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Rethinking Aid for Trade in the context of innovative financing

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Acronyms

AECF	Africa Enterprise Challenge Fund
AfT	Aid for Trade
AFD	Agence Française de Développement
AfDB	African Development Bank
AGP	Agricultural Growth Project
AICD	Africa Infrastructure Country Diagnostic
ATA	Agricultural Transformation Agency
BMZ	Federal Ministry of Economic Cooperation and Development (Germany)
BOP	Base of the Pyramid
BOT	Build-Operate-Transfer models
CAADP	Comprehensive Africa Agriculture Development Programme
CAF	COMESA Adjustment Facility
CDC	Commonwealth Development Corporation
CIF	COMESA Infrastructure Fund
DAC	Development Assistance Committee
DFI	Development Finance Institutes
DfID	Department for International Development (United Kingdom)
DRC	Democratic Republic of Congo
EBRD	European Bank for Reconstruction and Development
ECCAS	European Commission Contribution Agreements
ECOWAP	Economic Community of West African States' Agricultural Policy
ECOWAS	Economic Community of West African States
ECDPM	European Centre for Development Policy Management
EIB	European Investment Bank
EIF	Enhanced Integrated Framework
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
EPADP	EPA Development Programme
ETTG	European Think-Tanks Group
EU	European Union
FRICH	Food Retail Industry Challenge Fund
GAVI	Global Alliance for Vaccines and Immunization
ICT	Information and Communication Technology
IDF	Netherlands' Infrastructure Development Fund
IFC	International Finance Corporation
IFFIm	International Financial Facility for Immunisation
ITF	Africa Infrastructure Trust Fund
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
ODA	Official Development Assistance
ODF	Official Development Finance
OOF	Other Official Flows
OECD	Organisation for Economic Cooperation and Development
PPP	Public-Private Partnership
REC	Regional Economic Community
SADC	Southern African Development Community

SDF	SADC Regional Development Fund
SPV	Special Purpose Vehicle
SSA	Sub-Saharan Africa
SWAp	Sector Wide Approach
SWFs	Sovereign Wealth Funds
UK	United Kingdom
USA	United States of America
USAID	United States Agency for International Development
WTO	World Trade Organisation

Executive Summary

This study seeks to examine the policy implications of the increasing shift towards 'innovative' forms of development finance in comparison with more 'traditional' forms of aid, focusing particularly on the Aid for Trade (AfT) initiative. Although AfT is itself a fairly recent phenomenon, much has happened in developing and developed economies since its establishment in 2005, leading to a new focus on 'innovative finance' – expressed most clearly at the recent *Busan High Level Forum on Aid Effectiveness* – which both complements and challenges existing forms of aid. While traditional aid is unlikely to disappear at any point soon, it is at least possible to imagine a future in which traditional types of aid are in decline, and worthwhile to explore the implications that various alternatives are likely to have on the practices and policies of both donors and partner countries, and to begin to challenge some long-standing assumptions.

Against this background, this brief exploratory study highlights a number of key issues that may be useful for policymakers in developed and developing countries alike in adapting AfT, and aid more generally, to the changing context. The principal points can be summarised as follows:

- In line with more general aid flows, AfT has been increasing in quantity and (to some extent) quality over the last few years. Since the birth of the initiative, there has been much emphasis on definitions to measure progress towards meeting commitments on AfT and its effects, and then on AfT policies and implementation. This has led to an improved approach from both donors and recipients on how they promote private sector development (including at the regional level), although challenges remain and suggest that that there is more work to be done.

- More recently, 'innovative finance' has emerged as a broad agenda to describe new thinking on the sources of aid financing, innovative mechanisms to deliver existing aid, and new ways to leverage *other* sources of finance for development (such as private sector finance). There is also recognition that domestic resources may increasingly play a role (e.g. tax revenues and bond financing) in development, while some commentators also point to the activities of non-DAC donors.

- While one reason for a shift towards 'innovative aid' is inevitably the squeezed budgets in donor countries, another more positive driver for a new approach is the renewed interest of the private sector to operate in developing countries (i.e. international investors, alongside the domestic private sector). As elsewhere, private sector interest takes a number of different forms in Africa, reflecting the different types of capital flows (e.g. FDI, portfolio investment, private investment and equity funds), each with different implications for policymakers.

- While AfT has always sought to promote private sector development in Africa, thus far aid has always been somewhat separated from private sector, with a clear distinction in the different roles played by each. While mechanisms such as donor development bank funds have existed in the past to channel donor funds towards investment in Africa, it seems likely that donors will seek to capitalise further on the renewed interest of the private sector by combining the two forms of finance more closely and in new ways in future. The paper provides some emerging examples of where either private finance has been combined with public aid, where partnership models have been attempted, or where a private sector approach has been adopted.

- At the same time, the shift towards such combinations will have important policy implications for developing country governments, regions and donors alike. Market failures and capacity constraints may prevent private sector involvement from reaching its full potential – for example in the areas of project preparation, or in regulatory frameworks for private sector involvement in projects, or the negotiating capacity of developing country governments. Combining public and private sources of finance brings additional complexity to decision-making around development goals, but also offers an opportunity to improve the management and balancing of risk for the achievement of mutual goals.

- As such governments and donors need to work together to build an enabling environment that facilitates such innovative forms of cooperation, and to take full advantage of the opportunities created by them. However, mechanisms will also need to ensure responsible private sector involvement, where a key challenge is to ensure that vastly differing sets of incentives (donors, governments and private sector interests) are properly aligned, government priorities are followed, and the risk burdens are appropriately distributed.

- While donors face ever greater calls for transparency and are subject to commitments aimed at improving the efficiency of their assistance, the private sector (e.g. private equity funds) is seldom subject to the same forms of scrutiny – although this is changing. This paper explores some of the issues around increased collaboration between donors and private sector financiers and operators, notably in the context of the Paris Declaration on Aid Effectiveness.

1. Introduction

1.1. The Aid for Trade Agenda: Increased Assistance and More Effective Aid

Aid for Trade (AfT) emerged as an aid agenda six years ago at the World Trade Organisation (WTO) Hong Kong Ministerial Meeting of December 2005. While the ideas behind AfT were not necessarily based on new thinking, the significance of the initiative was that it represented a general recognition and agreement from WTO members that in order to take advantage of improved market access, developing countries needed increased aid resources for investments in infrastructure, improved trade policy, and boosting productivity in key export and related sectors. Arguably these areas had been somewhat neglected during previous years when donors prioritised education and health services, as reflected in the Millennium Development Declaration and related goals.

A great deal of work was done in the years immediately following the Hong Kong Conference, both in developing the concept and in fulfilling commitments to scale up AfT. With regard to the framework, efforts were made firstly to reach an agreed understanding of 'aid for trade', in terms of clear definitions and also within the context of the OECD's DAC statistical framework so that AfT commitments and flows could be better measured and monitored. In terms of substantive progress, the statistics show a significant scaling-up in the levels of Official Development Assistance (ODA, i.e. grants and concessional loans) going to AfT-related activities and sectors since 2005. Flows have shown a continual increase in the years since Hong Kong, reaching nearly US$40bn in 2009 (albeit with a slowing pace of increase in the most recent years).

The AfT agenda emerged not long after the *Paris Declaration on Aid Effectiveness*, which defined a set of principles for improving aid, including increased ownership and transparency, and a better coordination and division of responsibilities amongst donors. As such, AfT could be seen as an important 'test case' for donors – including the EU and its member states, with their multiplicity of donor institutions, instruments, procedures and aid regulations – to demonstrate the credibility of their commitments to the Paris Declaration and subsequent Accra Agenda for Action, by confronting challenges in the planning, coordination and delivery of their aid programmes. It has also given an opportunity for developing countries to make progress on fulfilling their own goals with respect to aid effectiveness – most notably in taking greater responsibility for the design, management, oversight, implementation and monitoring of aid projects. In this context, a great deal of emphasis has been given to improving not just the quantity of AfT, but also its quality.

1.2. Rethinking Aid for Trade in the Context of 'Innovative Finance'

However, while the AfT agenda is barely six years old and rose to prominence against the backdrop of renewed commitments by donors to increase and improve their development assistance, more recent shifts in the global economy have led to changes in the traditional view of aid as the cornerstone of development finance. Predictably, the current global economic slowdown has reinforced the pressure on all sides to ensure that increases in aid are accompanied by improvements in quality and effectiveness. Yet the most recent trend amongst both donor and recipient countries has been to begin to look beyond traditional aid, at other sources of so-called 'innovative financing', and the prospects for these new forms of finance to complement and even replace aid resources over the longer term.

Among all the different areas where innovation in financing for development may be possible, perhaps the most promising area is in the combination of AfT - donor finance that is directed towards enhancing developing countries' capacity to trade; with international capital - private resources seeking to exploit profitable opportunities created by, or contributing to, economic growth and development.

In practice, there may be difficulties and potential contradictions in the extent to which donors can or should provide direct support to individual investors or private sector businesses, due to a need to avoid conflicts of interest or 'picking winners' or to ensure that AfT is designed to maximise private sector 'crowding in' rather than 'crowding out'. At the same time there are important opportunities with AfT to develop innovative mechanisms and models that have the potential, for example, to use aid to agitate for concrete reforms to the trade and investment environment or to improve efficiency over traditional aid models by creating better linkages between aid investments and private-sector oriented results.

In this context there is ever-increasing reference to '*leverage'* to describe how aid resources can be used to multiply the total pool of resources available for the purposes of development (or for a specific development project). Another similar term is 'catalytic aid', which can be defined as aid which is growth enhancing through 'crowding in' other flows and/or bringing about a wider positive transformation in economies or societies in which it is applied. In this regard, an area with enormous potential is how AfT might be used to leverage the vast amount of private resources that might be used for financing private sector development, through a variety of instruments ranging from 'development partnerships' between aid agencies and companies, to projects based on a public private partnership approach, to various ways of combining public and private capital for use in investing in AfT-related areas (see Section 3).

In reality, the very nature of AfT has always raised questions around how aid resources can best be used to support investments that contribute to greater private sector activity, growth and employment, all with the ultimate aim of contributing to poverty reduction. As such, it is worth asking at this stage whether AfT – either the concept or the existing practice – needs to be rethought to take account of the emergence of a newer agenda for change. As such, this study seeks to examine the policy implications of the increasing shift towards 'innovative' forms of development finance in comparison with more 'traditional' forms of aid, encapsulated by the Aid for Trade (AfT) initiative. The study highlights a number of key issues that may be useful for policymakers in developed and developing countries alike in adapting AfT, and aid more generally, to the changing context.

1.3. Methodology and Structure of this Paper

This paper discusses developments in the quantity and quality of AfT since 2005 and particularly explores the implications of the recent significant shift in thinking towards AfT as a tool to leverage private sector finance. Where possible the paper looks at regional examples, given the increasing focus over the years in AfT at the regional level.

The paper is structured as follows: Section 2 provides a brief review of the achievements and challenges of AfT thus far, including in terms of meeting obligations set out for better quality aid. Section 3 highlights the potential going forward for AfT resources to be used in combination with private sector resources, or in aid modalities that involve the private sector as a partner. Section 4 highlights some of the opportunities and potential policy issues for developing country governments and donors alike in involving private sector on a financial basis or as a project partner. Section 5 highlights lessons from the analysis and concludes.

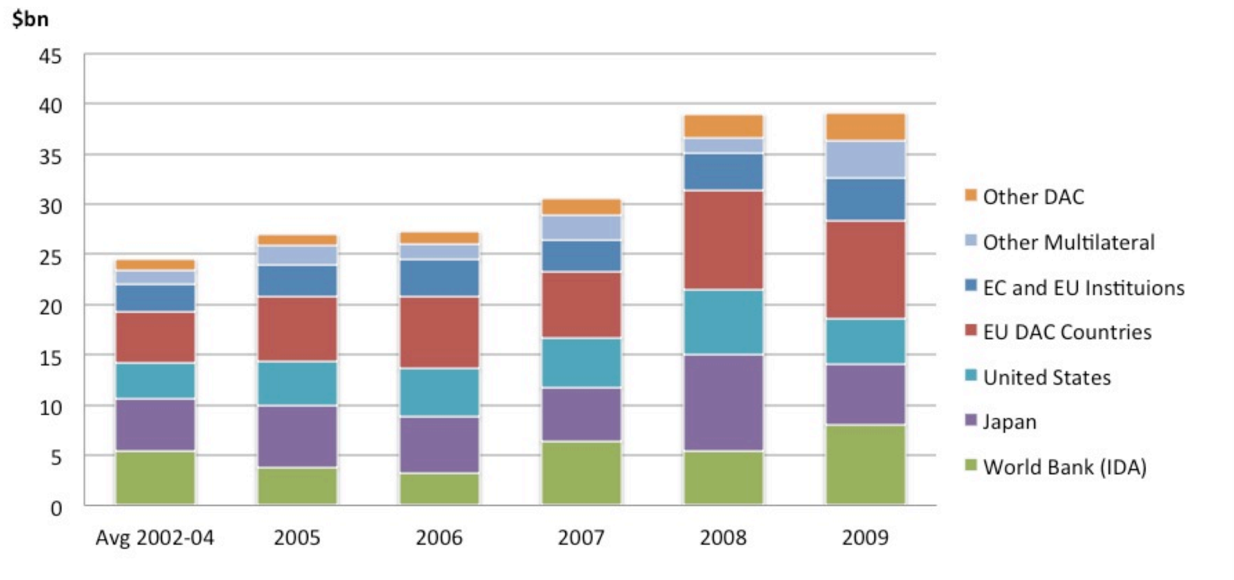
2. Achievements and Shortcomings of Aid for Trade So Far

This section provides a summary assessment of the achievements and shortcomings of the AfT initiative in recent years – both in quantitative and qualitative terms.

2.1. Increased Aid Resources

Statistics from the OECD DAC database indicate that AfT flows have seen a significant rise since 2005 (when the AfT initiative started) to a level of almost US$40bn in 2009 (see Fig 2.1). It is important to bear in mind that the OECD figures have some limitations as a guide to AfT flows, since they cover OECD donors only and are based on reporting by those donors themselves. This may not match what recipients consider as AfT. Nevertheless the figures seem to suggest that there has been a rising trend in the overall availability of AfT in recent years, which is in line with donors' statements and policies to scale up their commitments to support AfT.

Figure 1: AfT Flows to All Developing Countries by Donor, 2002-09



Source: OECD DAC database (figures are for commitments in constant US$)

Africa receives the largest share of total AfT among the different regions. In 2009, US$16bn flowed to Africa (41% of total AfT), of which US$13bn was dedicated to Sub-Saharan Africa. Asia is second in line, having received US$15.4bn in the same year. A driving force in this regional distribution is the increased focus of AfT on Least Developed Countries.[1]

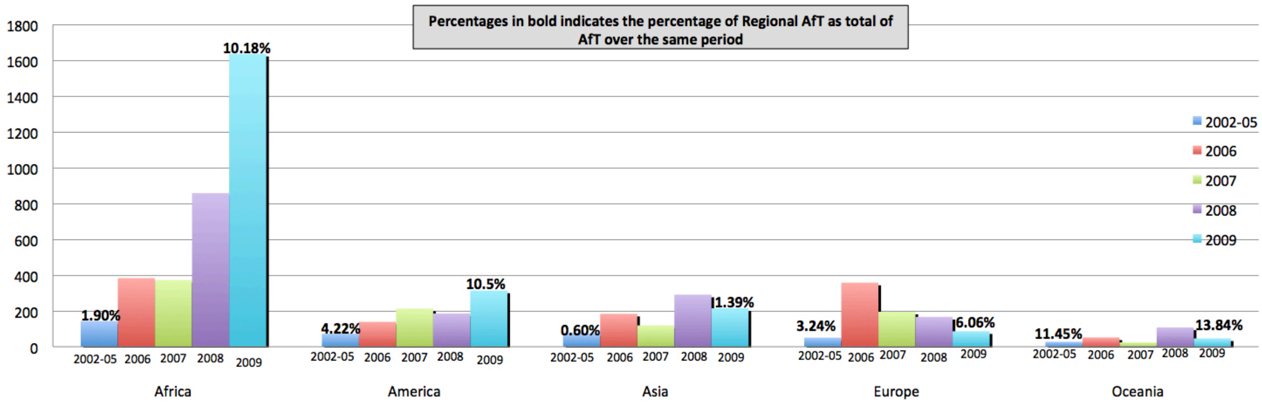
In terms of AfT categories, 'Trade-Related Infrastructure' and 'Building Productive Capacity' represent the largest AfT flows. Within the latter category, particularly support to the agricultural and financial sector has increased considerably in recent years, in response to the food and financial crises respectively.

[1] WTO/OECD (2011).

In 2009, approximately half of total AfT flows were provided in the form of grants, the other as concessional loans. This division differs across AfT categories, donors and recipient countries. To illustrate, concessional loans represent 8% of funding in the category 'Trade Policy and Regulations' and as much as 62% of 'Trade-Related Infrastructure'. USAID provided all its Aid for Trade in grants, while 78% of Japan's AfT was provided in concessional loans. LDCs receive relatively more grants than MICs, because of their lower capital productivity and ability to repay.[2]

Finally, recent trends suggest a scaling up of the share of AfT being delivered at the global and regional level, representing about 18% of total AfT in 2009. Figure 2.2 shows that the level and increase of regional AfT is most prominent in Africa, where it has more than quadrupled in terms of overall resources available – and tripled as a share of total AfT delivered - just in the three years from 2007 to 2009.[3]

Figure 2: Regional AfT by continent



Source: OECD DAC database (figures are for commitments in constant US$)

Overall, a picture emerges of AfT being an area of support that is increasingly considered as important for developing countries and donors, not least at the regional level.

2.2. Better Quality Aid?

A major feature of the Aid for Trade initiative beyond the quantity of aid was that it should lead to better quality aid. In line with the Paris Declaration on Aid Effectiveness, this was to include greater ownership on the part of recipients, better alignment and harmonisation on the part of donors, as well as joint efforts to manage towards results and ensure mutual accountability. This subsection will show that progress has indeed been made since then in applying these aid effectiveness principles, while Section 2.3 will point out the major shortcomings and challenges that remain.

On the recipient side, at both national and regional levels, efforts have been made to define AfT needs and identify ways to address those. This included developing specific Aid for Trade strategies as well as mainstreaming (aid for) trade in general and sectoral development plans. In many LDCs this process is

[2] Ibid.

[3] The recent growth of regional AfT may be exaggerated as reporting on aid destined for regional programmes may have improved recently, although at the same time there has undoubtedly been an increase in activity on the part of donors to allocate resources to regional programmes. In overall terms, OECD reporting on AfT may underestimate the volume of assistance available due to the fact that non-OECD sources (i.e. Gulf countries, China, India) are not counted in the total.

facilitated by the Enhanced Integrated Framework (EIF), a multi-donor programme set up in 1997 and reviewed in 2005 to support countries to tackle supply-side constraints to trade.[4] At the regional level, where the EIF does not intervene as yet, several regions such as UEMOA[5] and COMESA[6] have developed regional AfT strategies. Some other regions are in the process of doing the same, including ECCAS, ECOWAS and SADC. These initiatives illustrate that ownership is a principle of the aid for trade effectiveness agenda that has advanced considerably in recent years.

In some cases, regions have developed more holistic approaches to promoting trade more effectively, partly through Aid for Trade. A familiar example is the 'corridor approach' piloted in East and Southern Africa, which involves working towards integrated regional solutions along a corridor, rather than piecemeal donor financing for individual projects, without necessarily having a strong overall picture and an agreed prioritisation. As such, infrastructure gaps are addressed, in combination with trade facilitation measures at the various borders and interventions to tackle other existing impediments to trade along the corridor.[7] Progress has particularly been made on the pilot North-South corridor, while other corridors are now also being developed in East and Southern Africa. Other regions such as West Africa have focused more on a holistic value chain approach, which involves addressing major constraints and opportunities at multiple levels and points along a given value chain.[8] This can include a wide range of activities such as ensuring access to inputs, strengthening financial services and facilitating improved market access.

On the donor side, efforts have also been undertaken to define specific strategies, policies and approaches to ensure effective Aid for Trade. For example, the EU and its Member States signed up to an EU Aid for Trade Strategy in 2007 that defines how the EU will deliver on its aid effectiveness principles in this area. Several Member States, including Belgium, France, Portugal, Spain and Sweden, also have a national Aid for Trade Strategy.[9]

In terms of delivery of Aid for Trade, donors have developed a wide range of specific AfT programmes, financing instruments and delivery mechanisms. It is possible to identify efforts to improve effective delivery of AfT at the national as well as the regional level. Use of country and regional systems has increased (e.g. the European Commission's Contribution Agreements with COMESA) and there is evidence of donors aligning more closely to regional and national trade policies (e.g. donors support to Cambodia's Trade Sector Wide Approach). Donor harmonisation has also been improved, which takes the form of joint needs assessment, co-financing, joint implementation, common monitoring and joint evaluation efforts.[10] TradeMark East Africa, a DfID initiative jointly financed with other donors including Belgium, Denmark and Sweden, also stands out as a successful regional example of harmonisation efforts.[11]

4 See for more information http://www.enhancedif.org/
5 UEMOA. See bibliography.
6 COMESA (2009).
7 ECDPM (2011).
8 ECOWAS (2008).
9 European Commission (2011).
10 WTO/OECD (2011).
11 See for more information http://www.trademarkea.com

2.3. Shortcomings and Challenges of the Current Approach to Aid for Trade

In spite of the progress made by donors and recipients in the years since the launch of the initiative, considerable shortcomings and challenges remain to deliver AfT effectively. Without being comprehensive, the following represents some of these shortcomings and challenges.

- Since the launch of the AfT initiative in 2005, considerable time and energy has been spent discussing the **definition of AfT and its additionality** as compared to other ODA flows. As a consequence, there has arguably been disproportionate focus on improving donor monitoring of AfT spending in order to demonstrate the achievement of quantitative commitments (compared to other goals such as improving its effectiveness). While such transparency is certainly beneficial, this can make the AfT initiative sometimes seem to be no more than an 'accounting exercise'. In the same vein, recipient countries have tended to focus efforts on attempts to secure additional donor financing commitments, by presenting 'shopping lists' of projects, rather than a strategic reflection of their goals with respect to AfT. It has therefore proved challenging for donors and recipients to move beyond and seize the opportunities provided by this initiative.
- At the regional level, it is a particular challenge for donors and recipients alike to define needs and approaches in such a way that they are coherent with and complementary to initiatives undertaken at the national level, in conformity with the subsidiarity principle. There is often a **lack of clarity of the role and added value of regional approaches to AfT**, which leads to (vertical) incoherencies and duplication of efforts.[12]
- For recipients specifically, while progress has been made, efforts also need to be stepped up to strengthen the **integration of (aid for) trade concerns within general and sectoral strategies and policies** at both the national and regional level. This is particularly relevant as trade and thus AfT are cross-sectoral in nature and require the involvement and cooperation of stakeholders working in a broad range of sectors (infrastructure, agriculture, industry, finance, regional integration etc). Only then can horizontal policy coherence be assured. Such interdepartmental coordination is well established in some countries and regions, but not in all.[13]
- For donors specifically, **stepping up harmonisation and coordination** remains a key challenge. Only very modest progress has been made in this area.[14] Regardless of harmonisation and Division of Labour commitments, it remains common practice that donors act unilaterally: this can be ascribed to factors that are both technical and political in nature. While technical constraints can include differences in procedures, programming cycles and delivery mechanisms, there are also questions over – regardless of commitments made – donors' genuine political will to harmonise and act jointly. The dispersion of regional donor offices across different countries is an additional factor that complicates regional donor coordination.
- For recipients and donors alike, **implementation of AfT interventions in the context of holistic regional approaches** remains challenging. Since the introduction of the corridor and value chain approach, major steps have been made in promoting these approaches that are now well known and widely accepted. A recent review of the COMESA Aid for Trade Strategy, which gives centre stage to the corridor approach, revealed there is now a need to further expand and deepen implementation.[15]
- Finally, AfT has so far been quite aid-centric and donor-centric in a number of ways. The process has often been driven by a **donor-recipient dynamic**: recipients have been encouraged by donors

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[12] Dalleau and van Seters (2011).
[13] OECD/WTO (2011).
[14] *Ibid*.
[15] Lui and van Seters (2012).

to draw up strategies for donors to respond. Donors have been occupied with scaling up amounts and improving coordination, coherence and complementarity.

Insofar as aid continues to make a significant contribution to facilitate trade, it will certainly remain important to overcome these challenges associated with delivering effective assistance. Yet as noted above, a more recent trend has been for the development community to signal its intention to **look beyond aid** and aid effectiveness, with increasing emphasis on using aid more as a catalyst to leverage private sector finance. Although many of the challenges identified above will remain, such a shift will undoubtedly bring some important new dynamics and policy implications: these are explored in the next sections.

3. Challenging Old Assumptions: Private Sector Resources and Aid for Trade

Thus far, efforts on AfT have focused on the two priorities of scaling up assistance and of donors meeting their commitments to work better with other donors and with recipient governments and regional bodies. The main argument of this study is that while these challenges will undoubtedly remain, a coming shift towards a broader use of 'innovative' forms of development financing alongside traditional aid will mean that in future they will also be accompanied by a significant new set of problems to solve. The general challenge will be how to adapt current aid practices to work with new actors and operators (e.g. from the private sector) with different set of motivations to traditional donors, using new mechanisms and modalities that may be largely unfamiliar (at least to most development practitioners).

This section therefore reviews briefly the analytical framework that currently exists for understanding forms of development cooperation involving the private sector, before drawing several different case studies from recent literature of how – even at this early stage – a range of varied innovative financing sources and mechanisms are already being put into effect, as an initial view of what might be expected to become the norm in future years.

3.1. The New Aid: Non-Traditional Donors, 'Innovative Financing', and Increased Involvement from Private Sector Partners

The most forceful statement thus far illustrating that both donors and recipient countries begin to look beyond traditional aid, at other sources of so-called 'innovative financing', came from the recent (December 2011) *Busan High Level Forum on Aid Effectiveness*. Donors and recipient countries and regions declared that 'development co-operation is only part of the solution', although 'it plays a catalytic and indispensable role in supporting poverty eradication, social protection, economic growth and sustainable development.'[16] Directly highlighting the new forms of financing for development, they further stated that:

> 'As we partner to increase and reinforce development results, we will take action to facilitate, leverage and strengthen the impact of diverse sources of finance to support sustainable and inclusive development, including taxation and domestic resource mobilisation, private investment, aid for trade, philanthropy, non-concessional public funding and climate change finance. At the same time, new financial instruments, investment options, technology and knowledge sharing, and public-private partnerships are called for.'

[16] Busan (2011).

The Declaration furthermore specifies that:

> 'We will […]: Further develop innovative financial mechanisms to mobilise private finance for shared development goals.'

In terms of the wording used in Busan, it is worth noting that although the term 'innovative financing' has become popular in recent months as a 'catch-all' phrase, it remains as yet quite poorly defined, and might be criticised for being somewhat imprecise or potentially even misleading. As suggested by the quotes above, a distinction might be made between innovative *sources* of development financing (which have not featured significantly in policy debates in the past) and innovative *mechanisms and modalities* for channelling and potentially scaling-up resources (for example through direct and indirect leveraging techniques). Indeed, the term 'innovative' may be misleading because in fact some of the identified sources of finance may have existed for some time, but have simply grown in importance or have not been exploited fully as yet in terms of their potential contribution to development goals.

As mentioned in the Introduction, a specific term that has gained increasing popularity in recent months is '*leverage'* to describe how aid resources can be used to multiply the total pool of resources available for the purposes of development (or for a specific development project). One way in which this can be done 'directly' is through the use of aid modalities that are specifically designed to attract or support increased participation of private finance – such as guarantees or subsidies that lower the risk to private investors which are in turn achieved sometimes through blending grants and loans. Emerging from a more technical discussion of mechanisms for 'blending' aid and other resources, Gavas et al (2011) calculate the leveraging ratios of investments by a number of development finance institutions, and argue in relation to the use of AfT that:

> 'If developing countries want to attract significant resources for Aid for Trade, e.g. to cover their infrastructure needs, they need to think outside the box and consider how grants can leverage in other resources (e.g. loans or private finance) and provide a bundle of blended Aid for Trade finance.'

It is worth noting that the term 'leverage' is also used more loosely by some stakeholders to indicate where additional finance is not necessarily 'built-in' to an aid allocation but is to some degree expected to result from it: for example when aid contributes to creating the broader 'enabling environment' for projects to go ahead, or creates a 'signal' to other investors by providing start-up capital or identifying opportunities or entrepreneurial practice. Another similar term alluded to in the Introduction is 'catalytic aid', which can be defined as aid which is growth enhancing through 'crowding in' other flows and/or bringing about a wider positive transformation in economies or societies in which it is applied. [17]

With regard to the range of potential innovative *sources* of finance, there is particular scope for confusion about what different stakeholders mean. Some work on defining non-aid development flows has already begun: within the OECD's recording of 'official' government flows, statistics already show the category of '**Other Official Flows**' (OOF) to be a significant source of development finance. During 2009 these flows – which include non-concessional loans[18] from bilateral and multilateral donors and fall outside the strict criteria for defining aid – more than *doubled* for trade-related projects alone to reach US$50.5bn in 2009, more than the figure quoted earlier for aid to such areas.[19] Alongside ODA and OOF from OECD members, a great deal of attention has been paid by policymakers and researchers to the phenomenon of new, non-

[17] See Rogerson (2011) for a critical discussion.
[18] The definition of concessional loan is a loan with a grant element of 25 per cent or more.
[19] WTO/OECD (2011). The report attributes the rise to the response to the economic crisis by major international finance institutions through which most OOF is channeled. http://dx.doi.org/10.1787/9789264117471-en

OECD '**emerging players**' operating in Africa along lines that are different from the traditional aid model – indeed it is valid to ask in this context how instruments and programmes of traditional donors might be designed to work together with the activities of such countries for the best results.

Moving away from existing measures of development finance however, other commentators have placed a particular emphasis on potential new sources such as innovative **global taxation mechanisms** – for example financial transaction taxes or airline ticket solidarity taxes – that are ring-fenced to development objectives, although in the current political environment it seems unlikely that such taxes could be agreed on a global level.[20] **Diaspora communities** often emerge in discussions as an important current and future initial source of development financing, with one analysis suggesting that sub-Saharan African countries could gain US$1bn-3bn simply by reducing the cost of sending remittances, with a further estimated minimum US$22bn gain achievable through separate innovative mechanisms that exploit either the wealth of this group (such as through so-called 'diaspora bonds') or by capitalising on the existence of the reliable financial flow itself (e.g. through securitisation of future remittance and other foreign exchange earnings).

Another potential source of development financing is from developing countries themselves through '**domestic resource mobilisation**'. In recent years taxation systems have been strengthened and revenue receipts have improved in many countries, while research suggests that potential exists for increasing this further with the resolution of **international capital flight** and tax avoidance issues. While **domestic credit creation** is perhaps best seen as an outcome of development and economic growth rather than an initial source of financing, it is fair to say that vastly improved access to banking and other financial services (especially in rural areas) also contributes to growth and development, as well as being a result of it.

Yet perhaps the area where there is greatest hope, reflected in the Busan outcome document, is in the potential for vast amounts of **international private capital** to be 'unlocked' as a source of finance and investment in developing countries (while knowledge and technology are also recognised by the document). Given the range of different types of investment flows – each with different fundamental characteristics responding to different types of investment opportunity, with a different set of institutions or corporate structures that mediate them, and different policy implications – it is important to distinguish therefore between foreign direct investment, portfolio investment, capital markets, private equity, sovereign funds, and so on. It may also be important to make a distinction between external sources of finance and domestic or regional ones: the difficulty here is that many forms of investment capital flows are impossible to assign with a particular 'nationality'. One practical implication is that many of the policy measures aimed at increasing intra-regional investment are identical to those aimed at promoting investment more generally. Moving beyond the different forms and sub-forms of private capital flows, there are a myriad of modalities, mechanisms and associated policy initiatives through which developing countries might seek to attract or better exploit them. Fundamentally, there is a need to strengthen and deepen the financial systems of developing countries, as well as providing a stable investment environment.

Finally, where the 'innovative' element in current thinking reveals itself most is in an apparent willingness to move largely beyond traditional conceptions of the different sources of development finance working largely in isolation from each other, to how they might be combined to greater effect. One example already mentioned above is the potential of 'future flow securitisation': issuing bonds on capital markets that are backed by future foreign exchange earnings from remittances. Although the latter idea has yet to be turned

[20] Since 2006, a select number of countries have introduced an airline ticket tax to scale up access to treatment for HIV/AIDS, malaria and tuberculosis through UNITAID. See www.unitaid.eu

into a reality, the International Finance Facility for Immunisation (IFFIm) is one example from the health sector that demonstrates the potential of this approach (see Box 1).

Box 1: The IFFIm as an example of Innovative Finance in the Health Sector

According to World Bank (2009) '[t]he International Finance Facility for Immunisation is an innovative structuring mechanism for realizing future aid commitments to introduce more reliable and predictable aid flows for immunization programs and health system development for the Global Alliance for Vaccines and Immunization (GAVI). IFFIm raised $1 billion in 2006 and plans to raise $4 billion more during the next 10 years by securitizing—in other words, front-loading—future aid commitments from several donor countries (France, Italy, Norway, South Africa, Spain, Sweden, and the United Kingdom). The donor countries have signed legally binding agreements with the GAVI fund affiliate to provide future grants to IFFIm, which issues the bonds in international markets. IFFIm disburses the proceeds as required for GAVI-approved programs to procure needed vaccines and to strengthen the health systems of recipient countries. Future grant flows from donors are used to repay bondholders. The backing of highly creditworthy developed country donors has enabled IFFIm to issue AAA-rated bonds in international capital markets at competitive spreads.'

Source: quoted from World Bank (2009) *Innovative Finance for Development*

3.2. Forms of Development Cooperation Involving the Private Sector

While some analytical frameworks are available at this stage for understanding the way in which donors work jointly with the private sector, it is likely that the ascendance of an 'innovative finance' agenda will oblige donors to deepen their understanding of private sector involvement in development in the near future. One important distinction to explore might be made, for example, between activities designed ultimately to promote and benefit the local private sector, and those that seek to harness broader private sector resources for involvement in projects (or businesses) with development-oriented goals. A good classification of different types of cooperation involving the private sector – mostly in terms of the latter guise – is provided in a 2011 BMZ Strategy paper and is presented below.

Figure 3: Typology of 'Private Sector Involvement' Used by the German Government

Sponsoring and Co-financing	• Contributions from private businesses to development initaitves, in return for reputational enhancement; also includes philanthropic patronage.
Multi-stakeholder dialogues	• Consultative process and formalised dialogues between government, private and CSO actors to drive particular development issues and elaborate proposals (e.g. UN Global Compact)
Development Partnerships with the Private Sector	• Short-to-medium term projects or strategic alliances between private businesses and donors or governments to exploit an overlap in business and development interests
Public-Private Partnerships (PPP)	• Long term contract-based arrangement between public and private sector actors for perfomance of public tasks, with appropriate division of resource mobilisation and project risk.
Mobilisation and Combination of Private and Public Capital	• Mobilisation of private alongside pulbic capital for development goals (incuding leverage), with appropriate assumption of risks
Financial and Advisory Services for Private Investment in Developing Countries	• Direct provision of finance and services for private investment (including through subsidiary partners).

Source: Adapted from BMZ (2011). Categories are listed in descending order of risk borne by the private sector partner.

As Figure 3 shows, the typology identifies a scale of engagement and private sector risk-bearing, from ‘loose’ associations such as sponsorship, policy dialogues and development partnerships, through to Public-Private Partnerships, joint mobilisation of resources, and direct financing of private sector operators in developing countries.

It is important to acknowledge that other frameworks also exist for describing and analysing new approaches to development from the private sector. For example in an important study for the OECD on the ‘The Role of the Private Sector in the Context of Aid Effectiveness’, Davies (2011) highlights in particular ‘business models’ as a subject of analysis, including the Base of the Pyramid (BOP) model which is employed by companies to reach those segments of the population that are traditionally excluded from markets for goods and services. She furthermore examines the role of donors in promoting responsible business practices and promoting inclusive business models. However there are also strong similarities in this analysis to the BMZ framework, including the use of similar categories such as Public-Private Partnerships.

3.3. Case Studies on Already Existing Innovative Mechanisms

3.3.1. Case Study I: Multi-stakeholder Dialogues, ‘Development Partnerships’ and PPPs in the Agriculture Sector – The Grow Africa Initiative

Agriculture might seem an unlikely candidate for an ‘innovative approach’ to development financing. Until recently, both donor involvement and public investment in the sector had been in decline and a typical large-scale private sector investment project might have involved the rehabilitation of existing pre-independence commodity plantations alongside some specific ‘success stories’ in sectors such as horticulture, or selected fruits and vegetables in particular countries. However following donor commitments to support the sector such as those expressed at the 2008 G8 Summit – together with major home-grown initiatives such as the Comprehensive Africa Agriculture Development Programme (CAADP) focusing *inter alia* on increased public investment, knowledge and innovation – there has also been renewed interest from the private sector to invest in large-scale agriculture projects particularly in Africa.

While there has been some wariness over the potential for ‘land-grabbing’ in the agricultural sector, alternative approaches – backed by donors but driven by governments with private investors as the target – have also begun to emerge that aim to allow private sector companies and investors to partner with small-scale local producers for mutual benefit. As such, in November 2011 the first Grow Africa Agricultural Investment Forum was held in Dar-es-Salaam, Tanzania with the theme of ‘*Scaling up Public-Private Collaboration for the Transformation of African Agriculture’*.[22] The aim of the event was to ‘expand partnerships, integrate best practice and catalyse investment’ within ‘a new paradigm of public-private collaboration for transforming African Agriculture’. The main hallmarks of the Grow Africa approach are that it features:

- a multi-country initiative, covering an initial group of countries who are already advancing agricultural public-private initiatives (Rwanda, Ghana, Kenya, Tanzania, Mozambique, Burkina Faso and Ethiopia, with plans to support other country initiatives in future years), and a technical steering committee to provide oversight that ensures country initiatives are met
- a high-level commitment from leaders and partners

[22] Grow Africa Agricultural Investment Forum (2011).

- an emphasis on involving the private sector at all levels of discussions with the goal of advancing investment, including the creation of platforms at the national level for dialogue, for example on necessary policy reforms
- a holistic approach to development of the agricultural sector and economy, including linking together agricultural opportunities alongside infrastructure investments within an 'agricultural corridor' approach, and recognition also of the need to tackle regulatory and other 'soft' constraints – including strengthening land rights and the enforceability of contracts alongside a robust framework for PPPs

In a number of countries, work has already been done to prepare the ground for seeking investments from the private sector – described as 'investment blueprints' – which in each case encompass:

- identification of investment opportunities, including specific crops but also highlighting related investments such as infrastructure finance and insurance provision, warehousing and logistical infrastructure;
- identification of target investors, including for example private equity investors, international food and beverage companies (with specific ones already identified in some cases),and agribusiness companies;
- an engagement strategy for the private sector, typically comprising a mix of enacting policy measures, further technical work and investment promotional activities including a joint high-level event at the Davos World Economic Forum in early 2012.

At this stage – and given that in practical terms the specific proposals have apparently not yet moved beyond the level of standard investment 'project profile fiches' – it remains to be seen whether the Grow Africa initiative can deliver on its initial promise. In particular it will be interesting to see how the concept of 'Public-Private Partnerships' in agriculture develop beyond the dialogue and policy levels (e.g. working together to identify potential investment areas), for example into contractual arrangements seen in sectors like infrastructure.

In terms of innovative finance, it will be equally interesting to see the role of development partners in facilitating the process – whether through support as is the case now to the Grow Africa process at continental or national level, or for example through the use of development finance for filling gaps in infrastructure or other measures that are necessary to make the country initiatives a success (e.g. subsidies or other instruments to lower the risk for private investors). Arguably the main potential stumbling blocks in the approach are in translating the paper commitments into reality, for example in following through on developing a robust legal framework for land tenure and investment.

At the same time, and for reasons noted above, the initiative appears to have some traction and unique features that give it greater potential than previous attempts to encourage private sector investment into Africa's agricultural sector. The high-level backing, strategic approach and strong involvement and support already from the private sector suggest, on their own, the potential for success. The timing for such an initiative also seems to be opportune, with the initiative launched against a general backdrop of increasing private sector interest in the agricultural sector in Africa. As noted in Box 2 below on the experience of Ethiopia, some progress has already been made.

Box 2: Ethiopia's Approach to Public-Private Partnerships in Agriculture

According to the Summary Report of the first Agricultural Growth Forum, 'Ethiopia has established a strong vision to transform its agriculture into a sustainable market-led sector [...] through a comprehensive strategy for the sector – the Agricultural Growth Project (AGP). The AGP is a priority for the Prime Minister and has attracted strong financial and technical support by development partners. An independent body, the Agricultural Transformation Agency (ATA), was recently established to coordinate implementation of AGP through key levers, including: creating an enabling environment; improving industry structure and engaging private sector; increasing productivity of smallholder farmers; improving frontline extension quality; and scaling irrigation and better land management.

Interventions are focused on selected geographic clusters that have high potential for growth. The ATA is developing partnerships with the private sector to harness opportunities for market and agribusiness development, such as:
• Agribusiness along key value chains (wheat, maize, chickpeas, teff, soya bean)
• Supply systems of key inputs (seeds, fertilizers, crop protection products, machinery)
• Public advisory services e.g. animal health
• Infrastructure development (transport, warehousing, cold chain supply management, financial services)

Already, PepsiCo has partnered with a local company to source and produce a chickpea based nutritious food and Diageo has expressed readiness to invest in the sourcing and production of barley following its recent acquisition of a major brewery. At the Grow Africa Forum, Syngenta, Yara, and Bayer also committed to working with the ATA to explore partnerships.'

Source: Summary Report of the First Grow Africa Forum, November 2011

3.3.2. Case Study II: The Role of Innovative Finance in Infrastructure

The sector which could arguably witness the greatest potential benefits from a shift towards 'innovative financing' is the infrastructure sector. This is first and foremost because of the sheer volume of finance that is required to meet African infrastructural development. At the same time, the sector has traditionally had a high level of private sector involvement in the delivery of projects – with private companies as contractors – while complex structured financing arrangements are more common or expected in large infrastructure projects, alongside other supporting financial products (and potential 'innovative' instruments) such as risk guarantees. Public-Private Partnerships are also seen as a more likely model for large infrastructure investments than perhaps for other areas.

In terms of the scale of the infrastructure gap, the flagship Africa Infrastructure Country Diagnostic study estimates the total requirement for infrastructure financing in sub-Saharan Africa (SSA) to be in the region of US$93bn annually. Yet evidence suggests that neither ODA nor investment flows from the private sector come close to matching this figure: OECD (2011) point out that the biggest contributors to infrastructure development over the period from 2001 to 2006 were overwhelmingly African governments and citizens themselves, with 66 per cent the total. They were followed by roughly 20 per cent by private financiers, 8 per cent in terms of ODA from the OECD and the rest by other financiers such as China, India and the Arab States. In recent years, official development finance for infrastructure[23] in SSA has grown from US$5.5bn in 2006, to US$9.2bn in 2009.

[23] Official development finance includes (a) bilateral official development assistance (ODA), (b) grants and concessional and non concessional development lending by multilateral financial institutions, and (c) Other Official

Table 1: Africa's Annual Infrastructure Needs

Sector	Capital Expenditure	Operating Cost	Total of CE and OC	Capital Expenditure	Operating Cost	Total of CE and OC
	(US$bn)			*(sector share of total)*		
ICT	7.0	2.0	9.0	12%	6%	10%
Irrigation	2.9	0.6	3.4	5%	2%	4%
Power	26.7	14.1	40.8	44%	43%	44%
Transport	8.8	9.4	18.2	15%	28%	20%
WSS	14.9	7.0	21.9	25%	21%	23%
Total	60.4	33.0	93.3	100%	100%	100%

Source: AICD

In terms of the current level of private flows to the infrastructure sector in sub-Saharan Africa, evidence suggests that these also remain comparatively small: OECD (2011) suggests that these were around US$12bn for 2009. Furthermore, following analysis by Jones (2010), a detailed look at the World Bank's database on private participation in infrastructure projects reveals a concentration in well-performing sectors such as telecoms where commercial returns are likely to be high. Updating this analysis shows that the situation in recent years has continued this trend, with close to four-fifths of completed projects over the 2005-10 period (by value) being in the telecoms sector, and only 7 per cent in energy[24]. Comparing this outcome with estimated *needs*, AICD calculations put the corresponding shares SSA's total infrastructure needs at only around 12 per cent for the ICT sector, and 44 per cent for energy. Therefore compounding a shortfall in overall funding for Africa's infrastructure, the current inadequate levels of private investment are also currently concentrated in the telecoms sector rather than fulfilling more pressing infrastructure needs.
In terms of addressing the infrastructure gap, a number of 'innovative financing' mechanisms have been proposed including: greater use of 'blending' grants and loans, increased use of Public-Private Partnerships, channelling resources through investment funds, and directing aid towards measures that improve the enabling environment for projects to occur (including making improvements to project preparations).

The European Think-Tanks Group (ETTG, 2011) defines '**blending**' as being achieved through mixing a non-concessional loan with either a grant or an equivalent such as technical assistance, interest rate subsidy, loan guarantees, or risk mitigation instrument. One example that has been the subject of study so far is the EU-Africa Infrastructure Trust Fund (ITF), which combines its own grants with non-concessional loans from the development banks of EU member states for regional infrastructure projects in Africa, with African governments also playing a project role in the selection process. For the most part, the grant element has been applied as either technical assistance or an interest rate subsidy. With regard to the success of the blending in increasing the level of resources available, the ETTG research finds that 1 unit of grant levers 5-6 units of loan (from the lead development banks) and 15 units of other finance. Aside from this, other key advantages of the blending approach identified by the study are that it brings the overall level of concessionality within eligibility criteria for loans to HIPC countries, and can improve the quality of projects (through the technical assistance element).

Flows for development purposes (including refinancing Loans) which have too low a Grant Element to qualify as ODA.

24 http://www.ppiaf.org/ppiaf/page/knowledge-center/private-participation-infrastructure-database (accessed 10 Dec 2011)

At the same time the research by ETTG (2011) acknowledges several difficulties in assessing the precise effect of the blending – for example noting the difficulty in judging the appropriateness of the level of the grant element in a particular project or its usefulness. More fundamentally, it is difficult to determine whether projects would have gone ahead in the absence of blending – for example whether technical assistance elements could have been provided through alternative means such as project preparation facilities and alternative finance secured as a 'normal' unblended concessional loan. Ultimately, however, they conclude that blending is an important financing tool and that 'aid grants are likely to leverage in substantial amounts of other finance (official loans as well as private finance) including for regional infrastructure'.

The greater use of **Public Private Partnerships** (PPPs) is advocated *inter alia* by fund managers such as Gantsho (2010), who cites the enormous infrastructure gaps identified in the AICD and lists a number of benefits of the different PPP approaches, while also recognising the drawbacks (see Table 2).

In practice it may be important to distinguish a number of different types of PPP: BMZ (2011) details a sliding scale of private involvement and risk ranging from 'publically owned enterprise' to 'privatisation'. In between are the different PPP models including performance based contracts service, management contracts, leasing and *affermage*, build-operate-transfer models (BOT) and variations. Gantsho (2010) provides examples of the experience of some of these models in Africa, including for example the relatively disappointing experience to date across the continent with management and *affermage* contracts[25] where expected efficiency gains did not materialise as contract incentives were insufficient for dealing with deeper institutional weaknesses.

[25] Affermage is a construction where the private sector is remunerated via fees paid by governments rather than from tariff revenues collected from customers.

Table 2: Advantages and Disadvantages of PPPs

<table>
<tr><th>Advantages of PPP Approaches</th><th>Disadvantages of PPP Approaches</th></tr>
<tr><td>They offer alternatives to attract new financing sources and management of infrastructure assets and services, while maintaining a public presence in ownership and strategic policy-setting.</td><td>Distortion of development priorities, as a government may favour projects which are financially viable over those that are necessarily appropriate for the economic and infrastructure needs of the country</td></tr>
<tr><td>Improved efficiency, closely managed costs and faster completion through private sector involvement.</td><td>PPPs involve equity and debt to provide funds for SPVs, which may be more expensive than public borrowings, assuming that the government is able to obtain more favourable financing terms than would the private company</td></tr>
<tr><td>They facilitate contracting with well qualified private enterprises to manage and deliver infrastructure services</td><td>Considering the complexity of the project, the need for supervision and high development cost including the cost of the due diligence exercise and the cost of risk management</td></tr>
<tr><td rowspan="2">They lower the cost of offtake, due to improved technology and efficient operation from the private sector
Infrastructure at no direct cost, owing to private financing, therefore no need for any other source of financing and limited impact on the government's credit capacity and rating
Involvement of experienced industry professionals and private financing organisations, ensures exhaustive review of project feasibility</td><td>Possible public or political resistance, in particular from labour unions and those unwilling to sacrifice any government control over infrastructure
The need to mitigate foreign exchange risk for BOT projects whose debt is denominated to some extent in foreign currency</td></tr>
<tr><td>Some loss of control of an otherwise public sector operation</td></tr>
<tr><td>Maintenance of public sector strategic control over the project (as compared to privatisation) and transfer back to government at the end of the concession period (where relevant) of the asset</td><td>Possible loss of an income stream from the sector in question</td></tr>
<tr><td>If the PPP project helps mobilise competition to drive down project costs and improve innovation, they provide value for money</td><td rowspan="4">Supposed efficiency increases are in practice negated by lack of competition resulting in increased costs that wipe out the 'value for money' justifications</td></tr>
<tr><td>Involvement of international lenders, including IFIs; development and deepening of local capital markets</td></tr>
<tr><td>Indirect development of related industries; involvement of local lenders, subcontractors, suppliers and shareholders</td></tr>
<tr><td>Transfer of the most up-to-date technology and know-how, including training of local personnel</td></tr>
</table>

Source: Adapted from Gantsho (2010)

In terms of mobilising new resources to fill the infrastructure finance gap, Gantsho (2010) points out that the most attractive option among PPPs would most naturally be BOT arrangements[26] as they mobilise limited recourse financing[27], but are nevertheless 'large and complex undertakings' that include the granting of long-term (15 to 30-year) concessions. At the same time, there is as yet only limited experience of using such models in SSA countries: BMZ (2011) points out that while PPPs have a long tradition in the UK and USA, they are a relatively recent phenomenon even in Germany. In general OECD (2011) is less sanguine on the use of PPPs in sub-Saharan Africa, pointing to some governments either lacking capacity or being hesitant to fully embrace the idea and establish the conditions for success, with specific issues for example in the pricing of basic services. The overall conclusion is that 'results to date with PPPs have been mixed, with lessons yet to be learnt and applied'. However it also notes a number of initiatives – backed both by multilateral and bilateral donors – that are currently under way to strengthen the regulatory framework in SSA countries including the drafting of 'PPP laws' – the implication being that with robust frameworks in place and greater attention to some of the potential pitfalls associated with PPPs, they might have an important role to play in addressing Africa's infrastructure needs.

In terms of making greater use of **private investment and equity funds**, there are obvious overlaps with the examination of blending, since blended packages often seek to leverage in additional finance from such private funds while the projects they typically might invest in would be infrastructure sector PPPs alongside other commercial, agricultural or industrial investments. OECD (2011) suggests in fact that some funds themselves include significant financing from donor development finance institutes (DFIs) such as the UK's Commonwealth Development Corporation (CDC). This use of aid or official finance also therefore highlights a leverage aspect: research into the ratios applicable to such flows shows that '[e]very dollar of CDC investment coincides with $5 of other investment; every IFC dollar leverages about $3 from others; every EBRD dollar leverages in another $1' (Gavas et al., 2011).

In addition to the 'financial leverage' ratio, OECD (2011) also points out how such donor-driven investment into funds can leverage better development outcomes as a result of their own particular investment policies – the Netherlands' Infrastructure Development Fund (IDF) for example adds value through its mandate to focus on companies and countries that would not normally attract finance. By investing in funds, DFIs can also ensure that they meet certain standards, for example on environmental protection and financial due diligence. Sovereign wealth funds (SWFs) are another potential source of finance that might promote such goals, although this will depend on their individual investment mandates.

As with PPPs, the shift toward greater involvement of private investment funds as a source of development finance creates a set of regulatory challenges that need to be addressed in order to maximise the development benefits. These include *inter alia* concerns related to transparency; the capacity to negotiate deals with an appropriate balance of risks; ensuring equitable and development-focused outcomes; avoiding potential conflicts of interest (amongst donors, private sector and government), and ensuring value for money. A number of regulatory challenges associated with PPPs, private investment funds and with private sector involvement more generally, are highlighted in Section 4 of this paper below.

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[26] BOT place the responsibility for financing, constructing and operating the project on the private sector. The host government grants a 15-30 years concession to the project company to build and operate the facility. The private company uses the revenues from the operation of the facility to service the debt, and provides investors with a return.

[27] Financing provided on the basis of the future cash flow generated by a project (rather than by the financial strength of the borrower). This has the added advantage of aligning the incentives of lenders and borrowers in favour of a project's success.

Finally, one additional common theme in the literature on financing infrastructure in Africa is the need for much greater attention to be paid to **project preparation**, as well as the broader '**enabling environment**' for private sector involvement in financing development projects. On this front, Leigland and Roberts (2007) note that the process for preparing a large infrastructure projects is often complex and involves many different steps (see Table 3 for a summary); the cost of undertaking this preparatory work typically ranges from 5 to 10 per cent of total project costs, representing a potentially huge upfront sunk cost in many cases.

Table 3: Phases in Infrastructure Project Development

Phase	**Actions**
1. Enabling environment	• Designing enabling legislation • Designing regulatory approaches • Reforming project-relevant institutions • Reforming policy • Building capacity to support project • Building consensus around project
2. Project definition	• Identifying desired outputs • Determining priority of project relative to others • Identifying project champions • Preparing action plans (including terms of reference) • Conducting prefeasibility studies
3. Project feasibility	• Performing financial modeling • Conducting economic, social, technical, and environmental studies
4. Project structuring	• Assessing public and private options • Structuring project finance • Designing legal entities
5. Transaction support	• Designing and conducting bid process and drafting contracts • Negotiating financial and legal terms
6. Postsigning support	• Finalizing postsigning financial arrangements • Conducting scheduled tariff reviews • Renegotiating or refinancing project

Source: Leigland and Roberts (2007)

While a number of project preparation facilities have been established in recent years – including at the regional level – the establishment of several such facilities may have in fact led to a fragmentation of resources devoted to the area. A further issue is that the expert professional advice on legal and financial structures needed for infrastructure projects are generally unavailable locally, and may be very expensive and therefore difficult to justify in the context of scarce aid resources. At the same time it is interesting to note that OECD statistics suggest that amounts of aid being spent on 'soft measures' to improve the policy environment for infrastructure investment are in fact significant, amounting to some US$2.3bn in 2009, or almost a quarter of their total spending on infrastructure in SSA: it may be that only a small proportion of this assistance is however being used in the important area of project preparation.

3.3.3. Case Study III: Entrepreneurial Challenge Funds as an Innovative AfT Mechanism

A further recent use of AfT resources (as well as aid more generally) is the emergence in some donor programmes of so-called 'challenge funds'. Unlike examples already explored above, such funds do not attempt to leverage up the resources available to a development project in a financial sense. Instead they do seek to increase the impact achieved from smaller pots of aid, while doing so using innovative mechanisms such as competition-based allocations to private companies.

Davies (2011) highlights several that are relevant in the discussion of AfT and innovative forms of finance. A key feature of challenge funds is that they seek to 'catalyse innovative business models which generate development impacts and which are commercially viable'. Funds that support entrepreneurs actively aim to reduce the risks associated with experimental business models, making then in some ways similar to the risk guarantees found in larger projects.

Two examples highlighted by Davies (2011) are the Africa Enterprise Challenge Fund (AECF) and the Food Retail Industry Challenge Fund (FRICH). The AECF 'provides grants and interest free loans on a competitive basis to companies that promote new ideas leading to growth in rural areas' and is 'expected to stimulate over US$200m in private sector investments in agriculture, financial services, renewable energy and technologies for adapting to climate change as well as media and information services where they relate to these sectors'. The DfID-sponsored FRICH has a more specific target of improving agricultural supply chains for export to the UK by 'awarding grants to supermarkets and their suppliers, as well as to others in the food retail industry, to encourage investments at different points along their African supply chains' while 'supported projects range from tea from Rwanda, coffee from Malawi and DRC, fish from Zimbabwe and strawberries from Uganda.'

At present only a small proportion of aid is distributed in this way, yet the appeal of the challenge fund model, as both economical and efficient, could conceivably lead to its spread into many other areas, particularly in the AfT sector where it is being pioneered.

3.3.4. Case Study IV: The COMESA Infrastructure Fund and Other 'Home-grown' Attempts to Mobilise Private Capital for Regional Investments

While the focus of most attention has been on donors and private sector sources of innovative finance, it is important to recognise that some attempts have been made by recipients themselves to establish their own mechanisms for exploiting the interest of investors in Africa. Examples here include the AFREXIM Bank – set up by the African Union to finance trade across the continent – as well as the proposed African Investment Bank, whose establishment has been discussed by African leaders at the AU Summit in January 2012 in the context of an 'Action Plan' to boost intra-African trade.

Regional Economic Communities (RECs) have also attempted to set up funds to mobilise and channel aid resources, in some cases with the intention of leveraging private capital for regional projects. One example is COMESA's AfT strategy, where a great deal of attention is paid to the establishment of the 'COMESA Infrastructure Fund' (CIF) as an important step in mobilising resources for envisaged investments.

The original proposed structure for the CIF would be that COMESA governments would hold 50 per cent of the share in the fund, while the fund would be open to other official and private investors (including banks and other funds), who would nevertheless presumably provide the bulk of funding. The COMESA governments would retain a ‘golden share’ giving them the right to veto investment and other managerial decisions.

At this point however there would seem to be a contradiction in the CIF concept: while the fund is seen as being owned and controlled primarily by COMESA member states with a governance structure to ensure that it is ‘regionally owned’, it would require significant sources of outside investment in the form of donor and private funding. The key issues become clear when considering the capital-raising requirements of such a fund and motivations of any potential private investors. Aside from arguments about whether they should be involved in investing in and running such funds, COMESA governments are themselves unlikely to have the necessary spare capital to do so (and thus make it something akin to a ‘COMESA sovereign-wealth fund’). Yet private investors – as well as development banks and sovereign wealth funds which also need to ensure a return on capital – that are confronted with a range of investment options are likely to be hesitant to place large amounts of their capital into a fund which executive control over investment decisions rests not with them, or delegated by them to a skilled fund manager, but instead rests with sixteen COMESA governments likely to put political motivations before profit maximisation.

By contrast, private investors may very well be interested in investing in a more traditional type of investment vehicle (such as the funds outlined above) with the expertise to invest successfully in African infrastructure projects – but only if they have ownership and control of the fund, and its returns, themselves. This would however not in any sense be ‘owned’ by the region, and in fact there would be no need for a link to COMESA at all. Perhaps one key lesson of the experience for COMESA is therefore the need to think carefully about the incentives of investors and how these can be matched to the development aspirations of governments, and how efforts to mobilise finance can best be shaped to achieve this. This reflection is critical, all the more since setting up such type of Investment Fund is also something currently considered in other neighbouring regions, such as SADC in the context of the establishment of the SADC Regional Development Fund (SDF).

4. Policy Implications of a Shift towards ‘Innovative Financing’ and Private Sector Involvement in and alongside Aid for Trade

In light of the above discussions, it is clear that greater inclusion and reliance on private sector finance in providing Aid for Trade has potential implications for governments, donors and private sector operators, as well as for relations between them. Managing these shifts, while simultaneously ensuring maximum development impact from combined efforts, is likely to place specific demands on policymakers and institutions. This section highlights some of the key areas of policy implications and potential concerns.

In overall terms of the implications of a shift towards greater inclusion of the private sector in achieving developmental objectives, one overarching concept that probably needs more consideration is the underlying importance of *risk* in any decision to invest or allocate scarce resources. Such risk is confronted daily by the private sector and incorporated into their decision-making and planning, but this is arguably less so in the development community. At the same time many of the projects associated with AfT, in particular for infrastructure, are projects which could in principal be carried out by private sector entities, but which entail a high level of inherent commercial or political risk (and the potentially high projected returns to investment projects in Africa suggest that political risk may be higher than commercial risk). On one level therefore, it may make sense to encourage innovative approaches (the use of donor grants and/or partnering with governments) that can alter the commercial terms of a project to offset some of that risk. At the same time, much also depends on the challenge to reach a sensible balance of various risks – those due to external factors, or those due to a failing on the part of one or other parties – through establishing a proper framework of regulation and governance. As such, the question that all stakeholders will need to consider in future is how best to manage risk – and ensure a favourable balance between parties – particularly where capacity levels, information available and interests may be quite different between partners. Such issues are examined in more detail below according to the two categories of capacity and interests; a third section looks at some specific issues for donors.

4.1. The Importance of Capacity

An overriding policy concern with increased private sector involvement relates to government capacity not only to trigger but also to manage such involvement. As has been highlighted in the previous sections, the multitude of ways in which private sector finance and loans can be combined with public finance imply complex processes for identifying potentially productive investments that are viable or “bankable”, estimating financing needs, preparing a project business case, designing suitable procurement or auction procedures, designing appropriate contracts, and monitoring and enforcing all of the above. This is not to mention the need to have in place regulatory frameworks and legislation, environmental regulations, and social safeguards, which provide a clear and predictable environment for an investment to take place.

Perhaps the fundamental capacity requirement therefore relates to putting in place a proper **enabling environment** and addressing market failures. A weak regulatory environment may limit the possibilities of infrastructure projects even before feasibility studies get off the ground if for example property rights are not ensured, regulatory requirements and procedures are not clear, and if hurdles exist to establish legal relations between government and the private sector. The procedures for obtaining construction and other permits are, for example, important determinants of whether or how a project can proceed and therefore represent the basis on which all private sector partnerships can take place, either through blending or PPPs of some form.

Beyond the broad business and legal environment, **project preparation** for infrastructure is crucially important. Infrastructure projects must be based on a high level of information to make these ‘bankable’, a process which involves time and considerable cost, as mentioned above. Indeed, getting to the bankable stage requires 5 to 10 per cent of the final project cost – which can itself run into billions of dollars – and also requires a considerable level of expertise. As such, this initial phase of project preparation can represent a major bottleneck to greater private sector participation, and is one which might be resolved through greater recognition of this need and some dedicated financing.

As has been discussed, a number of project preparation facilities and support services have or are being set up to serve this purpose. These include, amongst others, the NEPAD Infrastructure Project Preparation Facility (management by the AfDB), the Public-Private Infrastructure Advisory Facility (management by the World Bank) and work done by TradeMark Southern Africa. But their resources are reportedly inadequate for rolling out services on a large scale, or in some cases even to write Terms of Reference for infrastructure feasibility studies, given the complexity in even that initial task of bringing a project to bankability. This highlights a major hurdle even before addressing a host of other potential issues which might affect the success or otherwise of combining private sector finance with AfT, at least for large infrastructure projects. Capacity issues also carry over to the regional level, where identifying potential projects and coordinating efforts adds an additional challenge. For instance, COMESA has only a few staff working on infrastructure and resource mobilisation (as in all divisions), making regional AfT projects somewhat ambitious. Nonetheless, Leigland and Roberts (2007) note that:

> 'Many African organizations are well aware of this basic problem and have taken initial steps to deal with it. In the past several years both the African Development Bank and the Development Bank of Southern Africa have established infrastructure project preparation facilities. Regional economic communities, such as the Economic Community of West African States and the Southern African Development Community, are establishing such facilities to deal with cross-border infrastructure projects. And African governments - such as those in Kenya, Malawi, Mozambique, Nigeria, and Tanzania - are creating units to help develop projects that take advantage of participation by private operators and investors.'

As such, before aid can be used to address market failures or fill infrastructure investment gaps, it could be used for better identification of possible opportunities, feasibility studies, and bringing projects to a bankable status.[28]

Further potential associated risks relate to long pay-back periods, with significant time of negative cash-flow during start-up, dollar-denominated inputs that can translate into currency risk; lumpy assets that are fixed in place with limited residual sale value except for the designated purposes (meaning limited collateral value of fixed investments); and government-regulated prices, often denominated in local currency terms and subject to political pressures in their adjustment over time.[29] To some degree these can be mitigated through inclusion into contractual relations, however, that also requires specific information and negotiating capacity.
As such, the **information asymmetry and negotiating capacity** regarding commercial projects is a common problem for developing country governments. While this is already a recognised problem regarding (arguably simpler) FDI, in the specific case of leveraging private sector finance with AfT, beneficiary developing countries may not be in a position to assess project proposals let alone negotiate the specific terms of a PPP contract. Donors involved may also not have the necessary expertise to appropriately support beneficiaries, due to a lack of experience of working with the private sector. This relates back to the issue of balancing risk, where a lack of information combined with limited negotiating capacity may leave governments carrying a greater burden than they otherwise should. While this might relate to tax incentives, it can also extend to the terms of contract for maintaining a PPP project, resulting in high costs and poor performance. This was the case, for example, with the Kenyan Power and Lighting Company which had a contract with a private sector company which was terminated after two years due to these issues.[30]

As well as a need for greater capacity for engaging in negotiations and designing sound conditions and contracts, involving the private sector requires a high degree of capacity and willingness to coordinate and collaborate among government agencies. This includes the Ministries of Finance, Energy, Infrastructures, Trade and Commerce, as well as the Investment Promotion Agency and other agencies working specifically on PPPs and efforts to improve infrastructures. Although ostensibly working together to fulfil government objectives, intra-agency frictions, lack of communication and separated systems can often hold up government work where collaboration and coordination are required, even despite ambitious

[28] OECD (2011) highlights InfraCo provides an example of how development aid and private sector resources can combine towards a common developmental goal. This is a **multi-donor investment facility** set up in 2005 to finance the high initial costs associated with infrastructure projects, bringing projects to bankability through preparatory work on feasibility studies, obtaining relevant permits and negotiating maintenance and tariff agreements. It then recuperates its costs through sales of its stake.
[29] See Kharas and Sierra, Brookings Institute (2011).
[30] See Gantsho presentation to CABRI, 2010.

aspirations. Further, what is described as a lack of capacity or coordination can also often relate to "political will", or political economy factors. That is, does the context and history suggest that the incentives in place encourage individuals and institutions to act towards these "common goals", or are there ways in which they might be improved? Furthermore, it is clear that the larger the number of parties involved, the more complex and variable the set of incentives, and the greater the need for coordination. Issues such as coordination, and collaboration between various actors may therefore be further complicated when taken to the regional level.

4.2. The Need to Balance Interests

As the latter point suggests, keeping in mind the **interests of the various stakeholders and accountability relations between them,** are important consideration when bringing in the private sector. While development theorists already emphasise accountability and governance relations to understand government actions, a partnership with the private sector also brings additional potentially diverging interests. Although private sector operators are providers of goods, services and solutions (Davis, 2011), they are also generally motivated by profit. This raises questions about the degree to which private and public priorities and motivations are, or can be, aligned. This relates not only to relations between developing country governments and private sector contractors, but also with donors, with tied aid re-emerging as a potential issue in this context.

Linked to this, there may be a concern over **keeping the 'poverty focus' of aid**. In some cases the proximate incentives might align – profit and growth are compatible – and the large potential of leveraging may lead to some donors favouring this as an approach. For example the enthusiasm with which some US-based think tanks have suggested leveraging as the basis for the work of USAID, and the emphasis and weight given to leveraging ratios by DFIs in their reporting are quite telling in this regard. However, given that private sector financing, leveraged through aid or otherwise, may be more appropriate to certain circumstances i.e. more profitable investments over other less profitable ones, questions arise whether this might lead to a drought of aid where less profit is to be made. The issue of interests and priorities also raises issues of **equity**. Will the proposed project serve all sectors of society or limited sections of society?

As mentioned previously, an important issue is whether or not the private sector would or could supply the investment without government assistance, which also ties in with the question of the crowding-in or out of resources. The issue of interests, and conflicts of interest, also clearly relate to capacity and the systems in place to oversee contracting and payments mentioned above, again relating to how to balance donor interests with government interests and the private sector. Following on from this, there are '**value for money' concerns** with using aid to leverage private sector finance. The experience of PPPs in developed countries such as the UK has been one of cost overruns, delays, and overcharging. There may be little legal recourse for a developing beneficiary country to take if a project does not deliver. The benefits of attracting private capital must therefore be set against the current international low cost of capital globally, in terms of concessional loans for developing country governments or even the increasing ability of some governments to access international capital markets directly. This is true also in light of the additional costs of involving the private sector (e.g. insurance in the form of credit risk guarantees, currency risk guarantees, political risk guarantees) when compared to pure state or donor resources. In terms of value for money there is also a tendency for private sector to negotiate subsidies from government, potentially linked to the poor negotiating capacity on the part of developing countries. This suggests parallels with 'a race to the bottom' although as has been mentioned above, subsidies or aid blending can also be justified to bring social costs closer to financial costs.

The issue of how to ensure the private sector is accountable in the developing countries has also grown as an issue at both national and international levels. Initiatives such as the Extractive Industries Transparency Initiative (EITI) might serve as a useful model at the international level to increase transparency, while publication of contract details at the national level might also serve the interests of all parties. Although transparency does not automatically lead to more accountability, it offers that possibility, something that might play a useful constraining factor in how governments and the private sector enter into agreements to jointly provide public goods to promote trade.

A further implication of the increased use of the private sector in development spending is how it is **classified** by donors. While this has perhaps been brought to the fore by the innovative forms of finance used by the emerging players in Africa, China in particular, it raises questions for donors regarding how to classify this new hybrid form of ODA. One argument might be that distinctions between aid and non-aid are in many ways becoming less important when considering the vast resources that leveraging could produce and the fact that ODA is being replaced by other private flows even without leveraging. But an important downside may be that blurring this distinction will enable donors to avoid their ODA commitments. This is a question which clearly demands further attention and analysis of the incentives different classifications might create.

4.3. Some Donor Implications

The issues identified above clearly raise questions for donors. How best to support this change in the landscape when offering Aid for Trade? How to assist in balancing risks? What mechanisms could help reduce the information asymmetry between governments and the private sector? In what way should donors proceed – through multilateral development finance institutions that are best placed to leverage aid? Should they focus instead on supporting the poorest in areas with little or no chance of encouraging private investment? How can one tell where there is a market failure and aid is required to stimulate further private sector participation? To what degree can some of these issues be dealt with at a regional level, where economies of scale might be large and the potential to build capacity more realistic, but the inherent need for coordination and political compromise are also barriers to reform? These are all clearly important questions that require further analysis and strategic consideration.

More broadly, the implications of greater private sector participation can usefully be examined through the lens of the Paris Declaration principles. Intended to guide how aid is delivered and managed, the five principles that have been used to guide aid, including AfT to date, are: ownership, harmonisation, alignment, results and mutual accountability.

The need for partner country *ownership* is a fundamental underlying principle for improving aid effectiveness. According to the Paris Declaration on Aid Effectiveness, the ownership principle implies that 'Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions'. Although there are no definitive ownership implications from combining aid with private sector finance, the degree of partner country leadership in coordinating and managing a project with private-sector finance will be determined by the capacity to prioritise among development needs and manage the legal and regulatory processes described above, potentially with donor support. The profit motive described above in terms of 'interests', might potentially draw resources towards non-priority areas for the government, however this then relates to the alignment principle.

Regarding *alignment*, the Paris Declaration states that 'Donors base their overall support on partner countries' national development strategies, institutions and procedures'. If donors respect the alignment principle, even when this is combined with private sector finance, the target of resources should continue to be in sectors and areas defined as priority by government. As well as aligning with principles, this relates to aligning with partner-determined indicators and with institutions and avoiding to the extent possible the creation of dedicated parallel structures for day-to-day management of aid-financed projects. Given the inherent complications of managing a PPP project, and given the particular capacity requirements identified above, full alignment with existing systems may be a challenge.

Harmonisation refers to donors coordinating their actions to be ‘more harmonised, transparent and collectively effective’. The use of donor funds in common pools alongside private finance offers some opportunities for greater harmonisation while leveraging funding. Again, the effectiveness of this approach will rely to some extent on the degree to which the partner country is able to assert leadership over the process and effectively bring donors on-board to nationally defined priority areas.

The principle of *results orientation* is potentially where the inclusion of private sector finance could have greatest impact. One of the criticisms of aid is its supply-driven nature and lack of feedback loops which can lead to a limited focus on impact and results. Given the demand from private sector operators to monitor performance and see the financial return on their investment, a focus on results is likely to underlie project design right from the start. While this may have implications for project choice, with a focus on profitable projects as described above, once a project is agreed on as priority for government, a focus on results may have a beneficial impact on the management of the project, potentially also putting in place mechanisms which can be transferred to the monitoring of projects carried out with aid money only.

Finally, *mutual accountability and transparency* are by necessity also likely to be a major element of any privately financed initiative. The need for accountability in terms of who is funding what, where the finance is channelled, procedures for procurement and contract design, and transparency governing the whole undertaking, underlies any calculation of expected returns and balancing risks. Furthermore, demands for transparency in terms of private sector operations and donor payments are ever-increasing with ever-greater momentum. As such, the demands for accountability and transparency in working with private sector finance also remain fundamental, offering opportunities for learning between donors, partner countries and the private sector.

5. Conclusions and Key Questions

This study has sought to examine the policy implications of a potentially significant shift towards ‘innovative’ sources, forms and delivery mechanisms of development finance, when compared with more ‘traditional’ forms of aid such as Aid for Trade. In recent years, the emphasis that both donors and recipients have placed on ‘Aid for Trade’ since the launch of the initiative means that this is now an established part of overall aid discussions. At the same time much has also happened in developing and developed economies since 2005, which has led to the emergence of a new focus on ‘innovative finance’ which both complements and challenges existing forms of aid. While traditional aid is unlikely to disappear at any point soon, it is at least possible to discuss a future in which traditional types of aid are in decline, and start to explore the implications that various alternatives are likely to have on the practices and policies of both donors and partner countries, and begin to challenge some long-standing assumptions.

Against this background, this brief exploratory study highlights a number of key issues that may be useful for policymakers in developed and developing countries alike in adapting AfT and aid more generally to the changing context, particularly through enhanced private sector involvement. The principal points can be summarised as follows:

- AfT has been increasing in quantity and (to some extent) quality over the last few years. Since the birth of the initiative, there has been much emphasis on definitions to measure progress towards meeting commitments on AfT and its effects, and then on AfT policies and implementation. This has led to an improved approach from both donors and recipients on how they promote private sector development (including at the regional level), although challenges remain and suggest that that there is more work to be done.

- More recently, ‘innovative finance’ or ‘innovative aid’ has emerged as a broad agenda which covers the sources of aid financing, innovative mechanisms to deliver existing aid, and new ways to leverage *other* sources of finance for development. There is also recognition that domestic resources may increasingly play a role (tax, bond financing) in development, while some commentators also point to the activities of non-DAC donors.

- While one reason for a shift towards ‘innovative aid’ is inevitably the squeezed budgets in donor countries, another more positive driver for a new approach is the renewed interest of the private sector to operate in developing countries (i.e. international investors, alongside the domestic private sector). As elsewhere, private sector interest takes a number of different forms in Africa, reflecting the different types of capital flows (e.g. FDI, portfolio investment, private investment and equity funds), each with different implications for policymakers.

- While AfT has always sought to promote private sector development in Africa, thus far aid has always been somewhat separated from private sector, with a clear distinction in the different roles played by each. While mechanisms such as donor development bank funds have existed in the past to channel donor funds towards investment in Africa, it seems likely that donors will seek to capitalise further on the renewed interest of the private sector by combining the two forms of finance more closely and in new ways in future. This paper has provided some examples of where either private finance has been combined with public aid, where partnership models have been attempted, or where a private sector approach has been adopted.

- At the same time, the shift towards such combinations will have important policy implications for developing country governments, regions and donors alike. Market failures and capacity constraints may prevent private sector involvement from reaching its full potential – for example in the areas of project preparation, or in regulatory frameworks for private sector involvement in projects, or the negotiating capacity of developing country governments.

- As such governments and donors need to work together to build an enabling environment that facilitates such innovative forms of cooperation, and to take full advantage of the opportunities created by them. However, mechanisms will also need to ensure responsible private sector involvement, where a key challenge is to see to it that vastly differing sets of incentives (donors, governments and private sector interests) are properly aligned, government priorities are followed, and the burden of risk is appropriately distributed.

- It is also interesting that while donors face ever greater calls for transparency and are subject to commitments aimed at improving the efficiency of their assistance, the private sector (e.g. private equity funds) is seldom subject to the same level of scrutiny – although this is changing. This paper has explored some of the issues around increased collaboration between donors and private sector financiers and operators, notably in the context of the Paris Declaration on Aid Effectiveness.

While it is still too soon to deliver a comprehensive verdict on the effect that an 'innovative aid' agenda, including an increased role for the private sector, may have on traditional forms of cooperation, this paper has tried to explore this emerging area at an early stage, and pointed to some of the issues raised by it.

Some questions for further analysis raised by the above discussion include:

- Given the importance of recipient government capacity, how can donors best target their support in order to further boost the potential of combining aid with private sector finance?

- Can donors work with partner countries to align interests, reduce information asymmetries, and promote a fair distribution of risk between government and the private sector? What is the best mechanism to do this?

- To what degree can donors assist in ensuring that private sector involvement does not ignore less commercially attractive but important public projects? Can aid affect the potential return to low-return projects and what are the policy implications of doing so?

- Can an analytical basis be formed to identify true market failure where aid is genuinely useful to stimulate private sector investment?

- To what degree can regional integration processes take advantage of the potential benefits of innovative finance while avoiding some of the pitfalls? What would be required for RECs to strengthen their engagement in such processes?

These issues will undoubtedly need to be examined and explored further in the future, as well as be complemented by others.

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