC. I hail from the beautiful country of New Zealand. I'm a freshman at Cal hoping to major in Political Science and Russian. In my free time, I love to explore new food hotspots, do outdoorsy activities with my friends and find new places to travel. I am super excited to be part of IFC with all of you amazing people and I can't wait to get to know you all better through conference weekend! Feel free to reach out to me via email at jmao@bmun.org for any questions.

Sincerely,
Sergio Ruiz Tello
Head Chair of the International Finance Corporation
Berkeley Model United Nations, The 63rd Session

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Abbreviations

FCI	Food Corporation of India
FCS	Fragile and Conflict-Affected Situations
FDI	Foreign Direct Investment
GDEI	Global Development and Environment Institute
IFC	International Finance Corporation
IMF	International Monetary Fund
SMEs	Small and medium enterprises
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
PPD	Public-Private Dialogue
PPP	Public-Private Partnership
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
WBG	World Bank Group

Open Agenda on Investment Climate & Public-Private Partnerships

Topic Background

For generations the economic paths of nations have diverged from each other, fluctuating around complex cycles of prosperity and backwardness. Until the 1940s, most western economists treated an already evident development gap as a temporary phenomenon. In any event, there were enough problems in advanced countries to put thought into the factors afflicting those that remained backward (Cairncross 2011). It was until the war and post-war years that the *temporary* approach was reexamined, mostly due to the creation of international organizations with worldwide economic responsibilities, which highlighted the problems of under-development. Today, one of the most challenging conflicts economists face has been bringing to light the forces that determine a country's economic growth and progress (Cairncross 2011).

Over the past decades, foreign direct investment (FDI) has gained relevance as a means to stimulate developing economies. The Organization for Economic Co-operation and Development (OECD) identifies FDI as "an integral part of an open and effective international economic system and a major catalyst to development" (OECD 2002), which contributes to income growth and increased productivity in host countries. Along these same lines, research efforts on FDI suggest that an "increase of a dollar in capital inflows is associated with an increase in domestic investment of about 50 cents" (IMF 2001). Gradually, research results and increased attention from international organizations have opened the door to specialized private financing organisms.

In 1956, the International Finance Corporation (IFC) was born as a side initiative to stimulate private investment and bring cross-sector solutions that create a promising future for the less developed (IFC 2014). Ever since, the institution has adopted a multilayered approach to international development, making a commitment to reach millions of people in the developing world through projects that advance investment, job creation, income generation, and global market integration.

Throughout this process, the IFC Development Partners play a central role in providing access to resources and guidance to help local governments finance projects and ease decision-making. IFC Development Partners range from financial government agencies to businesses, multilateral organizations and foundations. Historically, IFC project financing has focused in 13 different infrastructure sectors: agribusiness, education, energy, finance, health, information and communications technology, renewable energy, tourism, transport air, transport ports, transport roads, water, and waste. At BMUN, we will assume that delegates representing IFC Development Partners possess financial independence for project endorsement and funding.

Investment Climate

Investment is a crucial component of any growth and development effort. By definition, developing countries need more investment to enhance their productive capabilities (GDEI 2014). As the largest organization of its kind, the IFC operates as a global financer with a portfolio of $50 billion that fuels over 500 projects in more than 100 countries every year (IFC 2014). Nevertheless, IFC stakeholders cannot form a satisfactory judgment of investment potential in developing nations without possessing knowledge of their circumstances. This is why the IFC examines and considers a country’s investment climate when carrying out investment promotion. Investment climate evaluations consider the political and economic circumstances that may constrain the number and quality of viable investment projects in a certain country (WBG 2014). In the end, investment climate assessments can help the IFC and its partners focus on realistic targets and adopt projects that offer compelling opportunities for development.

The IFC mostly emphasizes investment climate considerations when evaluating projects for countries in fragile and conflict-affected situations (FCS). In 2012, individuals living in FCSs accounted for 7% of the world’s population and one third of the world’s poor (WBG 2014), indicating that further development aid is necessary in these areas. Within these countries, private investment represents a valuable source to procure access to capital, jobs, technology, and broader business networks.

However, much more than demand is required to select initiatives and projects that can successfully meet desired objectives. Through investment climate considerations, IFC members can evaluate a nation's development needs, priority sectors, culture, and political and social priorities in order to adopt or forego a certain project. In many cases, a nationally prioritized sector might not be internationally competitive, or perhaps, domestic political priorities may not align with economic realities. It is important to understand that successful investment promotion does not attract investment at any cost (WBG 2014). Ultimately, investors should not pursue project proposals in territories where they will not receive public support or where there are no conceivable capacities for effective administration and regulation.

Public-Private Partnerships

Over the past decades, the IFC has proven that public-private dialogue (PPD) and public-private partnerships (PPPs) are crucial for successful project implementation. It is common for the IFC to enter territories with a gap in infrastructure. In these cases, public-private partnerships help municipal and national governments partner with the private sector to launch stable projects across diverse infrastructure sectors (IFC 2014).

PPPs can address several challenges. Private investment in fragile and recovering states can often be associated with extractive projects or major infrastructure concessions (WBG 2014), which can attract public attention and even generate resentment within a host country. Concurrently, a given nation might lack legitimate institutions that can create transparency and trust among stakeholders, or maybe such nation might be in need for institutions that can help better identify reforms and interventions to achieve an improved business environment (WBG 2014). PPPs can address these risks and perceptions to maximize the strengths of public and private segments, ultimately creating an ideal balance between financing, expertise, risk, and regulation.

The adoption of PPPs is highly relevant for project implementation within countries in fragile and conflict-affected situations. FCSs can present unique challenges given their highly fragile environments. The possibility of violent disturbances in these territories is always present; furthermore, frequent personnel turnover in government and business associations could slow down project achievement (WBG 2014). Consequently, PPPs can mitigate project risk by granting flexibility in management during unexpected happenings. At the same time, PPPs in FCS can facilitate monitoring and evaluation processes (WBG 2014). For example, if a given country experiences difficulty in data collection due to instability and administrative complexity, a PPP would enable accurate research and follow-ups to maximize project outcomes.

Possible Focus Areas for the IFC 2015 Agenda

This section presents relevant topics that IFC projects might try to address at BMUN 63, however, discussion will not be limited to these topics. These are simply provided as examples.

West Africa and the Ebola Crisis

So far, the death toll from the Ebola epidemic that started in August 2014 has risen to 4,950 out of 13,241 cases in the three worst-hit countries of West Africa (Nebehay 2014). After months of struggling to contain the disease, the future economic effects of the Ebola crisis are estimated to be poignant, even in the 49 of 54 African countries that are untouched by the virus (Campbell et al 2014). Foreign worker evacuations and border closures around Guinea, Sierra Leone and Liberia have caused significant damage to the local mining, agriculture and service industries. Additionally, across the continent, corporate events have been canceled and international investors unfamiliar with the diversity of Africa's 54 distinct countries have remained disengaged. The International Monetary Fund recently cut its forecast for economic growth in sub-Saharan Africa from 5.5% to 5% this year, due in part to economic spillovers from the outbreak (Campbell et al 2014). As proven through a World Bank analysis, "the largest economic effects of the crisis are not as a result of the direct costs (mortality, morbidity, caregiving, and the associated losses to working days) but rather those resulting from aversion behavior driven by fear of contagion" (WBG 2014). Fortunately, not all foreign investments have exited Africa. According to Bloomberg, the tourism industry has preserved optimism regarding future performance in this sector. Intercontinental Hotels Group is developing six new African hotels, to add to 27 already in operation. Concurrently, Marriott International Inc. has been working to integrate Protea Hotels, a South African-based chain with 116 hotels across the continent it bought for $196 million last year (Campbell et al 2014). How can IFC members aid economic recovery in African nations? Is there space for the tourism industry to advance investment in Africa? What other infrastructure sectors should be prioritized?

Business Development in Latin America

Over the past decades, small and medium enterprises (SMEs) have gained relevance in Latin American as a means to achieve economic growth and redistribution of income (Zevallos 2003). However, instances of corruption and instability could threaten to bring down business development and entrepreneurial efforts in certain countries. In 2014 Mexico illustrated this phenomenon, demonstrating that drug violence and cartel activity can harm business networks and deter investment. Notably, criminal organizations such as the Knights Templar have diversified cartel operations to dominate local businesses in western Mexico. Today, the Knights Templar has diversified to the point that drug trafficking doesn't even rank among its top sources of income, making of mining, logging and extortion or businesses, farmers and workers its biggest moneymakers (Castillo & Stevenson 2014). Recently, federal officials confirmed that certain cartels have successfully overtaken the country's lucrative mining industry, exporting iron ore to Chinese mills and ultimately penetrating the country's economy at unheard-of levels, becoming true Mafia-style organizations (Stevenson 2013). In the state of Michoacán, vigilante groups have started rising up, fighting back terror and extortion after police and troops failed to stop the abuses (Castillo & Stevenson 2014). What risks does insecurity and diminished rule of law create for businesses and financial institutions? Can mechanisms for public-private coordination help business development in Latin America?

Past UN & International Action

The United Nations has been a pioneer and key figure in development initiatives. Notably, in 1966, the UN created the United Nations Development Programme (UNDP). The UNDP intends to “build partnerships at all levels of society to help build nations that can withstand crisis, and drive and sustain the kind of growth that improves the quality of life for everyone” (UNDP 2014). Operating in over 170 countries, the UNDP’s main commitment is epitomized by the Millennium Development Goals, which are complemented by an overarching goal of cutting global poverty in half by 2015. Continuously, the UNDP focuses on examining development issues, providing new measurement tools, and innovative analyses to reach its objectives (UNDP 2014).

Similarly, the United Nations Development Group (UNDG) was established in 1997 to further consolidate UN development initiatives. The UNDG brings together all 32 UN funds, programmes, departments, and agencies that play a role in development (UNDG 2014). The group aims to provide more coherent and efficient support to countries seeking to achieve the Millennium Development Goals.

The United Nations has definitely led as an innovative entity in launching international development initiatives. Nevertheless, most UN programmes in this area lack ultimate authority and financial resources to enact resolutions and meet their objectives. One year before the 2015 deadline for meeting the Millennium Development Goals, the United Nations still has a long way to go. So far, only 20% of the nations categorized as countries in fragile and conflict-affected situations by the IFC have met the Development Goals or made sufficient progress (WBG 2014). Recently, the United Nations has reimaged its goals in an attempt to overcome shortcomings in estimates. The UNDP has launched a Strategic Plan 2014-2017 to rethink development and eradicate poverty. According the new UNDP vision, these objectives will be met by adjusting to rapid technological growth and changes in social behavior, emphasizing the reduction of inequalities and exclusion (UNDP 2014). Concurrently, the UNDG restructured its strategic priorities in 2012 through resolution (67/226) on the quadrennial comprehensive policy review of UN operational activities for development. With this resolution, the UNDG attempts to enhance the process by which the General Assembly assesses the effectiveness and impact of UN development efforts (UNDG 2014). Alongside this review, the UNDG adopted a set of Strategic Priorities for 2013-2016, pursuing quality impact and UN support at the national level, not just in a regional and global basis.

Beyond the United Nations' efforts in advancing international development, there are countless governmental and non-governmental organizations (NGOs) that pursue similar objectives. A prominent example is U.S. Aid, a U.S. Government agency that works towards ending extreme global poverty through grants and presidential initiatives in diverse sectors, ranging from health to women's empowerment (U.S. Aid 2014). In the NGO space, Chemonics stands out as an international development for-profit company that promotes social and economic change around the world (Chemonics 2014). Non-profit development organizations also have gathered attention and resources over the past years, although they commonly have niche approaches to development issues. Roots of Peace and Apopo are two non-profit organizations dedicated to promote economic development in post-conflict regions. Contrastingly, The Girl Effect is a non-profit organization centered in empowering girls, appreciating their potential to solve contemporary development problems.

Case Studies

1 | IFC Success Story, 2013 – West Bank & Gaza: Solid Waste Management

Over the past decades, the West Bank and Gaza have experienced recurring violent conflicts as well as political and socioeconomic instability. This has led to inadequate infrastructure investment and poor availability of public services in the region. Specifically, solid waste management has become a matter of concern. In the southern West Bank, the Hebron and Bethlehem Governorates are home to nearly one million people, generating 500 tons of waste per day (IFC 2013). Most of this solid waste used to be disposed in unsanitary dumps or illegally burned. With increased growth projections for waste volume, both Governorates could potentially become exposed to health and environmental risks.

Given insufficient investment and infrastructure in solid waste management, the Joint Services Council for Hebron and Bethlehem (JSC-H&B) was created. The JSC-H&B decided to build a sanitary landfill facility with the help of international donors. However, operating the proposed modern facility required expertise beyond the one offered domestically (IFC 2013). The International Finance Corporation stepped in to help the JSC-H&B devise a public-private partnership for what would eventually become the Al-Minya landfill and associated facilities.

The IFC led discussion and analyses to determine project viability. The main concerns that were addressed involved environmental issues and sourcing of technical knowledge for plant operations. Simultaneously, the IFC addressed private sector concerns surrounding the Israel/Palestine conflict as well as the fragile and conflict-afflicted status of the West Bank and Gaza. In the end W.A.T.T. S.A.-MESOGEOS S.A. & EPEM S.A., a Greek company, was selected as the appropriate partner, agreeing to improve the quality of services, reduce health and environmental risks, as well as greenhouse gas emissions (IFC 2013).

2 I IFC Success Story, 2011 – India: Punjab Silos

With a population of over 1.3 billion (CIA World Factbook 2014), food security has escalated to become a major priority in India. During the 1960s, Green Revolution advancements allowed India to secure high-yield seeds as a main source for nutrition (Frankel 1971). Nowadays, India's food system is focused around the harvesting, storage, and distribution of grains. India mostly consumes wheat and rice processed by the Food Corporation of India (FCI), a public enterprise fully owned by the Indian Government (IFC 2011).

Over the past years, India successfully developed agricultural practices across its fertile northern region. Punjab rapidly became the largest grain-producing state, producing 22% of India's national grain consumption. Unfortunately, the abundance of harvests also had its shortcomings. The FCI had lagged behind in capacity and facilities for grain storage. By early 2010, the FCI faced a shortage of storage space of 10 million tons of wheat (IFC 2011). The situation became particularly pressing in Punjab, where 7-million tons of storage capacity turned insufficient. The FCI resorted to store grain in inadequate open-air containers, a decision that jeopardized the grain harvests and their nutritional value. Facing great losses, the Government of India approached the International Finance Corporation to develop a public-private partnership that would allow a private firm to build, own, and run a grain storage facility.

The IFC worked with the Punjab State Grains Procurement Corporation (PUNGRAIN) in evaluating and implementing the storage facility project. The IFC partners carried out extensive analyses of the social and environmental issues influencing the transaction. The new storage facility would involve higher operating costs, but it would decrease grain losses significantly (IFC 2011). The IFC team also demonstrated that private sector involvement would help the Government of India sustain its food security policies.

In the end LT Foods, a mid-size Indian rice exporter and distributor was selected to carry out the project. The contract involved a 30-year concession to build and run temperature-controlled steel grain silos with a 50,000 metric-ton capacity.

Questions to Consider

1. What investment regions and infrastructure sectors should IFC prioritize for its 2015 agenda and why?
2. Beyond development, what is the importance of foreign investment in alleviating conflict and promoting instability?
3. What are the key considerations that your delegation and IFC members must consider before voting upon a certain project?
4. What institutions and foundations are likely to support your delegation's interests throughout the 2015 conference?

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