The Changing Development Finance Landscape: From ODA towards Blended Finance Approaches

Implications and Opportunities for Sustainable Development in Africa

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Introduction – Financing for Development

• Financing for Development (FfD) is about promoting a comprehensive and integrated approach to providing the policies and resources needed to support sustainable development around the world.

• It includes the mobilisation of domestic resources (such as tax revenues), international financial resources (such as Official Development Assistance (ODA) and other international public flows),

• Harnessing the role of the private sector in financing development, maximising the use of innovative financing sources and mechanisms as well as increasing trade capacity and investment to create jobs and drive economic growth and promoting debt sustainability are also tenets of FfD

• The principles of aid and development effectiveness apply to all of these areas and can help to ensure that resources are effectively and efficiently targeted.

• An enabling policy environment at all levels, as set out in the Addis Ababa Agenda for Action is a critical element.
Financing for Development Agenda

- Global - UN 3rd FfD, AAAA (Agenda 2030)
- Africa - Agenda 2063
  - A2063 Ten Year Resource Mobilisation Strategy
  - PIDA et’al
- EAC Region – Vision 2050, PPCP, Common Market Protocol
- ECOWAS Region – Vision 2020 > 2050,
- National – National Development Plans e.g. the Vision 2020, V2030, MGDS III, V2025, 7NDP + V2030
Global Outlook on Development Finance Sources
Official Development Assistance. (AID)

- **ODA** is classified by the OECD/DAC as “flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are provided by official agencies, including state and local governments, or by their executive agencies; and each transaction of which is administered with the promotion of the economic development and welfare of developing countries as its main objective; and is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

- **The History** - dates back to end of World War II when Europe was ravaged with war and required to be rebuilt
- Lead to the establishment of the World Bank and the International Monetary Fund in 1944 to rebuild post war torn countries
- USA provided financial assistance through the commonly known as Marshall Plan which was in operation for four years from 1948
  - It was an American initiative to aid Western Europe economies ie; Economic Recovery Plan for western Europe
  - Provided over US$12.0 billion for rebuilding Europe economies and infrastructure
  - The goals of the USA in providing such assistance were;
    - Rebuild war torn regions;
    - Remove trade barriers;
    - Modernize industry
    - Improve European prosperity; and prevent the spread of communis,
  - The positive outcome for this plan gave impetus to the USA that poverty could be eradicated in the world
Official Development Assistance and the FfD Agenda

- Aid effectiveness agenda started in 90’s
- 2002: International Conference on Financing of Development - **Monterrey Consensus**
  - Donors committed to increase funding for development
  - Paradigm shift of aid as a partnership rather than one-way relationship between donor and recipient
  - Donor agencies committed to promote harmonized approaches at regional and partner country levels
  - Align assistance with countries’ priorities and strategies
- 2005: 2nd High Level Forum on Joint Progress Towards Enhanced Aid Effectiveness: **Paris Declaration on Aid Effectiveness (PD)**
  - Agreement to build stronger and more effective partnerships for development
  - Objective was to make aid more effective in achieving development goals
  - Set out principles and commitments for improving the delivery, management and utilization of aid:
    - Ownership of development agenda by partner countries;
    - Alignment of development aid with partner countries’ strategies, systems and procedures;
    - Harmonization of donors’ actions and procedures;
    - Managing for results; and
    - Mutual accountability.
Official Development Assistance and the FfD Agenda

• 2008: 3rd High Level Forum on Aid Effectiveness – Accra Agenda for Action (AAA)
  – Took stock of PD implementation progress based on 2008 PD Monitoring Survey
  – Agreed on set of measures to accelerate achievement of PD targets and progress toward Millennium Devt. Goals
  – Main areas of focus:
    • Country ownership
      ➢ Developing countries to take strong leadership of development policies and engage citizens in shaping them
      ➢ Donors to align aid with partner country priorities and use their systems in delivery and management of aid

• 2011: 4th High Level Forum on Aid Effectiveness in Busan – Global Partnership for Effective Development Cooperation
  – Aimed to:
    ➢ Assess global progress in improving the quality of aid against the agreed commitments (PD and AAA);
    ➢ Share global experiences in delivering the best results; and,
    ➢ Agreed to further enhance efforts globally and within countries to make aid more effective in reducing poverty and achieving the Millennium Development Goals.
  – Shifted the focus from aid to development effectiveness
    ➢ Emphasis is on end results of development cooperation rather than processes
Official Development Assistance and the FfD Agenda

- Shared principles of GPEDC:
  - Ownership of development priorities by developing countries
    - Developing countries to lead devt. agenda and implement approaches tailored to country-specific situations and needs
  - Focus on results
    - Investments and devt. efforts to have lasting impact on eradicating poverty and reducing inequality
  - Inclusive development partnerships
    - Build partnerships on trust, openness and mutual respect, recognizing the different and complementary roles of all actors
  - Transparency and accountability to each other
    - Mutual accountability and accountability to beneficiaries of devt. cooperation

- UN 3rd FfD, AAAA (Agenda 2030)
  - Deficiencies in AID and the need to harness all sources of financing to meet the SGDs
Official Development Assistance.
Global Outlook on Dev Finance Sources

Figure 3: OECD Country ODA Commitments 2020

Source: OECD 2020
Geographical Outlook of ODA to East Africa

Net official development assistance and official aid received East Africa (current US$ Millions) by country

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Geographical Outlook of ODA to West Africa

Net ODA and Official Aid Received (US$millions)

- Benin
- Burkina Faso
- Cape Verde
- Cote d'Ivoire
- Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Liberia
- Mali
- Niger
- Nigeria
- Senegal
- Sierra Leone
- Togo

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Geographical Outlook of ODA to Southern Africa

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Geographical Outlook of ODA to North Africa

Net ODA & Official Aid US$Millions per country

- Algeria
- Egypt
- Libya
- Morocco
- Mauritania
- Tunisia

Challenges and Criticisms with ODA and in Development Effectiveness Agenda

- Lead to an increase in debts for developing countries hence defaulting repayments
  - Mid 1960s debt levels reached US$965.0 million
  - 1970s debt levels reached US$36.0 billion
  - 1980s debt levels reached US$1.0 trillion
  - 1990s to 2000 debt levels reached US$2.0 trillion
  - 2010s to 2020 debt levels have reached US$
- Aid being delivered to suit the needs and requirements of Western Societies
- Countries with greatest support of ODA have shown little increase in economic growth and little noticeable sustainable development (Kenya, Mozambique, Ethiopia, Nigeria)
- Aid promotes corruption rather than investment (Zambia, Malawi, DRC, Nigeria, Kenya)
- Aid reduces incentives for revenue collection and has affected public governance in Africa
- High levels of aid affects local institutions negatively
- Above all aid has been dwindling over time, there was and still need for additional resources to finance development and mainly through the engagement with private actors.
Private Sector Financing Instruments in Development Financing

Blended Finance, Public Private Partnerships, Publicly Supported Private Finance
Blended Finance

• Whilst there is no unanimously accepted definition for blended finance, OECD, World Bank, and Convergence broadly define blended finance as the combination of public concessional Official Development Assistance (ODA) with private or public resources, generally with the aim of ‘mobilizing’ or ‘leveraging’ development finance from other actors.

• The most popular approach of blended finance is the Public Private Partnership approach and it is defined as

• A form of **legally enforceable contract** between the public sector and private sector, which **requires new investments** by the private contractor (money, technology, expertise/time, reputation, etc.) and which **transfers key risks** to the private sector (design, construction, operation, etc.), in which **payments are made in exchange for performance**, for the purpose of **delivering a service** traditionally provided by the public sector. IP3
Why Move Towards Public Private Partnerships

- It is worth noting that debates over the importance and rationale of developing countries’ uptake of PPPs have been increasing over the past decade mainly due to the fact that official development assistance has been dwindling with limited alternatives to turn towards to finance development.
- These debates have also been taking centre stage because domestic resources mobilisation has been moving at a slow pace and also being inadequate to meet the development needs of developing countries in the Africa region.
- Low public sector capacity - (lack of financial resources or inefficiencies) to increase the level of investment to meet excess demand or to improve the performance/efficiency and quality of the service
- Growing back log of infrastructure of service provision in SSA- e.g. Less than of citizens 20% have access to electricity
- Greater efficiency in project execution and service delivery
- Tends to offer better value for money (VfM)
- Limited fiscal space of governments to meet devpt needs
Why move towards PPP uptake?

By contracting with the private sector to undertake a cost-recovering economic infrastructure project, scarce Government capital budgets can be directed to other priority social services (education, health care, etc.)

**Govt. Capital Budget**

**OR**

**Project A:** Bus Terminal Construction

**Project B:** Health Clinics Construction

**AND**

**Private PPP Developer**

**PPP**

**Govt. Capital Budget**

**Project A:** Bus Terminal Construction

**Project B:** Health Clinics Construction

**AFRODAD**

AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT
## Different Models of PPPs

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<th>Contract length (years)</th>
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<th>Asset ownership</th>
<th>Common sectors</th>
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<td>Management of a part/whole of the operations</td>
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<td>Public</td>
<td>• Water utilities</td>
<td>• Public</td>
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<td>High</td>
<td>Varies</td>
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<td>Public/Private</td>
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<td>Financing operations and execution of specific investments</td>
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<td>Public/Private</td>
<td>• Transport • Energy</td>
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<td>Divestiture/ Privatisation</td>
<td>Transfer of ownership of public infrastructure to the private sector</td>
<td>High</td>
<td>Indefinite</td>
<td>Private</td>
<td>Private</td>
<td>• Telecoms</td>
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PPP Projects in Zimbabwe and SSA

- The Beitbridge-Harare-Chirundu Highway – Zimbabwe
- Plumtree to Mutare Highway - Zimbabwe
- Kariba South Expansion - Zimbabwe
- Queen Mamohato Memorial Hospital – Lesotho
- Chitungwiza General Hospital (JVU) – Zimbabwe
- Liberia Education Advancement Programme (LEAP)
- Batoka Gorge
- Gautrain – South Africa
- Standard Gauge Railway - Kenya
PPP Project Life Cycle

Phase 1: PPP Project Initiation, Screening, & Selection
- CA with assistance from PPC
- PPC, CA with guidance from Advisors
- Cabinet approval of PPP project

Phase 2: PPP Feasibility Analyses & Proposed Risk-Allocation Structure
- Min of Fin approval of feasibility study report
- PPC and Advisors with input from CA
- PPC, CA with assistance from PPC

Phase 3: PPP Tendering & Procurement
- Commission’s approval – preferred bidder then Minister’s approval for contracts signing
- PPC and Advisors with input from CA

Phase 4: Final PPP Contract Signing & Financial Closure
- CA with input from PPC and RA

Phase 5: Post-Award PPP Performance Monitoring

Cabinet approval of PPP project
Min of Fin approval of feasibility study report
Commission’s approval – preferred bidder then Minister’s approval for contracts signing
CA with input from PPC and RA
PPP Legal Framework - Malawi

- PPP Policy 2011
- PPP Act passed by Parliament 2011
- The Act combines Privatization and PPP
- The Policy/Act sets out the Objectives of PPP and areas of involvement
- It sets out the Institutional Arrangements
- It also sets out the procurement procedures
The LDCs in the sub-Saharan Africa region collectively received the biggest share of private finance mobilised for projects at approximately 70% in the period, 2012-2017 globally.
State and Trends of Private Finance Mobilised in Africa

- When assessed by sector, PPP deals largely materialise in the energy, financial services, mining and construction sectors with a significant rise in communication as a result of ICT advancements globally.
PPP Success Factors – Country Level

- **Political will**
  - Represents broad political backing and a clear long-term commitment to private sector collaboration and PPPs. Lack of, or changes in, political will are often key reasons for project failure and failure to attract private sector interest in PPPs.

- **Transparency**
  - Supports a strong partnership with aligned goals. Tactics that help harness trust include an open tender process, third-party facilitators, open dialogue and increased transparency.

- **Broad stakeholder engagement**
  - Concerted effort to engage, clearly communicate with and educate the public, staff, unions, civil society, the media and other stakeholders about the benefits of the PPP early on and throughout the life of the contract.

- **Contract completeness, flexibility & governance**
  - Comprehensive and clear contract terms that incorporate measures to support flexibility can support course corrections and help to ensure that PPPs meet the changing healthcare needs of the population served.

- **Private sector capacity**
  - A strong and committed private sector that has the financial and technical capacity and local expertise or partnerships to address the health needs identified by the public sector.

- **Public sector capacity**
  - Public sector experience and internal skills needed to shift from a role of being a provider of care to a purchaser, contract manager and regulator. Investment in capacity building and resource development is needed to build government capacity to manage PPPs.

- **Legislative and regulatory framework**
  - Defined laws, regulations and policies in place that support the use of PPPs as a procurement tool and remove existing institutional barriers that could impact PPP identification, execution, governance and oversight.

- **Fiscal space**
  - A local market for private financing of PPPs and a banking sector that is well regulated and has the capacity and experience to fund PPPs. Fiscal space also includes having risk instruments to protect investments.
PPP Success Factors – Country Level

• In your view does your country’s PPP implementation process exhibit the tenets of PPP Success Factors? Discuss with Examples
• 4 Groups, 3 inhouse, 1 virtual
• Group 1: Political Will and Transparency
• Group 2: Broad Stakeholder Engagement, Contract Completeness, Flexibility and Governance
• Group 3: Legislative/Regulatory Framework and Public Sector Capacity
• Group 4: Private Sector Capacity and Fiscal Space
AFRODAD’s Work on PPPs / Privatisation

- What lies beneath?: A critical assessment of public private partnerships and their impact on sustainable development. 2015


- History RePPPeated: How Public Private Partnerships are failing. 2018

- Privatisation of education and health service delivery in Southern Africa. 2018
Findings

- PPPs are, in most cases, the most expensive method of financing, significantly increasing the cost to the public purse;
- PPPs are complex to negotiate and implement and all too often entail higher construction and transaction costs than public works;
- PPPs are a risky way of financing for public institutions;
- Impact of PPPs on efficiency is very limited and weak;
- Challenges in reducing poverty and inequality, while avoiding negative impacts on economic livelihoods & environment;
- Capacity constraints to the public sector, particularly in developing countries;
Findings

- Problematic Investor-State Dispute Settlement included in PPP contracts
- Limited domestic private sector involvement in PPP projects
- Low transparency and limited public scrutiny, which undermines democratic accountability and leads to corruption and illicit financial flows.
Findings

- Problematic Investor-State Dispute Settlement included in PPP contracts
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Recommendations

- The World Bank should not promote more intensive and widespread use of PPPs until problematic issues raised on PPPs have been addressed.
- Governments and Development Partners need to analyze the true costs of PPPs.
- Governments need to be transparent and accountable to their citizens on PPP contraction.
- ALL involved stakeholders especially governments should put development outcomes at the forefront.
Thank you

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Group Work

• In your view does your country’s PPP implementation exhibit the tenets of PPP Success Factors? Discuss with examples explaining the Comprehensiveness of the Factors.
  • Group 1: Political Will and Transparency
  • Group 2: Legislative/Regulatory Framework and Public Sector Capacity
  • Group 3: Broad Stakeholder Engagement, Contract Completeness, Flexibility and Governance
  • Group 4: Private Sector Capacity and Fiscal Space