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The private turn in development finance

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Abstract

The last few decades have seen dramatic changes in development finance. These have been accompanied by a redefinition of the purpose of development cooperation. A strong belief in the potential of private flows to finance development has come to prevail and public or official flows have become increasingly deployed in support of private flows as the newly projected main source of development finance. This has specific implications regarding aid instruments, in particular through 'blending' and the attempt to rely increasingly on public-private partnerships. As aid and development cooperation become deployed increasingly to mobilize private finance, the core role of public finance for public goods is downplayed. This trend has accelerated as a result of the GFC with its specific implications for fiscal space to support ODA in developed economies. This Working Paper 140 is part of Deliverable D606 on the Financial Implications of the New Relationship between the EU and the Developing World.

Key words: Official Development Assistance, development cooperation, blending, public private partnerships, Development Finance Institutions.

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1. Introduction

The last two decades have seen dramatic changes in trends of various forms of finance flowing to developing countries. Developed countries' aid flows fell during the 1990s, after having reached a peak at the start of the decade. As aid fell during the 1990s, private flows grew rapidly and, from 2003, picked up at an exponential rate, after having collapsed at the turn of the century in response to a series of international financial crises. Private flows suffered another dent as the global financial crisis erupted but recovered very quickly soon after that (from 2010 onwards). As such, the last decade has witnessed the fast integration of some developing countries (or emerging and developing countries) in international financial markets as private capital flows to (and from) EDEs have surged, except for the temporary blip due to the Lehman collapse. Further, while official flows accounted for over half of total net long-term flows to developing countries at the start of the 1990s, this fell to an average of just over a third in the years preceding the current global crisis (2005-2007), despite the renewed increase in ODA from the early 2000s onwards. Since, they stand at approximately just under 40 percent of total net flows to developing countries.

The GFC has had negative implications for the willingness of Northern donors to finance development assistance. This is evident in their lackluster performance in terms of ODA/GNI ratios. The latter has been on a declining trend since 2010 and stands at an average of 0.29 percent of GNI in 2014. This remains far away from the committed target of 0.7 percent and below shares observed in the early 1990s. The limited fiscal capacity (and political willingness) to fund official development assistance of Northern donors is likely to persist for the coming years, as Northern countries frequently invoke budgetary constraints at home and changes in the global financial landscape.

Accompanying these trends there has been a redefinition of the purpose of Official Development Assistance (ODA) and development cooperation more broadly. This has been driven by the weakening of Northern donors' commitment to the public financing of development. A strong belief and commitment to the potential of private flows has come to prevail. The fast expansion of private flows since the early 2000s has indeed often been the result of specific policies enacted by Northern donor countries (or financial institutions) – in

particular capital account opening and liberalisation of domestic financial systems. And when Northern aid picked up again in the early part of the 2000s, this reinvigoration was characterised by a distinct understanding of the role of aid: in support of private flows as the main source of development finance. This had specific implications pertaining to the increasing prominence of new instruments of aid, in particular through various “blending” mechanisms, including the widespread promotion of public-private partnerships (PPPs). As ODA becomes increasingly deployed to mobilize private finance for development, the core role of public finance for public goods is downplayed. These trends has been accelerated through the implications of the GFC for fiscal space to support ODA in developed economies.

This working paper explores in detail how the official financing for development discourse has become centrally organised around a main focus on the private sector as both purpose and source of “development” finance. It proceeds as follows. Section 2 provides a brief genealogy of the private turn. It first teases out the discursive shifts implied by the private turn. It proceeds to explore the private turn in practice and gives an example of the private turn in action. The section also documents the particular model of development cooperation that is implied through the private turn with its emphasis on synergies across concessional and non-concessional flows and highlights the sectors that have benefited most strongly from the private turn. Section 3 documents the specific way in which the private turn has been promoted for the European context. Section 4 discusses the European Blending Facilities that have been created since 2007 in an attempt to increase the catalytic effect of aid for the mobilisation of other non-concessional and private flows for financing development. Section 5 proposes a critical appraisal of the increased deployment of public resources for the promotion of private participation in development as implied in the private turn. Section 6 concludes this part of the Report.

2. The private turn in development finance: A genealogy

Discourse

The trends described in Part I of this Report have been accompanied by a changing conceptualisation of development cooperation. Indeed, during the last two decades, we

have seen the ascent in the official (Northern) development community of a firm belief in, and strong commitment to, the potential of private flows to finance development. Private flows are now projected as a superior substitute for aid flows, which had traditionally been considered as the more suitable form through which to engage in development finance.ⁱ The European Report on Development (ODI 2015, p. 80) highlights that:

“While the earlier models on finance needs assumed that ODA would fill any gaps in reaching the MDGs, various recent modelling studies have moved on from the reliance on ODA and provide evidence of the potential of better managed and increased domestic tax revenues as well as private capital flows to contribute to the achievement of the MDGs and their post-2015 successors, the SDGs.”

The fast expansion of private financial flows to developing countries has been promoted through various donor-promoted measures (encompassed in aid packages or trade and investment treaties), including capital account liberalisation and regulatory changes in the service of more foreign investor-friendly domestic environments.ⁱⁱ This has combined with a reorientation of Official Development Assistance (ODA) now understood as key in leveraging private finance for major investments needed for development (such as e.g. in social and economic infrastructure). Increasingly, mechanisms such as public-private partnerships are to be instrumental in pooling resources for these investments. This redefinition of ODA's role has culminated in various contributions around the post-2015 development financing framework, including through the Third Financing for Development (FFD3) summit and various statements by major actors in international development (World Bank and IMF 2015; World Bank 2013; G20 2013; United Nations Conference on Trade and Development 2014b; ODI and UNDP 2014).

The shift, which we refer to as “the private turn” in development cooperation and finance, has been evident in official discourse on development finance from the late 1990s onwards. It has, however, become increasingly visible through the outcome documents of the successive United Nations Financing for Development summits, leading to the Third International Conference for Financing Development that took place at Addis Ababa (Ethiopia) in July 2015. At the first UN Summit on Financing Development in Monterrey in



2002,ⁱⁱⁱ the principle that financing for development was increasingly to be provided through international capital markets became officially adopted by the international community. The idea was that for developing countries to overcome high levels of poverty, they should put in place transparent, stable and predictable investment climates with the aim of attracting private international capital flows. This required special attention to property rights and business-friendly macroeconomic policies and institutions. A residual and auxiliary role for aid emerged as part and parcel of the rapid expansion of private financial flows, with an emphasis on its role in “capacity” or “institution” building, promoting an enabling environment for private investment, both domestic and foreign.

These ideas were reiterated at the Doha Review Conference on Financing for Development in 2008.^{iv} In the midst of the unfolding global financial and economic crisis, the Doha Declaration insisted that there was a persistent need (paragraph 23):

to strengthen national, bilateral and multilateral efforts to assist developing countries in overcoming the structural or other constraints which currently limit their attractiveness as a destination for private capital and FDI ... Such efforts could include the provision of technical, financial and other forms of assistance; the promotion and strengthening of partnership, including public-private partnerships and cooperation arrangements at all levels.

The text continued (paragraph 24):

The programmes, mechanisms and instruments at the disposal of multilateral development agencies and bilateral donors can be used for encouraging business investment, including by contributing to mitigating some risks faced by private investors ... ODA and other mechanisms, such as, inter alia, guarantees and public-private partnership, can play a catalytic role in mobilising private flows.

The emphasis was on an “enabling domestic and international investment climate”, with particular attention for contract enforcement and respect of property rights (paragraph 25). Special mention was made of the need to improve support for private foreign investment in infrastructure development. In sum, greater opportunities for ODA to leverage private

resources were to be sought (paragraph 47): “the interplay of development assistance with private investment, trade and new development actors provides new opportunities for aid to leverage private resource flows”. Further, “capacity development” and technical cooperation were understood as important ways to enhance developing countries’ prospects to achieve development objectives (paragraph 53), with technical cooperation in such areas as governance, institution building and promotion of best practice acquiring specific importance.

At the World Bank, a core participant (or perhaps leader) in the development community, the shift to embrace private financing for development was reflected in the adoption of the 2002 Private Sector Development Strategy as the corporate blueprint for the institution. The strategy had two broad objectives: to extend the reach of markets through investment climate reform with a special focus on measures that help micro, small and medium enterprises and to improve access to basic infrastructure and social services through private participation. The Bank’s 2007 Long Term Strategic Framework (World Bank 2007) reaffirmed these priorities as the two pillars (investment climate and empowerment pillars) for its framework for thinking about development. Development was redefined as private sector development. At the operational level, the broad claim of the World Bank strategy was to shift performance risks from domestic taxpayers in developing countries to private parties, where these were deemed better able to manage risk.^v

For the Bank, as the environment within which it was operating was changing rapidly with the rise of international private finance, its institutional set-up and programmes needed to reflect that change. The private sector became projected as the main pillar of development and the role of the public sector evolved accordingly now to focus on “unlocking the kinetic energy of the private sector” (World Bank and IMF 2012, p. 1). The World Bank Group became reconstituted to demonstrate its recognition of the central role of the private sector in the following ways. First, it increased its levels of support for an “enabling” environment for investment and private sector activity, both through lending and through technical assistance and knowledge services. IBRD/IDA yearly loan commitments aimed at enabling investment, strengthening capital markets, building infrastructure for private sector services, and strengthening the foundations for private sector activity increased and came to represent between 30 and 47 of all World Bank (IBRD/IDA) lending, depending on the year

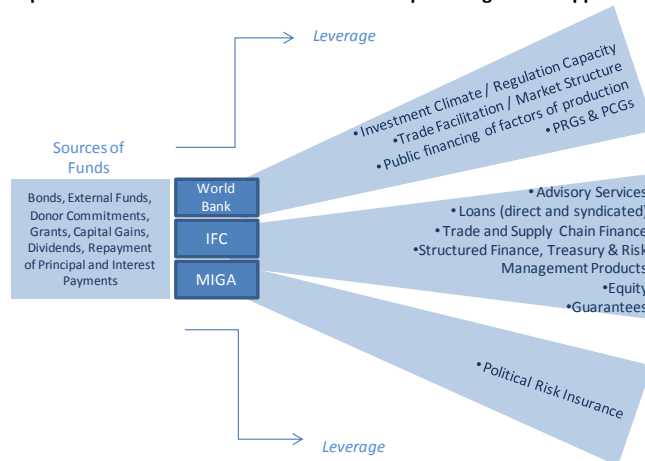
(World Bank and IMF 2012, p. 2). And more than a third of Bank analytical and advisory work now supports a critical aspect of private sector development (including investment climate, market reforms or property rights). Second, the Bank group, including through the activities of its private sector affiliate, the International Finance Corporation (IFC) and its Multilateral Investment Guarantee Agency (MIGA), commits greater volumes of support directly to the private sector.^{vi} Third, the World Bank Group increasingly mobilises efforts through joint initiatives across its different affiliates (public and private sector) in an attempt “to leverage the comparative advantages” of its different branches. The World Bank Group continuously seeks to enhance the synergies across its different affiliates through specific initiatives. This includes specific initiatives to raise the volume of PPP financing, of which the Global Infrastructure Facility is a recent manifestation (see also below).^{vii}

In brief, the World Bank Group has come to see nearly all of its areas of engagement as a way to facilitate private sector development (see also its Modernization Agenda):^{viii}

“Increasingly, the arms of the World Bank Group that finance, advise and insure the private sector directly – IFC and MIGA – are working on shared programs and projects with World Bank units that focus on support to governments through public policies, regulations and underlying investments to catalyze private sector activity. This collaboration ranges from a joint World Bank and IFC division to joint-financing of investments, particularly in low income countries, to team collaboration in the provision of advisory services” (World Bank and IMF 2012, p. 2).

The following diagram sums up the way in which the World Bank Group understands its various roles (through its various affiliates) to leverage and support the private sector:^{ix}

Diagram 2: Conceptual Overview of How the World Bank Group Leverages and Supports the Private Sector



Source: World Bank and IMF (2012)^x

In general, the private turn in development cooperation has sought to promote synergies between concessional and non-concessional development cooperation across various donors (bilateral and multilateral). This new model of development cooperation proceeds through the use of “blended finance instruments”, the use of aid to “leverage” other financial flows, or emphasizes the “catalytic” effect of aid in the mobilization of non-aid official and private financial flows.^{xi} The idea is to increase resources available to developing countries by mobilizing finance and investments from the private sector instead of increasing public resources.^{xii} “Blending” or “leveraging” captures the specific way in which official development cooperation can be used directly to catalyse private flows. Through blending, the grant element can be used in a strategic way to attract additional financing for important investments in developing countries by reducing exposure to risk (see Martin 2015). Leveraging can involve a host of different “partners” (including multinationals, commercial banks, etc.) and can take different forms (PPP promotion, guarantee instruments, equity stakes, etc.). As highlighted by UKAN (2015, p. 7) and illustrated above, while the principles behind leveraging have been around for some time,^{xiii} there has been a sharp increase in interest in the donor community recently. For Eurodad (2013, p. 8):

“blending could be seen as part of a potential sea change for development finance, which effectively shifts ODA from the public to the private sector, while at the same time helping to replace ODA with private finance”.

Recently, in the run up to the Third Financing for Development Summit that took place in Addis Ababa in July 2015, the Development Committee of the World Bank and the IMF explicitly argued for a transformation of development finance post-2015 which puts “blending” or “leveraging” at its heart (World Bank and IMF 2015).^{xiv} For the institutions, a “paradigmatic shift” on how development will be financed is required to unlock the resources needed to achieve the Sustainable Development Goals (SDGs), which are to succeed the Millennium Development Goals. For this purpose “the world needs intelligent development finance that goes well beyond filling financing gaps and that can be used strategically to unlock, leverage and catalyze private flows and domestic resources” (World Bank and IMF 2015, p. 3).

The private sector is given a “pivotal” role in financing the post-2015 development agenda (p. 12 paragraph 34). It is recognized that private sector firms seek investment opportunities on the basis of risk-return considerations, so public sector measures that seek to encourage private investment will need to decrease perceived risk or increase anticipated returns (paragraph 35). Multilateral institutions like the World Bank can provide support in various ways. This includes improving the investment climate, for which multilateral institutions can act “as technical advisers and honest brokers between commercial interests and policymakers” (paragraph 39). Multilateral development institutions can also build platforms to connect private sector corporations and financial institutions with policymakers and official agencies “to identify and put in place ... the most important policies”. Further, drawing on the Multilateral Development Banks’ preferred creditor status, private investors assisted by these institutions can obtain funding sources on more advantageous conditions (World Bank 2013, p. 25). In sum, multilateral institutions aspire to play a crucial role in identifying areas of market failure “or areas where markets are yet non-existent” and “to structure commercially viable projects in these areas” (paragraph 40). Or, as stated in World Bank and IMF (2015):

“Multilateral Development Banks work to provide the necessary incentives (political comfort, appropriate pricing structure, regulatory advice, advisory funds, risk sharing, co-investment, etc) to address risk-return requirements of the private sector while encouraging inclusion and high standards”.

This model of development cooperation was fully endorsed through the FFD3 summit which put blended finance and various forms of public private partnerships to deliver blended finance at the heart of its outcome document. Paragraph 48 of the final outcome document strongly reflects this emphasis:^{xv}

“We recognise that both public and private investment have key roles to play in infrastructure financing, including through development banks, development finance institutions and tools and mechanisms such as public-private partnerships, blended finance which combines concessional public finance with non-concessional private finance and expertise from the public and private sector, special-purpose vehicles, non-recourse project financing, risk mitigation instruments and pooled funding structures. Blended finance instruments including public-private partnerships serve to lower investment-specific risks and incentivize additional private sector finance across key development sectors led by regional, national and subnational government policies and priorities for sustainable development. For harnessing the potential of blended finance instruments for sustainable development, careful consideration should be given to the appropriate structure and use of blended finance instruments. Projects involving blended finance, including public-private partnerships, should share risks and rewards failure, include clear accountability mechanisms and meet social and environmental standards. We will therefore build capacity to enter into public-private partnerships, including with regard to planning, contract negotiation, management, accounting and budgeting for contingent liabilities. We also commit to holding inclusive, open and transparent discussion when developing and adopting guidelines and documentation for the use of public-private partnerships, and to build a knowledge base and share lessons learned through regional and global forums”.

As we move forward from the Millennium Development Goals towards a new set of Sustainable Development Goals, SDG 17 further puts “global partnerships” at the heart of sustainable development.^{xvi} More specifically, while the SDG17 calls for greater efforts of domestic resource mobilization together with greater efforts on behalf of donors in delivering on the 0.7 percent target for ODA/GNI, it enshrines the principle that “additional financial resources” should be mobilized from “multiple sources” (SDG17.3). It calls explicitly to “[e]ncourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships”

(SDG17.17), a call that has been much denounced by various civil society organisations given the poor evidence record bearing on PPPs (see further below). In essence, with the projection of ODA budgets as under pressures, due to the persistent fiscal ramifications of the GFC, and ODA falling short of providing the resources necessary to address the next set of development goals, the SDGs as successors of the MDGs, the (Northern) donor community seeks to consolidate an approach that increasingly uses what are projected to be limited ODA resources as leverage for private capital in financing development in developing countries.

These trends have also characterized the discourse on development effectiveness, which has been projected through a set of conferences, including Rome (2003), Paris (2005), Accra (2008) and most recently Busan in 2011.^{xvii} While the successive declarations on development effectiveness have emphasized the importance of developing country ownership for effective aid outcomes, the Busan outcome document explicitly sought to highlight a role for the private sector in development effectiveness. This included: the promotion of an “enabling” environment for private investment, including through increased foreign direct investment and public private partnerships; the enablement of the private sector to participate in the design and implementation of development policies to foster sustainable growth and poverty reduction; the development of innovative financial mechanisms to mobilize private finance “for shared development goals”; the promotion of “aid for trade” and mechanisms that mitigate risks faced by the private sector; exploring the scope for further complementarities between public and private sector participants.^{xviii}

The private turn in practice

Leveraging draws on specific instruments. The main instruments through which ODA can leverage private investment are summed up in Table 1 below:

Table 1: Main instruments to leverage private investments with ODA

Mechanism	Description	Use
Interest rate subsidies	Grant is used to cover part of the interest payments. The project promoter thus receives a subsidised loan below market interest rate	Frequent
Loan guarantees	Grant is used to cover the losses of the lender in case of default, so that it agrees to finance the project or to do so in better conditions	Frequent
Technical Assistance	Grant is used to provide specialised assistance during project preparation or implementation	Frequent
Structured finance – first loss piece	Donors offer finance with a lower repayment priority than the debt issued by other financiers. In case of default, donors would absorb the losses first	Less frequent, used by specialised DFIs mainly
Equity investment	A direct capital contribution is made to a company of investment funds, usually in order to send a signal to other investors or cover for first-losses and attract additional capital	Less frequent

Source: UKAN (2015, p. 8)

More broadly, the support from the OECD donor community for the private sector has taken both direct and indirect forms. Indirect support to the private sector happens through policy and regulatory advice (for an “enabling environment”),^{xx} capacity building, public finance interventions, while direct support to private sector happens through project preparation (“building a pipeline of bankable projects”), financing, credit enhancement, output-based aid (OBA)^{xx} arrangements, guarantees, risk mitigation, and various other (see Table 1).^{xxi}

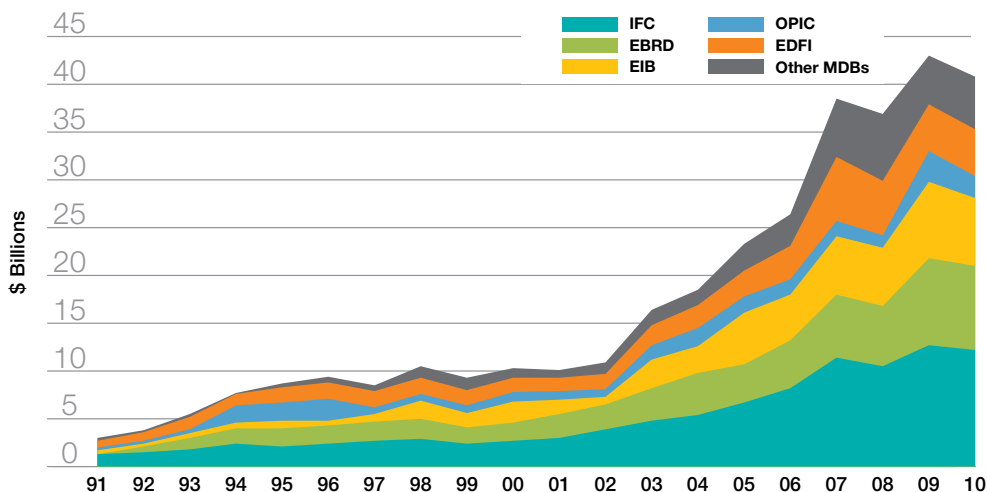
The private turn in aid has had specific implications for trends in development cooperation (see also Di Bella et al. (2013); Actionaid, Eurodad, and Oxfam 2014). With the increased celebration of the private sector for the mobilisation of resources for development, there has been a growing interest in Development Finance Institutions (DFIs) and IFIs (or their affiliates) with private-sector oriented activities (see Annex 1 for a list of International Finance Institutions with private sector operations). DFIs are publicly owned institutions “that lend money, either at commercial rates or on concessional terms, to public or private sector borrowers in developing countries” (Eurodad 2013, p. 7).^{xxii} The activities of DFIs do

not traditionally count towards ODA as they fail the concessionality threshold and as they often directly lend to (or take positions in) private sector companies. Kingombe, Massa, and te Velde (2011, p. 1) clarify the purpose of DFIs as follows: ^{xxiii}

“In general terms, DFIs provide finance (e.g. loans, guarantees, equity positions) to the public sector (most parts of the multilateral development financial institutions (such as the MDBs), e.g. the African Development Bank (AfDB)) or the private sector (e.g. International Finance Corporation (IFC); CDC; DEG (German Investment Corporation); most of the European Bank for Reconstruction and Development (EBRD)). The *shareholders* (donor countries, e.g. the UK represented by DFID or, in some cases, the private sector) provide callable capital/endowments to DFIs, which they use to provide loans and equity positions. These can leverage in other sources of finance, including private finance”.

In the context of fostering private participation (including in infrastructure) in developing countries, DFIs (and IFIs with private-sector oriented activities) seek to mitigate risks of private-led investments. In particular, DFIs/IFIs seek “to compensate for the lack of financial resources and remove investment bottlenecks through advisory services (e.g. project preparation facilities), and co-financing (e.g. equity and debt) and risk mitigation finance (e.g. guarantees)” (OECD 2015, p. 25).

Figure 1: Private sector commitments by International Financial Institutions, 1991-2010 (see Annex 1 for acronyms).



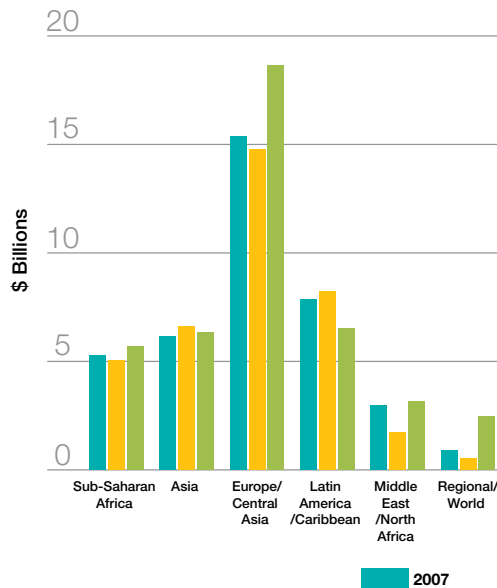
Source: IFC (2011, p. 36)

Kingombe et al. (2011) highlight that there has been a sharp increase in the commitments of DFIs' annual financial commitments, as indicated in Figure 1 above. While these accounted for only 5 percent of capital flows to developing countries around 2010, they were higher for certain regions (reaching nearly 11 percent of capital flows to SSA) and various OECD governments and multilateral institutions have indicated their ambition to transform these institutions into major actors in the world of development finance (Kingombe et al. 2011). Further, IFC (2011, p. 21) points out that nearly one-fifth (18 percent) of all long-term syndicated loans to developing countries (with a maturity in excess of 1 year) include an IFI as a participant. This draws on the core role of private-sector oriented IFI which is to draw in private sector finance. The IFC (2011, p. 30) clarifies that partnerships with private investors has always been a central part of these institutions involvement, with participation in a project often limited to below 50 percent and the rest provided by commercial banks, equity investors, etc.

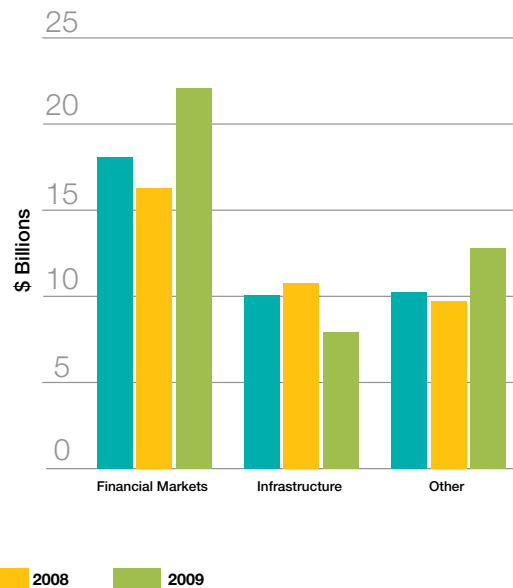
The next figure shows that there has been some regional variation in the fast increase of activities of private-sector oriented IFIs, with commitments to the private sector standing out for the region of Europe and Central Asia. Figure 2 below also indicates that the private turn has favoured two sectors, namely finance and infrastructure.

Figure 2: IFI commitments to the private sector by region and sector, 2007-09

IFI Commitments to the Private Sector by Region



IFI Commitments to the Private Sector by Sector



Source: IFC (2011, p. 37)

These data indicate that apart from implying a new model of development cooperation which seeks to exploit synergies between aid and non-aid flows across various official development cooperation institutions or arrangements, the private turn in official development cooperation has favoured two sectors: financial markets and infrastructure. Indeed, the argument in favour of leveraging or “blending” has been particularly popular in the context of infrastructure financing, for which the promotion of PPPs has witnessed a strong revival over the last few years.^{xxiv} This corresponds to the mass of wealth, in the hands of various institutional investors, seeking the stable and inflation-linked yields that PPP investments potentially offer (see OECD 2014a).

The next section documents the way in which European development cooperation has ridden the wave of the private turn. But before we proceed we provide an example of the private turn in action.

The Dakar-Diamniadio Highway, SENAC, Eiffage and “blending”

In August 2013 a new toll road was inaugurated in Senegal providing a 25 km link between Dakar and Diamniadio, to the west of the capital city. The road connects Dakar to its new Blaise Diagne international airport and also affects transport between Dakar and Thies, Senegal's second most populous city. It was the first greenfield road PPP in SSA (outside of South Africa) as well as the first toll road in Senegal and West Africa more broadly. It presents an important flagship project for the country, region as well as the entire sub-Saharan African continent as it introduces a new way of providing road transport. The PPP is operated as a concession that was awarded for 25 years to the special purpose company Société Senegalaise de l'Amiante Ciment (SENAC) S.A. SENAC is a wholly owned subsidiary of the French multinational corporation (MNC) Eiffage, which is a leading construction and toll road operation company. The concession was awarded to SENAC S.A. for the design, building, "financing" and operation of the toll road for the length of the contract. As the Senegalese government was developing its plan for the road, a grant was provided to the Government of Senegal by the Public Private Infrastructure Advisory Facility (PPIAF), which is a World Bank-coordinated donor platform that seeks to promote PPPs across the developing world. The grant was formally awarded to engage in stakeholder consultations. The feasibility study produced as a result of these consultations indicated that an investment subsidy of the Government of Senegal to the prospective private provider of the toll road would be necessary to attract private interest. In return, the concessionaire would pledge to keep the tolls at "relatively low levels" (World Bank Group 2015).

A financing package was put together by a set of international (and national) development cooperation agencies. The Agence Française du Développement (AFD) and the African Development Bank each provided a concessional sovereign loan to the Government of Senegal which would enable the Government of Senegal to finance the subsidy to SENAC, which the original feasibility study had identified as necessary to attract private interest. These concessional sovereign loans were supplemented by non-sovereign loans (on non-concessional terms) by publicly backed international financial institutions directly to SENAC. Finally, SENAC brought in some equity and a commercial provided a loan to SENAC .

Table 2 below gives an idea of the share of publicly-backed concessional and non-concessional resources that was deployed to make a private investment possible in the

construction and operation, if not financing, of the toll road (access to which obviously is regulated by capacity to pay). Official development partners provided a total of US\$176 million and the Government of Senegal supplemented this with another US\$ 54 million of public resources. The private sector contributed US\$ 48 million (of which US\$ 40 in equity and US\$8 through debt) to the total financing of the road construction costs. So while the idea of leveraging originally is about deploying small amounts of publicly-backed resources to leverage large amounts of private finance, the opposite seems to have taken place here! Large publicly backed resources have been leveraged by a small amount of private finance and this has enabled a privately-operated road to collect tolls from road-users in Senegal, with the toll-operator owned by a French MNC.

Table 2: Distribution of Road Construction Costs, Dakar-Diamniadio Toll Road

Institution	Nature	Amount (USD million)	Share of total
a. Government of Senegal	Government Budget	54	19%
b. Official Development partners		176	64%
	Sovereign Loans	105	38%
AFD	Concessional Loan	37	13%
AfDB (African Development Fund)	Concessional Loan	67	24%
	Non-Sovereign Loans	72	26%
World Bank - IFC	Non-concessional Loan	27	10%
AfDB (Private Arm)	Non-concessional Loan	16	6%
West African Development Bank	Non-concessional Loan	29	10%
c. Private Sector	Equity and Non-sovereign Loan	48	17%
Concessionaire (SENAC)	Equity	40	14%
CBAO Group Attijariwafa Bank	Non-concessional Loan	8	3%
Total Construction Costs of PPP		278	100%

Source: OECD (2015, p. 47).

A complex web of interactions emerged between private and public and publicly backed institutions to enable the Dakar-Diamniadio toll road PPP, which is to operate as flagship project for the broader region. This has included the indirect extension of concessional loans to PPP's special purpose vehicle (which nevertheless remain on the government books) together with the direct extension of publicly backed non-concessional loans to the special purpose vehicle operating the toll road (OECD 2015). We consider further below in section 5 the implications of the promotion of private sector involvement in infrastructure

provisioning. We, however, first take a closer look in the next two sections at the way in which the private turn has affected European development cooperation.

3. Europe and the private turn

Collectively, the EU and its 28 member states are the world's largest aid donor. However, there has been less focus on the EU in critical commentary on development assistance, as compared, for instance, to an institution like the World Bank. This is probably due to the disparate or fragmented nature of development cooperation emerging from the EU. Let us give a brief overview of what the EU development cooperation landscape looks like (see Laskarides 2015 for an extensive account).

EU ODA is disbursed through the bilateral aid budgets of individual members as well as through the EU institutions. In 2012, EU institutions and member states collectively spent € 55.2 billion in ODA, with approximately one fifth of this under management by EU institutions. At the level of the European Union, aid comes from two sources: the general community budget (financed by member states' contributions to the budget and own resources of the European Community)^{xxv} and the European Development Fund (EDF). The latter is financed by direct contributions from member states.^{xxvi} ODA is disbursed through a set of instruments (see Laskarides 2015) and these are implemented mainly by EuropeAid, which is the Community's external cooperation office created in 2001 and which was merged into DG Development and Cooperation (DEVCO) in 2012.

The European Commission plays the dual role of multilateral/bilateral donor and the coordinating body between member states. Through a set of initiatives, the European Commission has sought to increase streamlining of communal and member states' development policies (European Union Centre of North Carolina 2012). In general the EU seeks to improve coordination between the EU and member states, increasingly through joint programming of aid. It also seeks to make increased use of new funding sources, including blending facilities and private sector funds (European Commission 2014a). Mirroring the private turn described above, various statements on development by the EC/EU, from the 2000s onwards, increasingly started to point to the imperative of exploring synergies between ODA and other (non-concessional) flows to developing countries. This

has had implications for the relationship across institutions, in particular the relationship between the agencies traditionally involved in ODA (DEVCO/Europeaid) and the European Investment Bank (EIB) and national DFIs of member states.

DFIs in Europe, including the EIB, have increasingly been drawn upon for synergies of aid management, as private sector development became a principal focus of European development assistance (in line with the private turn more broadly across the OECD donor community and other IFIs). Under the framework of the Cotonou Agreement, for instance, an Investment Facility was set up (in 2003), which placed some of the EDF (i.e ODA) funds under EIB management with a mandate to support private sector development in ACP states “by financing essentially – but not exclusively- private investment” (European Commission 2013b).^{xxvii} The Investment Facility seeks to provide support for the private sector, in particular SMEs through support for the local savings’ market but also seeks to facilitate foreign direct investment.^{xxviii} The Facility provides support through debt finance, guarantees, equity-type financing and acts as an investor in private equity funds.^{xxix}

The European Consensus on Development endorsed by member states in December 2005 sought to establish formally a framework to coordinate aid policies across member states and the EU institutions.^{xxx} It presented the first European document “to contain a shared vision of principles, values and objectives, as well as political aspirations on which the European development aid could be based” (Zemanová 2012, p. 41). The Consensus sought to renew the commitment to increasing ODA, reaffirmed the principles of ownership in development cooperation etc. It also called for the strengthening of synergies between programmes supported by the European Investment Bank and other DFIs and those financed by the Community. Specifically, paragraph 119 of the Consensus asserted that: “The EIB is playing an increasingly important role in the implementation of Community aid, through investment in private and public enterprises in developing countries”. The Agenda for Change endorsed in 2011 (European Commission 2011) further pursued this emphasis wishing to increase the use of blending of loans and grants (mixing EU grants with loans or risk-sharing and guarantee mechanisms) arguing that this would generate substantial financial leverage of EU aid resources to support public and private investments in developing countries. Officially, blending mechanisms are projected as a response to the need to increase the volume of development financing while resources are constrained (“to

do more with less”); they allegedly allow for more speedy aid disbursement as well as would allow for greater flexibility to adapt to changing environments (Bilal and Kratke 2013).^{xxxix} For Gavvas (2010):

“Blending offers the prospect of EU grant funding being freed up with possible reallocation to the neediest countries. The theory suggests that an effective and efficient blending instrument should involve lower grant shares in countries with higher incomes (other things being equal)”.

Indeed, the increased occurrence of blending aims to respond to the Commission’s “differentiation” approach, which seeks to act on the increased heterogeneity across developing countries (see Eurodad 2013). Through this approach, the Commission would concentrate its ODA in Low Income Countries (LICs), while leveraging other flows to Middle Income Countries (MICs) through various blending mechanisms. Blending approaches are however practiced across the spectrum of developing countries (see also below).^{xxxix}

A 2012 Communication from the Commission to the European Parliament and the Council of Ministers (European Commission 2012) reaffirmed the crucial role of the private sector in development financing, which needs to be mobilised through innovative ways of funding development: “The EU should use its grants more strategically and effectively for leveraging public and private sector resources”. This led to the launch in December 2012 of an EU Platform for Blending in External Cooperation with the explicit objective of improving the quality and efficiency of EU external cooperation blending mechanisms.^{xxxix} “This includes promoting cooperation and coordination between the EU, EIB and other relevant financial institutions (FIs) and other stakeholders, thereby increasing the impact and visibility of EU external cooperation”.

The Agenda for Change was followed by “A Decent Life for All” (European Commission 2014a), which outlined an EU vision for a post-2015 development framework. Again the Communication emphasised that the private sector remains the key driver of inclusive and sustainable growth. And governments are urged to make full use of the opportunities provided by the private sector, both at domestic and international level. Also, the “catalytic” potential of ODA is to be better exploited through such mechanisms as blending. The 2013

Communication Beyond 2015 (European Commission 2013a) focused on how the post-2015 framework is to be financed and offers (yet) another example of a proposal for a future financing framework that “reinforces the linkages between public and private finance, and domestic and international resources” (Griffiths et al. 2014, p. 4). For the European Commission (2013a, p. 8):

“Innovative modalities of delivering finance can increase effectiveness and should be scaled up. Blending of grants with loans and equity, as well as guarantee and risk-sharing mechanisms can catalyse private and public investments, and the EU is actively pursuing this.”

And while the text continues to concede that private finance is fundamentally different from public finance, and that private interests do not “per se” pursue public policy goals, “a small shift in private investment priorities and modalities could bring about significant benefits to public policy goals”. These shifts, for European Commission (2013a), can be achieved primarily through domestic and international policy incentives, such as those offered by public-private partnerships.

The European Commission communication “A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries” (EC 2014 /263) published in May 2014 set out further how to operationalise a vision of development that puts the private sector at its centre. The Communication indicated how the Commission works closely with developing country governments to support them in developing and implementing policies to support private sector development. This includes the deployment of grant funding in support of a range of activities such as regulatory reform, capacity-building, and the provision of business development services (with a projected focus on strengthening local MSMEs). The Communication also highlighted that the Commission is actively seeking for new ways to harness the potential of the private sector as a:

“financing partner, implementing agent, advisor or intermediary to achieve more effective and efficient delivery of EU support, not only in the field of local private sector development, but also in other areas of EU development cooperation such as sustainable energy,

sustainable agriculture and agribusiness, digital and physical infrastructure, and the green and social sectors” (European Commission 2014b, p.3).

The strategic framework guiding EU development cooperation sees the private sector not solely as a partner but also seeks to assist the private sector in achieving “positive development results as part of its core business strategies”. EU programmes should be delivered as much as possible through market-based approaches, which create business opportunities for local (and foreign) entrepreneurs (with a special role for cash transfers in the context of social programmes as these allow for market development by supporting demand) (p. 4).

The Commission has specified a set of criteria that should be deployed when supporting private sector actors and these are summed up in the Box below.

Box 1: Criteria for supporting private sector actors

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- (1) **Measurable development impact:** Support given to a private enterprise or financial intermediary has to contribute in a cost-effective way to the achievement of development goals such as job creation, green and inclusive growth or broader poverty reduction. This requires transparency as regards objectives and results, along with appropriate monitoring, evaluation and results measurement arrangements.
- (2) **Additionality:** Without public support the private enterprise would not undertake the action or investment, or would not do so on the same scale, at the same time, in the same location or to the same standard. The supported action should not crowd out the private sector or replace other private financing.
- (3) **Neutrality:** The support given should not distort the market and should be awarded through an open, transparent and fair system. It should be temporary in nature with a clearly defined exit strategy. Support justified by market failures and consequent risks should not have the effect of discouraging regulatory reform efforts addressing the causes of market failure.
- (4) **Shared interest and co-financing:** Partnerships with the private sector have to be based on cost-effectiveness, shared interest and mutual accountability for results. The risks, costs and rewards of a joint project have to be shared fairly.
- (5) **Demonstration effect:** A supported action should aim to have a clear demonstration effect that catalyses market development by crowding in other private sector actors for the replication and scaling-up of development results.
- (6) **Adherence to social, environmental and fiscal standards:** Private enterprises receiving support have to demonstrate that their operations are compliant with environmental, social and fiscal standards, including respect for human and indigenous rights, decent work, good corporate governance and sector-specific norms.

Source: European Commission (2014b)

The Communication (European Commission 2014b) further indicates that the private sector development mission is all-encompassing, applying to most areas of EU support, including in agriculture and agribusiness, sustainable energy, infrastructure and social sectors, and is also prominent in the areas of environment, climate change, migration, risk management, raw materials, natural resources, healthcare and pharmaceuticals, sustainable tourism, and nutrition. The role of the Commission is to:

“develop ways to better integrate private sector development objectives in support strategies, and ... identify modalities for using the private sector as an implementing and financing partner in these areas” (p. 9).

This includes the promotion of PPPs through support for legal and regulatory reform, financial instruments to leverage private funding for infrastructure projects, etc. , as well as the search for synergies with other aid instruments such as budget support (p. 15). Indeed:

“Budget support, and the associated policy dialogue, can usefully underpin business environment reforms in partner countries by promoting the stability of macroeconomic frameworks, sound public financial management, transparency and oversight of the budget. Furthermore, specific reform contracts and results indicators focusing on private sector development can help achieve business environment reforms.” (p. 15)

In a follow-up statement by the Council of the European Union (2014, p. 1) it was re-affirmed that the role of the private sector needed strengthening for the implementation of the future SDGs, as the private sector was now understood to be key to deliver on the “new global partnership” of the post-2015 agenda (see above). To this purpose, the Council urged the Commission to enhance the interaction between the EU and Member States in the promotion of the strategic role attributed to the private sector in development. Vervynckt (2015) further draws attention to the role the EU played in placing private finance at the heart of the FFD3 negotiations seeking to promote greater roles for (European) Development Finance Institutions (which focus their activities on private companies and financial institutions) and to promote the use of “innovative” mechanisms of “development cooperation” such as PPPs and “blending”.

This shift towards the private turn in European development cooperation needs to be understood against the backdrop of the negative implications of the GFC for development assistance. In 2012, aid from the EU (and member countries) represented only 0.39 percent of EU's GNI (down from 0.44 percent in 2010), bringing this back to its lowest level since 2007, when aid represented 0.37 percent of EU's national income. In 2012, the EU countries delivered €50.6 billion in ODA, which represented a 4 percent drop as compared to the previous year.^{xxxiv} Aid has either been cut or has remained stagnant in 19 EU member states. The deepest cuts between 2011 and 2012 took place in Spain (49 percent), Italy (34 percent), Cyprus (26 percent), Greece (17 percent) and Belgium (11 percent) (CONCORD 2013, p. 5). CONCORD (2013, p. 8) adds that while most EU member states have confirmed their intention to honour the commitment to achieve the 0.7 percent ODA/GNI ratio, it remains unclear how they will achieve this. As already indicated earlier, while making less resources available for development cooperation, donors wish to make these resources work harder.

4. Implementing the private turn: the European blending facilities

In the context of the EU, a family of blending facilities have been set up since 2007 with the explicit aim to increase private participation in the delivery of development. The principle of the blending mechanism is to combine EU grants or concessional finance (from its budget or EDF programme) with loans or equity from public (non-concessional) or private financiers. The latter include loans by the international, regional and European bilateral financial institutions such as the European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Council of Europe Development Bank (CEB), and public national DFIs (such as Nordic Investment Bank (NIB), Agence Française de Développement des Etats de l'Afrique Centrale (AFD) and KfW Bankengruppe) (Ferrer and Behrens 2011).^{xxxv} The idea is that the EU grant element can be used strategically to attract additional financing (from non-grant public assistance as well as private investment) for important investments in EU partner countries by reducing exposure to risk (Planas 2012).^{xxxvi} Further, ODI (2011, p. 13) points to another guiding principle behind blending in the EU context, which is:

“to join forces (development expertise) and resources (development finance) between the European Commission (EC), the Member States and the development financiers following the spirit of division of labour and complementarity in order to fulfill partner countries development needs in the most efficient manner.”

The grant aid is intended to leverage additional non-grant financing, generally for infrastructure, energy or private sector development projects, to meet unmet investment needs (Bilal and Kratke 2013). While partners in the beneficiary country can be public, private or mixed, public partners have until now constituted the majority of beneficiaries (ODI 2011, p. 22). Grants flows to public authorities can, however, be on-lent to the private sector, for instance, in the form of guarantees or subsidies for a particular PPP, while the “leveraged” flows from DFIs or the private sector serve to mobilize finance for the private participant in the provision of a particular service.^{xxxvii}

The EU grant contribution in its blending mechanisms takes different forms of support to investment projects, including:^{xxxviii}

- Investment grant & interest rate subsidy - reducing the initial investment and overall project cost for the partner country;
- Technical assistance - ensuring the quality, efficiency and sustainability of the project;
- Risk capital (i.e. equity & quasi-equity) - attracting additional financing;
- Guarantees - unlocking financing for development by reducing risk.

For the EU, the increased deployment of blending mechanisms in development cooperation is a relatively new phenomenon. The EDF Investment Facility, which is under EIB management (see above), is its first manifestation and was created in 2003. It has been succeeded by the creation of a series of Blending Facilities (see below).^{xxxix} Further, although the resources involved in blending remain small as compared to the EU’s overall ODA budget (at 4 percent of total ODA in 2012), they have increased significantly over the last few years (see Figure X below), and the Commission has indicated across various

documents that it seeks increasingly to organise its development cooperation around the principle of blending.

Figure 3: Total ODA channelled through EC blending facilities since 2007 (millions of €)



Source: Eurodad (2013, p. 7)

Since 2007, the Commission has set up eight loan and grant blending facilities (highlighted in Table 1), covering almost all countries in the EU's area of external cooperation. The facilities receive grant funding from the EDF, the EU budget and member states, and this is blended with loans from other financial institutions. The facilities have broad stated objectives such as (quoted in ODI 2011, p. 26): "Promoting equitable socio economic development and job creation through the support for small and medium size enterprise and the social sector", and "To provide greater coherence and better coordination among the donors". But ODI (2011) add that most Facilities also include "supporting EU linked businesses as a priority" which is in contradiction to the EU member states' commitment on untied aid.

EU facilities are comparatively modest in size, totalling around €2.2 billion in 2013, but would have "unlocked" multiples in project financing from development finance institutions, regional development banks, beneficiary countries and the private sector (see Planas 2012; Rudischhauser 2012).^{x1}

Table 3: EU regional blending facilities and grants commitments until 2013

Instrument facility and launching year	Region covered	Allocation and sources of grant funds (in €m)				
		From 10th EDF	From EU Budget*	From MS	Other	TOTAL
EU-Africa Infrastructure Trust Fund - ITF (2007)	47 African countries	308.7	329 ear-marked for SE4All	84 (as of 30 Sept. 2012)	0	721.7
Neighbourhood Investment Facility - NIF (2008)	Countries eligible for European Neighbourhood and Partnership Instrument	0	767	72 (as of 31 Dec. 2012)		839
Western Balkan Investment Framework - WBIF (2009)	Western Balkan countries	0	196 (2008-2012)		EIB: 10, EBRD: 10, CEDB: 10 19 Donors: 84.95 (as of 31 Dec. 2012)	310.95
Latin America Investment Facility - LAIF (2010)	Latin American countries	0	192	0	0	192
Investment Facility for Central Asia - IFCA (2010)	Central Asia countries	0	65	0	0	65
Asia Investment Facility - AIF (2011)	Asian countries	0	30	0	0	30
Investment Facility for the Pacific - IFP (2012)	Pacific countries	10	0	0	0	10
Caribbean Investment Facility - CIF (2012)	Caribbean countries	40	0	0	0	40
	TOTAL	358.7	1,579	156	114.95	2,208.65

Source: Eurodad (2013)

The grants have mainly been deployed for infrastructure investment, with transport and energy dominating (followed by water and sanitation). Some facilities also seek to promote access to finance for MSMEs. And, while partners in the beneficiary countries can be public, private or mixed institutions, public partners have dominated the first years of the Facilities, with only 11 percent of the grant contributions disbursed through the Facilities going directly to private sector beneficiaries (ODI 2011; Eurodad 2013, p. 19). However, in 2012, the number of projects granted to private sector partners through the Facilities doubled as compared to 2011 and the European Commission plans a strong increase in this area (Eurodad 2013, p. 11; Rudischhauer 2012). The EU blending platform, which was set up in 2012, for instance, has indicated an interest in pursuing how the private sector can be involved more in the blending mechanisms, either as financier or as beneficiary. Indeed, the Deputy Director of DEVCO-EuropeAid clarified (Rudisschauer 2012):^{xli}

“Despite the emphasis so far on public investments, the Facilities do provide the means to catalyse also private investments. The regulatory framework of the Facilities allows using grants as innovative financial tools such as risk capital and investment guarantees. So far grant support of this type has been used to support Micro, Small and Medium Enterprises (MSME), primarily to provide access to finance. One approach is to use the grant element as a *first-loss tranche* in a structured fund and thus leverage the amount of resources that is available to achieve developmental objectives. ... The European Commission is currently working to extend the use of innovative financial tools such as risk capital and investment guarantees with a view of unlocking additional private investments in other sectors, such as infrastructure. Blending could address several factors that currently hold back private investment into projects with a strong developmental impact.”

For the European Commission (2014b, p. 16) blending is an important vehicle to leverage additional resources for development as well as increase the impact of EU aid. The Commission further seeks to extend the scope of blending into new areas including the social sectors and agriculture.

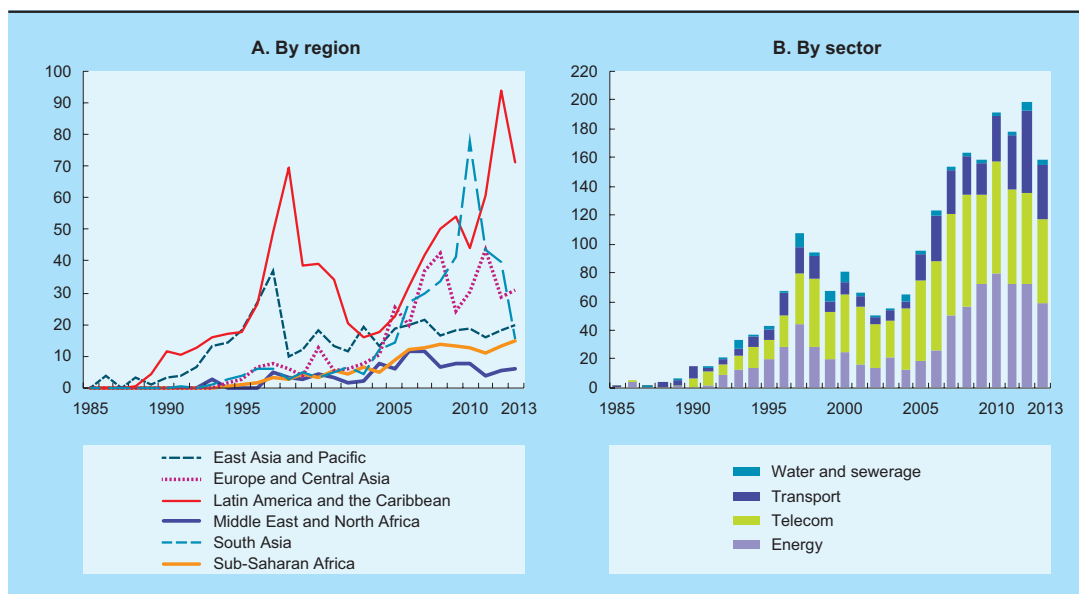
5. Deploying official development finance to promote the private financing of development: an appraisal

It has by now been sufficiently well established that the private turn in development cooperation in essence is about the declining willingness of Northern donors to fund development publically. This has combined with an imperative to deploy public funds to support the expansion of private capital in the developing world. The financing gap argument that has recurred across development cooperation statements for the last few years is a good illustration of the logic that prevails. The argument proceeds as follows. A particular financing need to attain the SDGs is identified. This is compared to the current public financing of development and the shortfall is understood as the rationale for the promotion of an expanded role for private capital in financing development (rather than that the public financing of development is strengthened). As already indicated above, this corresponds to a mass of wealth circulating in financial markets that is seeking “stable”

investment outlets (see OECD 2014), together with an unwillingness to tackle illicit financial flows. It is indeed striking that while the FFD3 outcome document on the financing framework to implement the next set of development goals celebrated the private sector (see above), it failed to move the discussions (or actions) forward on the need for a global tax body. The latter has nevertheless been a recurring request from the developing countries, which are excluded from the OECD, which currently remains the only body in which international issues bearing on tax regulation are dealt with.

One sector that has been particularly affected by the private turn is infrastructure. The figures below give an indication of the fast expansion of private sector participation in infrastructure. They also indicate how this trend has been particularly strong in the energy, telecommunications and transport sectors (with water and sewerage accounting for a smaller share).

Figure 4: Private sector participation in infrastructure, 1985-2013 (billions of current US \$)



Source: United Nations Conference on Trade and Development (2015, p. 161)

We have illustrated above the rhetoric as well as the policy in practice attached to the private turn, but what about its scholarship?^{xiii} What analytical arguments are deployed to support the strong bias in favour of private sector interventions in fields that were traditionally understood to require direct state intervention (such as typically infrastructure

provision)? It seems that while the Washington Consensus was attached to a notion of perfect working markets (except in the case of readily identifiable market failures such as the existence of externalities, large sunk costs (natural monopolies) or public goods) and the post-Washington Consensus broadened the scope of market failures, positing a paradigm of imperfect working markets, there is currently no clearly identifiable set of analytical proposition which can account for the prevailing preference for private sector provision in sectors traditionally calling for extensive state intervention.^{xliii} The superiority of the private sector over public service provisioning seems to have acquired canonical status, with reiterations of alleged efficiency benefits or risk-absorption capacities ringing rather hollow in the context of a large and growing body of ambiguous (or negative) evidence on private sector involvement in the provision of basic needs and services, not to mention its detrimental prospects for social objectives (see below). The mantra of superior performance of the private sector has combined with arguments of scarcity of resources to finance public investment, against a backdrop of plenty of private wealth. So, rather than devise better taxation coordination policies internationally to enable public mobilisation of resources for investment, the logic turns to the private mass of wealth as a resource for development. But as development is a risky enterprise, the public sector needs to enable the private sector's appetite for it. This necessitates both indirect interventions through changes in the investment climate favouring private investment and direct interventions through subsidies, guarantees, and various other risk-mitigation instruments.

While the current analytical arguments underpinning the great push for private sector involvement in areas traditionally occupied by the state, remain sparse (in favour of reiterations of poorly substantiated alleged strengths of the private sector), a strong set of critical analytical observations bearing on the increased prevalence of private capital (and finance) in certain spheres of economic and social life has become prevalent. This includes the critical commentary on the financialisation of infrastructure that has drawn attention to a set of issues. These can be summarised as follows.

First, by turning infrastructure into an "asset class" infrastructure provisioning becomes driven by the need to generate competitive returns for private investors (O'Neill 2013; Hebb and Sharma 2014). This implies that the infrastructure service needs to generate revenue streams, which often translates into fees or tariffs conditioning access. Fine and Hall (2012,

p. 58) observe how the public good becomes “subordinate to the imperative of designing a commercially viable contract”. Infrastructure’s non-commercial outcomes or purposes become marginalised, with access now regulated by capacity to pay and multiple purposes that could be attached to infrastructure are reduced to guaranteeing profitability for investors. Such “multiple purposes” could include: enforcing standards in service delivery and in employment; skills development of workforce; development of auxiliary services/activities; the exploitation of economies of scope; development of new technology to accommodate externalities – including those bearing on climate change; alternative use of physical assets to serve the public good, etc. Furthermore, the reliance on private investment in infrastructure (and hence the need to generate revenue streams) will dictate the location and design of the projects to attract private investment, where the public sector loses the capacity to cross-subsidise infrastructure investments that present less attractive commercial features (see also Hebb and Sharma 2014).

Second, the need to create “bankable” projects has led to substantial efforts and resources to assist countries to develop capacity to rearrange their infrastructure needs into investment opportunities, often described as creating “an enabling” environment. The G20 (2013, pp. 2-3) observes how:

“non-financial factors are at the core of creating an attractive investment climate ... For infrastructure investment in particular, the key challenge is to draw capital to sound investments by improving the investment climate and expanding the pipeline of bankable projects through sound planning and quality design. All countries can act in this space by putting in place the governance, regulatory and institutional frameworks that enhance the willingness of private investors to provide long term financing for investment, including in infrastructure”

The OECD (2014a, p. 35) notes that, while often investors will depend on public financial support through such mechanisms for instance as guarantees on funding or viability gap funding or subsidies, investors’ main concerns often bear on the nature of the regulatory environment (and possible changes therein). A survey of major players in infrastructure projects indicated that “robust rule of law and attractiveness of the regulatory environment together with a successful track record of other infrastructure projects closed” are most

cited as elements driving choice of jurisdiction to invest in infrastructure. Investors shun regulatory and administrative law uncertainty. They want “clear returns” and “predictable cash-flows”.^{xliv} The OECD (2014a, p. 36) continues: “Investors require a regulatory regime that is able to outlive government or a political majority”! And again, in conclusion (p. 41) the Report highlights that it is (our emphasis):

“a frequent misconception that the private sector must be incentivised to participate in infrastructure by providing financial support by the public sector in the form of grants, tax reliefs, co-investment, and the provision of guarantees. ... Most important factors are a clear institutional framework, transparent bidding and awarding procedure, a robust rule of law and the absence of interference... Incidentally, higher public intervention with financial support typically triggers a higher probability of political interference in project management and of contract renegotiation, something that private investors are not comfortable with”.

An example is provided by the failure of the Ontario provincial government to reverse through court action increases in tolls charged on the Toronto 407 toll road, the lease of which is held by a consortium of Spanish, Canadian and Australian engineers and investors for 99 years (see Torrance 2009). This example is just one among a host of attempts by governments to renegotiate terms and conditions agreed under previous administrations (see Bayliss and Van Waeyenberge 2015). Often, as was the case for this example, a “good regulatory environment” requires the possibility to fix number of users, prices, time horizons, etc in contracts for entire periods spanning sometimes between 30 to 99 years. In the case of the Toronto 407 toll road, an incoming government had tried to roll back increases in tolls that were inscribed in the contract agreed under a previous administration. However, the contract “withstood the political challenge and the increases in tolls based on the contractual mechanism will be maintained for the duration of the contract” (Torrance 2009, p. 93). As a result of the sanctity of such contractual provisions, infrastructure is removed from the sphere of the democratic process that could seek to determine its use, the conditions governing its access, the conditions under which it is produced, etc.^{xlv} Streeck (2013, p. 15) refers to this type of institutional change as being “fostered by creditors’ preferences – with the purpose of creating a commitment of states to honour commercial before political debt”.

Third, with the increased prevalence of private financial involvement in infrastructure the state assumes a set of new roles. Rather than intervening directly through the provision of infrastructure, the state's role becomes redefined in terms of its capacity to create assets and manage private sector risks (see). For Farmer (2014) the state becomes “tasked with responsibilities that protect the rate of return of the global infrastructure investment fund”.

Fourth, these are general considerations that derive from the introduction of the logic of private capital (and finance) into the infrastructure delivery mechanism. The way these translate in practice in a concrete setting will depend on a host of other factors, including institutional arrangements, organisation of the labour force, organisation of user groups etc., where the outcomes of private sector involvement in infrastructure will emerge as a result of a host of complex and often conflictual relations bearing on infrastructure provision and consumption.^{xlvi}

Fifth, ultimately, the fiscal burden of provision of basic goods and services remains with the state. This is obvious for a PPP arrangement where the ultimate cost of the project remains born by the taxpayer (or the user of the service). PPP revenue has to come from dedicated state funding or from end users or from a combination of these. While governments may defer payment for infrastructure investment when embarking on a PPP, they will ultimately carry the full cost of the project. Yet, the original absence in government accounts of the increase in expenditures or debt has been a potent driver of political preference for PPPs as a method to upgrade infrastructure networks. While PPPs do not bring money for free, or not necessarily at lower cost (see below), they change the timing of payment for infrastructure. With a PPP or a concession contract, payments are translated into a unitary charge by the private sector, which incorporates all costs (costs of construction, maintenance, debt finance etc) into a regular payment over a period of decades. Effectively, payment is delayed. PPP costs are spread evenly over the whole life of the contract as the unitary charge is made. This is in contrast with conventional procurement where costs are concentrated in the early years rather than being spread over time. PPPs allow to create the illusion of fiscal probity in the short-term and arguments have recurred in favour of new accounting techniques that would bring PPP payments onto government books as liabilities to avoid projects being financed through PPPs for short-term fiscal (and long-term illusory) reasons (see IMF 2004; Bailey 2013).^{xlvii} Funke, Irwin, and Rial 2013, p. 9) insist:

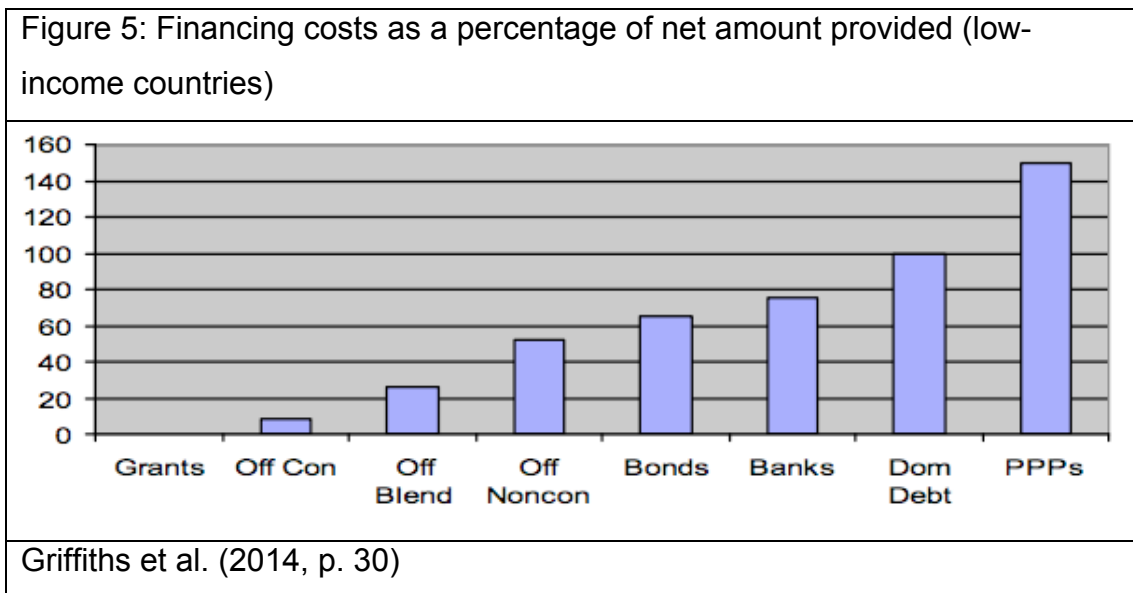
“If the use of a PPP instead of public financing does not change the net present value of the government’s cash flows, the PPP does not make investment more affordable. If the government cannot afford to finance the project using traditional public finance, it probably cannot afford to undertake it as a PPP. Conversely, if the government can afford to undertake the project as a PPP, it can probably also afford to finance it traditionally”.

Sixth, the cost of private provisioning of public goods and services tends to exceed public financing for a set of reasons. Private financing costs are typically higher than government-funded infrastructure. It is more expensive for the private sector than for the government to raise finance. Further, private investors have profitability expectations. A report of experts on financing the sustainable development goals produced for the UN General Assembly notes that United Nations (2014, paragraph 138): “private investors often demand upward of 20-25 percent annual returns on ‘bankable projects’ in developing countries. These costs need to be offset by efficiency gains or other benefits to make their use attractive”. Also, PPPs have been characterised by a “25 to 35 percent failure rate of PPPs in developed countries, due to delays, costs overruns and other factors, even higher failures in developing countries”. When projects results in losses, the private sector withdraws leading to a termination of project unless the public sector steps in to increase payments to the private investor or reclaim responsibility for the infrastructure project. Alexandersson and Hulten (2009, p. 14) observe that “private sector partners rarely find themselves locked-in, while this is a common outcome for the public partner”.^{xlviii} PPPs moreover imply large deal and consultancy fees, incurred by the various participants in the deal. Engel, Fischer, and Galetovic (2010, p. 17) cite evidence that costs incurred for legal, technical and financial advice can reach 10 percent of the total cost of the project. And, finally, governments often offer guarantees and various forms of subsidies to PPP investors, as was illustrated in the example of the Senegalese toll road above.^{xlix} In its latest evaluation of PPPs, the World Bank’s Independent Evaluation Group (2014, p. 6) highlights how:

“The assessment of public sector liabilities triggered by a PPP project is ... of utmost importance. These can amount to substantial direct liabilities for example, up front viability gap funding to make projects more commercially viable and the referred usage payment or contingent liabilities such as guarantees on particular risk variable, for example, to buffer

the traffic demand risk for the private party, compensation payments for uninsurable force majeure or termination payments”.

The IMF (2004) has also warned that governments could be overpricing risk and overcompensating the private sector for taking on this risk “which would raise the cost of PPPs relative to direct public investment” (IMF 2004, p. 14). In a more recent report, the IMF (2015, p. 30) reiterates that PPPs are “generally considered to carry higher fiscal risks than budget financing”. And, in a report for the European Parliament, Griffiths et al. (2014) propose the following comparison of financing costs of alternative mechanisms for infrastructure projects (see Figure 5). PPPs clearly emerge as the most expensive way to finance projects, with these liabilities or costs ultimately carried by the state.



Such an indictment of the financial costs (and concomitant fiscal burdens) attached to PPPs places a strong burden on the efficiency gains that PPP financing would need to effect to compensate for the cost disadvantage. As was summed up a decade ago in an IMF (2004, p. 14) report: “much of the case for PPPs rests on the relative efficiency of the private sector”. A more recent report by the IMF offers a most feeble response IMF (2015, p. 11): “Evidence of whether PPPs can provide infrastructure more efficiently than traditional procurement is mixed”. This joins the World Bank’s own recent assessment which finds that indicators for efficiency were mixed (Independent Evaluation Group 2014, p. 72).

There are extensive assessments that have been critical of the efficiency impact of the PPP experience (see, e.g., Shaoul, Stafford, and Stapleton 2012; Alexandersson and Hulten 2009; Perkins 2013; Funke et al. 2013; Hall 2014; Hildyard 2012; Vining and Boardman 2008); Jupe 2009). Evidence presented by Calderón and Servén (2010, p. 37) indicates that private participation delivered some benefits in terms of efficiency and quality but that these were limited due to weak regulatory frameworks and “poorly-designed concession and privatisation agreements which led to ubiquitous renegotiations and ended up costing governments enormous sums.” Empirical assessments also face methodological challenges, in particular with regard to the counterfactual. One systematic review of the literature on PPPs and development makes a strong, and negative, evaluation case, by pointing out that (IOB 2013, p. 44):¹

“Many early studies regarding PPP performance are based on experiences in Western countries and are strongly linked to privatization programs in the 1990’s. Evaluation designs used for these studies have most often been weak, and the data mostly flawed. It is therefore little wonder that evaluations thus far clearly point to contradictory assessments of their performance (Hodge & Grave, 2011). Despite growing interest in PPPs, the evidence base on results is still sparse and successful partnerships have been elusive”.

The review continues, p. 45:

“One of the most striking outcomes of the systematic review is that the evidence on PPP performance is still rather sparse. Robust empirical analyses regarding the net effect of PPPs (including both before-and-after analysis and compared to a counterfactual of either public or private program execution) are virtually absent”.

And again, p. 28:

“Most case studies present a positive effect of the PPP on output ... but the evidence is weak and limited. The majority of studies has no counterfactual” (emphasis added).

Further, although supporters suggest that PPPs are efficient, the mechanisms by which this should be achieved are unclear (see also above). The IMF (2004) suggests that efficiency

gains are derived from competition but, the Report admits, this effect tends to be limited as the markets in which PPPs operate are less contestable. PPPs usually operate in areas with significant social impact and involve large sunk costs.^{li} Perkins (2013, p. 8) insists that innovation in PPPs can sometimes achieve major cost savings resulting from “radical redesign of projects and changes in construction techniques”. However, he cautions that, while large costs savings could be made through innovation, the scope for this in reality can be small in part because of the contractual process which requires the need for contracts to be tightly specified at the start (p. 32):

“PPPs can save construction costs and enable the design of projects to deliver the services required at lowest cost if contracts avoid over-specifying projects. When project guidance is sufficiently flexible, PPPs can stimulate innovation in both project design and execution. Projects can sometimes be downsized compared to what government initially plans without sacrificing capacity or service quality, resulting sometimes in cost-savings running to billions of dollars (Ugarte, Gutierrez, and Philips 2012). These are the grounds most commonly advanced for financing transport projects under PPP contracts. A majority of PPPs projects are, however, specified in ways that severely limit this scope for achieving efficiencies”.

In sum, while the involvement of the private sector implies a complex web of public (financial and non-financial) support for such involvement, it remains unclear what the public or collective benefits are from increasingly complex mechanisms of public-private interactions. The private sector tends to carry little risks (financial or/and operational) for the rewards it reaps. Actionaid, Eurodad, and Oxfam (2014, p. 1) draw attention to the implications this has for the deployment of public development assistance to promote private sector involvement in developing countries: “Lack of transparency around aid to the private sector, and particularly around the building and leveraging strategies makes it hard to evaluate the amount of money given to the private sector and its impact”. Bilal and Kratke (2013) also highlight that the rationale for increasing the role of the private sector in development should be to make a contribution to poverty eradication and achieve sustainable development rather than to help private firms make a profit.

Indeed, in the specific context of the deployment of development assistance to leverage private flows a set of additional issues enter the frame. First, the issue of additionality has

attracted a lot of attention. The main concern with additionality is whether the publicly backed resources are necessary to make private investment happen (as they would otherwise crowd or displace private resources and as such distort 'optimal' allocations of private finance), and whether the development impact of privately financed projects is enhanced as a result of the blending mechanism. The former is referred to as financial additionality while development additionality captures the latter effect (UKAN 2015, p. 4). UKAN (2015) reviews the existing literature that assesses the additionality of ODA in leveraging private investment. It delivers a negative assessment in that it finds very little evidence about the financial or developmental additionality of leveraging private investments. Further, it highlights that there are no shared or common methodologies across donor agencies to measure additionality. Moreover, the Report highlights that research points to the difficulty in aligning leveraging of private investment with aid effectiveness principles (see also Griffiths 2015). Eurodad (2013, p. 13) adds that while poverty reduction and sustainable development are often part of the objectives of EU blending facilities, "not all institutions involved in the existing blending facilities have a common and agreed development mandate".^{lii} Against this backdrop, the European Parliament has passed a resolution (in June 2013)^{liii} calling for better evaluations of the mechanism of blending loans and grants – "particularly in terms of development and financial additionality, transparency and accountability, local ownership and debt risk – before continuing to develop blending loans and grants" (Griffiths et al. 2014; see also Vervynckt 2014; Eurodad 2013; Concord 2013; Martin 2015).^{liiv} Second, this raises issues of accountability and transparency. Eurodad (2013, p. 16) has criticised the low levels of information publicly available on the leveraging activities going on in the EU, both through the EC's own facilities and member states' DFOs. The report observes that: "[i]t is not possible to do a proper portfolio analysis of the projects supported by blended ODA, as the EC does not track or evaluate the commercial loans that ODA grants are blended with, nor estimate the extent to which the grants proved essential to attracting the loan". The lack of transparency may imply that common channels of oversight such as e.g. through parliamentary scrutiny, fail to operate in the absence of adequate information.

Third, the OECD (2015, p. 32) has highlighted the danger of blurring the lines between the activities of export credit agencies and DFIs "when bilateral DFIs mainly support their domestic enterprises with credits and guarantees" through various blending arrangements.

When blending operations involve large multinational companies of EU member states (as was the case in the example provided above), the issue of tied aid also looms large. Fourth, the issue of ownership to which donors are officially committed is particularly fraught in the context of the blending facilities. The process through which projects get selected and pursued originates with the EU DFIs, where the selection process proceeds on the basis of financial criteria (European Court of Auditors 2014, p. 9) rather than that the project pipeline is designed in collaboration with partner governments and informed by their own national development plans. This also means that financial criteria prevail over social objectives in the design and implementation of the provision of core public services such as infrastructure facilities. We may want to recall that when development cooperation targeted such interventions this traditionally proceeded through grants or concessional loans which allow for the incorporation of a broader set of criteria when designing a system of infrastructure provisioning. Crucial is the possibility for the deployment of social objectives to ensure access and equity in the use of the specific infrastructure facility. Yet, the increased involvement of DFIs has significant qualitative implications, both for ownership and governance issues bearing on the role of infrastructure or other public services (see also Eurodad 2013). Eurodad (2013) has also raised concerns that the mechanisms for civil society participation or consultation during the implementation of the projects are often ad hoc if possibly non-existent. The same lack of institutional mechanisms applies in the context of complaints of (and redress for) communities affected by a large project financed through a blending facility.

Finally, while blending may be part of a more differentiated approach to development cooperation, which would allow to concentrate ODA in LICs and perhaps use blended facilities in MICs, currently, blending facilities straddle all developing countries, i.e. they are not targeted to a particular income group. Further, it is not clear whether, if blending facilities would be focused on MICs, public resources (provided through the facilities) are needed to draw in private capital (for large infrastructure projects). Do these projects need a public subsidy or could the limited public resources not be put to better use (see also Eurodad 2015)?

6. Conclusion

Since the early 2000s, we have seen a particular reorientation of development cooperation, in the service of the fast expansion of private capital flows to developing countries. The role of ODA has become redefined to enable the expansion of private (and often foreign) capital in economic spheres where previously public provision dominated. This includes various forms of economic and social infrastructure, including transport, water, energy, education and health. This trend reflects both the declining willingness to finance development cooperation publically as well as the fast and vast accumulation of private wealth worldwide looking for investment opportunities. The increased involvement of private finance in infrastructure provision has pervasive implications for governance, access, equity, etc. At the same time, the efficiency arguments, upon which the preference for private sector involvement in infrastructure is predominantly built, have failed to materialise (if they exist in theory), allowing more costly arrangements to take shape with pernicious social (and long-term fiscal) implications. There is an urgent need for the advocacy and promotion of private flows to finance development to become better informed by the existing evidence base across a set of criteria, including cost, efficiency, social impact, etc. This would hopefully allow for a re-orientation of the current deployment of publicly-backed resources in the services of private financing of development (back) towards support for raising public investment levels. The latter are the backbone of more the general investment increases that remain highly necessary across vast groups of developing countries.

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- ⁱ Note that using the term “development finance” becomes increasingly tenuous as official development cooperation is put in the service of mobilising private financial flows.
- ⁱⁱ Capital account liberalisation was often undertaken as a result of obligations arising out of WTO negotiations on trade in financial services, or resulted from commitments in trade agreements and bilateral investment treaties (in particular with the US and the EU) (see Akyuz 2014, p. 5). Capital account liberalisation was often also implicitly part of World Bank-imposed conditionalities. Akyuz (2014) adds that certain countries choose unilaterally to liberalise their capital accounts seeking to close structural current account deficits and hoping this would produce accelerations of investment and growth.
- ⁱⁱⁱ <http://www.un.org/esa/ffd/overview/monterrey-conference.html>
- ^{iv} <http://www.un.org/esa/ffd/doha/>
- ^v See Bayliss and Hall (2001) for a comprehensive critique.
- ^{vi} The World Bank consists of public sector and private sector affiliates. The public sector affiliates are the IBRD and the IDA, which lend to the public sector on either concessional (IDA) or non-concessional terms. The World Bank Group's private sector affiliates, the International Finance Cooperation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) engage directly with the private sector.
- ^{vii} <http://www.worldbank.org/en/programs/global-Infrastructure-facility>
- ^{viii} World Bank and IMF (2012, p. 2): “The institution now facilitates private sector development through nearly all of its areas of engagement – directly through the investment and advisory services of IFC and the guarantees of MIGA, and, increasingly, through the enabling environment for the private sector supported by World Bank operations and technical assistance”, see Diagram 2 “Conceptual overview of how the World Bank Group leverages and supports the private sector”. See also: “Update on the World Bank's Business Modernization: Results, Openness, and Accountability”, Background Paper for the Development Committee Meeting, April 2012”.
- ^{ix} The World Bank website further highlights the ambition to deploy the IDA, the Bank's concessional public sector arm which focuses on low-income countries, to exploit synergies between the different affiliates of the Bank and as such leverage and maximise the complementarities between public and private sector (http://www.worldbank.org/ida/ida_psd.html):

“IDA is working to optimize the World Bank Group's “4 for 1” value proposition—that is, tap the combined strengths and comparative advantages of IDA, the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA)—to enable IDA countries to have better access to a comprehensive package of support”.

- ^x PRG is a Partial Risk Guarantee, which provides a guarantee for lenders to private investment projects against debt service defaults that result from the non-performance of government obligations. PCG is Partial Credit Guarantee, which covers all events of non-payment for a specified part of any financing.
- ^{xi} Various definitions of “leveraging” abound. UKAN (2015, p. 17) formally defines it as “the use of public finance and risk mitigation instruments to remove the barriers to private sector investment in developing countries and thereby mobilise significant amounts of private capital for development”. See also ODI (2011), Griffiths (2012) and Martin (2015) for discussions of the meaning of “leveraging” or “blending” in donor discourse and of how it relates to ODA.
- ^{xii} It should be noted that in the context of this re-orientation of Official Development Assistance, proposals have been put forward to introduce a measure called “Total Official Support for Sustainable Development” (TOSSD) to complement ODA as a broader statistical aggregate “of international public contributions to development”. The aim is for this broader measure to provide a “comprehensive account of finance made available thanks to the official sector” (see OECD 2014b). DAC (2015) puts forward a set of methodologies to report on amounts mobilised from the private sector through a set of official development finance instruments including syndicated loans, guarantees and share in collective investment vehicles.
- ^{xiii} See Griffiths (2012) and above on the practice of leveraging through synergies across the affiliates of the World Bank Group; see also Ferrer and Behrens (2011, p. 4) who point to the long tradition of blending in bilateral (France, Germany) and multilateral development banks' cooperation.
- ^{xiv} See <http://www.worldbank.org/mdgs/post2015.html> for an overview of specific instruments through which “blending” of (multilateral) development finance can proceed. See also Table 1 of United Nations (2014).
- ^{xv} <http://www.un.org/esa/ffd/ffd3/>

- ^{xvi} <https://sustainabledevelopment.un.org/?menu=1300>
- ^{xvii} See <http://www.oecd.org/dac/effectiveness/thehighlevelforaonaideffectivenessahistory.htm>
- ^{xviii} See <http://www.oecd.org/dac/effectiveness/49650173.pdf>, paragraph 32
- ^{xix} In 2013, USD 34 billion was provided by “development partners” to support the “enabling environment”, within infrastructure sectors and beyond for the general investment climate (OECD 2015, p. 5). Such an “enabling” environment includes the liberalisation of specific sectors (such as infrastructure) reflecting the idea that this will promote cost-recovery mechanisms which are instrumental for private sector expansion, as well as the facilitation of foreign direct investment into a particular country (see OECD 2015, p. 22 for an example).
- ^{xx} Output-based aid provides grant-subsidies, which are tied to the compliance with the delivery of public services by private operators to poor people. The grant often serves to complement or substitute for user contributions (fees).
- ^{xxi} See for instance World Bank and IMF (2012, p. 6 Diagram 3) for a map of the full spectrum of World Bank Group Support to PPPs, as an ideal conduit for forging the public-private links, from its upstream knowledge agenda down to the financing of individual transactions.
- ^{xxii} See also <http://www.edfi.be/>. EDFI is the Association of European Development Finance Institutions.
- ^{xxiii} The FMO, the Netherlands Development Finance Company, for instance offers “a full range of financial instruments for the benefit of private companies and financial institutions in developing economies. To meet the needs of individual projects, a mix of funding can be provided including loans (such as syndicated loans), equity, mezzanine, guarantees and capital markets” (<http://www.edfi.be/members/7-netherlands-development-finance-company.html>). The CDC, the UK’s DFI, “invests in viable private businesses in poorer developing countries to contribute to economic growth that benefits the poor” (Kingombe et al. 2011, p. vi). See also IFC (2011, Annex) for a description of the profiles of IFIs with important private sector operations.
- ^{xxiv} See OECD (2015) for an overview of the various instruments that have been used by bilateral and multilateral donors in support of private financing of infrastructure.
- ^{xxv} Own resources of the EC include: agricultural duties and sugar levies; customs duties and a uniform percentage rate to the VAT base of each member state (around 0.5 percent) (Gavas 2010). The EU budgetary aid allocation is determined through the 7-year Multi-Annual Financing Framework (MFF), which was approved by the European Parliament in December 2013 for the next 7-year period (2014-2020) and amounts to €51.4 billion (European Commission 2014, p. 6).
- ^{xxvi} The **EDF** is the EU’s main instrument for providing development aid to [African, Caribbean and Pacific \(ACP\)](#) countries and to [Overseas Countries and Territories \(OCTs\)](#). It is financed by direct contributions from EU member countries and covered by its own financial rules. The total resources of the **11th EDF** amounts to **€30.5 billion** for the period 2014-2020. There is an on-going debate on bringing the EDF funds within the MFF framework, but a decision on this issue has been postponed until 2020. Given that the EDF relies on voluntary contributions by member states and does not draw on the general EU budget, it is controlled directly by the European Commission and not subject to parliamentary oversight. Eurodad (2013, p. 9) argues that it hence has less accountability than the regular EC development budget.
- ^{xxvii} Between 2003 and 2013, the Facility has invested €3.4 billion, 85 percent of which in the private sector in ACP and OCT, and the financial sector has been the largest single beneficiary of these investment (followed by the energy sector – electricity and coal) (European Commission 2013b, p. 61). Its investments take the form either of risk-bearing (non-guaranteed) loans to the private sector or interest-rate subsidies. The Facility has been designed as a renewable fund, with the aim of deploying loan repayments for reinvestment in other operations (ibid.).
- ^{xxviii} In 2012, 43 percent of the Facility’s lending went to support for the financial sector in ACP countries. These financial intermediaries are meant to act as brokers between the public institution and the private company benefitting from public lending and investments (Eurodad 2013, p. 10). The intermediaries include commercial banks, microfinance institutions and private equity funds. Eurodad (2013) draws attention to the concerns within CSOs regarding whether intended beneficiaries are actually reached and whether the Facility is an appropriate tool to provide access to finance for SMEs.
- ^{xxix} <http://www.efcanet.org/Portals/EFCA/EFCA%20files/PDF/28-06-07InformationExternalMandates.pdf>
- ^{xxx} The Consensus was followed by a Code of Conduct on Complementarity and Division of Labour two years later.
- ^{xxxi} Eurodad (2013, p. 4) offers a more cynical assessment where the EU’s blending agenda is seen as a “convenient excuse for donors to give less ODA, and it provides an opportunity for rich countries to support their own domestic companies”.

^{xxxii} Eurodad (2013, p. 11) adds that under this new approach, only seven countries in Latin America would continue receiving EU country-level cooperation, while all countries in the region would be eligible for regional blending programmes such as the Latin America Investment Facility.

^{xxxiii} See <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=2852>

^{xxxiv} Note that although the EU states decreased their aid expenditure during the crisis, the EU institutions' ODA which is partially funded from resources independent of member states' contributions increased between 2011 and 2012 (Laskarides 2015, p. 13; and see below).

^{xxxv} ODI (2011, p. 21) clarify that "As a general rule, all European development finance institutions are eligible to participate in blending facilities. Non-EU development banks, notably regional development banks and the World Bank, can co-finance projects already supported by the European DFIs and blending facilities. However, development finance institutions like PROPARGO and FMO, which focus solely on the private sector, can only participate alongside a European DFI. Beneficiary governments provide substantial co-financing but the position on non-EU private financing is unclear."

^{xxxvi} https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en

^{xxxvii} See the example of the Dakar-Diamniadio toll road above for an illustration.

^{xxxviii} https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en

Eurodad (2013, p. 17) however observes that although a wide range of possible types of grant instruments can be used by EU blending facilities, currently three common instruments dominate EU blending practices. These include: direct investment grants; technical assistance and interest rate subsidies. Together these accounted for 93 percent of total amount of grants approved by May 2013. See also Planas (2012).

^{xxxix} As indicated above the Investment Facility is a revolving fund with a capital endowment from the EDF. It makes market-linked loans, takes equity position, provides guarantees, provides interest rates subsidies and technical assistance.

^{xl} <http://ecdpm.org/great-insights/private-sector-for-development/engaging-private-sector-development-role-eu-regional-blending-facilities/>

^{xli} <http://ecdpm.org/great-insights/private-sector-for-development/engaging-private-sector-development-role-eu-regional-blending-facilities/>

^{xlii} See Fine (2012) on the importance of separating these three dimensions when trying to understand the evolving nature of neoliberalism.

^{xliii} See Van Waeyenberge (2006) on the shifting analytical foundations underlying the Washington and post Washington Consensus, but also on the fraught and limited conceptualisations of state intervention they give rise to.

^{xliv} See:

http://www.mckinsey.com/insights/infrastructure/making_the_most_of_a_wealth_of_infrastructure_finance

^{xlv} Hebb and Sharma (2014) also note for the case of American cities, where private investment in infrastructure is a relatively new phenomenon, that while previously such investment was carried out by public entities and financed through tax-free municipal bonds, the use of new financial products to enable private investment in infrastructure lacks the transparency that characterises the municipal bond market.

^{xlvi} See various FESSUD deliverables, including Bayliss, Fine, and Robertson (2013), for an illustration of how the system-of-provision approach can provide a useful organising framework to engage with such concrete mediations of private capital involvement in infrastructure delivery across sector and country-specific settings.

^{xlvii} See also Burger and Hawkesworth (2013) for an account of the implications of different budgeting systems on the costing (and choice) between traditional infrastructure procurement and PPPs.

^{xlviii} A similar sentiment was echoed by Kaushik Basu, then World Bank Chief Economist, in conversation with Duncan Green from Oxfam in March 2015: "The way PPPs are done worries me a lot. These are two very different creatures being brought together in a single cage and one can just gobble up the other. The private sector is often much smarter at writing the contracts, so the taxpayer carries the can when bankruptcy occurs", <http://oxfamblogs.org/fp2p/what-to-do-about-inequality-shrinking-wages-and-the-perils-of-ppps-a-conversation-with-kaushik-basu-world-bank-chief-economist/#prettyPhoto> accessed 14th March 2015.

^{xlix} See Bayliss and Van Waeyenberge (2015) for an elaborate discussion.

^l In a review of Canadian PPPs, Vining and Boardman (2008) find only half of the PPPs reviewed to be successful. Jupe (2009) viewed PPPs as an "imperfect solution" for transport in the UK. See also Shaoul et al. (2012) for a very strong critique of PPPs in transport in the UK.

^{li} See Helm (2010) for a summary of the traditional arguments on market failures in infrastructure.

^{lii} Eurodad (2013, p. 13) provides the examples of the Italian Società per le Imprese all Estero (SIMEST) which is dedicated formally to the promotion of “foreign investment by Italian companies and the provision of technical and financial support in support of investment projects”.

^{liii} This followed an earlier resolution (23 October 2012) that called on the Commission to “provide clear information on how [the blending] mechanism serves the purpose of a development policy based on ODA criteria and how the power of scrutiny of Parliament will be exercised” (Eurodad 2013, p. 8).

^{liv} Concord (2013b, p. 5) in its analysis of EDF11 insists that “the EC has not proposed any clear objectives, principles, criteria and guidelines so far to ensure that this funding modality will truly contribute to sustainable and inclusive development and the eradication of poverty in ACP countries.”

Annex 1: International Finance Institutions with Private Sector Operations

Box 1: International Finance Institutions with Private Sector Operations

Examples of Multilateral Development Banks or Finance Institutions with Private Sector Operations

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- Black Sea Trade and Development Bank (BSTDB)
- Development Bank of Latin America (CAF)
- European Bank for Reconstruction and Development (EBRD)
- European Investment Bank (EIB)
- Inter-American Development Bank (IDB)
- Inter-American Investment Corporation (IIC)
- International Finance Corporation (IFC)
- Islamic Corporation for Development of the Private Sector (ICD)
- Multilateral Investment Fund (MIF)
- Multilateral Investment Guarantee Agency (MIGA)
- Nordic Investment Bank (NIB)
- OPEC Fund for International Development (OFID)

Examples of Bilateral Private Sector Development Finance Institutions

- Belgian Corporation for International Investment (SBI-BMI)
- Belgian Investment Company for Developing Countries (BIO)
- CDC Group (British Development Finance Institution)
- COFIDES (Spanish Development Finance Institution)
- Danish Industrialization Fund for Developing Countries (IFU)
- DEG (German Development Finance Institution)
- Development Bank of Austria (OeEB)
- Entrepreneurial Development Bank of the Netherlands (FMO)
- Finnish Fund for Industrial Cooperation (Finnfund)
- French Investment and Promotions Company for Economic Cooperation (Proparco)
- Japan Bank for International Cooperation (JBIC)
- Norwegian Investment Fund for Developing Countries (Norfund)
- Overseas Private Investment Corporation (OPIC, US)
- SIMEST (Italian Development Finance Institution)
- SOFID (Portuguese Development Finance Institution)
- Swedfund
- Swiss Investment Fund for Emerging Markets (SIFEM)

Source: IFC (2011)

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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?

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5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
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13	Lund University	Sweden
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