Submission to Elements Paper on Financing for Development

October 2024

Kate Bayliss, SOAS University of London; Julia Chukwuma, Open University; Jasmine Gideon, Birkbeck, University of London; María José Romero, SOAS University of London.

I. A global financing framework

Recommendation:

We urge the international community to assure that the Fourth Financing for Development action agenda (FfD4) highlights the need to take better account of the full costs associated with private sector financing of essential physical infrastructure (including water, transportation and energy infrastructure) and social sector projects (including hospitals, schools and the delivery of healthcare and education). Several UN Special Rapporteurs with different mandates have consistently drawn attention to the ways in which the private financing of these essential services may result in violations of human rights.[1] We call for public financing to be the default option for public infrastructure and social service delivery. Private finance should be sought only where there are clear long-term benefits for society and the environment, and only after rigorous evaluation of the full fiscal and social impacts of private and blended finance investments in public infrastructure and social sectors. FfD4 must deliver a political agreement on an intergovernmental process to review in a comprehensive and independent way the experience so far and identify the guidelines for project selection and implementation.

Brief rationale:

Within today's international development discourse relating to how the Sustainable Development Goals (SDGs) can best be attained, public and private finance are presented as complementary with calls to mobilise both, almost as if they were substitutes. For example, the Inter-agency Task Force for FfD4 has four overarching questions and the first of these is 'How can the conference help close the large financing and investment gaps, at scale and with urgency and enhance effectiveness of spending? This is followed by a sub

[1] https://www.theguardian.com/society/2020/oct/19/covid-19-exposed-catastrophic-impact-privatising-vital-services; https://www.ohchr.org/sites/default/files/Documents/Issues/Water/annual-reports/a-76-159-friendly-version.pdf

question which is '**What is the package of reforms that can help to deliver the rapid scaling up of public and private investments in the SDGs**?' (FSDR 2024, p.2).[2]

Thus, the dominant narrative is that the 'SDG financing gap' – estimated to be of the order of between US$ 2.5-4 trillion annually (FSDR 2024) – can only be filled by tapping into private finance to complement scarce public resources. The need for the private sector is hence primarily in terms of the inadequacies of public financial resources (alongside its alleged expertise). For example, for the World Bank (FSDR 2024, p. 18): 'despite all these efforts [to expand World Bank resources], we know there still won't be enough money to meet the world's demands. We need the scale, resources, and ingenuity of the private sector'.

For example, public healthcare spending between 2015 and 2019 stagnated due to imposition of austerity measures and significant debt service obligations, and most low- and middle-income countries spent only approximately 2 percent of their GDP on health against a target of 5 percent to attain UHC.[3]

This has led to a set of policies to support private investment. In 2015, the Addis Ababa Action Agenda (AAAA) (para 48, p. 24) set out the scope for blended finance instruments including public-private partnerships (PPPs) for infrastructure investment to 'lower investment-specific risks and incentivize additional private sector finance across key development sectors.'[4] The United Nations stipulate: 'We reiterate our call for developing countries to be supported in the preparation of a pipeline of viable projects, especially in the "de-risking" of investments through tools such as, inter alia, blended finance, first-loss, other guarantees and other innovative instruments' (ECOSOC 2024, p. 4).[5] Similarly, Dr. Ngozi Okonjo-Iweala, the Director-General of the World Trade Organization calls for the creation of environments that are 'conducive to attracting private capital in support of development goals. Implementing policies that inspire confidence and reduce investment risks can encourage increased private sector participation in sustainable development projects' (FSDR 2024, p. 21).

---

[2] FSDR (2024) United Nations Financing for Sustainable Development Report; available at: https://desapublications.un.org/publications/financing-sustainable-development-report-2024 (accessed: 11 October 2024).

[3] Stenberg, K. et al. (2019) 'Guide posts for investment in primary health care and projected resource needs in 67 low-income and middle-income countries: a modelling study', The Lancet Global Health, 7(11), pp. e1500–e1510

Stubbs, T. et al. (2023) 'The return of austerity imperils global health', BMJ Global Health, 8(2), p. e011620.

[4] United Nations (2015) Addis Ababa Action Agenda (AAAA); available at: https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf (accessed: 11 October 2024).

[5] ECOSOC (2024) United Nations Economic and Social Council forum on financing for development follow up document; available at: https://financing.desa.un.org/sites/default/files/2024-05/N2410853.PDF (accessed: 11 October 2024).

Public and private financing are very different policy tools, differing in their impact on what investments are prioritised, the long-term financial flows, and the implications for social equity. Private finance is often contingent on the supply of public funds, absorbing rather than contributing to development finance. This implies that rather than any significant inflow in private funds, we see a diversion of public funds towards the private sector in an effort to mobilise some form of private sector participation. For instance, in Lesotho, the private sector partner in a hospital PPP project – supported by the World Bank Group – provided less than 1 percent of the total up-front capital cost for the project compared to 34.3 percent of the up-front payments made by the Government of Lesotho.[6]

What is more, the focus on private finance to fill the SDG financing gap risks omitting other – less costly, and more equitable – ways in which governments could draw on resources from the private sector, such as taxation. According to the UNDP, the SDG financing gap of US$ 4 trillion represents only one percent of global wealth. Rather than trying to attract some of this towards the SDGs through private sector-friendly policies, a more socially equitable approach might be framed towards increased taxation of wealth.[7]

In brief, an approach to development finance which relies heavily on the mobilisation of private finance for social development raises concerns for several reasons:

- Private money has to be paid back, and usually with a profit. While private finance may bring up-front financing, the long-term funding needs are met by user fees, taxes, or grant funding. Private finance is not a substitute for public funds, as privately financed projects tend to be more expensive than publicly funded infrastructure and social service delivery if cost are added up over the lifespan of a project. Private finance thus risks to further diminish already scarce public resources. This, in turn, may weaken state capacity to provide essential services and infrastructure even further.
- Private finance for the SDGs risks increasing inequality globally and within countries, as financial returns to investors are funded by user fees and taxes while people on low incomes continue to struggle to meet their basic human needs.
- A focus on private sector development finance often implies that projects are selected for investment on the basis of whether they meet the needs of global investors (i.e., they are 'bankable'), rather than the needs of citizens. At the same

---

[6] Hellowell, M. (2019) 'Are public–private partnerships the future of healthcare delivery in sub-Saharan Africa? Lessons from Lesotho', BMJ Global Health, 4(2), p. e001217.

Hildyard, N. (2016) 'A study in financial extraction: Lesotho's national referral hospital', in N. Hildyard (ed.) Licensed Larceny: Infrastructure, Financial Extraction and the Global South. Manchester University Press, pp. 11–21.

[7] United Nations Development Programme (2024) Bridging the financing gap for SDGs; available at: https://www.undp.org/eurasia/our-focus/development-impact/sdg-finance (accessed: 11 October 2024).

time, governments regularly seek to ‘de-risk’ private investments in an effort to attract private finance (e.g., by issuing public guarantees for loans taken out by the private party) increasing their own risk. Despite years of effort, private money has not been going to the areas of greatest need in the poorest countries as emphasised in the FSDR 2024. It is unlikely to do so without more effort to de-risk investment, which threatens to weaken public funds and exacerbate inequality.

- The private sector goes to areas and segments that are the most profitable and least risky, leaving the public sector to provide the most challenging services and meet the needs of the most deprived, with little potential for cross subsidy, thereby creating greater challenges for achieving the SDGs. Moreover, where private sector funds have been mobilised, little information is available on the full implications for public budgets and social outcomes. More transparency and robust evaluation processes are necessary in this regard, as outcomes will depend heavily on the details of the terms and conditions under which the private sector investment takes place.

II. Action areas

a) Domestic public resources

Recommendation:

We call for it to be a standard requirement, in the case of private investments in public physical infrastructure and social sectors, to conduct a comprehensive assessment of whether a privately financed project is good ‘value-for-money’ and cheaper than when the project is funded publicly (e.g., by public procurement). We emphasise that an evaluation of the long-term impact of private financing on domestic public resources needs to be a core component of any ex-ante assessment and of any ex-post evaluation report.

Brief rationale:

In the long run, private financing absorbs public funds, potentially reducing the overall resources available for investment in SDGs.

In the UK, a public health provider, the South London Healthcare NHS Trust, was forced to close in 2012 due to the scale of financial deficit. This was in large part due to the unsustainable financial burden of the financial costs of two PPP hospitals. Finance costs for the Trust which principally related to the PPPs, increased by 29.5 percent in the four years

before closure due to increased interest charges.[8] The administrator recommended major cuts to local services to deal with the deficit, although these were eventually blocked by the High Court following widespread protests.[9]

Similarly, in Sweden, a hospital PPP project came under public scrutiny following the doubling of cost for the public sector. While the PPP project set out to construct ‘one of the most advanced and specialised hospitals in Europe’, the New Karolinska Hospital in Stockholm has now become known as ‘the most expensive hospital ever built’, costing the Swedish taxpayer Krona 61.4 billion by 2040.[10]

In Lesotho, the World Bank Group’s flagship hospital PPP project was terminated prematurely in 2021 after a massive escalation of cost for the public purse, with the government of Lesotho reporting ‘conflicts and misunderstandings since … inception’.[11] While the initial agreement between the private party and the government foresaw a public up-front payment of maloti (M) 400 million followed by annual payments of a M180.4 million, the monetary transfers from the Government to the private sector increased at an unexpected scale between 2008 and 2016.[12] This left the Government with insufficient resources to provide primary healthcare services to Lesotho’s population seeking care outside of the capital. Between 2012-2015, payments to the contracted private sector consortium, Tsepong, have been reported to account for 30.6 percent of the Government’s recurrent health expenditure, with Oxfam International and Consumer Protection Association Lesotho (CPAL) reporting that the cost of the PPP absorbed more than half of the Government’s health budget in 2013.[13] A World Bank-UNICEF co-authored report (2017, p.70) acknowledges that their estimate of public spending dedicated to the Lesotho PPP may be too low and ‘subject to future correction’, as payment obligations which have not yet settled were not taken into account. The cost escalation was furthermore recognised by the WBG in a 2018 document, which stated that ‘the amount of payment to the private party

---

[8] https://assets.publishing.service.gov.uk/media/5a7c3508e5274a25a91412d6/TSA-VOL-1.pdf (accessed: 11 October 2024).

[9] https://chpi.org.uk/wp-content/uploads/2015/02/CHPI-PFI-Return-Nov14-2.pdf (accessed: 11 October 2024).

[10] Paterlini, M. (2018) ‘Troubled rebuild of Stockholm’s landmark hospital has cost twice as much as planned’, BMJ, 361, p. k1816.

[11] https://www.gov.ls/government-to-cut-ties-with-tsepong/ (accessed: 11 October 2024).

[12] Hellowell, M. (2019) Ibid.

[13] Hildyard, N. (2016) Ibid.

Marriott, A. (2014) A Dangerous Diversion: Will the IFC’s flagship health PPP bankrupt Lesotho’s Ministry of Health? Oxfam, p. 28.

World Bank and UNICEF (2017) Lesotho Public Health Sector Expenditure Review 2017. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/29344/Lesotho-public-health-sector-expenditure-review.pdf?sequence=5&isAllowed=y (accessed: 11 October 2024).

increased by nearly 2.5 times compared to what was initially estimated', while also recognizing that this should not have come as a surprise given the state of Lesotho's primary and secondary healthcare infrastructure, which 'inevitably fed the patients into QMMH [the Queen Mamohato Memorial Hospital] and its clinic' (World Bank, 2018, p. 3).[14]

Likewise, in 2019, the Minister of Health of Turkey announced that 'there will be no further PPPs in the country and that all future hospital construction projects will be financed from government sources alone' (WHO 2022, p. 5).[15] Media reports highlighted that this decision was taken after it emerged that payments for only ten operational hospital PPPs accounted for 27.8 percent of the health ministry's budget.[16]

b) Domestic and international private business and finance

Recommendations:

1. We call for a reform to public accounting for private finance where this relates to public funds and for the full government liabilities associated with private finance to be classified as public sector costs, instead of being off-budget. This requires that the international community develops and implements accounting mechanisms for the full costings on public and private financing options and for such costings to be made public. We recommend that FfD4 adopts measures to ensure that the full long-term and potential fiscal costs of private financing are brought to the forefront of plans to use the private sector for SDG financing. Assumptions made should be clearly articulated and subsequently evaluated.
2. We call for FfD4 to urge governments to document and make available publicly the 'de-risking' measures taken to attract private finance, such as loan guarantees. We urge for governments to record such measures in public budgets as contingent liabilities.

[14] World Bank (2018) Public Private Partnership in the Health Sector: Practical Issues for Consideration. Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/526271561755472041/Public-Private-Partnership-in-the-Health-Sector-Practical-Issues-for-Consideration (accessed: 11 October 2024).

[15] WHO (2022) Public-private partnerships for health care infrastructure and services: considerations for policy makers in Ukraine. WHO/EURO:2022-5713-45478-65097. World Health Organization. Regional Office for Europe. Available at: https://apps.who.int/iris/handle/10665/359561 (accessed: 11 October 2024).

[16] Deutsche Welle. 'Financial burden in city hospitals made a U-turn'. November 16, 2019 https://www.dw.com/tr/%C5%9Fehir-hastanelerinde-mali-y%C3%BCk-u-d%C3%B6n%C3%BC%C5%9F%C3%BC-yapt%C4%B1rd%C4%B1/a-51271502 (accessed: 14 October 2024).

3. We call for FfD4 to urge governments to adopt transparent and participatory decision-making procedures in the use of private finance, and to strengthen their oversight mechanisms for private financing of essential services.
4. We call for FfD4 to emphasise the importance of transparent and comprehensive assessments of social equity impacts in situations, where private finance replaces or complements public financing mechanisms.

Brief rationale:

Since FfD3, the promotion of private financing mechanisms, such as PPPs, has accelerated. According to its own report, the World Bank Group's (WBG) Public – Private Infrastructure Advisory Facility (PPIAF) so far has funded more than 1,700 development projects in more than 130 countries worldwide.[17] In 2024, at least 33 of 54 African countries had been (or currently are being) supported by the WBG in their efforts to put into place a regulatory framework that enables PPPs, including in social sectors.[18] However, such promotion of blended and private finance instruments occurs despite a range of significant risks associated with them.

First, private financing for physical and social infrastructure often garners political support because it gives the impression that infrastructure is provided without increasing government spending. However, the presentation of private finance initiatives such as PPPs as off-budget funding is misleading, as private finance is akin to debt creating long-term liabilities and future tax burdens and are oftentimes more expensive than public procurement (Cepparulo et al., 2023).[19]

In the UK, the PPP programme (the Private Finance Initiative (PFI)) meant that financing for public infrastructure led to private sector debt rather than public borrowing and as such led to lower recorded levels of government debt and public spending in the short term, even though they created substantial long-term liabilities. The PFI programme was eventually dropped in 2018, described by the UK's Office for Budget Responsibility as a 'fiscal illusion'.[20]

---

[17] See PPIAF website: https://www.ppiaf.org/results (Accessed: 5 April 2024).

[18] Chukwuma, J., Romero, M.J. and Van Waeyenberge, E. (2024) 'Healthcare financialisation in the Global South: Examining the role of the World Bank Group in promoting Public Private Partnerships in health in Africa'. (currently under review).

[19] Cepparulo, A., Eusepi, G. and Giuriato, L. (2023) 'Public Finance, Fiscal Rules and Public–Private Partnerships: Lessons for Post-COVID-19 Investment Plans', Comparative Economic Studies, 66(1), pp. 191–213.

[20] NAO (2018) 'PFI and PF2', Report by National Audit Office, https://www.nao.org.uk/wp-content/uploads/2018/01/PFI-and-PF2.pdf (accessed 12 October 2024).

Given these country experiences, it is evident that long-term public sector costs need to be classified as such in full in government accounting records. Where governments draw on private finance, the future cost burden needs to be outlined transparently. Moreover, circumstances can change and costs cannot all be predicted with accuracy. A 2021 IMF report,[21] highlights how PPPs expose the government to significant fiscal risks, that are not just those that are contractually accepted but also potentially change during the contract term. PPPs are considered to create 'an illusion of additional fiscal space' (IMF 2021, p. vii). The IMF recommends (p.vii) that PPPs are implemented only when they are 'efficient and affordable and that fiscal stability is not jeopardised by excessive liabilities'. Hence, detailed assessments are crucial prerequisites for private financing.

Second, measures to reduce risk for the private sector typically do not reduce the overall risk, but shift these to government. Demand, foreign exchange and interest rate risk in particular can substantially increase the cost of investments. These are passed through to governments, increasing public spending in order to protect private investments. In Lesotho, for instance, the inflation risk had been transferred to the Government of Lesotho in its entirety, which bloated annual payments relating to their hospital PPP project (PSI, 2021).[22] In Portugal, overestimates of the demand for toll road PPPs led to compensation of private investors by the government.[23]

Third, contracts with private investors and initiatives that seek to mobilise private finance in essential infrastructure are regularly not in the public domain for reasons of commercial confidentiality. Often investors form legal entities (special purpose vehicle, SPV) with the sole purpose of entering into partnerships for the implementation of a specific project. Such SPVs are often based in tax havens, enabling direct financial flows via tax havens to shareholders of unknown identity. At the same time, while regulation often exists in principle, public sector agents do not have the capacity to adequately police the actions of private companies. For example, in England's water sector, despite extensive state capacity, private firms worked around the rules to extract excessive shareholder returns and failed to sufficiently invest in sewage infrastructure.[24] This is highly problematic as these projects

---

[21] https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/05/10/Mastering-the-Risky-Business-of-Public-Private-Partnerships-in-Infrastructure-50335 (accessed: 11 October 2024).

[22] PSI (2021) 'Care Givers and Takers: How finance extracts wealth from the care sector and harms us all'. Available at: https://publicservices.international/resources/publications/care-givers-and-takers---how-finance-extracts-wealth-from-the-care-sector?id=12877&lang=en (accessed: 11 October 2024).

[23] Macário, R., J., Ribeiro and J. Duarte Costa (2015) 'Understanding pitfalls in the application of PPPs in transport infrastructure in Portugal', *Transport Policy*, 41(90-99).

[24] Bayliss, K. B. Bowles and E. Van Waeyenberge (2022) 'Private equity and the regulation of financialised infrastructure: the case of Macquarie in Britain's water and energy networks' *New Political Economy* 28:2(155-172); House of Lords Industry and Regulators Committee (2023) 'The affluent and the effluent:

receive long-term funding from taxes or user fees for vital services, such as water, energy, health services or education. Those providing the funds have a right to know where the money ends up.

Fourth, the 2024 FSDR highlights inequality as a major contemporary challenge. Yet, the structure of the international financial system is complicit in exacerbating existing economic and social inequalities. While, in rhetoric, organisations such as the World Bank Group and the International Monetary Fund, emphasise the importance of domestic resource mobilisation to adequately fund social service delivery, it exerts pressure on notably countries of the global South to cut back on public spending.[25] At the same time, discriminatory terms of trade and unequal exchange have led to an outflow of funds from the global south.[26] In parallel, private finance that ties governments to funding spending to meet shareholder profits for long periods risks exacerbating inequality. For this reason, all private finance should be subject to scrutiny to determine who bears the long-term funding costs (e.g., users, taxpayers or donors) in order to conduct a distributional evaluation.

c) International development cooperation

Recommendation:

We urge that the use of official development assistance (or aid) to de-risk private investment is comprehensively and independently reviewed. The full cost of diverting direct donor investment towards incentivising the private sector needs to be included in project assessments.

Brief Rationale:

FSDR 2024 (p. 99) calls for development cooperation to 'step up its political and financial engagement in mobilizing other (public and private) financial resources for sustainable development'. We welcome the recommendation in the FSDR 2024 that the leverage impact (the amount of private finance raised for every US$ of donor funding) should attract less attention and that more attention is needed to the development impact of such funding. FfD4 provides a crucial opportunity to move this agenda forward.

---

cleaning up failures in water and sewage regulation', https://committees.parliament.uk/publications/34458/documents/189872/default/ (accessed: 12 October 2024).

[25] Stubbs, T. et al. (2023) 'The return of austerity imperils global health', BMJ Global Health, 8(2), p. e011620.

[26] Hickel, J. et al. (2022) 'Imperialist appropriation in the world economy: drain from the global south through unequal exchange, 1990–2015', Global Environmental Change, 73, p. 102467.

Using donor funds for blended finance raises significant concerns for the governance, the quality and quantity of official development assistance (ODA) that countries of the Global South receive:

- Only a very small share of funds raised this way reaches the areas of greatest need – providing vital services for the poorest people within the poorest countries.
- Blended finance tends to be directed to middle income countries and to infrastructure, banking and financial services rather than health and education. In LICs, the evidence suggests that for every $1 of MDB and DFI resources invested, private finance mobilised amounts to just $0.37, so the amounts mobilised for the poorest countries using donor funds this way is small.[27]
- Assessment mechanisms such as logical frameworks tend not to cover wider impacts such as on poverty reduction.
- The use of aid funds provides opportunities for donors to sponsor donor-country firms in blended finance deals which has echoes of tied aid.[28]
- Overall, the expansion of blended finance risks diverting ODA away from the core objective of social development.[29]

III. Overarching reflections

The current approach to development finance that treats public and private finance as interchangeable is misleading. The reality is more complex with the private sector absorbing public funds and creating long term liabilities that are akin to debt. The use of public funds to attempt to draw funds into SDG activities from a reluctant private sector could be a dangerous and costly distraction, and more rigorous evaluation processes and public scrutiny are needed.

A future-looking FfD4 action agenda needs to prioritise development finance that is equitable and sustainable. We recommend that priority is given to financing measures to strengthen public finances rather than trying to use public funds to create an environment that meet the profit-making conditions required for private sector investment. The FSDR 2024 emphasises the urgency to consider innovative development finance mechanism,

---

[27] Attridge, A. and L. Engen (2019) 'Blended finance in the poorest countries' Report for ODI https://www-cdn.oxfam.org/s3fs-public/bp-private-finance-blending-for-development-130217-en.pdf (accessed 12 October 2024).

[28] https://www-cdn.oxfam.org/s3fs-public/bp-private-finance-blending-for-development-130217-en.pdf (accessed: 11 October 2024).

[29] Attridge, A. and L. Engen (2019). Ibid.

such as a levy on shipping emissions, taxes on extreme wealth. We agree that these mechanisms, rather than high-risk private finance instruments, should be a priority for FfD4.

Moreover, we call on Ff4D to support more systemic reforms that will place all countries on a more equal footing to access the resources they need to build up public funds. As such we call Ff4D to support the current negotiations to establish a UN Framework Convention on International Tax Cooperation that will serve as an important step towards creating a fair, transparent and inclusive structure for global governance of international tax matters.[30]

[30] https://assets.nationbuilder.com/eurodad/pages/3349/attachments/original/1710946946/Submission_on_behalf_of_the_CS_FfD_Mechanism_and_176_signatories.pdf?1710946946 (accessed: 14 October 2024).