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Public-Private Partnerships

Aid donors are increasingly spending public money to encourage private investment in poorer countries but it is unclear where these funds are going and what impact they are having on development goals.

Some donors and development banks have claimed "blended finance" can help plug the gap in funding needed to meet the sustainable development goals (SDGs), one of which is to end extreme global poverty by 2030.

Aid reforms could see big increase in private sector subsidies
Leaked document shows OECD members discussing changes to official aid rules that would allow more funds to be invested in or loaned to private companies
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Proponents argue that traditional aid is not growing fast enough but it can be used to encourage private investors to put their own money into projects that otherwise seem risky. Forms of blended finance include guarantees, insurance and some loans.

The report, from independent research group Development Initiatives, said that the discussion "has been based on very little evidence to date". It warned that donors increasing this funding now are "doing so with inadequate information".

Harpinder Collacott, executive director at Development Initiatives, said: "The information available … is just too limited for good decision-making. We do not know how we should be scaling up aid investments in this area, ensuring it is having the impact we need it to."

The report analysed the limited data available on blended finance and argued that even at high rates of growth, it would be almost impossible for it to plug the SDG funding gap – which is estimated to be as high as $3.1tn (£2.49tn) annually by 2030.

Most of the money so far, the report added, has supported investments in wealthier developing countries and places with lower poverty rates. Energy, construction and mining projects received much of this finance.

"Development actors should not, therefore, see blending as a '[magic] bullet'," the report concluded.

It said a common reporting standard needed to be developed and that donors must find a way to disclose more information on who ultimately benefits from this finance.

"Transparency isn't just about international institutions reporting to the OECD [Organisation for Economic Co-operation and Development] – it is important for accountability at the local level," stressed Dan Coppard, research director at Development Initiatives, who said it was "extremely hard" to trace this kind of spending to the ground.

"It largely bypasses governments in developing countries and goes right to the private sector," Coppard added, noting that the complexity of some investment structures can make following the money even harder.

The report comes as OECD donors are considering changes to the rules on what spending can count as aid. A proposal being discussed would broaden the rules to allow support for private sector investment, including forms of blended finance, to count.

A 2016 OECD report argued: “Blended finance offers huge, largely untapped potential for public, philanthropic and private actors to improve the scale of investment in developing countries.”

If companies profit by doing good, why aren't they all doing it?

Doing the right thing can make money. But often cutting corners makes a profit, too, so development must approach the private sector with caution
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In July, a senior executive at the World Bank’s International Finance Corporation (IFC) argued: “These instruments can incentivise private finance for investments with strong social and development benefits that would otherwise not materialise due to higher actual or perceived risk.”

A 2016 report from the UN secretary general questioned the impact of blended finance. “There is insufficient evidence and ongoing debate on whether ‘blending’ mobilises additional private flows, supports national sustainable development priorities or increases sustainable development impact,” the report said.

Civil society groups and NGOs have also previously warned that there is little evidence to support spending more aid money to promote private investment. The lack of transparency around this spending has long been a point of criticism.

“We shouldn’t shy away from development assistance leading to commercial gain,” said Coppard, as long as there is also evidence of poverty reduction. But he said proposed changes to the aid rules “warrant substantial scrutiny”.

The “guiding principle”, argues the report, must be to ensure this finance “increases available resources for targeting poverty”, rather than encouraging “private investment … as an end in its own right”.

According to an OECD survey, aid donors helped “mobilise” $36.4bn in private sector investments between 2012-14.

The UK supported investments worth $2.7bn in 2014 – mostly through the CDC, the government’s main vehicle for supporting the private sector in developing countries.

Examples of blended finance include subordinate loans or equity stakes, guarantees where the donor agrees to repay a loan if the borrower cannot, political risk insurance, and technical assistance to conduct feasibility studies for the investment potential of a project.

The transformative potential of the private sector in fragile states


Local builders work on the construction of an Ebola treatment unit in Kerry Town, Sierra Leone.

Almost six months have passed since the World Health Organization officially proclaimed Sierra Leone Ebola-free. There have been a few scares since, but stability is nonetheless returning — bringing with it renewed hope of progress. Prior to Ebola, Sierra Leone was experiencing sustained annual economic growth of between 4 and 7 percent, with projected growth close to 11 percent. Governance, gender, environmental and social indicators had been improving. We had seen small but tangible improvements in infrastructure development.

This progress was all but extinguished by Ebola. Moreover, close to 4,000 Sierra Leoneans died during the Ebola crisis, with virtually every community affected. It will take generations for many families to get over that loss.

Still, we must start to move the country back toward a positive development path as soon as possible. Sierra Leone's post-civil war development was predicated on good governance and economic growth. These two factors are again key now, and show some encouraging signs. Ebola demonstrated the resilience of the Sierra Leonean state and several key private sector actors.

On the government level in Sierra Leone, the swift setting up of the National Ebola Response Center, which acted as a focal point for emergency relief and coordination, significantly improved the national recovery effort. Several private sector actors participated.

At Sierra Rutile, a mineral sands company, we helped communities near our operations prepare for the virus. We learned it was crucial to establish stringent protocols and worked alongside community leaders to raise awareness about the impact of the virus.

Like several other large employers, we already had experience in working with the community on health issues, making it easier to mobilize the community against Ebola. One example is a clinic within our mining concession that treats 22,000 people per year. The clinic offers free HIV testing, provides health education, and delivers mosquito nets for malaria prevention. We took this provisional structure and simply refocused it on tackling Ebola.

The role we and other private sector actors played during the Ebola crisis now needs to be expanded as the country returns its focus toward stability and economic growth. President Ernest Bai Koroma recognized this in his Agenda for Change (2007-2012) and Agenda for Prosperity (2013-2017), which aim, among other things, to create a positive enabling environment for the private sector. For our part, large private sector employers must continue to engage in Sierra Leone and other fragile states. As employers, we play a crucial role in bringing people into the formal economy, spurring the creation of new businesses down the supply chain, and on the macro level, earning much needed foreign exchange.

As the Ebola crisis highlighted, the private sector can also help deliver progress in areas such as welfare and education in communities in rural areas left behind by development. This capacity must be leveraged to speed up the transition from fragility to development.

Sierra Leone is entering the second phase of its Ebola recovery plan, and there is still a long way to go before the country returns to its pre-crisis position. The cost in lives was devastating, but we must prove that Ebola was not fatal blow in the country's long-term transition. Through coordination between government and donors, civil society and the private sector, Sierra Leone can emerge from this crisis in the same way it emerged in the decade after the civil war. It will not be easy, but it can be done.

This article was written by : John Sisay is the chief executive of Sierra Rutile Ltd, an AIM-listed company managing one of the largest rutile deposits in the world. In 2016, John lead SRL to be the first Sierra Leone business members of the World Economic Forum and the United Nations Global Compact respectively, pledging to implement universal sustainability principles. He is deeply committed to ensuring Sierra Leone is on a progressive development trajectory via the implementation of the Sustainable Development Goals and the Agenda 2030.

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