Main trends in development cooperation – the increasing overlap between private finance and ODA

María José Romero, Bodo Ellmers, and Polly Meeks, Eurodad

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What is Eurodad?

- Founded in 1989 to campaign for debt relief for heavily indebted (developing) countries
- Network of 49 civil society organizations, Secretariat in Brussels
- Focus on Development Finance (aid, debt, private finance, tax justice and capital flight)
- Research, Advocacy and Campaigning
- Watchdog for IMF and World Bank

Eurodad in Action

Main points

1. The policy debate
2. Main implications
- Narrative
- Instruments
- Enabling environment
- Global ODA rules
3. A focus on instruments and its development impacts
4. Concluding remarks

1. The policy debate

How to 'leverage' private capital flows for development projects, and how to ensure a stronger role for the private sector in development.

Two assumptions underpin the focus of the development community on private finance:

- Development needs are huge
- Public finance is not enough

2. Main implications

A. The private sector is placed at the heart of international sustainable development agreements.
B. Donor strategies and programmes are increasingly focussed on enhancing private sector engagement in development.
C. Strong focus on strenghtening the enabling environment for private sector business and investment.
D. Rules classifying aid are being reformed at the OECD DAC level to allow for more private sector support.

2A. Main implications: narrative

The private sector is placed at the heart of international sustainable development agreements:

"[the] goals [SDGs] are ambitious, and they demand equal ambition in using the "billions" in ODA and in available development resources to attract, leverage, and mobilize "trillions" in investments of all kinds: public and private, national and global, in both capital and capacity."

Source: "From Billions to Trillions: MDB Contributions to Financing for Development"

2B. Main implications: instruments

Donor strategies and programmes are increasingly focussed on enhancing private sector engagement in development.

- This mean that different modalities of delivering aid and of supporting development projects are being promoted: blended finance mechanisms and PPPs.

2C. Main implications: enabling environment

Strong focus on strengthening the enabling environment for private sector business and investment.

- EU institutions and MDBs promote changes in national regulatory frameworks to allow for private investments (technical assistance and policy dialogues).

2D. Main implications: Global ODA rules

Rules classifying aid are being reformed at the OECD DAC level to allow for more private sector support.

- EU plays a key role in this process

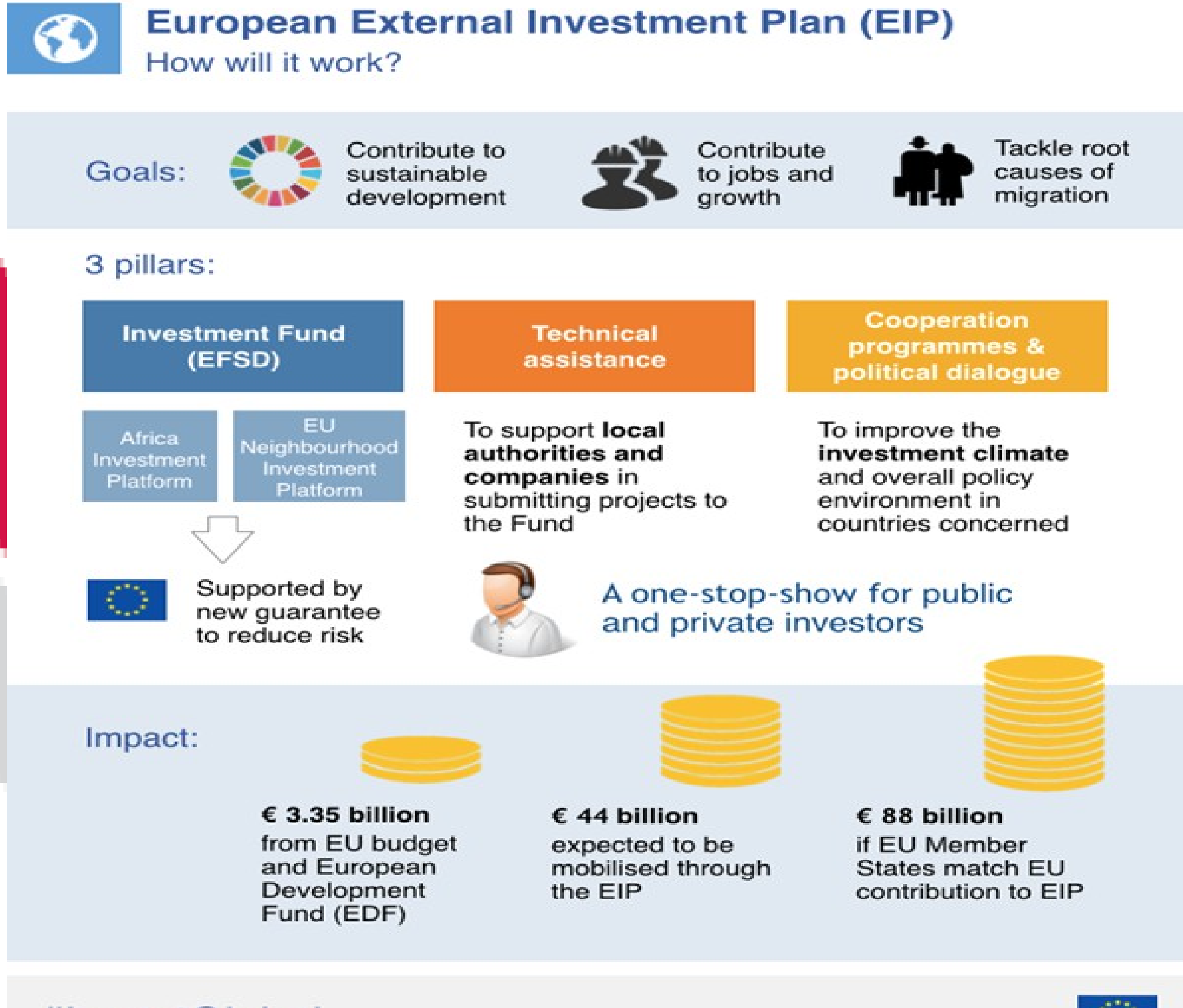
3. Blended finance:
What are we talking about?

- Blending can be broadly defined as the combination of public concessional finance (ODA) with private or public resources, generally with the aim of 'mobilizing' or 'leveraging' development finance from other actors.
- The idea behind blending is that ODA can be used to remove investment 'barriers'. Different financial instruments are used: investment grants, TA, loan guarantees, etc.
- There are no global and reliable figures on the use of blended finance.

3. Blended finance: expected impacts?

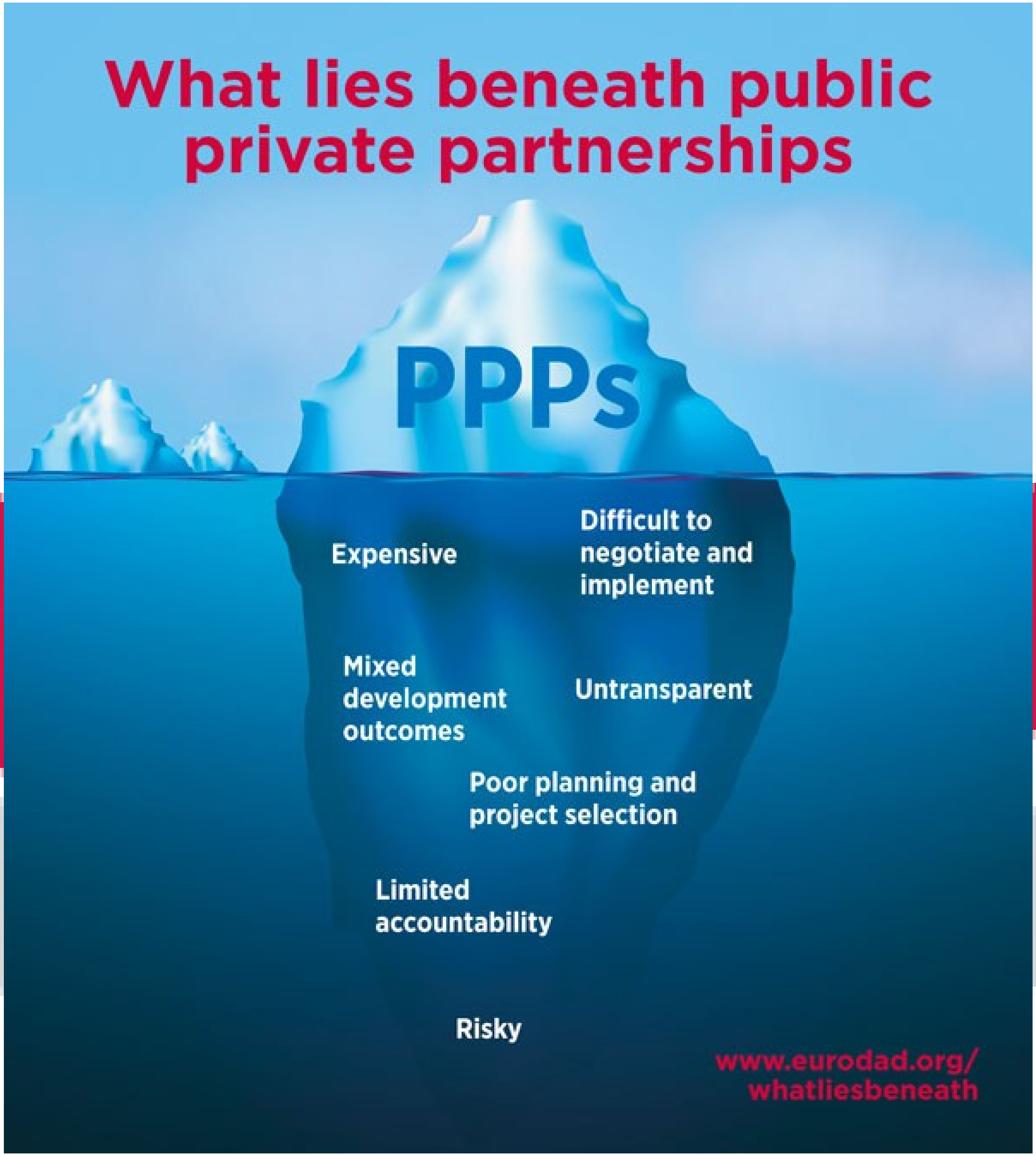
- Blending has so far focused mostly on MICs
- **Potentially threatens quality of aid:**
  - ✓ much less transparent and accountable than other modalities.
  - ✓ DFIs do not meet basic aid effectiveness criteria—particularly on developing country ownership.
  - ✓ Currently poor evidence of impacts, and poor monitoring and evaluation.
  - ✓ Increases opportunities to use aid to support donor-country firms—incentivising tied aid.
  - ✓ High opportunity costs and questionable additionality.

3. Blended finance: An example



3. Blended finance: what gets measured, gets done

- New OECD rules on counting support to the private sector as ODA are likely to incentivize greater use of blending
  - ✓ E.g. EIP
- Missed opportunity to mitigate some of the risks of blending through stronger safeguards and transparency
- Incentive to divert aid from other uses
- Puts the credibility of ODA at risk



What lies beneath public private partnerships
PPPs
Expensive
Difficult to negotiate and implement
Mixed development outcomes
Untransparent
Poor planning and project selection
Limited accountability
Risky
www.eurodad.org/whatliesbeneath

4. Public-Private Partnerships (PPPs)

What are PPPs?

PPP is a medium/long-term contractual arrangement between the state and a private company, by which the private sector supplies 'public' assets and services (traditionally provided by governments, such as hospitals, schools, prisons, roads, sanitation).

Two main types of PPPs:

1. **'User pays'** – close to a genuine private investment
2. **'Government pays'** – another form of government borrowing

4. PPPs: Why use PPPs?

Advantages for governments:

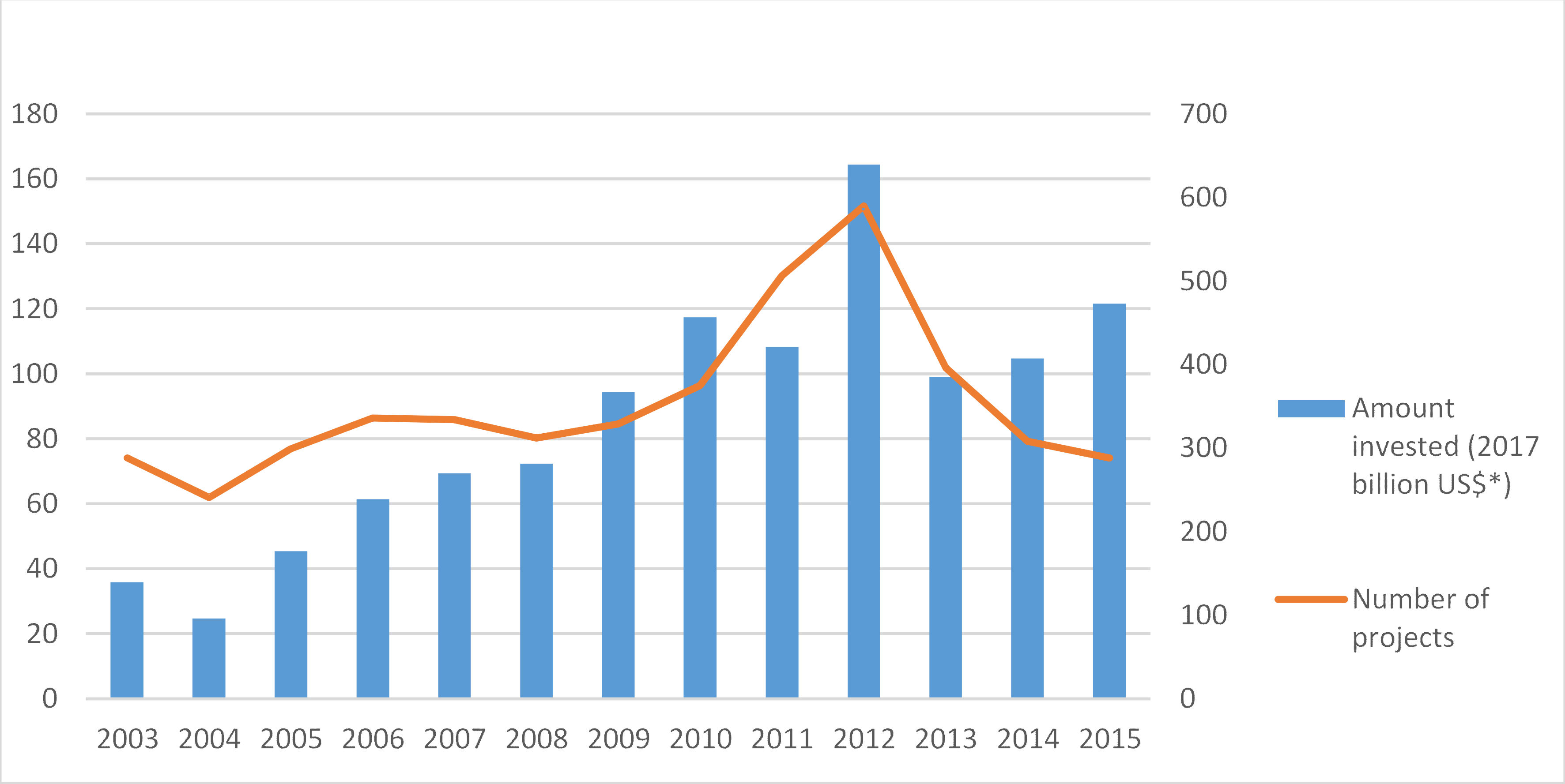
- Hides government debt.
- Efficiency + ideology: “the private sector is more efficient”

Advantages for the private sector:

- New business sector (government pays)
- Reduced risk (guaranteed income + government and multilateral guarantees.)

4. PPPs: How important are they?

Figure 1: Total investment in PPPs and number of projects in the developing world, 2003–2015 (billion US$ in real terms)



Source: Eurodad's own calculations based on Private Participation in Infrastructure Projects Database
(*adjusted by US Consumer Price Index)

4. PPPs: **P**roblems **P**roblems **P**roblems

- **Usually the most expensive method of financing**
  - Up to twice cost of government borrowing.
  - User fees can exclude poor from access.
- **Very risky way of financing for public institutions**
  - PPP hospital in Leshoto cost $67 million per year, and it consumed more than half of the total government's health budget (Oxfam report).
- **Very complex to negotiate** - often renegotiated
  - 55% PPPs renegotiated, increase in tariffs in 62% of cases (IMF).
- **Low transparency and limited public scrutiny**
  - Commercial confidentiality issues.
  - Greater opportunities for corrupt behaviours.

4. Concluding remarks

- **The current trend places an excessive emphasis on private finance**
    - But public and private finance are not necessarily substitutable
- **Transparency and democratic accountability are key**
    - ODA and other public funds in support of private investment should be subjected to development effectiveness principles
    - The development focus of ODA should be preserved, and the ODA measurement system should set fair incentives
    - Careful choice of the financing mechanism