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Opening Remarks on "Corporate capture of development" session by Alex Nkosi

The 2008 economic down-turn that firmly gripped the developed world occasioned the sharp decline of Official Development Assistance (ODA) to the developing world. This reduction took place at a time when new economic actors, China, Brazil for instance, were increasing expanding their outreach as global players in development financing. The conflation of these dynamics induced a re-configuration regarding the nature and manner in which the ODA is managed and implemented and indeed the reconfiguration of development financing itself. Fast forward to the year 2015!

The year 2015 was pivotal, not only in setting the global agenda for sustainable development, but also for heightening the reconfiguration of development financing. With the adoption of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs), the world now had the most ambitious, diverse and universal development roadmap in history (OECD, 2016). This milestone however, also comes with the challenge of mobilising the requisite colossal financial resources to finance the implementation of the SGDs.

The Addis Ababa Action Agenda (AAAA) hailed the importance of using public investment instruments and vehicles to leverage the unprecedented levels of private finance required to fund this agenda. This call was equally amplified by the OECD in its 2016 Development Co-operation Report –

aptly titled - “The Sustainable Development Goals as Business Opportunities” (OECD, 2016)

The report stressed the involvement of the private sector in development as of cardinal importance in realizing the global Sustainable Development Goals (SDGs).

On financing the SDGs, the report further said, and I quote, “Success in reaching the global goals will depend not only on the quantity of funding that is made available. More than ever, better investments are needed. The private sector can be a powerful actor in promoting sustainable development in ways that go far beyond funding” (OECD, 2016; 3). The report goes further to tout blended finance as “offering huge, largely untapped potential for public, philanthropic and private actors to improve the scale of investment in developing countries” (OECD, 2016; 3).

Thus, blended finance and its attendant public-private partnerships (often referred to as PPPs) are increasingly promoted as a way to finance development projects (Romero, 2015). **Blended finance is an umbrella term for a new approach to development funding, in which public and philanthropic resources are used to incentivize commercial investment in development projects. Their aim is to encourage private investments by reducing risks and improving returns for investors, including through the use of subsidies for loans, grants for technical assistance, or equity investments in development projects.**

Thus, blended finance and PPPs in particular feature prominently in the discussions around the financing for the implementation of Agenda 2030. The UN, OECD, donor governments and financial institutions, such as the World Bank, have set up multiple donor initiatives to promote changes in national regulatory frameworks to allow for the private and blended development cooperation, as well as provide advice and finance projects.

These changes took place, or are taking place at a time when the developing world still needs far more financing for infrastructure than can be provided by domestic public finances alone. Faced with the challenge of dwindling

capital, most African governments are pursuing the public-private partnerships (PPPs) as an alternative approach to improving financing for infrastructural development and by extension, to improving service delivery for the citizenry. This development finance model — where the state shares risk and responsibility with private firms but ultimately retains control of assets — is hoped to improve services, while avoiding some of the pitfalls of privatisation: unemployment, higher prices and corruption

Having said this, the current strong push to increase the involvement of the private sector in the development arena and to promote blended finance and its associated PPPs had been met with mixed reactions. On one hand, central to the bone of contention is the difficulty among development experts to comprehend how the motives of business (profit) can be reconciled with the desired development outcomes as stipulated in the Agenda 2030. On the other hand, experts were also worrisome about the possibility of having the global development agenda high-jacked by the private sector for purposes other than develepmental.

Where are we now?

The growth of blended finance is transforming the international aid landscape, with traditional funders now increasingly playing the role of brokers, and private investors taking a role in policy-making.

Trends today in development financing show how ODA is increasing funneled for private capital. Even the World Bank also intends to increase financing of the private sector from 25% to 30% by 2020. It has also launched a framework for financing developing countries' development that is centred on the role of the private sector capital.

This "Maximising finance for development" approach opens the way for pro-investment reforms, de-regulation, public-private-partnerships etc.

There are a number of risks associated with this (Tan, 2018); here I will highlight four key risks of this change:

1. **Fragmentation of aid architecture and governance**: despite ongoing efforts there is currently no overarching framework governing international development finance. The rapid proliferation of new financing platforms makes it more difficult to achieve a shared monitoring, evaluation and scrutiny framework.

2. **Expanding the accountability gap**: current international legal frameworks governing aid projects are not designed to deal with blended finance platforms. In the absence of a common institutional standard for handling complaints it will be difficult for communities and individuals affected by blended finance projects to seek redress and to hold financiers accountable.

3. **Undermining country autonomy over development policies**: blended finance creates a risk that the projects chosen for funding are those which the commercial investors think will make the best profit, not those which reflect the needs of the host country or the Sustainable Development Goals. Host countries are often asked to reform their legal and regulatory regimes to accommodate the needs of foreign private investors in a way which may not be in their best interests.

4. **Creating new financial risks**: financial markets solutions may not be sufficiently reliable as an international response to the challenge of financing sustainable development. Relying on new financial instruments risks the financial stability of countries receiving the aid, including the build-up of unsustainable debt.