

**ECDPM works to improve relations between Europe and its partners in Africa, the Caribbean and the Pacific** L'ECDPM œuvre à l'amélioration des relations entre l'Europe et ses partenaires d'Afrique, des Caraïbes et du Pacifique

# International Private Financing for Development in Africa: Challenges and Opportunities

AU Workshop

Transforming our World:

The 2030 Agenda for Sustainable Development

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*ecdpm*

# Context: 2030 Agenda

- Focus on **economic dynamics** and growth
- **Multi-stakeholders** partnerships
- **Universality**: beyond developing countries, beyond aid

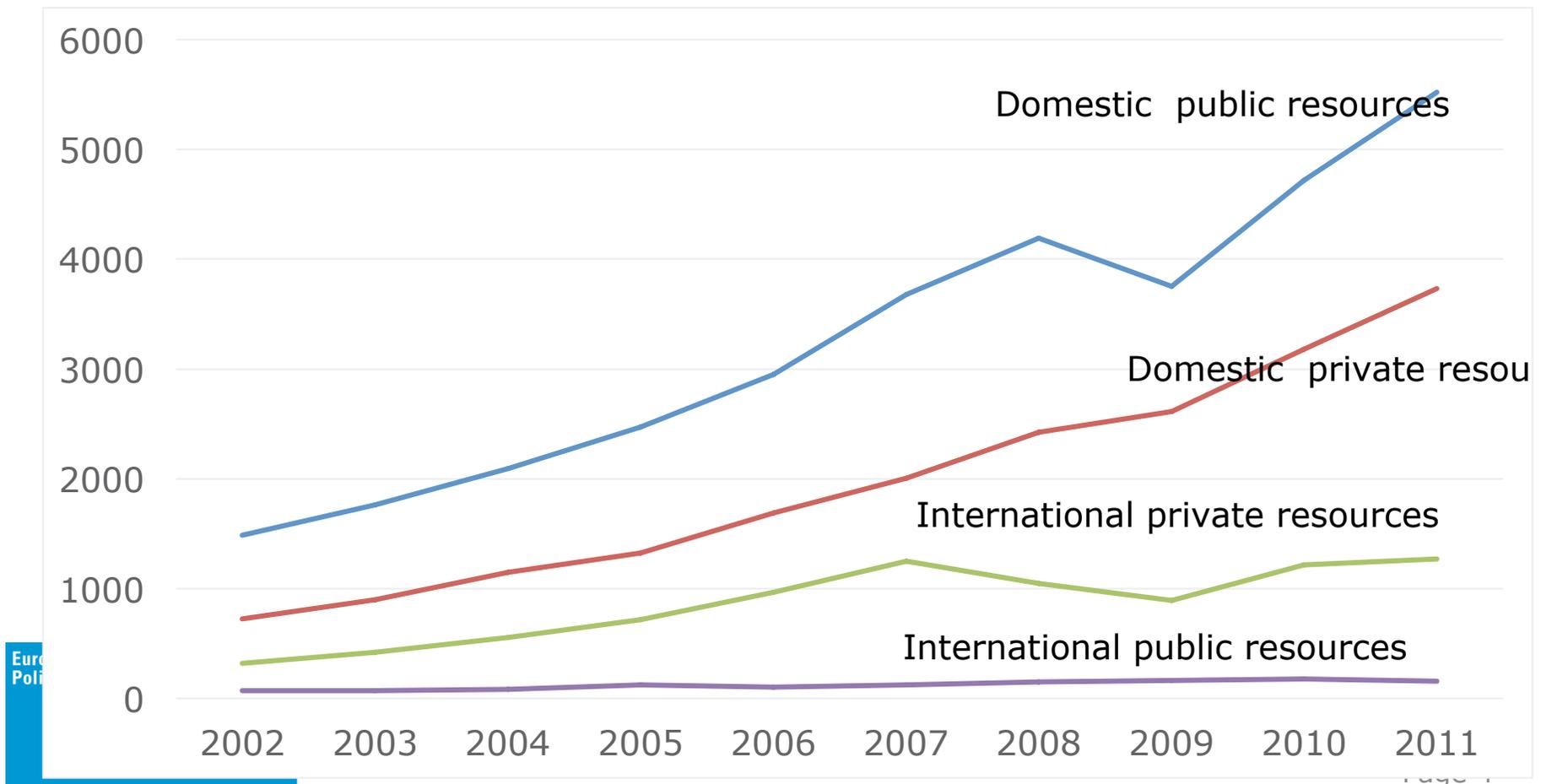
**=> Role of private sector**

# Debate over SDGs

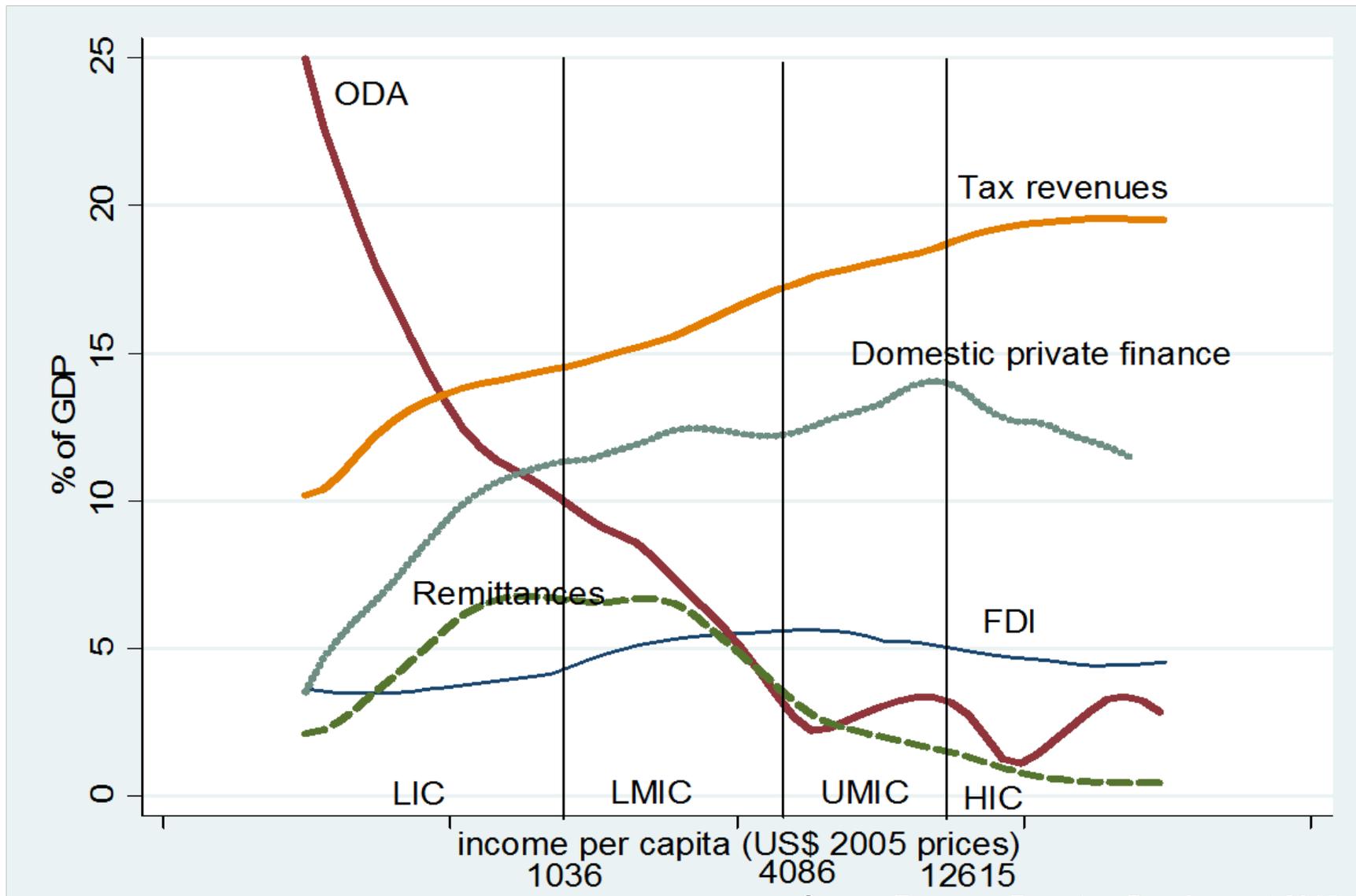
- too broad, too generic, too ambitious:
  - => pick and chose menu
  - => where to involve private sector?
- not measurable, hard to monitor:
  - => always possible to claim so success
  - => always possible to blame for failure
  - => how to hold private sector accountable?
- too development community & government centric
  - => rhetoric may not matched reality
  - => huge universe beyond SDGs
- Offers opportunities, new ways of engaging, new stakeholders
  - => how to make the most of it?

# Diversity of financial resources for sustainable development

*Trends in finance to developing countries (US\$ billion, 2011 prices), 2002–2011*

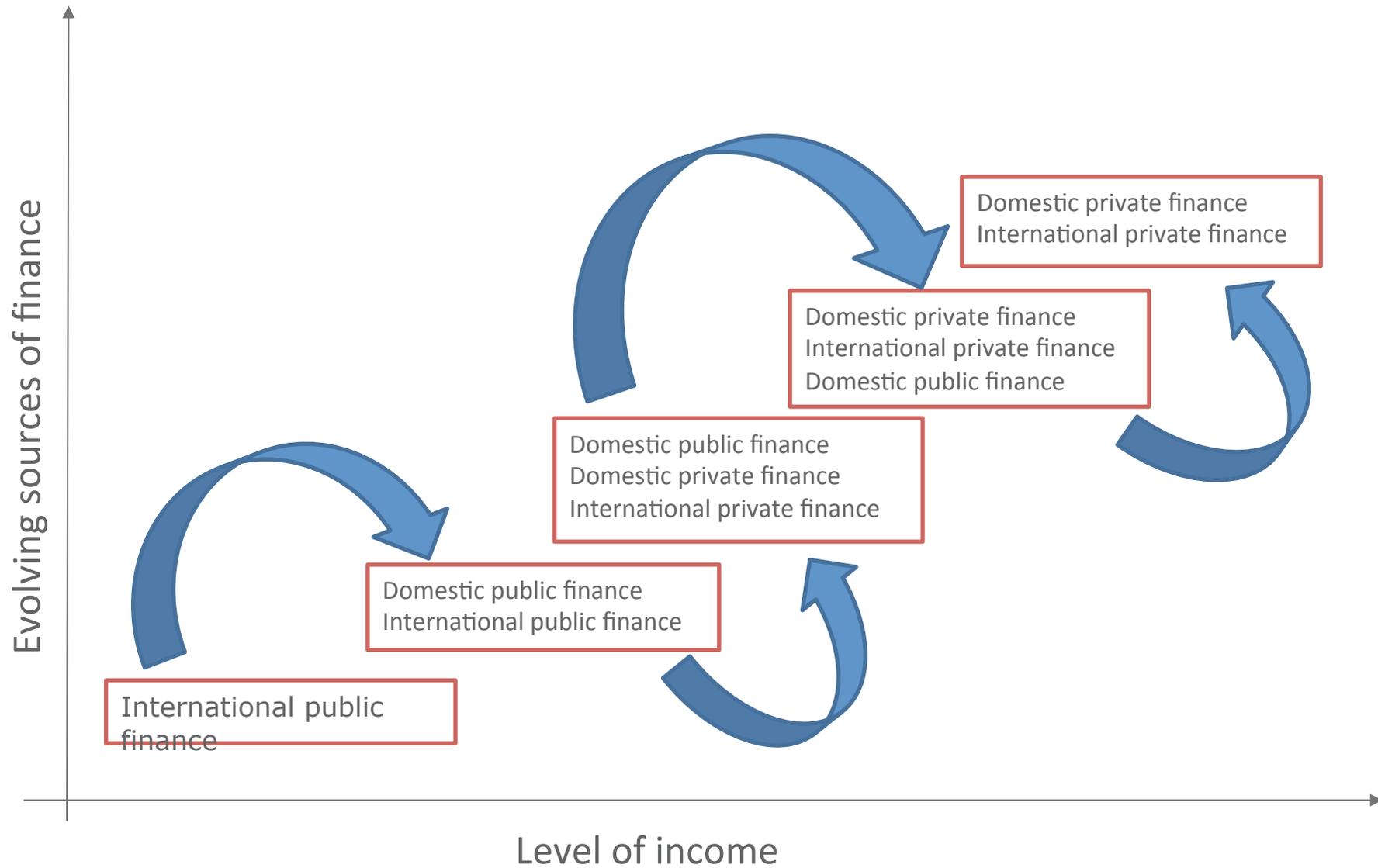


# Composition of finance varies by level of income (% GDP): Leveraging?



Source: European Report on Development 2015

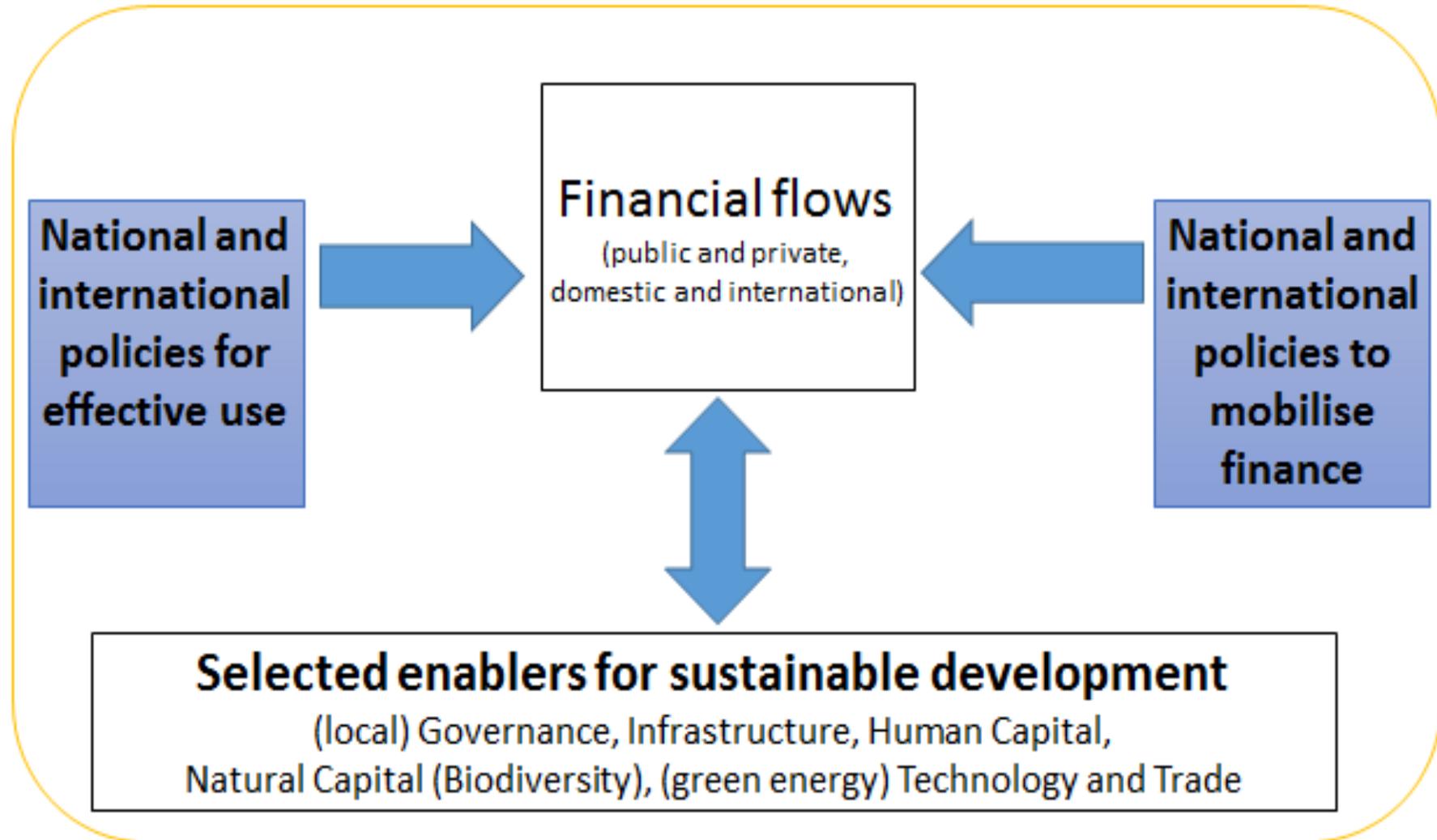
...typical evolution in sources of finance sources:



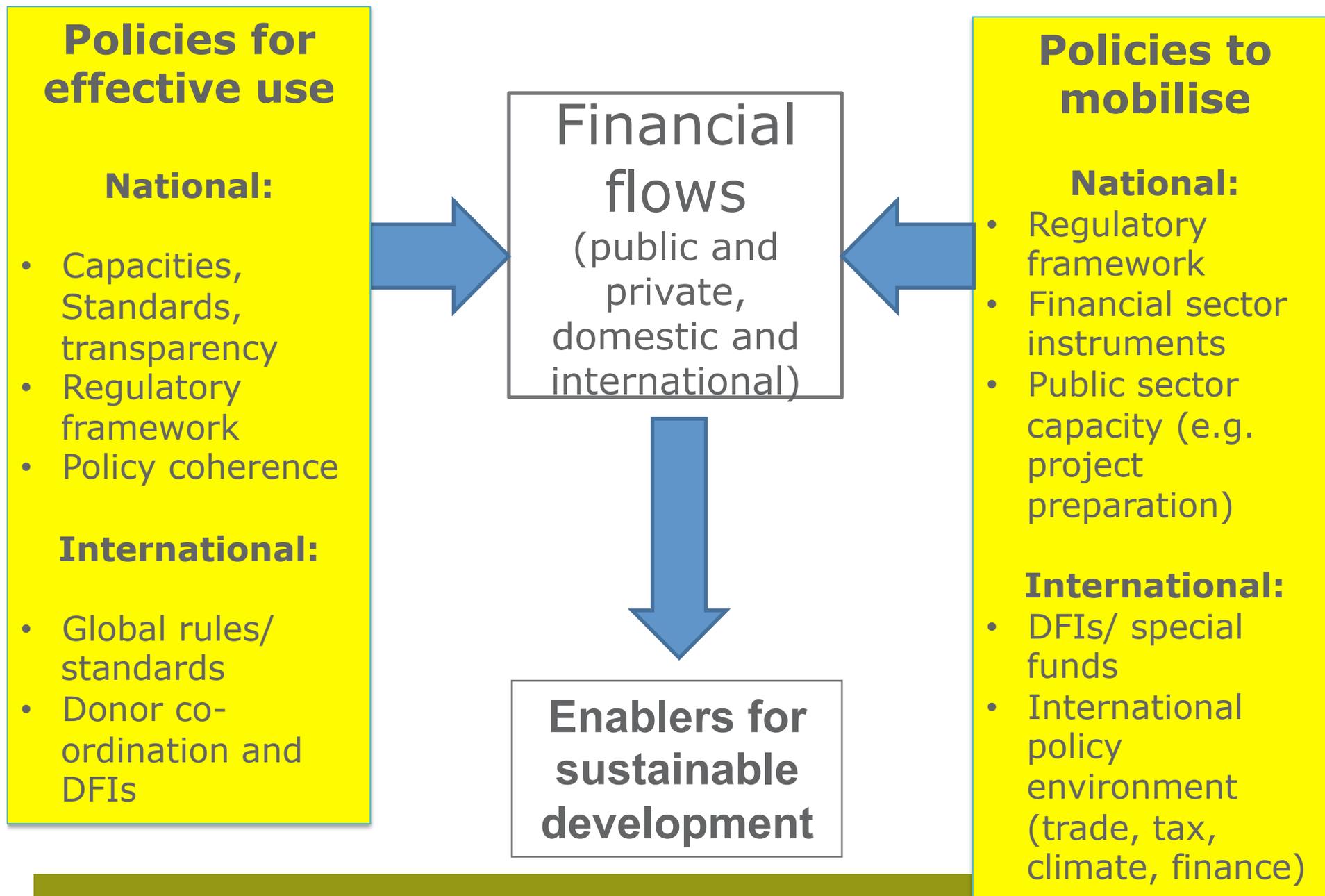
# How to incentivise private sector finance for development objectives?

- To mobilise finance
- To effectively use finance
- To promote sustainability (= key principles)
- To maximise development impact

# Consider policy and finance to enable a transformative post-2015 agenda



# Applying framework: key policy areas



# Public-Private partnership

- ***Who is leading whom, and how?***
- Convergence of language, but different meanings
- 3 perspectives to look at partnerships:
  1. **Donor's perspective:** aim is to promote new private sector investment
  2. **Private sector perspective:** public finance operates at the margin to maximise the development impact of existing private sector activity
  3. **Policy/operational perspective:** enhancing incentives & structures to ensure private sector activities/finance contribute to sustainable development objectives

## 2 categories of partnerships

### **1. Private sector investment for development:**

international development partners engage with (international) private sector activities for development purposes

**Donor-led models** → result of bilateral donor-initiatives to establish PPPs

**Coalition models** → multi-stakeholder initiatives (donors, private firms, nat. governments, NGOs, research institutions, etc.) & global platforms

**Business-led models** → projects initiated and led by private businesses/foundations with donor support

**Business-CSO models** → CSOs and business have a common vision/interest

**CSO-led models** → creation of viable social enterprises

### **2. Private sector finance for development:** ODA to leverage private sector finance

**Models:** PPPs, catalytic mechanisms, private to private

# Partnership's instruments & challenges

	1. Partnerships for private investment	2. Partnerships to leverage private finance
<b><i>Instruments/ financing mechanisms</i></b>	<p><u>Donor-led</u>: challenge/innovation funds, match-making facilities</p> <p><u>Multi-stakeholder partnerships</u>: GAIN, IDH, Grow Africa etc.</p>	<p>Blending, OBA, official support for private flows, front-loading of ODA, DIBs, currency swaps, financial guarantees function, investment/syndicated/financial intermediary/concessional loans, direct equities, private equity funds</p>
<b><i>Challenges</i></b>	<p>Additionality, donor/project-level attribution, result/impact measurement, agent selection, fragile states, success and survival of a private enterprise, local markets and regulatory challenges, market distances</p>	<p>Risk sharing, financial incentives outweigh development principles, finance concentration to certain sectors and countries, information asymmetries, crowding-out private finance, debt-risk for developing countries, results-measurement, monitoring &amp; evaluation</p>

# Some key issues (1)

- Risk, risk management and mitigation:
  - Policy / enabling environment
  - Specific approaches and mechanisms
- Incentives for long term finance needed for development
  - ⇒ More patient capital, sustainable principles and better programmatic approaches
  - e.g. roles of MDBs/IFIs/DFIs/RDBs
  - e.g. role of institutional funders
  - e.g. role of capital/financial markets
  - e.g. role of domestic and international policy and regulatory environment & stability

## Some key issues (2)

- Catalytic role of ODA:
  - To improve policy / enabling environment
  - To promote innovation: demonstration effects, pilot projects approaches
  - To leverage private sector finance:  
**ADDITIONALITY**
  - To accompany transformation
  - Gap filling !!!
  
- ☒ Aid can be very conservative as well: donors are often risk averse = need to show success!

# Concluding remarks

- Start at home
- Incentivise international private finance
- Lower ambitions: from billions to trillions
  - From billions to trillions: not from international finance
  - E.g. blending: useful mechanisms, with many limits
  - E.g. PPPs: can help only in some conditions
- Be more demanding
  - On yourself
  - On donors, IFIs/DFIs, private sector
  - Encourage sustainable and responsible finance and business practices (also IFF, PCD)

**Thank you!**

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