Mobilizing Resources for Development

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Abstract
This paper reviews the progress in mobilizing domestic and international financial resources for development since the first international conference on financing for development in Monterrey. In particular, it examines the progress in tax revenues and overseas development aid (ODA) as well as the role of private finance. In this regard, it reflects on the use of ODA as a catalyst to mobilize private resources in the form of public-private partnerships (PPPs) and blended finance (BF). While this paper highlights the continued importance of enhanced efforts to mobilize public finance – both domestic and international, it calls for a cautious approach towards PPPs and BF, especially in low-income and least developed countries.

I. Introduction

The term 'mobilizing' suggests that resources are available, but that they somehow are either (a) not collected fully, or (2) not being used for development, due to specific obstacles or a lack of incentives. The report of the Inter-Governmental Committee of Experts on Sustainable Development Financing (IGCESDF), set up in June 2013 by the General Assembly of the United Nations, estimated that several trillion dollars per year would be needed annually for climate-compatible and sustainable development, with 5-7 trillion dollars additional financing for infrastructure. It also estimated that the available global savings were around US$22 trillion a year which should be sufficient to meet these needs, if they are allocated correctly.

Therefore, according to the IGCESDF, "the challenge for policymakers lies in facilitating greater investment of disperse financing flows into areas of global need, and in improving the quality of present policies, approaches and instruments, addressing inefficient and harmful subsidies, corruption, tax evasion, illicit financial outflows…".[1] The IGCESDF Report contained a comprehensive analytical framework; proposed a basket of over 115 policy options for policy makers to choose from; and suggested areas for advancement of the global partnership for sustainable development, including in the areas of trade, taxation, financial market stability, debt and development cooperation, among others.

This paper will reflect on some of the obstacles in mobilizing both public domestic and international financial resources as well as challenges involved in marshalling private financial resources for sustainable development, in particular for poverty reduction and inclusive green growth. The paper is organized as follows: Section II provides a brief account of financing for development (FfD) agenda; Sections III and IV review the progress and obstacles, respectively, in public domestic and international resource mobilization; Section V appraises private international finances – foreign direct and portfolio investments; Section VI reflects on the use of public resources to mobilize private finances in the form of public-private partnerships (PPPs) and blended finance (BF). Concluding remarks are contained in Section VII.

[1] http://www.un.org/esa/ffd/documents/ICESDF.pdf, p. viii

II. **From Monterrey to Addis Ababa**

The 'Financing for Development' (FfD) agenda was launched at the First International Conference in Monterrey (Mexico) in 2002. It was followed up by the Second International FfD Conference in Doha in 2008, and the Third International FfD Conference in 2015 in Addis Ababa.

The first FfD Conference shaped the conception of the means of implementation of the Millennium Development Goals (MDGs).[2] The third FfD Conference adopted a comprehensive and holistic financing strategy for the implementation of the post-2015 development agenda, Agenda 2030 for the Sustainable Development Goals (SDGs).[3] At the core of both MDGs and SDGs is poverty reduction. While halving the global poverty rate by 2015 was a dominant target of MDGs, the overarching aim of SDGs is to "leave no one behind" in a "world without poverty" by 2030.

The Monterrey Consensus identified six 'pillars' for the sustainable financing of the global development agenda. They are: (i) local resources, (ii) resources from abroad, (iii) international trade, (iv) development cooperation, (v) debt management and (vi) systems. It also introduced six corresponding 'leading actions': (i) mobilizing domestic financial resources for development, (ii) mobilizing international resources for development, such as foreign direct investments and other private flows, (iii) using international trade as an engine for development, (iv) increasing international financial and technical cooperation for development (v) managing external debt, and (vi) addressing systemic issues: enhancing coherence and consistency of the international monetary, financial and trading systems in support of development.[4]

The IGCESDF Report provided a useful basis for the intergovernmental negotiations leading to the third FfD Conference in Addis Ababa. The Addis Ababa Action Agenda (AAA)[5] emphasized issues of unsustainable debt, tax competition and tax avoidance, declining ODA commitments, the reform of international finance institutions, and the role of private finance. In parallel, development ministers of the OECD-DAC focused on how to modernize the definition of ODA for it to remain a relevant instrument in the post-2015 era. An important issue in this debate has been how to reconcile the current definition and measurement of ODA with the trend of using ODA as a catalyst and lever to mobilize more private resources. The Inter-agency Task Force (IATF) on Financing for Development is tasked to monitor the progress in implementing AAAA.

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[2] http://www.un.org/millenniumgoals/bkgd.shtml

[3] https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf

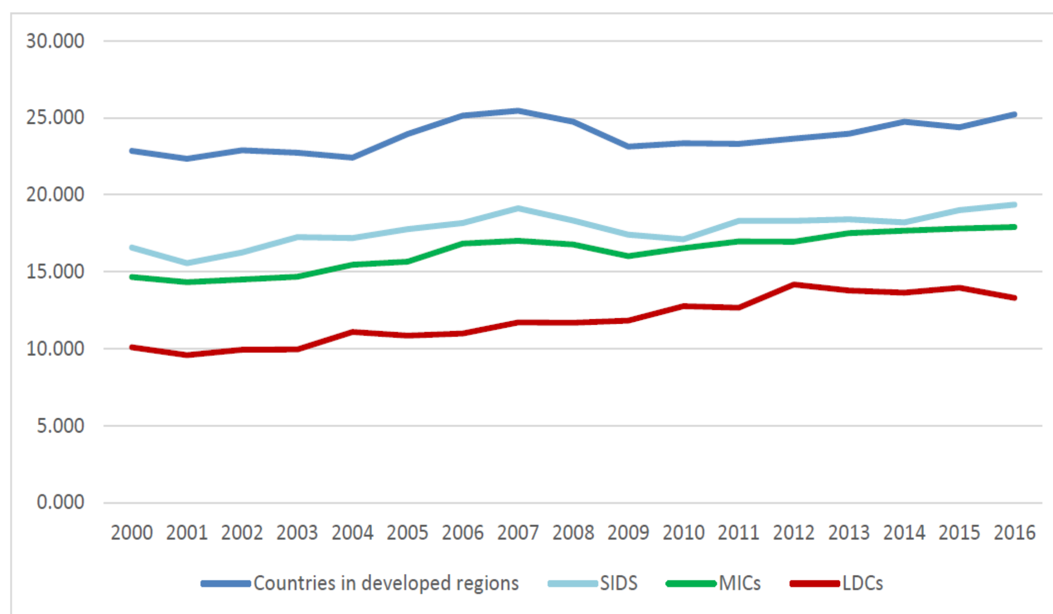
[4] See Saenz, Cortés (2014). *The Road to Addis Ababa*. Madrid & Brussels: European Network on Debt and Development (Eurodad); http://www.eurodad.org/Entries/view/1546261/2014/09/23/The-Road-to-Addis-Ababa

[5] Addis Ababa Action Agenda of the Third International Conference on Financing for Development; http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

III. Domestic public finance – trends and challenges

The IATF has tracked significant progress in domestic public resource mobilization, especially tax revenues (Figure 1). As can be seen, most developing countries improved their tax revenues; the median tax-GDP ratios in all developing regions increased, despite some drops in middle income countries and Small Island Developing States (SIDS) after the global financial crisis (GFC). However, the developing regions still lag behind the developed countries where the median tax-GDP ratio is slightly over 25%. As the IATF 2018 report noted, "Large gaps remain between LDCs, middle-income countries and countries in developed regions, with the 2016 gaps rising to levels not seen since 2008" (p. 41). More importantly, the median tax-GDP ratio in least developed countries (LDCs) seems to have plateaued and declined in 2016 to 13.3% of GDP.

Figure 1: Median tax/GDP ratio (%) by income grouping, 2000-2016



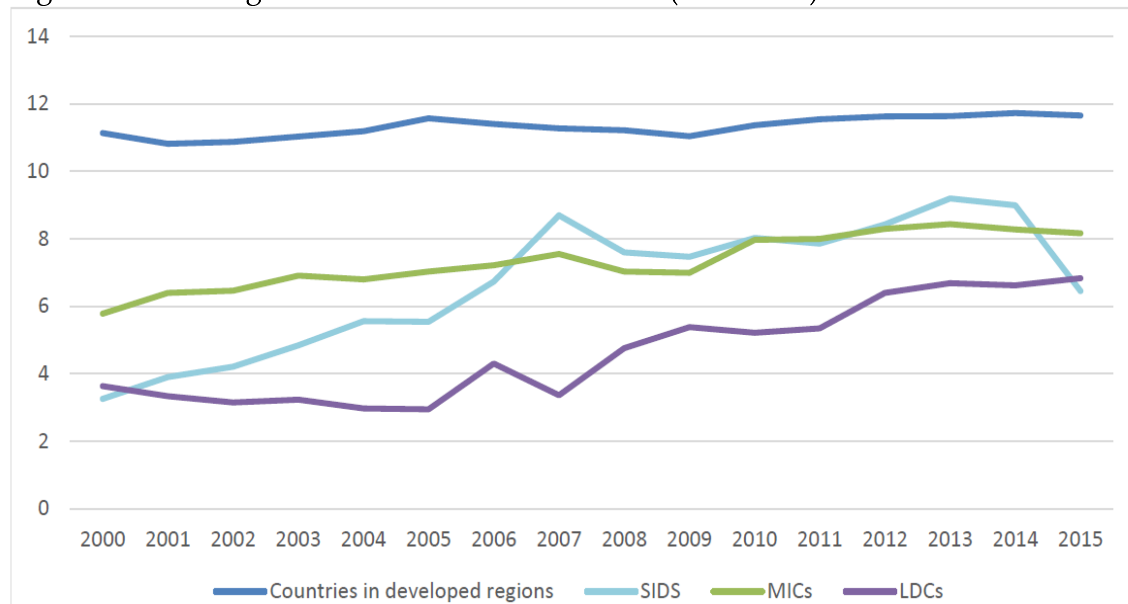
Source: IATF 2018

United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) found that between 2007 and 2012, tax revenues increased at a higher rate than output in 12 of 20 Asia Pacific countries; yet in many countries tax collection is below potential. In some countries, the gap between actual revenues collected and the level that would be appropriate given the economy's structure is equivalent to 5% of GDP or more.

Dependence on indirect taxes
Personal income tax revenues are low in many developing countries due in part to untaxed activities in the informal sector or in agriculture. In many countries tax avoidance and non-compliance are also a concern.

Thus, the rise in developing countries' tax revenues can largely be attributed to their increased reliance on indirect taxes in developing countries. As can be seen from Figure 2, the median goods and services tax (GST) revenue, increased in all developing regions while it remained stable in developed countries. The steepest increased occurred in SIDS and LDCs. Raising GST or value added tax (VAT) has become a common approach for many countries. A review by ILO of IMF policy discussions found that 94 governments in 63 developing and 31 high income countries were considering raising VAT or sales taxes.[6]

Figure 2: Median goods and services tax revenue (% of GDP)



Source: IATF 2018

However, generally, GST is a regressive tax with its incidence falling disproportionately on low-income households, even after exempting goods and services that are dominant in the consumption basket of the poor. Therefore, raising VAT or GST can only be a prudent policy if targeted to the products that the better-off consume disproportionately more. For example, it is possible to exempt necessary basic goods that many low-income families depend on while setting higher rates for luxury goods that are principally consumed by wealthier families (e.g. luxury cars).

[6] ILO (2014) Monotax: Promoting formalization and protection of independent workers, Social Protection in Action No. 2/2014 (Geneva).

Moreover, an IMF study concluded that scope to raise revenue "by simply raising standard VAT or GST rates is becoming limited, so the potential lies largely in better improving compliance and scaling back preferential treatments. Not least, and important too for the wider legitimacy of tax systems, greater efforts can be made—requiring political will as much as technical capacity—in taxing elites and high-income/wealth individuals".[7]

Tax avoidance and evasion

As highlighted in the IATF 2018 Report, a barrier to greater domestic resource mobilization is a high and persistent level of tax evasion and avoidance. Table 1 presents some estimates of lost revenues due to tax corporate tax avoidance, which can be as high as US$500 billion annually.

Table 1: Select international corporate tax avoidance estimates

Estimates by	Estimated volume of tax loss
OECD Working Paper, 2017	US$100 billion - US$240 billion in 2014
WIDER Working Paper, 2017	US$500 billion annually
IES Working Paper, 2017	US$150 billion - US$188 billion annually

Source: IATF 2018

The ECLAC estimates that tax non-compliance in Latin America and Caribbean was equivalent to 2.4% of GDP for VAT and 4.3% for income tax, worth a combined total of US$340 billion in 2015.[8] It also finds that an average evasion rate of roughly 28% of VAT or GST and 50% of income tax receipts.

Tax avoidance happens due to loopholes in the tax regulations and can be quite legitimate from a legal point of view. Thus, the solution lies in the reform of tax codes dealing with various exemptions and deductions. Tax evasion, on the other hand, is outright illegal, and the solution lies in improving compliance. More on the issue of tax avoidance and evasion later.

Globalization and tax losses[9]

Developing countries generally are losing revenues due to the pressure of globalization. There are four main reasons for revenue losses: first, trade liberalization and associated tariff cuts. Many developing countries' domestic resource mobilization, in particular of tax revenue, suffered setbacks due to trade liberalization and the abolition of trade-related taxes rarely compensated by the more regressive indirect taxes such as GST. Developing countries have steadily reduced tariff rates since the 1990s, lowering their capacity to generate revenue from trade. The financial implications of this trend are likely greater for low-income

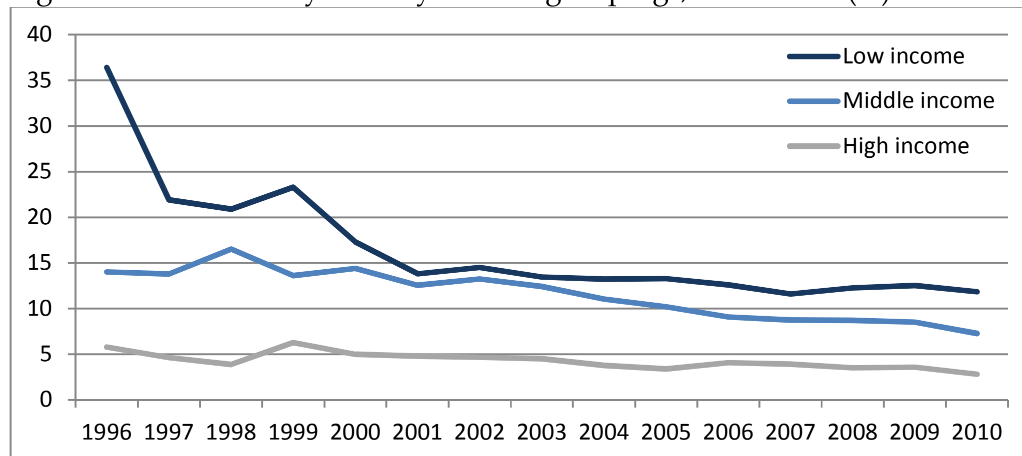
[7] IMF (2011) "Revenue Mobilization in Developing Countries", Fiscal Affairs Department, https://www.imf.org/external/np/pp/eng/2011/030811.pdf; p. 5

[8] *Economic Survey of Latin America and the Caribbean: The 2030 Agenda for Sustainable Development and the challenges of financing for development* (United Nations publication, Sales No. E.16.II.G.3).

[9] Draws on Jomo, Kwame Sundaram and Anis Chowdhury (2016), "Financing for development: Trade, aid and tax", *Development*, Vol. 59(2), July

countries, which sliced tariffs by more than half, from 36 to 12% between 1996 and 2010, on average, compared to a 7% average cut in middle-income countries (Figure 3). Some countries stood out, with India's average tariff rate falling from 71 to 13% between 1994 and 2009 and Brazil's from 51 to 14% between 1987 and 2009.[10]

Figure 3: Tariff rates by country income groupings, 1996-2010* (%)



Notes: * Values reflect unweighted average of applied rates for all traded products subject to tariffs
Source: World Development Indicators (2015)

An IMF study found that while rich countries have been able to offset reductions in tariff revenue by increasing their domestic tax revenue, this has not occurred in most developing countries. Middle-income countries were found to recover only up to 60 cents of each dollar of tariff revenue lost, and low-income countries recovered no more than 30 cents.[11] Therefore, in many developing countries there may be a good rationale to examine current tariff levels, at least until domestic tax collection mechanisms are strengthened, to sustain or increase levels of revenue.

Second, capital movements increase opportunities for tax evasion because of the limited capacity that any tax authority has to check the overseas incomes of its residents; evasion is easier as some governments and financial institutions systematically conceal relevant information. Where dividends, interest, royalties and management fees are not taxed in the country in which they are paid, they more easily escape notice in the countries where the beneficiaries live.

A December 2015 report from Global Financial Integrity, 'Illicit Financial Flows from Developing Countries: 2004-2013', found that developing and emerging market economies lost US$7.8 trillion in illicit financial flows (IFFs) from 2004 through 2013, with illicit outflows increasing at an average of 6.5% per year—nearly twice as fast as global GDP. The so-called Panama Papers hint at the extent of the problem, involving both developed and developing countries. A 2012 Tax Justice Network

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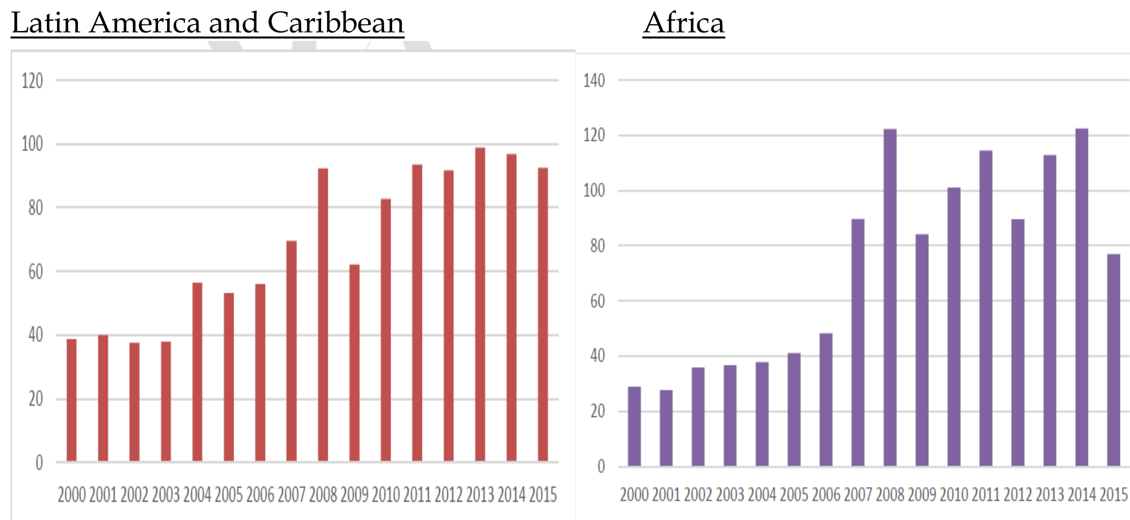
[10] World Trade Organization (WTO) (2010) Tariff profiles, Geneva: WTO, https://www.wto.org/english/res_e/booksp_e/tariff_profiles10_e.pdf
[11] Baunsgaard, Thomas and Michael Keen (2005), "Tax revenue and (or?) trade liberalization", IMF Working Paper No. 05/112, https://www.imf.org/external/pubs/ft/wp/2005/wp05112.pdf

(TJN) report conservatively estimated that as of 2010, between US$21 trillion and US$32 trillion of global financial wealth from a sample of 139, mostly developing countries, has been stashed secretly, 'virtually tax-free', in more than 80 secret jurisdictions, with two thirds in the European Union, and a third in UK-linked sites. This has resulted in US$189 billion in lost tax revenue annually.[12] According to ESCAP, the Asia Pacific region accounted for more than 61% of the US$5.9 trillion of illicit capital outflows from developing countries between 2001 and 2010.

The IATF 2018 report acknowledges the difficulties in tracking and estimating the extent of IFFs due to the very non-transparent nature of these transactions. Thus, the methodologies to estimate them also differ. Figure 4 presents estimates of lost revenues due to trade mis-invoicing, using different methodologies for Africa and Latin America by the United Nations Regional Commission for Africa (ECA) and for Latin America and Caribbean (ECLAC).

Figure 4: Estimates of gross outflows from goods trade mis-invoicing (Billion US$)



Source: IATF 2018

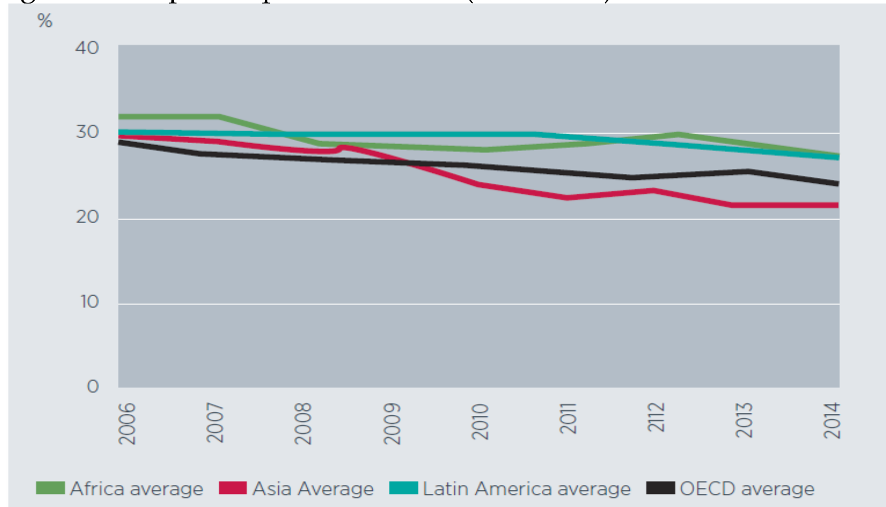
Third, avoidance (not evasion) may increase, given international differences in tax rules and rates, because of the choice of tax regime that international-tax-treatment of enterprise income commonly offers. This is more likely for taxation of profits from corporations' international operations. Transfer pricing for goods, services and resources – moving among branches or subsidiaries of a company – provides opportunities for shifting income to minimize tax liability.

Fourth, international competition for inward FDI has led governments to reduce tax rates and to otherwise increase tax concessions to corporations (Figure 5). The tax rates that governments can impose are thus constrained by international competition. Hence, they are reluctant to raise rates or to tax dividend and interest income for fear of capital flight, although it is well known that direct tax concessions

[12] Henry, James. (2012) The price of offshore revisited. London: Tax Justice Network.

have little effect in diverting international investment,[13] let alone in attracting such flows. Therefore, such tax concessions constitute an unnecessary loss of revenue.

Figure 5: Corporate profit tax rates (% of GDP)



Source: Griffiths, Jesse (2014) The State of Finance for Developing Countries, 2014: An assessment of the scale of all sources of finance available to developing countries, Eurodad, http://www.eurodad.org/files/pdf/54f98666925bf.pdf

Not surprisingly, income tax rates, both on corporations and on individuals, have fallen sharply since the 1980s. Beggar-thy-neighbour policies have led to loss of revenue for many developing countries in a larger race-to-the-bottom also involving labour and environmental standards and conditions, which also undermines the possibility of balanced, inclusive and sustainable development.

Finance ministries and tax authorities in developing countries need to cooperate amongst themselves and with their counterparts in the OECD economies to learn from one another and to close existing loopholes in their mutual interest. With the huge and growing size of public debt as well as the real and imagined fiscal constraints to sustained global economic recovery, such cooperation is more urgent than ever. Here it would be pertinent to draw attention to ESCAP's proposal to set

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[13] OCED Policy Brief (February 2008) notes: "while tax is recognized as being an important factor in decisions on where to invest, it is not the main determinant. FDI is attracted to countries offering: access to markets and profit opportunities; a predictable and non-discriminatory legal and regulatory framework; macroeconomic stability; skilled and responsive labour markets; and well-developed infrastructure. All of these factors will influence the long-term profitability of a project." See OCED (2008), "Tax Effects on Foreign Direct Investment", Policy Brief (February 2008) https://www.oecd.org/investment/investment-policy/40152903.pdf
Similarly, a 2008 IMF research paper compared the costs of concessions in terms of revenues forgone with the benefits which were marginal at best in Caribbean countries. Forgone tax revenues ranged between 9½ and 16% of GDP per year, whereas total foreign direct investment did not appear to depend on concessions. See Chai, Jingqing and Rishi Goyal (2008) "Tax Concessions and Foreign Direct Investment in the Eastern Caribbean Currency Union", IMF Working Paper (WP/08/257), https://www.imf.org/external/pubs/ft/wp/2008/wp08257.pdf

up a regional tax forum to share best practices, avoid tax competition and stem illicit transfer of funds.[14]

Actions for enhancing tax revenues

There is no reason to be overly pessimistic about direct taxation, as tax reform has significantly improved the contribution of direct taxes to overall revenue in many countries. A number of developing countries have reduced income tax rates on the wealthiest groups. In terms of individual income taxes, 34 of the 149 countries with data (or 22% of the sample) had lowered the tax rates for the highest income earners in 2014, compared to the 2010-13 period. Thus, it is certainly possible to raise the share of direct taxation of the wealthy in developing countries and thereby enhance tax revenue through more progressive income taxes.

Many countries are considering special taxes on the profits and remuneration of financial institutions. For instance, Turkey taxes all receipts of banks and insurance companies, and, in the United Kingdom and France, all bonus payments in excess of €25,000 are taxed by 50%. Another example is a bank debit tax in Brazil, which charged 0.38% on online bill payments and major cash withdrawals; before its discontinuation in 2008, it raised an estimated US$20 billion per year and financed healthcare, poverty alleviation and social assistance programmes.

At the international level, it has been estimated that applying a 0.005% single-currency transaction tax on all four major currencies could yield up to US$33 billion per year for developing country assistance. And if applied more broadly to cover all financial transactions globally, a 0.01% tax could raise over US$1.0 trillion annually (Leading Group on Innovating Financing for Development 2010).

Excise taxes are another important source of revenue in developing countries as they have a buoyant base and can be administered at low cost. Many countries, however, either abolished or reduced exercise taxes with the introduction of GST or VAT. But from a revenue perspective, excise duties are more convenient, involving few producers, large sales volumes, relatively inelastic demand and easy observability. Excises may be levied on quantities leaving the factory or arriving at ports, thus simplifying measurement and collection, ensuring coverage, limiting evasion and improving monitoring. Excise taxes currently amount to less than 2% of GDP in low-income countries, compared to about 3% in high-income countries.

Governments in resource-rich countries may also raise revenue either by directly extracting natural resources through a state-owned enterprise, joint-ventures or other forms of co-extraction, or by selling off the exploitation rights and taxing the profits, both of which can provide transitory revenue for social investment. A number of countries have effectively managed their natural resources through public companies, including Botswana (diamonds), Brazil (oil), Indonesia (oil and gas) and Malaysia (forestry, tin, oil and gas).

[14] ESCAP (2014) Economic and Social Survey of Asia and the Pacific 2014, Bangkok

In many countries, however, the private sector takes the lead in exploiting natural resources. In these situations, the state is indirectly included in the rents since it receives a portion via taxes. This can include: (i) production-based taxation (per unit or ad valorem royalties, sales taxes, export and import duties, VAT, payroll tax, stamp duty, etc.); (ii) profit-based taxation (corporate income tax, resource rent taxes, taxes on windfalls, profit tax on dividends, royalty based on profit, etc.); and (iii) environmental taxes to compensate for negative environmental externalities caused by the activities of mining companies.

There are a miscellaneous set of other taxes that can also be considered. They include property and inheritance taxes; airline and hotel taxes, tourism taxes; international transportation taxes; levies of taxes for social programmes; carbon or pollution taxes; "sin" taxes (e.g., on cigarettes, alcohol or even sugary products that contribute to obesity), etc.

However, there should also be a greater effort to ensure better compliance with, and higher collection of existing taxes. Limiting the discretionary authority of tax officials could also help improve compliance and reduce evasion. Computerization of tax administration can help limit corruption, as it makes it harder to tamper with records.[15] But government computerization alone cannot ensure effective introduction of the much-touted VAT, an indirect tax largely responsible for facilitating the shift from direct to indirect taxation.

Improved tax administration can increase the share of personal income taxes in total tax revenue. Expansion of the scope for tax deduction at source has been very effective in taxing those otherwise hard to reach. Every individual who is a house owner, vehicle owner, club member, credit card holder, passport, driving licence or identity card holder and telephone subscriber can be required to file a tax return.

IV. International public finance[16]

In this section, we examine the trends in traditional ODA from OECD Development Assistance Committee (DAC) members and South-South co-operation.

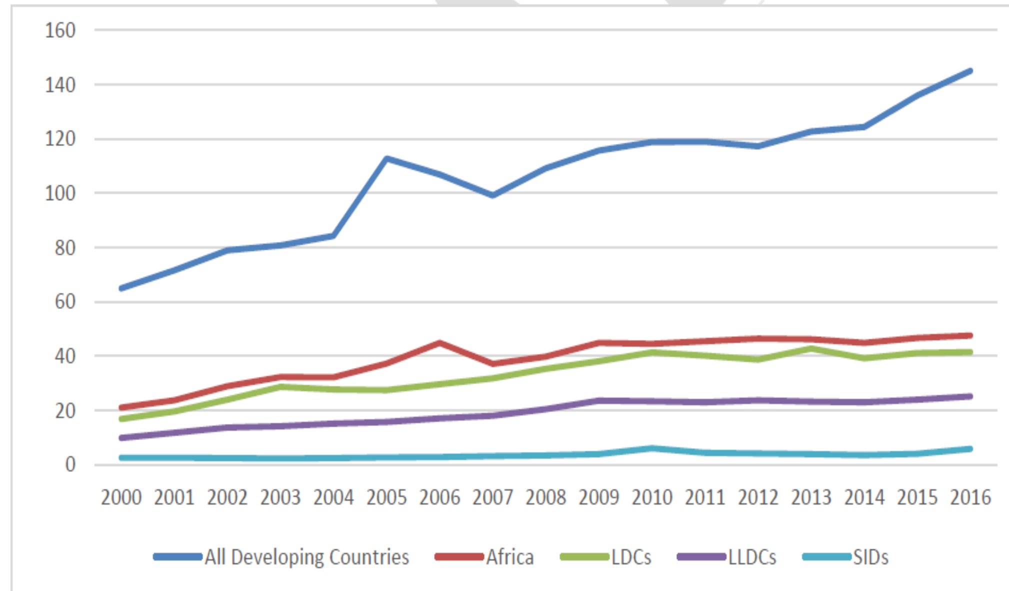
Overseas Development Aid

As can be seem from Figure 5, net ODA from members of the OECD-DAC has been increasing in real terms. In 2016, it amounted US$145.7 billion, representing an increase of 10.7% over 2015. However, the recent increase is partly due to increases in funds for hosting and processing refugees within donor countries (see Figure 6). The aggregate increase is also marred by (i) the failure to increase concessional finance to countries most in need, such as SIDS and landlocked developing countries (LLDCs) and (ii) the decline in the share of ODA for recipient countries' budget support. Furthermore, while DAC donors combined aid reached 0.32% of their gross

[15] As far back as in 1960, ESCAP, in its annual flagship publication, recommended to its member States to set up special tax courts to expeditiously deal with tax fraud cases.
[16] Based on IATF 2018 report

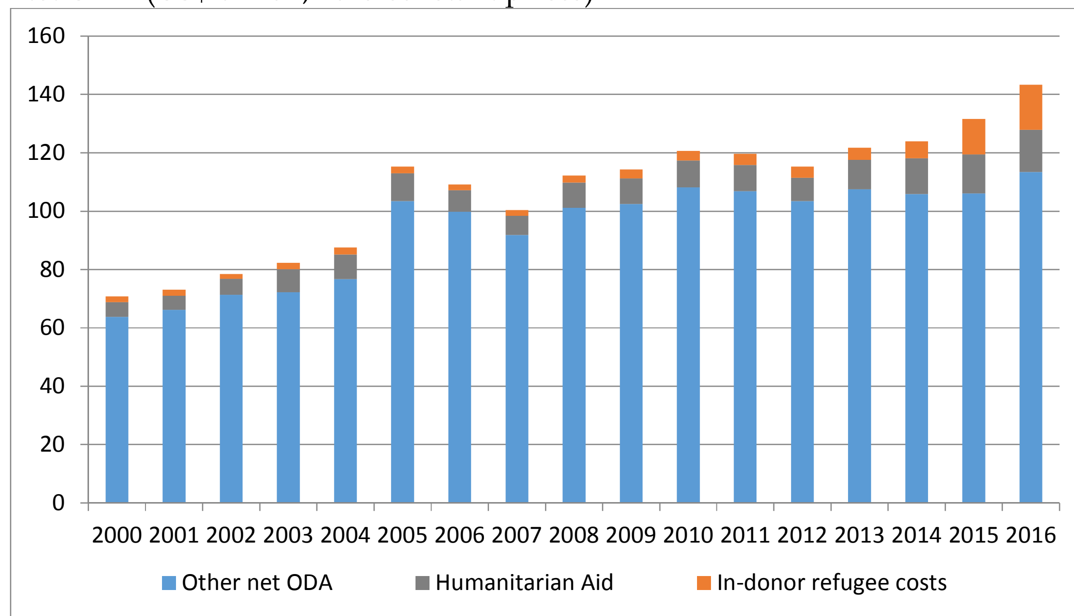
national income (GNI), far short of the United Nations target of 0.7%. Only 6 DAC members (Denmark, Germany, Luxembourg, Norway, Sweden and the United Kingdom of Great Britain and Northern Ireland) met or exceeded that target.

Figure 5: Net ODA (US$ billion, 2015 constant prices)



Source: IATF 2018

Figure 6: Development aid reaches a new peak in 2016 as refugee costs increase Net ODA (US$ billion, 2015 constant prices)



Source: IATF 2018

ODA to countries most in need of concessional resources and most vulnerable to external shocks have stagnated in recent years. Although ODA to LDCs increased in

2016 to US$43.1 billion in real terms (by less than 1%), the medium-term trend is one of stagnation (Figure 5). Furthermore, ODA to LDCs are very unevenly allocated, with almost half directed to only 7 countries in 2014 and 2015. While the donors committed in the Addis Agenda to reverse the decline in ODA to LDCs, it declined between 2015 and 2016 in the case of 9 DAC members; 6 donors provided 0.15% or more of their GNI as ODA to LDCs, with 5 of them exceeding 0.20%.

Aid to SIDS increased from US$5.1 billion in 2015 to US$7.1 billion in 2016; but this increase was mainly due to Spain's restructuring of Cuba's debt, accounting for US$2 billion in aid. Discounting this exceptional item and the spike in aid to Haiti in the aftermath of the 2010 earthquake, aid to SIDS has not kept pace with the overall increase in aid flows since 2000, and remains very concentrated in a few SIDS. Aid trends to landlocked developing countries (LLDCs) and African countries broadly mirror the patterns for LDCs and SIDS.

Stagnating aid flows to vulnerable countries are a matter of concern as they are more aid dependent to complement their inadequate domestic public resources, and have only limited access to other forms of external financing. For example, aid represents on average about 15% of government revenue in LDCs – in 16 of them gross ODA amounts to a fifth of total domestic revenue or more, and in 4, it exceeds 50%. Aid also represents the largest external financial flow for 22 SIDS, accounting for over 40% of all external financing.

Another disturbing development has been recent declines in so-called country programmable aid (CPA)[17] over which partner countries could have a significant say. CPA amounted to 49% of total gross bilateral ODA, or US$52 billion in 2015, compared to 53 to 55% in the five previous years. In parallel, budget support, an aid modality particularly well aligned with development effectiveness principles such as country ownership, declined. In 2016, general and sector budget support amounted to 1.9% of total bilateral aid commitments of DAC donors. ODA spent within donor countries, such as refugee costs, scholarships and administrative costs, accounts for a growing share, increasing from 12% of bilateral aid in 2010 to 20% in 2016.

South-South Cooperation

South-South cooperation (SSC) is a growing form of development assistance from Southern countries. The AAAA duly recognizes that SSC can play a complementary role to traditional ODA.

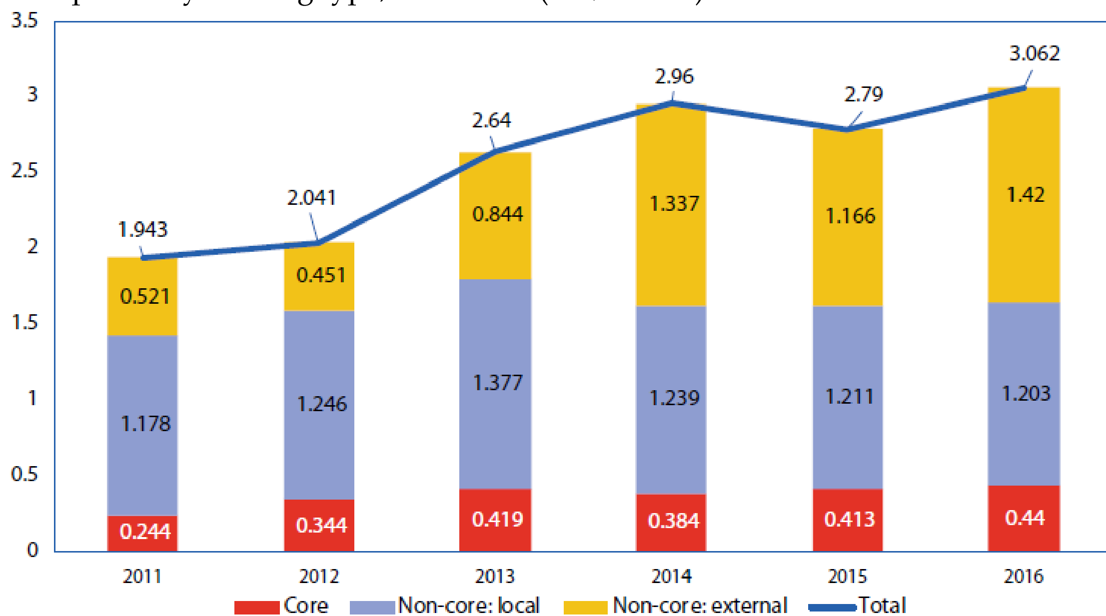
The United Nations Department for Economic and Social Affairs (UN-DESA) tracks SSC by considering official concessional resources (concessional loans and grants, debt relief and technical cooperation) provided by developing countries for development purposes. UN-DESA's estimates from partial data suggest the financial component of SSC reached US$26 billion in 2015.

[17] CPA excludes items such as humanitarian aid, in-donor refugee costs and administrative costs.

However, it is not easy to track SSC as definitions and categories used for reporting SSC are often not comparable. Methodologies to calculate the grant element in official loans may also vary. The non-financial modalities – such as building, technology development and transfer, joint action for policy change and partnerships – which are significant to SSC cannot easily be priced or valued.

Southern contributions to multilateral institutions may be more visible, as in the case of Southern partners' support to operational activities of the United Nations development system. Such contributions rose by nearly 10% between 2015 and 2016 to US$3.062 billion (see figure 7).

Figure 7: Southern partners' contributions to the UN's operational activities for development by funding type, 2011–2016 (US$ billion)



Source; IATF 2018

SSC often focuses on promoting regional integration, for example, the Mesoamerican Integration and Development Project involving cross-border energy, transport and telecommunication infrastructure. China's Belt and Road Initiative (BRI) is turning out to be a major SSC aimed at regional integration. It is providing desperately needed financing for infrastructure. China pledged approximately US$124 billion in new financial support, including through the Silk and Road Fund, lending by the China Development Bank and the Export-Import Bank of China.

But the IMF has expressed concerns about rising debt in some of the countries that have signed up for the BRI projects.[18] The Center for Global Development found 23 countries "at risk of debt distress" due to Belt and Road borrowing, and 8 countries on the BRI routes may already have trouble servicing debt due to high levels of

[18] https://www.ft.com/content/8e6d98e2-3ded-11e8-b7e0-52972418fec4

borrowing from China.[19] The most recent IMF assessment stresses the extremely risky nature of Djibouti's borrowing programme, noting that in just two years, public external debt has increased from around 53% in 2013 to 88% of GDP in 2016, the highest of any low-income country. Like-wise, Mongolia's public debt increased from 50% in 2013 to 89% in 2016.

Therefore, careful project selection is crucial with maximum impact on productive capacity so that countries can repay their external debts. This is particularly important in the absence of a transparent or standard debt restructuring mechanism, and the current ad-hoc approach such as "debt for equity" may raise concerns when strategic assets like sea ports are involved.[20]

Concerns are also expressed about limited use of local workers or professionals. This limits the scope for skill & technology transfers.

V. Private finance

As the discussion in the preceding section reveals ODA is not adequate for meeting development needs, especially of vulnerable countries, such as LDCs, SIDS and LLDCs. In fact, private flows such as foreign direct investments (FDI), private debt & portfolio equity investments and remittances now dwarf ODA (see Figures 8a & 8b). FDI flows to developing countries grew rapidly since 2004, while ODA flows plateaued in 2006. In 2015, aggregate FDI flows to developing countries were more than 6 times ODA. Both portfolio investments and Remittances, which also grew fast since mid-2000s, were more than 4 times ODA in 2016.

However, the protracted weakness of global economic growth from the 2008-2009 global financial crisis has made the mobilization of external resources increasingly difficult. As UNCTAD's World Investment Report (WIR) 2017 notes, international private capital flows have suffered from the fragility of the non-FDI components; both portfolio and other investment turned negative in 2008, in the middle of the crisis, and again in 2015, owing to uncertainties in the world economy. Although

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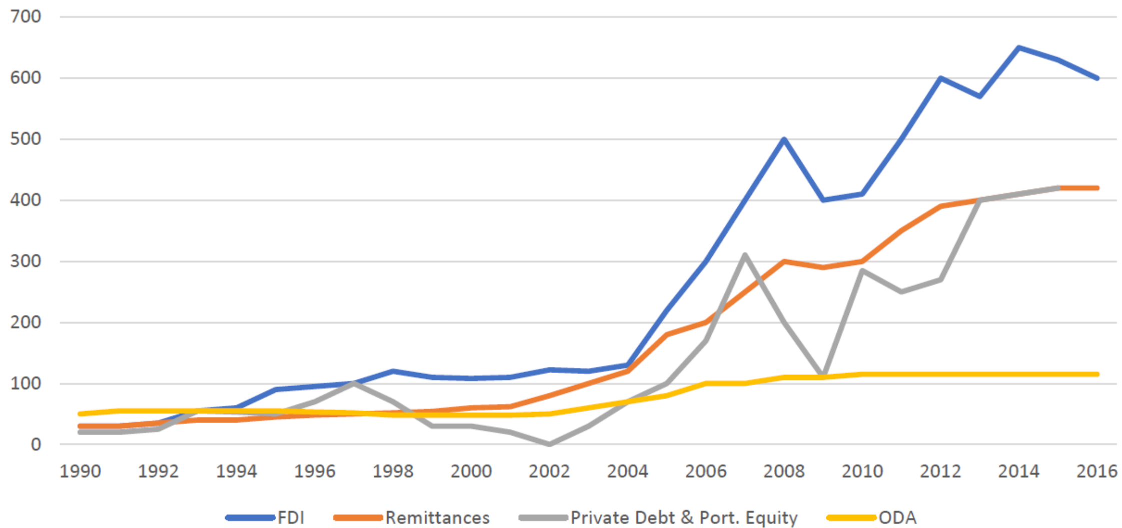
[19] These 23 countries are: East and Southeast Asia (3): Cambodia, Mongolia, and Laos; Central and South Asia (7): Afghanistan, Bhutan, Kyrgyzstan, Maldives, Pakistan, Sri Lanka, and Tajikistan; Middle East and Africa (7): Djibouti, Egypt, Ethiopia, Iraq, Jordan, Kenya, and Lebanon; Europe and Eurasia (6): Albania, Armenia, Belarus, Bosnia and Herzegovina, Montenegro, and Ukraine. The 8 countries which may already be in distress are: Djibouti, Maldives, Laos, Montenegro, Mongolia, Tajikistan, Kyrgyzstan and Pakistan. See Hurley, John, Scott Morris, and Gailyn Portelance (2018). "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective." CGD Policy Paper. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/examining-debt-implications-belt-and-roadinitiative-policy-perspective

[20] With Sri Lanka unwilling to service a $8 billion loan at 6% interest that was used to finance the construction of the Hambantota Port, China agreed in July 2017 to a debt-for-equity swap accompanied by a 99-year lease for managing the port. Citizens have regularly clashed with police over a new industrial zone surrounding Hambantota port. In 2011, China reportedly agreed to write off an unknown amount of debt owed by Tajikistan in exchange for some 1,158 square kilometres of disputed territory.

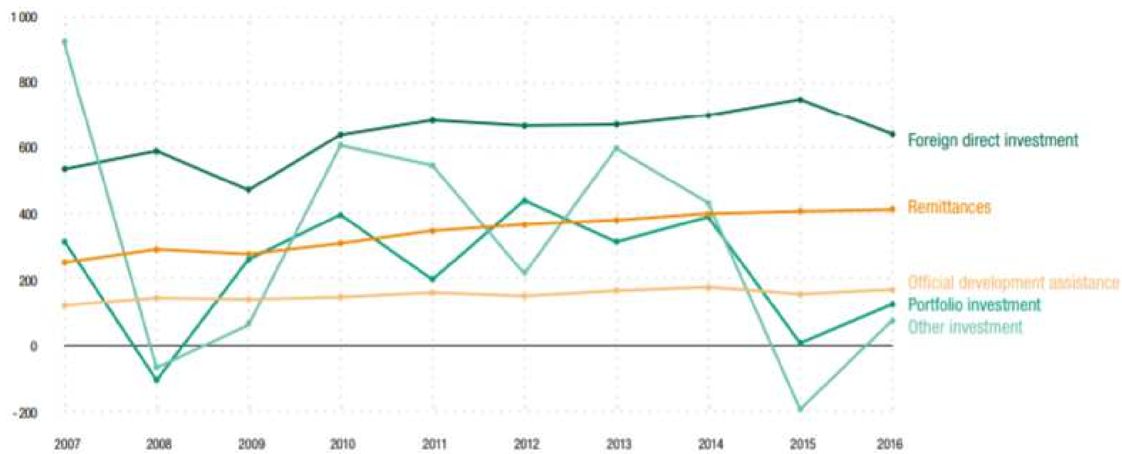
these flows recovered, the aggregate data mask major differences among regions: total private capital flows (FDI, portfolio and other flows combined) to East and South Asia were markedly negative, while other developing regions recorded slightly positive flows.

Figure 8a: Changing landscape of external resource flows 1990-2016 (US$ billion)



Source: Ratna, Dilip (2016), 'Trends in Remittances, 2016: A New Normal of Slow Growth', http://blogs.worldbank.org/peoplemove/trends-remittances-2016-new-normal-slow-growth

Figure 8b: External sources of finance for developing economies, 2007–2016 (US$ billion)



Source: UNCTAD, World Investment Report 2017
Note: Other investment includes loans among non-affiliated enterprises

Although AAAA includes remittance flows in development finance, strictly speaking, it should not be treated as such. Remittances are factor (labour) income (wages) and are recorded in the current account of balance of payments, whereas

ODA, FDI and short-term equity and portfolio flows are items in the capital account. Workers working overseas send their wages mostly for household expenditure by family members left behind in the home country, although part of it may be saved and invested. Therefore, this section will reflect only on FDI and short-term capital flows.

Foreign direct investment

Since about mid-1990s, FDI flows to developing countries exceeded portfolio investments, remittances and ODA, and now constitute the largest and most constant external source of finance for developing economies. They are also relatively more stable than portfolio investments; but are more volatile than remittances and ODA.

UNCTAD's WIR 2017 provides the following summary of recent trends FDI flows:

- After a strong rise in 2015, global FDI flows lost growth momentum in 2016, decreasing by 2% US$1.75 trillion.
- Flows to developing economies were especially hard hit, with a decline of 14% to US$646 billion, spreading across all developing regions:
    - contracting in 2016 by 15% to US$443 billion in developing Asia – first decline in five years and relatively widespread, with double-digit drops in most sub-regions except South Asia;
    - continued slide in Africa, reaching $59 billion in 2016, down 3% from 2015;
    - accelerated downward trend in Latin America and the Caribbean, with inflows falling 14% to US$142 billion;
    - fragile in structurally weak and vulnerable economies – declining by 13% in LDCs to US$38 billion and by 6% to US$3.5 billion in SIDS; but somewhat stable at US$24 billion in LLDCs.
- Developed economies' share in global FDI inflows grew to 59%.

According to IATF 2018, total FDI to developing countries amounted to approximately US$653 billion in gross terms in 2017, with FDI to LDCs estimated to be around US$32.6 billion (or around 2% of total global FDI flows). However, FDI flows to developing countries are heavily concentrated in a few countries. They also concentrated in the extractive industries with low forward and backward productive linkages within the economy.

Short-term capital flows

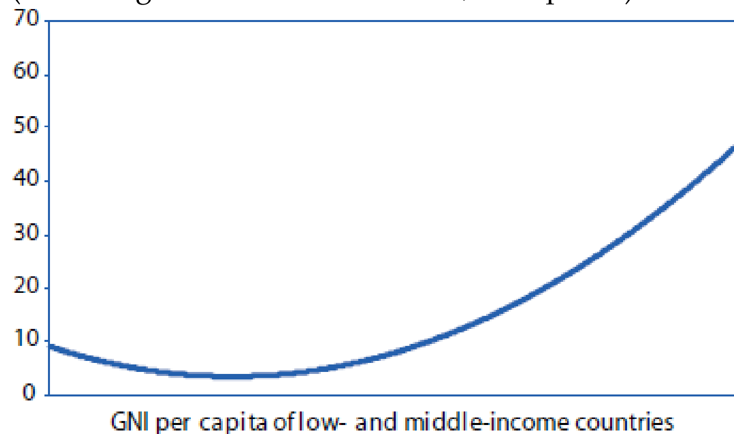
The IATF 2018 Report also notes that net portfolio inflows to most regions were positive in 2017; but there was a net outflow of US$124 billion from developing countries, mainly driven by large outflows from East and South Asia. IATF also observed that portfolio flows, primarily from institutional investors were volatile. It referred to an analysis of high-frequency data of capital flows in select developing countries, showing that cross-border portfolio and bank flows, in particular, are subject to periodic episodes of high volatility. Thus, according to the IATF 2018

Report, monetary tightening in developed economies, after several years of near-zero or negative interest rates, could lead to further volatility and outflows of portfolio capital.

Making similar observations, UNCTAD's WIR 2017 concluded that the high volatility of portfolio and other investments render them "a rather unreliable source of finance for developing economies, despite the potential suggested by the sheer volume of assets that institutional investors hold (estimated at US$78 trillion)" (p. 11). It also observed that "external financial flows are not only fragile but also fall short of the amount of investment required to achieve the Sustainable Development Goals (SDGs) by 2030" (p. 11).

Furthermore, as noted in ITAF 2018 Report, private capital flows by-passed vulnerable countries, such as LDCs and SIDS, most in need. Overall, private capital inflows represent up to 50% of cross-border capital flows in upper-middle-income countries, but only 5 to 10% of capital inflows in LDCs and other low-income countries (see Figure 9).

Figure 9: Private flows to low- and middle-income countries 2012–2016 (Percentage of total external flows, 2015 prices)



Source; IATF 2018

VI. Using public resources for mobilizing private capital

The preceding discussion reveals that (i) public resources (domestic and international) fall far short of huge investment needs for SDGs; (ii) there exist ample private resources; and (iii) private resources are not adequately aligned with sustainable development sectors, especially social and environmental areas and in low income countries. Therefore, it has been suggested that public resources should be utilized to make sustainable development investment more attractive for the private sector. It is believed that with well-designed instruments, governments can leverage official funds with private capital, sharing risks and returns, while still pursuing national social, environmental and economic goals in areas of public concern. These instruments include traditional public-private partnerships (PPPs) in

the case of domestic public resources and blended finance for international public resources or ODA. This section briefly reviews available evidence on the pros and cons of PPPs and blended finance.

Public-Private Partnerships

PPPs) are being promoted as a key instrument to fill the huge financial gap in infrastructure investment. The adoption of the United Nations Agenda 2030 for SDGs in September 2015 provided the impetus for a renewed interest in PPPs. The supports of PPPs claim that PPPs are more efficient, better transfer risk and therefore represent better value-for-money.

Chief amongst the long-time PPP supporters is the World Bank, whose support for PPPs, in the form of loans, investments and guarantees tripled between 2002 and 2012, from $0.9 billion to $2.9 billion. The World Bank has set up Public-Private Infrastructure Advisory Facility (PPIAF), a PPP Knowledge Lab, a PPI database, PPP reference guides, a vast PPP training programme, and even a Massive Online Open Course to promote PPPs.

However, the majority of the researchers found that claims in favour of PPPs are not backed up by evidence. A working paper from the United Nations Department of Economic and Social Affairs (UN-DESA) has reviewed the extant literature on PPPs.[21] Its key findings are:

- *Lack of definitional clarity and a common accounting framework*. There is no commonly used definition of PPPs, as highlighted by the IMF: "There is no clear agreement on what does and what does not constitute a PPP …The term PPP is sometimes used to describe a wider range of arrangements".[22] At least 25 different types of PPPs can be found in the literature. Although there are some common elements, not all use the same language and include the same characteristics in defining PPPs. Thus, it is difficult to make objective comparative evaluations of PPPs. Callan and Davies (2013, p. 6) observed, "it is a problem that the term 'public-private partnership' is so bewilderingly catholic. Its meaning needs to be broken down in some way in order to permit sensible discussion".[23]

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[21] Jomo, KS, Anis Chowdhury, Krishnan Sharma, Daniel Platz (2016), "Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose?", http://www.un.org/esa/desa/papers/2016/wp148_2016.pdf

[22] IMF (2004), "Public-Private Partnerships", Fiscal Affairs Department, http://www.imf.org/external/np/fad/2004/pifp/eng/031204.pdf. The OECD also made a similar observation.OECD (2012) "Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships", http://acts.oecd.org/Instruments/ShowInstrumentView.aspx?InstrumentID=275&Lang=en&Book=False

[23] Callan, Margaret and Davies, Robin (2013), "When business meets aid: analysing public-private partnerships for international development," Development Policy Centre Discussion Paper 28, Crawford School of Public Policy, The Australian National University, Canberra. http://devpolicy.anu.edu.au/pdf/papers/DP_28_-_%20When%20business%20meets%20aid%20-%20analysing%20public-private%20partnerships%20for%20international%20development.pdf

- *PPPs are more expensive in the long run.* The UK's National Audit Office found that the effective interest rate of all private finance deals (7%–8%) is double that of all government borrowings (3%–4%), resulting in a far greater burden on the public purse than if the government had borrowed from private banks or issued bonds directly.[24] PPPs are typically very complex to tender and negotiate and this, together with the fact that they are frequently renegotiated, has often entailed higher transactions costs. The transactions costs of tendering and monitoring PPPs add 10-20% to their costs, while the cost of construction is higher under a PPP because the financiers require a turnkey contract, which is about 25%.[25] An European Investment Bank report, after comparing the cost of 227 new road sections across 15 European countries of which 65 were PPPs, concluded: "estimate that the ex-ante cost of a PPP road to be, on average, 24% more expensive than a traditionally procured road".[26]

- *The myth of risk transfer; PPPs hide government debt, create financial risk.* Both the IMF and the World Bank pointed out that PPPs have been used by governments to move capital expenditures 'off balance sheet', especially when the IMF loan conditionality restricts the incurrence of debt.[27] Such liabilities, both direct and contingent, can destabilize future governments. Maximilien Queyranne of the IMF's Fiscal Affairs Department summarized the fiscal risks of PPPs as, "potentially large... PPPs reduce budget flexibility in the long term, and can threaten macro sustainability".[28] Additionally, governments entering PPP contracts with multinationals (or if borrowing internationally) must assume foreign-currency denominated debt and associated exchange rate risk.

- *Selection bias.* An OECD study indicates that governments have an incentive to 'cherry pick' their best projects for delivery through PPPs.[29] These projects would have just as good performance if delivered through the public sector. Studies also found that governments are persuaded to prioritize these small number of profitable projects, even if this distorted the development of public services. In Africa, for example, PPPs financed high-tech hospitals in a few urban centres where there are enough wealthy people to support private medicine, but not the universal networks of clinics or the salaries of staff needed to provide healthcare

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[24] Hall, David (2015) "Why Public-Private Partnerships Don't Work: The many advantages of the public alternative", Public Services International Research Unit, University of Greenwich, UK; http://www.world-psi.org/sites/default/files/rapport_eng_56pages_a4_lr.pdf

[25] Romero, María José (2015) "What lies beneath? A critical assessment of PPPs and their impact on sustainable development, Eurodad. http://www.eurodad.org/files/pdf/559da257b02ed.pdf

[26] Blanc-Brude, Frédéric, Hugh Goldsmith and Timo Välilä (2006) "Ex ante construction costs in the European road sector: A comparison of public-private partnerships and traditional public procurement", Economic and Financial report. EIB. http://www.eib.org/attachments/efs/efr_2006_v01_en.pdf

[27] http://blog-pfm.imf.org/pfmblog/2013/08/ppps-on-the-balance-sheet-please.html.

[28] Queyranne, Maximilien (2014), "Managing Fiscal Risks from Public-Private Partnerships (PPPs)"; https://www.imf.org/external/np/seminars/eng/2014/CMR/pdf/Queyranne_ENG.pdf

[29] OECD (2008) *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money*, OECD, Paris.

for the poor. Similarly, in the case of urban infrastructure, a World Bank research paper concluded that private participation in infrastructure "is inherently limited in scope for financing…the wide array of non-commercial infrastructure services cities need".[30]

- *Prone to monopoly capture.* Private providers may have an effective monopoly, giving them considerable power to renegotiate terms. For example, 42% of 670 PPPs studied in Latin America were renegotiated and in 60-70% of cases, the private operator was able to delay or reduce investment, or extract higher user fees. This reduces governments' flexibility to respond to changing realities on the ground, and introduces uncertainty regarding any costs of renegotiation. One World Bank study of private participation in electricity and water in developing countries pointed to a shortfall in investment by the private sector and concluded that the private sector operators reaped the gains in savings in the form of higher profits without passing on benefits to the consumer.[31]

- *Renegotiation is common and tend to favour private- sector operators*. As noted by Maximilien Queyranne, 55% of all PPPs get renegotiated, on average every 2 years; increase in tariffs (62% of all renegotiations); automatic pass-through to tariffs of increases in cost (59%); postponement and decrease in private sector obligations (69%); decrease in concession fees paid to the government (31%); and concessionaire may go bankrupt and requests relief from the government.[32]

- *Transparency, accountability, governance & corruption.* The private partner is protected by commercial confidentiality and exempted from the freedom of information act. Furthermore, monitoring PPP activities becomes nearly impossible in cases where ownership follows a hierarchy of shell companies, often involving the use of tax havens. Where large, long-term and lucrative contracts are under negotiation between government officials and corporations, the stakes are high, and the opportunities for corruption rife. Numerous power station PPPs have been implicated in corruption, including Enron investments in Nigeria and India, and others in Tanzania, Pakistan, Indonesia and Slovakia. Executives of subsidiaries of French water multinationals Suez and Veolia have been convicted for bribing public officials in the cities of Grenoble and Angouleme, and the island of Reunion.

- *Uncertain impacts on poverty, inequality and sustainable development*. Evaluations within international organizations are less than fully affirmative about PPP contributions to the aspects of sustainable development or impacts on poverty, gender and environment. PPPs also often cut services and undermine universal

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[30] Annez, Patricia Clarke (2006) "Urban Infrastructure Finance from Private Operators: What Have We Learned from Recent Experience?", World Bank Policy Research Working Paper 4045, November
[31] Gassner, Katharina, Alexander Popov, and Nataliya Pushak (2009) "Does private sector participation improve performance in electricity and water distribution?" Trends and Policy Options no. 6, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2
[32] Queyranne (2014), op cit

provision criteria. The World Bank's Independent Evaluation Group in 2014 concluded that the evaluations needed "to shed more light on important aspects of public service delivery - for instance, access, pro-poor aspects, and quality of service delivery".[33] Similarly, an IFC literature review on the gender impact of PPPs concluded that, despite policy level commitment, there was very little evidence of infrastructure projects taking conscious action on gender. Authors like Romero (2015) and Hall (2015) also outline the challenges faced by PPPs in contributing to development outcomes because most social and environmental sector projects are not commercially viable for the short-term profit-seeking private sector. Although PPPs are able to provide large amounts of money, they do not allow for a holistic view of the healthcare concerns faced by a country. A PPP project of 425-bed hospital in Lesotho, facilitated by the International Finance Corporation (IFC) of the World Bank, provides an illustrative example of how a seemingly successful PPP may have negative impacts on the country's non-transparent contingent fiscal liabilities, and hence on overall social development efforts. An Oxfam study in 2014 found that the hospital threatens to bankrupt the impoverished African country's health budget, since more than half the country's entire health budget (51%) is being spent on payments to the private consortium that built and runs the hospital in the capital. The PPP hospital cost $67 million per year – at least three times what the old public hospital would have cost today, and it consumed more than half of the total government health budget.

In light of the above overwhelming findings, observers suggest that PPPs are not a simple panacea or a "silver bullet" to fill the huge financial gap in infrastructure investment. It is not surprising that PPPs have yet to become a major catalyst of investment in key sectors for sustainable development, constituting about 5% of all infrastructure investment in the OECD and Europe. PPPs delivered just 6.4% of infrastructure investment in developing countries in 2015, a decline from 2010 levels. Moreover, this investment is highly concentrated geographically (in a handful of upper-middle-income countries), sectorally (in ICT and energy), and in takeovers rather than new investment. Proposals for PPP projects should be compared with the alternative of public sector delivery, with value-for-money estimations broadened to include a full public impact analysis. To ensure PPPs are an effective instrument of delivery of important services, such as infrastructure, it is critical that countries have an institutional capacity to create, manage and evaluate PPPs, especially in relation to other possible sources of funding. For a number of developing countries, this would require assistance from the international community in the form of technical support and capacity building.

Blended finance

The OECD and the World Economic Forum (WEF) define BF as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to

[33] IEG (World Bank) (2014) "World Bank Group Support to Public-Private Partnerships: Lessons from Experience in Client Countries, FY02–12", https://ieg.worldbankgroup.org/Data/reports/ppp_eval_updated2_0.pdf

emerging and frontier markets".[34] In the wake of the adoption of the Agenda 2030 for SDGs, OCED-WEF claimed that BF "represents an opportunity to drive significant new capital flows into high-impact sectors, while effectively leveraging private sector expertise in identifying and executing development investment strategies".

The multilateral development banks have also enthusiastically embraced the novel idea and produced a document, entitled, "From Billions to Trillions: Transforming Development Finance".[35] It claimed that BF is "the best possible use of each grant dollar". The OECD claims that blended finance is emerging as one solution with significant potential to help bridge the estimated US$2.5 trillion per year annual investment gap for delivering the SDGs in developing countries.[36] The European Union (EU), the single largest contributor to BF facilities, has made the European Fund for Sustainable Development a key pillar of its External Investment Plan (EIP) to address investment gaps in the European Neighbourhood and Africa, with a budget of €2.6 billion and a guarantee of €1.5 billion.[37]

How much has been mobilized?

A 2016 OECD survey found that between 2012-2015, US$81.1 billion was mobilized from the private sector by five instruments surveyed (guarantees, syndicated loans, credit lines, direct investments in companies, and shares in collective investment vehicles), with the amounts mobilized increasing over the period.[38] According to the IATF 2018 Report, 17 of 23 OECD-DAC members are engaging in BF, often through intermediaries such as development finance institutions and development banks. It also noted that between 2000 and 2016, 167 new blended finance facilities, with approximately US$31 billion in combined commitments, and 189 blended finance funds were launched.

Challenges

However, so far BF has not been able to scale or replicate successes quickly across markets, sectors and borders. BF faces a number of challenges as summarized below:

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[34] OECD-WEF (2015) *Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders* http://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders_report_2015.pdf

[35] Development Committee (World Bank-IMF) (2015), "From Billions to Trillions: Transforming Development
Finance Post-2015 Financing for Development: Multilateral Development Finance" http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf

[36] OECD (2017), "Blended finance Mobilising resources for sustainable development and climate action in developing countries: Policy Perspectives"; https://www.oecd.org/cgfi/forum/Blended-finance-Policy-Perspectives.pdf

[37] https://ec.europa.eu/culture/policy/international-cooperation/neighbourhood_en

[38] Benn, J., C. Sangaré and T. Hos (2017), "Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines", OECD Development Co-operation Working Papers, No. 36, OECD Publishing, Paris, http://dx.doi.org/10.1787/8135abde-en.

Lack of universally agreed definition. The 2018 IATF Report noted that there is no universally agreed definition of BF. A 2017 OXFAM-EURODAD Report by Javier Pereira listed 6 different definitions. They all accept the use of ODA (e.g., grants), either explicitly or implicitly, but other non-ODA types of finance (e.g. export credit) are also accepted.[39] It also noted confusions as terms such as 'leveraging', 'mobilizing' and 'catalysing', with no standard definition, are often used interchangeably, even though their meaning can change depending on the context.

Difficulties in monitoring BF's magnitude and development impacts. This arises mainly due to the lack of an agreed definition. As noted by a EURODAD report, the activities of blending facilities lack transparency and accountability, and insufficient information is made available to the public.[40] According to Sarah Vaes and Huib Huyse, current blending practices struggle to prove additionality effect of private finance – the extent to which public money is used to achieve development outcomes that otherwise would not have happened.[41] The 2018 IATF Report observed that development additionality in particular was a source of concern in existing projects, due to limited availability of reliable evidence on the sustainable development impact of blending. Many blending projects have not monitored development impacts, and evaluations are not routinely made publicly available. Noting the confusion surrounding BF, the 2017 OXFAM-EURODAD Report concluded that blending can be problematic: "it does not necessarily support pro-poor activities; often focuses on middle-income countries; and may give preferential treatment to donors' own private-sector firms, and hence incentivizes tied aid".

Donor country bias. Margaret Callan and Robin Davies found evidence of BF's bias towards donor country corporations.[42] The 2017 OXFAM-EUORAD report made a similar observation that by pooling public resources and using ODA, donors subsidize private companies most often owned and domiciled in OECD countries. When it relies on external private finance, BF may crowd out the domestic financial sector in the host country. Furthermore, projects may not align with country plans, and commonly fail to incorporate transparency, accountability, and stakeholder participation. In evaluating EU's BF-based EIP, Xavier Sol, et al found no reliable evidence to show that blending mechanisms were actually applied in line with and contributing to development objectives. Secondly, existing lending facilities had no appropriate mechanisms to involve developing countries' stakeholders, which risked undermining country ownership.[43]

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[39] Pereira, Javier (2017), "Blended Finance: What it is, how it works and how it is used" http://eurodad.org/files/pdf/58a1e294657ab.pdf

[40] EURODA (nd)"A dangerous blend?" The EU's agenda to 'blend' public development finance with private finance" http://eurodad.org/files/pdf/527b70ce2ab2d.pdf

[41] Sarah Vaes and Huib Huyse (2015), "Mobilising Private Resources for Development: Agendas, actors and instruments"; BeFind Working Paper No 2 March; http://www.befind.be/Documents/WPs/WP2

[42] Callan and Davis (2013) op cit

[43] Sol, Xavier (2017), "The External Investment Plan: Innovative instrument or dangerous blueprint for EU

By-passes poor countries. The 2018 IATF Report found that so far BF has largely bypassed LDCs. In 2016, the MDBs directly mobilized US$49.9 billion in private co-financing; only 2 per cent of this co-financing, or US$1 billion went to low-income LDCs where infrastructure gaps are greatest. According to the 2016 OECD survey, only 7 per cent of private finance was mobilized for projects in LDCs, and between 2012 and 2015, the majority of private financing mobilized through ODA was in middle income countries (43% in Upper Middle Income Countries), with a minority being mobilized in LDCs.

Modest impacts on poverty and SDGs. The 2018 IATF Report observed that BF generally had a modest impact on poverty. It also noted that BF tended to target SDG investment areas where the business case was clearer—such as energy, growth, infrastructure and climate action, and, to a lesser extent, water and sanitation—as well as cross-cutting priorities such as poverty and gender. The OECD also made similar observations that the mobilization of private capital was most pronounced in the finance and energy sectors, and BF played a much smaller role in areas such as ecosystems, reflecting the strong public good character of these investments, where public finance is often the most effective financing option.[44] The 2017 OXFAM-EUORAD report found that blending diverted aid from public investments in social programmes and essential services.

Public finance and public interest. These observations show that private finance is not guided by the same interests and principles as public finance and consequently will not act the same way. Labelling BF as a 'honey-trap', The Economist, highlights, "Private investors do not typically fund the construction of rural roads in Africa, say, or vaccination drives in villages, even though the returns on such investments are often enormous. That is because the returns are either hard to monetize, or the risks are too great for the private sector to tolerate."[45] Yet, as pointed out by Vaes and Huyse (2015), the current blending mechanisms pay little attention to the question on how to ensure that public interest and development objectives are safeguarded when public funds are used, especially involving financialization of ODA. They wondered how sound it is to channel public development funds through risky commercial financial services and products.

VII. Concluding remarks

This paper has provided a broad-brush review of progress in mobilizing public and private resources – both domestic and external since the first International Conference on Financing for Development in 2002 that led to the Monterrey

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development policy?"; http://www.counter-balance.org/wp-content/uploads/2017/11/CB_EIP_d.pdf

[44] OECD (2017), op cit

[45] The Economist (2016), "Trending: blending - The fad for mixing public, charitable and private money" https://www.economist.com/news/finance-and-economics/21697263-fad-mixing-public-charitable-and-private-money-trending-blending

consensus. It has become clear that developing countries should not expect any serious progress to the almost half-century-old commitment to transfer 0.7% of developed countries' economic output to developing countries through official channels (e.g. foreign aid). Therefore, developing countries have to increasingly depend on domestic resources, in particular tax revenues for financing sustainable development. This is especially so with receding hope for successful conclusion of the multilateral Doha Round of trade negotiations, and continued adverse shocks to their terms of trade, limiting the prospect for rapid increase in developing countries' export revenues. The significance of enhanced efforts for tax revenues is also paramount as the prospect of a fair and predictable sovereign debt work-out mechanism also does not seem very bright in the near future.

However, tax revenue in most low- and lower middle-income developing countries are still low, despite some progress globally. In the vast majority of countries in sub-Saharan Africa and Latin America, the tax-to-GDP ratio has actually stagnated or declined as tariffs and export duties, which accounted for the largest share of tax revenue, declined with trade liberalization. Unfortunately, other taxes have not grown to compensate for the lower trade taxes. Tax competition is also undermining revenue mobilization. Developing countries also lose a significant amount of resources through tax evasions and illicit transfer of funds.

There is an urgent need to reverse these trends, with greater commitment to revenue generation in order to improve social protection, create employment and eradicate poverty. The donor countries agree that taxation is the only viable strategy for developing countries to exit foreign aid dependency in the long run. Thus, they should accede to the developing countries' desire for a full-fledged inter-governmental body for international tax cooperation under United Nations auspices for meaningful and inclusive inter-governmental discussions to enhance national tax capacities to stem illicit financial flows and tax evasions, as well as to prevent tax competition.

Developing countries must also find innovative ways to expand their tax base and improve its progressivity. They should consider a number of traditional (e.g., luxury goods taxes, excise duties, wealth tax, etc.) and innovative taxes (e.g., sins tax, financial transactions tax, etc.). They also have to improve their tax administration to enhance compliance and minimize tax avoidance. The developing countries urgently need capacity building support from the donor community in this regard.

PPPs and BF are not found to be a simple panacea or a "silver bullet" to fill the huge financial gap for sustainable development as is claimed. Besides falling significantly short of expected magnitudes, both PPPs and BF have very marginal or uncertain impacts on sustainable development goals, especially poverty eradication, inequality reduction and improving social development, including public health. Their potential fiscal risks are also large. PPPs are often complex, involving sophisticated financing schemes and intricate contracts, thus, requiring developing public sector

capacity. Therefore, here, too, capacity building support from the donor community is crucial.

Finally, ODA remains crucial for LDCs and low-income countries. Private finances cannot achieve what public finances can, especially for social development and environmental protection. Public finance is more predictable and effective in providing public goods.