

# **NEW VISION FOR SUSTAINABILITY: PRIVATE SECTOR AND THE ENVIRONMENT**

**Remarks of Mr. Donald F. Terry  
Manager, Multilateral Investment Fund**

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The Multilateral Investment Fund (MIF) was established in 1993 as a special US\$1.3 billion fund, administered by the IDB, to encourage the growing role of the private sector in Latin America and the Caribbean. The MIF's job is to accelerate the progress of market economies along a sustainable path by focusing on three major areas:

- Improving the climate for private sector investment,
- Increasing workforce productivity, and
- Promoting micro and small enterprise development.

In partnership with governments, business organizations, and non-governmental organizations (NGOs), the MIF provides strategically focused technical assistance grants to support market reforms; build the capabilities and skills of the workforce; and broaden the economic participation of the entrepreneurial sector. MIF is also pioneering the use of equity as a development tool for small businesses through the creation of more than 20 investment funds dedicated to providing seed capital for SMEs.

After six years of operation, the MIF has now approved over 300 projects, totaling \$425 million in technical assistance and \$125 million in equity investments. MIF's total financing has been almost equaled by its partners, bringing the total amount of commitment in MIF projects to approximately US\$1 billion.

About a year ago, MIF set out to define a special environmental strategy to provide maximum leverage and impact for its precious grant and investment resources. With the assistance of the IDB's Environment Division and a team of international experts led by Ernst Bruggger, Richard Wells and Michael Rubino, this process built on MIF's previous involvement in environmental issues through such projects as assisting governments to establish functional environmental agencies; working with SME's to improve their economic and environmental performance through the use of ISO 14001; and providing long-term equity capital to environmentally-friendly businesses through MIF investment funds.

In developing a strategy specifically focused on private sector and the environment, MIF's capacity to work with both the public and private sectors in promoting competitiveness and environmentally sound growth in the region, and its ability to pilot

innovative new opportunities for small enterprises are viewed as major competitive advantages.

The MIF Private Sector and Environment strategy that we are launching here today seeks to provide critical resources and intellectual leadership to promote synergy between the private sector and the environment. The strategy identifies three core areas where MIF involvement can make a substantial difference.

### **1. Framework conditions**

Under framework conditions, our efforts will concentrate on streamlining regulatory regimes, building private and public sector institutional capacity, developing national certification capacity, and supporting the development and publication of environmental performance indicators of companies.

The MIF is particularly interested in initiatives focused on promoting the use of information technology (IT) as a means for streamlining and disseminating information on environmental regulation throughout the region.

### **2. Firm Management and Know-How**

In this area, MIF will try to promote a fundamental change in perception among SME managers, moving from the concept of environment as a cost, to the realization of the environment as an economic opportunity. To bring about this transformation, we are working to raise awareness about the environment as a competitiveness issue. MIF is in a position to work with training and education providers, chambers of commerce, trade associations, NGOs, and other organizations to finance a number of initiatives that could demonstrate the benefits of an ecoefficient approach to business management. Many SME manufacturers (and some service providers) can benefit economically --sometimes dramatically-- simply by improving their environmental performance. Two of the most effective “bottom line” techniques are environmental management systems (EMSs) and cleaner production. MIF believes that both approaches hold great promise.

One mechanism with enormous potential is “to hook” SMEs through the supply chain, from larger companies to their suppliers. MIF has already approved two such projects (Mexico and Peru) in which large companies are co-financing the cost of EMS or ISO implementation in their small supplier companies and providing advisory support by mentoring their suppliers through the process. We are very interested in supporting more of these models in the region.

The MIF is currently working with the National Center for Cleaner Production (CNPML), a newly established organization, which is linked to the Salvadorean Industry Association (ASI), in an effort to expand the cleaner production services in the manufacturing sector throughout El Salvador. The general objective of this project is to provide technical assistance to a group of SMEs, to increase their competitiveness, and to strengthen and promote a culture for cleaner production.

Another model that we are in the process of developing and that we believe has potential for replication is a project in Peru with the National Society for Mining, Oil, and Energy (SNMPE) to help create a viable market for energy services companies or ESCOs. The main objective of this initiative is to improve the competitiveness of SME's by strengthening the availability and operations of energy services companies.

Supporting the current generation of trained environmental entrepreneurs is also a very strong interest for MIF. Accordingly, we are exploring several options with prominent educational institutions in the region, such as Earth College and Instituto Zamorano, regarding how MIF might be able to encourage environmental business initiatives by their recent entrepreneurial graduates.

### **3. Investment Funds and Financial Intermediaries**

The MIF has been particularly active in this very innovative area, having helped to establish five SME equity funds related to new environmental market opportunities: biodiversity-based businesses (TerraCapital Fund); companies concentrating on turning waste into energy and profits (Corporación Financiera Ambiental, North American Environmental Fund); and renewable energy technologies (E&Co-LAC). One of our newer funds in partnership with The Nature Conservancy seeks to link NGOs to environmental market opportunities in the region and generating much needed revenue streams through these new ventures (Eco Enterprises).

We expect to continue to support financial intermediaries and investment funds in these important areas, and to encourage and expand the environmental market opportunities in the region. New MIF investments may be able to finance firms that employ the application of clean technology and target possible “market makers,” those investments that catalyze latent markets for products or services and that make sustainable use of natural resources.

A potential investment under consideration by MIF is a CleanTech Fund, a vehicle for financing innovative companies that utilize clean technologies to improve industrial processes or replace the need for fossil fuel use. The idea for this CleanTech Fund was originally conceptualized at a conference dedicated to the issue of climate change and the potential impact on the Latin American and Caribbean region. The objective of the proposed Fund is not solely climate change-related, but instead focuses on firms that employ the application of clean technology.

MIF has also been approached recently regarding the development of a fund focused on disseminating solar energy technologies to rural communities.

Through our experience with environment funds and our grant financing capabilities, we believe that MIF is in a unique position to coach fund managers, offer technical support and training to financial intermediaries, lay the foundation for substantial future private sector investment, and otherwise help to build a growth industry for investing in environmental projects that generate a profit—the veritable “triple bottom line.”

## *Conclusion*

Not every good idea worthy of financing can be turned into a MIF project; our resources are limited, and we need to be realistic about focussing our impact on those relatively few priorities which can be replicated and demonstrate economically sustainable results. But, we do believe that the environment holds special promise for MIF's "signature characteristics" of innovation, partnership, demonstration effect, and sustainability.

Today's presentations have provided many real world, concrete examples or the guiding principle behind MIF's environmental strategy: that sustainable development, good business practices, and sound environmental management go hand-in-hand.

Through the implementation of this strategy, the MIF hopes to contribute to the transformation of the private sector as a new vehicle for sustainability and to encourage collaboration between public and private stakeholders. You have each received a copy of our strategy document and the guidelines for submitting project applications to the MIF. Please let us hear from you.

We are only at the beginning. The past century was noted for great economic progress but also environmental degradation; however these two disparate outcomes are not inextricably linked. Indeed, it is our goal at the start of this new century to help link economic growth not only with conservation, but also environmental restoration.

The MIF is committed to working with all of you to help forge new directions in this most important and challenging area.