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Panel of Experts with Private Sector in the Preparatory Process of the First Inter-American Meeting of Ministers and High Level Authorities on Sustainable Development

Public-Private Partnerships for Sustainable Development in the Americas

Final Report and Recommendations

Introduction:

The Organization of American States (OAS) General Secretariat has initiated a process of private sector involvement and public-private sector dialogue on the Inter-American development agenda through the OAS Private Sector Forums. OAS General Assembly Resolution AG/RES.2244 (XXXVI-O/06) invites Member States to continue dialogue to explore linkages with the private sector and to strengthen in particular those programs within the OAS framework, which, together with private sector participation, contribute to the integral development of Member States. This resolution also instructed the General Secretariat to provide, as appropriate, technical support for private sector participation in activities and projects in the framework of the OAS.

In the preparatory process leading up to the First Inter-American Meeting of Ministers and High Level Authorities on Sustainable Development to be held in Santa Cruz de la Sierra on December 4-5, 2006, the Department of Sustainable Development (DSD) of the OAS has conducted three technical preparatory workshops with participation of government, academics and private sector experts. Additionally a series of consultations with civil society and indigenous peoples have taken place in Buenos Aires, Trinidad and Tobago, Panama and Washington DC to provide recommendations to the preparatory process.

The key areas highlighted in the workshops include: enhancing synergies to strengthen cooperative mechanisms in water management; supporting cooperative partnerships and best practices that make progress in both risk mitigation and risk transfer of natural disasters; and advancing partnerships and innovative mechanisms for financing in support of job creation and sustainable development of agriculture, forestry, and tourism.

The preparatory workshops identified the need for a stronger involvement of the private sector in the preparatory process. Therefore, on November 9, 2006 at 9:00a.m., in advance of the First Inter-American Meeting of Ministers and High Level Authorities on Sustainable Development the DSD, the Department of Trade, Tourism and Competitiveness (DTTC), and the Private Sector of the Americas with support of the Canadian International Development Agency (CIDA) hosted a panel on *Public-Private Partnerships for Sustainable Development in the Americas*.



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Opening Remarks:

Opening remarks were provided by Ambassador Alfonso Quiñonez, Executive Secretary for Integral Development of the OAS and by Ambassador Patricia Bozo de Duran, Ad. Interim Representative of Bolivia to the OAS. Ambassador Quiñonez and Ambassador Bozo de Duran stated that OAS member-states have recognized the need for adopting good governance practices in order to achieve sustainable development. Moreover, they acknowledged that joint efforts of different sectors, including the private sector, are required. For that reason, there has been a concerted effort to involve the private sector in discussions respecting sustainable development in the Americas. The Meeting of Ministers and High Level Authorities in Santa Cruz de la Sierra will provide a hemispheric forum to develop a strategic plan on matters pertaining to sustainable development including international water resource management, natural resource risk reduction, and sustainable agriculture, forestry and tourism. Ambassador Quiñonez and Ambassador Bozo de Duran affirmed that this panel will provide concrete proposals and strategies that will be incorporated into the agenda of the Ministerial meeting.

Enhancing Synergies to Strengthen Cooperative Mechanisms in Sustainable Development of Agriculture and Forestry

Introduced and Chaired by Claudia de Windt, Legal Specialist, Department of Sustainable Development Organization of American States

Ing. Eduardo Dietze, Agriculture and Livestock Manager, Colonias Unidas Cooperative, Paraguay

Mr. Dietze discussed the evolution of sustainable productive practices implemented by the Colonias Unidas Cooperative. The Cooperative is located in Itapúa, Paraguay and was established as a cooperative of small productive units in 1952. The Cooperative began implementing basic environmental measures in 1980 out of a concern for the deterioration of productive resources including the soil and by 1990 environmental management systems that were implemented reached approximately 95% of the area covered by the Cooperative. Finally, in 2004 the Cooperative created a comprehensive Environmental Adjustment Program, which now covers all of the Cooperative's activities.

Mr. Dietze stated that the Environmental Adjustment Program is designed to elaborate and implement an environmental management strategy that facilitates the development of conscientious farming using the watersheds contained within the Cooperative's productive area as a planning unit. In particular, the Cooperative takes advantage of its location in the Guarani



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aquifer, the largest aquifer system in the Americas. The Program seeks to achieve a number of economic, social and environmental goals, including:

- Strengthening supply chains by generating differentiated productive processes;
- Increasing the rents earned by small productive units who participate in the supply chain;
- Developing an awareness of the centrality of family and the need to access basic services in order to improve quality of life among producers;
- Educating communities about the need to control negative environmental impacts of industrial production.

Mr. Dietze explained that the Program's design and implementation has required substantial financial and human resources. Furthermore, in order to achieve the economic, environmental and social goals mentioned above, the Cooperative has relied upon guidance from various civil society groups, including non-governmental organizations, universities, other associations, and on a strong partnership with the government.

The Cooperative is currently expanding the scope of its environmental management activities. First, it has begun assisting other regions of Paraguay to implement similar programs. Second, the Cooperative is becoming a nucleus of management of financial and human resources for the purposes of generating employment in the area of sustainable agriculture. Third, it is serving as a nexus for bringing together a variety of actors and interests to develop strategies and synergies that address environmental matters. Fourth, it is engaging governmental bodies in an effort to develop a series of general environmental norms applicable throughout Paraguay. Finally, the Cooperative is designing a model for compensating producers of environmental services. Many of these efforts are supported and strengthened by the efforts of international organizations such as the World Wildlife Fund, the OAS, UNDP, the World Bank, and others who have a strong environmental presence in Paraguay.

Despite its success, the Cooperative continues to struggle with a number of obstacles, namely, establishing an ongoing dialogue with government officials and ensuring that environmental concerns are prevalent in policy debates. In particular, Mr. Dietze explained that it is a challenge to show that environmental concerns are valid and that environmentally sound productive processes are effective. This challenge involves making sound economic arguments as well as changing social tendencies and conventions. In other words, the Cooperative must continue to show that good environmental practices produce economic and social benefits.

Mr. Dietze stated that fortunately a change in mentality has been observed and hopefully will continue, thereby increasing the likelihood that further environmental improvement is just around the corner.

Santiago Perry, Executive Director, Corporation for the Sustainable and Participative Development of Small Producers (PBA)



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Mr. Perry discussed the role of the PBA Corporation, an organization which facilitates innovative participation in sustainable agriculture among small agricultural producers in the Andean region. The Corporation consists of over 100 small producers, Ministries of Health,

Departments of National Planning, universities and other organizations. The Corporation seeks to improve the quality of life among small agricultural farmers in the Andean countries, while supporting processes for participative innovation in the sustainable use of biodiversity in agriculture, and facilitating the exchange of experiences related to technology.

The work of the Corporation includes a number of activities. In particular, the Corporation is engaged in participative innovation, which involves the development of sustainable production practices. Participative innovation includes producing clean seeds, engaging in sustainable management of land and water, emphasizing organic agriculture, and establishing an integrated approach to managing plagues and bio-inputs. PBA has also been working to bring technology in seed development from the lab to the farm making it more cost effective for producers.

In addition to participative innovation, the Corporation is involved in strategic investigation and organizational innovation, which are techniques that producers can use to streamline their production efforts so as to make them more environmental conscious. Finally, the Corporation provides commercialization support and enterprise development to small agriculturalists. Through these services, the Corporation is able to empower small farmers to adopt sustainable practices.

Mr. Perry noted that as part of the training process that it provides to producers, the Corporation works to develop key linkages between producers to increase their productive capacities. Several groups have already begun work in this realm, including 10 municipalities where more than 300 families produce and dry yucca. These groups contribute resources and advice to producers to improve product quality.

John Ganzi, President Environment & Finance Enterprise

Mr. Ganzi discussed the relationship between the financial services industry and sustainable agriculture. He began by providing background into the fundamental characteristics and activities of the industry. Mr. Ganzi explained that the financial service industry is engaged principally in three activities, all of which are concerned with ensuring the financial stability and well-being of commercial enterprises. The three principal activities include: providing credit through loans, mortgages, and credit cards, etc.; investing directly in various enterprises; and coordinating insurance, including providing underwriting and risk management services. When deciding whether to assist a particular entity, the financial service industry must evaluate the likely profitability and sustainability of the venture in order to determine what, if any, assistance is prudent. Mr. Ganzi warned that the financial industry would not assist those who were unable to manage risk or those producers whose risk is not measurable.



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Mr. Ganzi highlighted the need for a clear definition of the concept of sustainable agriculture and the practices it encompasses, in order to provide certainty to the financial sector. Without a solid understanding of what sustainable agriculture is, the industry cannot properly assess its profitability, predictability and risk, and therefore will not provide financial support.

According to Mr. Ganzi, the hesitancy of the financial sector to get involved in sustainable agriculture is increased by the inadequacy of the respecting the relationship between sustainable agriculture and the financial services industry or the private sector more generally. First, there is an overall lack of literature on the subject, likely because there are so few instances where the financial services industry has gotten involved in sustainable agriculture initiatives. Second, the literature that does exist merely describes examples of private sector involvement, but does not contain actual data sets that measure the actual effects of such involvement or of the sustainable practices. This, he said, has resulted in a lack of key information on the topic.

Mr. Ganzi said that if sustainable agriculture were to become a global enterprise, it would have to be funded by the private sector and, in particular, by the financial services industry. In order to increase private involvement, Mr. Ganzi said that there is a need to frame the topic properly and to aggregate the information on the topic so that private actors can make informed business decisions on whether they want to get involved in particular sustainable agriculture projects. All of this requires an inter-sectoral dialogue and policy support. In this way, supporters of sustainable agriculture can bring their efforts to the attention of the financial services industry and thereby facilitate the growth of this area of production.

Emerging partnerships with the insurance and re-insurance sector in natural disaster risk reduction.

Introduced and Chaired by: Francis Ghesquiere: Senior Urban Specialist, Latin America and Caribbean Region, World Bank.

Managing Natural Disaster Risk: What Role Should the Government Play? Dr. James Valverde, Vice-President, Economics and Risk Management, Insurance Information Institute

Dr. Valverde discussed the roles of the private insurance sector and the government in managing natural disaster risk. He recounted the disastrous effects of the 2005 hurricane season and highlighted the significant costs of Hurricane Katrina to the US economy. The fact that eight of the eleven most expensive disasters in the United States occurred during the last four years indicates the real threat of contemporary natural disasters and their potential to create significant economic losses. Of additional concern is that natural and man-made disasters have steadily been increasing for twenty years. The effects these disasters have on economic well-being was



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highlighted by the fact that 2005 was the worst year for insured catastrophe losses in the US, estimated at US\$61.2 billion and expected to increase.

Dr. Valverde noted that the insurance industry has become a “dual gamble” with the occurrence of global climate change. First, insurers and reinsurers are engaged in betting on the potential frequency, severity and consequences of natural catastrophic events. Second, global climate change can potentially confound the understanding of the causes and consequences of extreme weather events thereby increasing the difficulty of predicting catastrophic events. In this way, the second gamble exacerbates the first.

Dr. Valverde stated that insurers and reinsurers are now examining whether numerical increases in storm activity in the North Atlantic during 2004 and 2005 are linked to anthropogenically induced climate change. However, Dr. Valverde noted that scientific study of climate change has offered few definite answers to the concerns of public and private stakeholders.

Two divergent views have emerged since Hurricane Katrina regarding the relationship between natural disasters, private insurance companies and the role of the government. On one hand, some believe that natural disasters are uninsurable and that the government should serve as the risk manager for catastrophic events. Proponents of this view point to the fact that the government is already involved in numerous insurance programs, two of which deal specifically with natural disasters. On the other hand, others argue that the private sector and free markets are in the best position to manage the risks for those who choose to get private insurance and, indeed, that thus far private companies have performed quite well in the face of mega-catastrophes. Moreover, advocates of this view contend that government operated insurance programs are rarely actuarially sound. The debate on this topic continues.

The policy tools that have so far proven successful in controlling hurricane risk exposure include strengthening and enforcing building codes; providing insurance rates based on sound actuarial principles; removing impediments to capital flows; providing incentives to adopt mitigation; and forcing communities to consider their catastrophe exposure. Among those measures that have not been successful are insurance rates based on unsound actuarial principles; political interference in rate processes; subsidies; litigation; and retroactive rewriting of insurance contracts and low flood insurance penetration rates.

Dr. Valverde concluded by noting that the public and private spheres should look for ways to facilitate market-enhancing opportunities and more efficient private sector coordination.

Emerging Partnerships with the Insurance and Reinsurance Sector in Natural Disaster risk Reduction: Sandra Bailey, Director, Reinsurance and Risk Management, International Insurance Brokers Ltd

Ms. Bailey began her presentation by discussing the impact and costs of natural disasters over the past 50 years. She explained that natural disasters have increased from fewer than 100 in 1975 to over 400 in 2005. As a result, the costs of natural disasters increased from approximately US\$50 billion in 1950-1959 to approximately US\$650 billion in 1990-1999. The impact of this is significant, with catastrophe losses expected to double every ten years.



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Moreover, as the costs associated with natural disasters are increasing in general, so too insurance costs are increasing, in particular.

Countries in the Western hemisphere are susceptible to major disasters, as six Latin American and Caribbean states are in the top ten countries experiencing the highest vulnerability to disasters based on economic risk to GDP according to the World Bank. In fact, El Salvador, Jamaica, the Dominican Republic and Guatemala numbered one to four respectively. Costa Rica and Colombia are the other two countries. The severity of this problem was further highlighted by the fact that over 90% of the populations in El Salvador, Jamaica, the Dominican Republic and Guatemala are in affected areas.

Ms. Bailey identified a number of stakeholders involved in natural disaster risk reduction and explained that cooperation among these stakeholders would lead to sustainable development. The partners identified in the presentation include insurers and reinsurers; government; corporations; insurance industry professionals; country disaster preparedness teams; environmentalists and modeling companies. The role of insurers during disasters include getting involved in initiatives to reduce the impact of disasters; encouraging property owners to address disaster resilience; assisting in post disaster recovery; sponsoring research and training initiatives; and lobbying governments to ensure that building standards are met.

Ms. Bailey noted that a number of instruments could be used to transfer risk. These include Indemnity Policies; Parametric Policies; Catastrophe Bonds and other alternative risk transfers. Recent Insurance Risk Mitigation Initiatives were described, including the Turkey Insurance Catastrophe Pool; the US National Flood Insurance Program; the Mexico EQ Hurricane Pool (Fonden) and the Caribbean Catastrophe Risk Initiative (CCRI).

Ms. Bailey stated that in order to develop a coherent approach to managing natural disasters, several matters must be considered. First, when allocating funds, authorities must choose between transfers and mitigation. Transfers are more cost effective in the short-term and can help parties already affected by natural disasters. However, money spent on mitigation creates systems for handling future natural disasters and can be much more cost effective in the long-run. In addition, it is certainly true that the financial well-being of the insurance industry is in jeopardy in the absence of mitigation strategies. Second, we must debunk the myth that natural disasters are a matter for government only. Surely government has a strong role to play in managing natural disasters, but the private sector must get involved in such efforts as well so that the effects of natural disasters might be minimized. Third, countries must decrease their reliance on international aid, for such efforts, though noble, are not the most effective means of managing natural disasters. Finally, sought is a process for evaluating the current methods of managing natural disasters. Currently it is difficult to assess ongoing initiatives—difficulties are created by natural and man-made causes. In order to manage natural disasters effectively, enhanced assessment of management initiatives is required.

In order to overcome some of the challenges mentioned above, Mrs. Bailey offered the following recommendations:



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- Continuous assessment of existing initiatives
 - Replicating successful initiatives
 - Using surplus from initiatives in mitigation projects
 - Providing real incentives to policy holders who conform to standards
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- Creating “legislation that bites” – integrated approach to development
 - Education – building risk awareness in schools
 - Requiring model companies to be more accountable
 - Developing a comprehensive database to identify risk prone areas by the insurance and reinsurance sector to support disaster planning and emergency management

According to Mrs. Bailey implementing these recommendations will lead to two important results. First, it will decrease the negative impact of natural disasters and, second, will increase the effectiveness of remedial efforts implemented once natural disasters occur. In this way, countries in the Western Hemisphere can decrease the aggregate costs associated with natural disasters.

Summary of Recommendations

The following is a summary of the recommendations offered by the panelists:

- Raise awareness regarding the positive economic and social impacts of sustainable productive processes;
- Encourage coordination among producer groups, the finance and private sector, government entities and non-government organizations with respect to sustainable agriculture;
- Promote more dialogue with the private sector regarding challenges and opportunities for sustainable approaches;
- Support, through the OAS, the systemization and comparability of data surrounding the positive impacts of sustainable agriculture so as to educate the private sector and invite them to finance and support such initiatives;
- Engage in a holistic review of managing natural disasters to include:
 - How responsibility should be shared between private and governmental actors; and
 - How management of past disasters should be balancing with efforts to mitigate the harm of future disasters
- Produce studies and other literature showing that environmental carelessness creates real, tangible and substantial negative economic impacts and that sustainable development is therefore a profitable as well as responsible enterprise.