ODA and Private Sector in Development Research

For

RoA Africa Network

By

Uganda National NGO Forum

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1.0 Background of the Report

1.1 Preamble

The global financial and economic crises and the resulting austerity policies implemented by many wealthy countries have constrained resources for development finance. Private sector resources have dried up and government budgets have come under serious pressure. Domestic government resources remain very low in many countries with more than three billion people living in countries where government spending is less than USD 1,000 per person each year, in purchasing power parity (PPP) terms.

Yet for many countries in Africa, government spending is the largest domestic resource and the resources available to many of these governments are growing rapidly. Public expenditure exceeds domestic private investment in most developing countries. Governments remain key institutions in the fight against poverty across the world.

380 million people are still living in abject poverty on less than PPP USD 1.25 a day and even with the centrality of government, governments still spend less than PPP USD 500 per person. At the same time, competing demands such as climate change and the need for sustainable financing have dramatically increased the financing needs within the developing world. As a result, the need for new alternatives to increase the volume of development finance without worsening debt sustainability in developing world is on the rise. Within donor countries there is an increased focus on utilizing market like instruments supported by public money earmarked for development.

Blending mechanisms, which combine loans and grants, are seen as one of the key alternative financing instruments to meet current demands. These facilities are meant to respond to the increased need for resources as well as the desire to increase the volume of development finance in a context of constrained resources. Arising from this proposal is the pressure from donors to use grants proactively to leverage their businesses, support their trade and foreign policy, regional development strategy and partnership in the targeted regions and countries. The guiding principle being the desire to join forces of development expertise and resources to fulfil partner countries development needs in the most efficient manner.

1.2 Focus on this study

This study will examine the Official Development Assistance used to support the private sector investments and interventions in development in Uganda. Currently, there is limited body of evidence on the effects of blending on development results where it has been used. While literature exists on the theoretical use of loans and grants, how it works in practice to deliver development results if at all remains a mystery.

As the global aid architecture shifts to blending, assessing how this has been achieving development results on the ground is crucial to inform the policy choices of both the donors

and developing countries. RoA Africa would like to focus specifically on the quality and quantity of financing for blended projects and how these elements of development co-operation have adjusted to the demands of the Busan partnership principles. While aid has remained an important ingredient in funding development programs in Kenya, Uganda and Tanzania, PPPs and other blended projects have remained critical in funding big infrastructure projects, SME and energy projects in these countries. A clear understanding of how blended projects have contributed to development results in the countries they are involved in and what lessons can be learnt from the utilisation of these instruments of financing for nationally defined goals. It is with this in mind that RoA Africa proposes to carry out three country researches in Kenya, Tanzania and Uganda on accounting for the Busan Principles the case for blended projects, lessons and proposals. The studies will be used to develop policy alternatives for ODA private sector financing.

1.3 Objective of this study

The objectives of this study are the following:

1. Assess the quantities, priorities, sectors and development impact of selected blended projects in Uganda in the period 2008-2013
2. Propose specific actions that relevant stakeholders can take to ensure that ODA leveraging and supporting the private sector leads to development effectiveness
3. Generate key conclusions and recommendations by understanding the effect of blended projects on criteria set for using grants or loans; assess the framework for ensuring country ownership of the blended projects and assess development objectives against development results

1.4 Structure of the Report

In order to understand the impact of selected blended projects, this study will first set out the context of Uganda's development policy history and the policy shifts that have informed it over the last two decades (1995-2014). This will be done by looking at the poverty discourse and its ramifications over the last two decades. The study will then look at the fiscal strategy that Uganda has undertaken over the years. The study also illustrates the new forms of policy decisions related to financing of public services and goods in what is seen as a modernizing economy. We shall then profile three selected blended projects in Uganda and illustrate the lessons learnt from these projects. Recommendations from the exercise of blending will then be set out in the last part of this study.

2.0 Evolution of Uganda's development policy strategy

2.1 The Poverty Reduction Discourse phase

Early economic reforms in Uganda did not directly address poverty issues, as they were largely geared towards stabilizing and rehabilitating an economy that was torn apart by war. Stabilizing the erratic macroeconomic environment and promoting economic growth was considered a prerequisite, in the hope that the benefits would percolate through increased participation of poor women and men in the economy.[1] This focus was quickly compromised when in 1992 the Government started considering the negative impacts on livelihoods stemming from structural adjustment policies. It was widely acknowledged that these programmes had a differential impact on different social groups, in part because of the heterogeneous nature of the Ugandan population. For the urban poor, they were causing disenchantment, possibly threatening the reform process and, in the rural areas, there were explicit failures of the trickle down policies.[2] Initial steps toward addressing the adverse implications of the reforms included such arrangements as the Programme for the Alleviation of the Social Costs of Adjustments (PAPSCA), which aimed to provide services in areas where those affected by the reforms were living - and targeted credit, such as the Rural Farmers Credit Programme and seed-capital "entandikwa" for groups and individuals with skills but without the capital to initiate investment projects.

The most influential factor that led to a focus on poverty was probably the political campaigns for the Constituent Assembly elections of April 1994 and the Presidential and Parliamentary elections of May and June 1996. In these elections politicians came face to face with the reality, that one could not see 'trickles' of growth in the rural areas. Many people who came for the campaign meetings used the slogan, *'although we sleep peacefully we cannot eat peace!'*[3] The political campaigns were therefore seedbeds for a sharper focus on poverty. Key NRM political leaders returned from campaigns saying there was much poverty in the countryside and there was a need to do something about it. The anxiety that followed led to a number of events, which collectively contributed to the evolution of the Poverty Eradication Action Plan (PEAP) policy process.

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[1] Ministry of Finance, Planning and Economic Development (2004), From Conflict to Sustained Growth and Deep Reductions in Poverty - Uganda Case Study for the Shanghai Conference on Scaling Up Poverty Reduction, Kampala

[2] Ssewakiryanga Richard *(2002) The Role of Women's Social Support Networks in Coping with Urban Poverty: Case study of Kisenyi and Kifumbira Slums in Kampala City,* NURRU Working Paper No.16, NURRU Publications

[3] '*…although we sleep peacefully we cannot eat peace'* was a phrase that defined the political discourse of 1996 because the incumbent President was using his track record on providing security for the whole country as his campaign strong point and the opposition was using the same point as his weakness, especially by linking it to economic and governance issues.

In 1997 the first poverty eradication plan[4] was developed with the goal of reducing poverty to less than 10% of the Ugandan population by 2017. The fight against poverty became Government's major priority area. It put in place the National Task force on Poverty Eradication which included eminent persons from various institutions - academia, Government ministries, donors, CSO representatives, Trade Union representatives and politicians. A number of priority programme areas were identified. The taskforce was mandated to 'prioritize public actions across various sectors to maximize poverty reduction and formulate a strategy that would direct public resources and actions to poverty eradication.'[5] The taskforce produced the first PEAP, which adopted a multi-sectoral approach and identified a number of priority programme areas that would effectively eradicate poverty. These areas included primary health care, rural feeder roads, primary education, provision of safe water and modernization of agriculture.

The PEAP implementation was hailed especially by the World Bank and the International Monetary Fund as a "model" for post-structural adjustment PRSPs, having pre-dated the adoption of PRSPs by the donor community. Official statistics had already suggested that real GDP growth had contributed to a reduction in the incidence of income poverty from 56% in 1992, to 44% in 1997 and further down to 34% in 2000.[6] Currently the income poverty levels stand at 24%[7]. The PEAP became a cornerstone document in official government, donor and CSO circles. It became the modality that donors used as a basis for providing aid to the Government.

Uganda also became the first beneficiary of the Enhanced HIPC Debt Relief Initiative and obtained 46 million dollars in debt relief for the financial year 2001/2. The relief increased by 55 million US dollars in each of the subsequent financial years[8] leading to a combined HIPCI and HIPCII savings of approximately 90 million USD annually. A key strength of the PEAP 2000 was its implementation mechanism which was tied to the national budget process. The main technical tool of the national budget, the Medium-Term Expenditure Framework (MTEF) guaranteed an increase in pro-poor allocations of public expenditure over three-year periods. It also created a mechanism to assess whether funds were being used for pro-poor purposes. The budget process was opened up, and budget documents made public, such as "Background to the Budget" summaries and the "Poverty Monitoring Reports."

However, in 2002 an important revelation was made. Poverty levels which had been dramatically falling since 1992 showed an upward rise from 34% in 2000 to 38% in 2002. This rise, in less than 2 years, was a cause for concern and required deeper inquiry. Under the

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[4] Ministry of Finance, Planning and Economic Development (2004), *From Conflict to Sustained Growth and Deep Reductions in Poverty – Uganda Case Study for the Shanghai Conference on Scaling Up Poverty Reduction*, Kampala

[5] Ministry of Finance, Planning and Economic Development (1997), Poverty Eradication Action Plan 1997-2000, Ministry of Finance, Planning and Economic Development, Kampala [Foreword ii]

[6] International Monetary Fund (2003) *Staff Report for the 2002 Consultation with Uganda*

[7] See UBoS (2013) Uganda Householdhold Survey 2013, UBOS, Kampala

[8] World Bank (2002) Uganda: Country Portfolio Performance Review, World Bank, Washington D.C

leadership of the MoFPED, Government embarked on the process of revising the PEAP in November 2002 with the development of the 2003 Poverty Status Report.[9] The 2003 PSR provided the starting analytical work for the PEAP revision process by providing some of the overarching analysis on the implementation of the PEAP.

Despite benefiting from one of the most robust and extensive consultative processes and analytical work, the completion and launch of the 2004/05 PEAP represented an anti-climax. Changes in the Ministry of Finance brought in leadership that was not necessarily enthusiastic about the PEAP and it took much persuasion, including from donors, for the PEAP to be finally signed off by the President. A telling symptom of this new dispensation was the launch, which nearly stalled for a year and was a low tone activity. Events after the launch clearly indicated that the PEAP was no longer the cornerstone document that rallied different stakeholder efforts against poverty. A number of explanations can be provided.

First, as already alluded to, the final stages of the revision of the PEAP 2004 entered tumultuous political waters. It came at a time when the country was adopting new constitutional changes and a multi-party political dispensation. Indeed a document that was born in times of consensus politics was now sitting in the middle of politics of contestation with an official opposition and a party with a manifesto in power. Evidently, there was waning support of the Poverty Agenda in favour of a Prosperity Agenda. The President used the slogan 'Prosperity for All'[10] (PfA) as a war-cry during the 2006 elections campaign. This new thinking was therefore a slap in the face to the slogan of 'poverty eradication'. 'Prosperity for all' presented the compelling thesis that the President wanted everyone to prosper and therefore was moving from just eradicating poverty and intentionally delivering prosperity. The technocrats who had for many years religiously delivered the poverty reduction agenda were left standing in the cold with a recently revised policy document in their hands with insufficient political clout and backing to take it forward. The donors watched in amazement as the political agenda marched on with a new slogan completely oblivious of the inquisitive looks and inquiries about the place of the PRSP policy discourse within this policy re-engineering. On its part, civil society was torn between making a case for the PEAP following their enthusiastic participation in shaping it and the wealth creation mantra which in their reading was taking forward some of the issues they had proposed in their submission for the PEAP review.

The President firmly argued that it was time to think about making each household in Uganda become prosperous by earning up to 20 million shillings (approximately 9000 USD) a year. In the villages the message was well received with many people starting all kinds of groups in

[9] Republic of Uganda (2003) Uganda Poverty Status Report, 2003 - *Achievements and Pointers for the PEAP Revision,* Ministry of Finance, Planning and Economic Development, Kampala

[10] The Concept Note of the PFA mentions its goals as: transforming the peasantry and urban poor from primitive, unplanned production, poor operational methods and poor unhealthy condition to a modern way of life, spurring commercial agriculture and industrial production, with a focus on value addition for rapid economic and social transformation, assisting households to earn an annual income of at least 20 million, and providing financial intermediation to integrate rural people in national, regional and international economies.

anticipation of the ‘new government funds’ for prosperity for all. The PEAP therefore ended up looking like a dejected lover - thrown out in the cold, in the face of competing policy experiments. The first days of the PfA saw an avalanche of policy ideas all being suggested by the politicians who wanted to appear as being in step with the prosperity for all presidential ideas. At the head of the pack was the newly appointed Minister for Finance, Planning and Economic Development, who wrote the first strategy document for implementing the prosperity for all code named the Rural Development Strategy. An outline of ideas was presented to Cabinet and included in the 2006 Budget Speech. Following on closely was a Sub-County Development Model that was also announced by the same Minister of Finance, as a way of deepening the ‘prosperity for all’ strategy to reach each and every part of the country.

Secondly, the competing policy experiments eventually led to an assault on the dogma around neo-liberalism. Despite the various iterations in the PEAP and its policy thrust and configuration of pillars, there had been one constant theme throughout the ten years. The approach taken in the PEAP had always prioritized fiscal discipline and tight control over public expenditure. This stance did not start with the PEAP, but was initially developed in the early years of the NRM government, when a group of economists in the Ministry of Finance, convinced the President of the merits of macro-economic stability, low inflation and low budget deficits, as well as the importance of the private sector as the “driver” of growth. Most of these economists remained in positions of power, which led to a remarkable consistency of approach to macro economic management.

The combination of tight fiscal control and dependence on donor funding for development expenditure had however resulted in Uganda’s development partners always having an important say in the distribution of resources, partly explaining why there has always been heavy expenditure on social services, education and health, while less has been spent on productive sectors. For donors, it was much more politically correct to report back in their capitals how much they were doing for the poor than how much the country they supported had become a formidable force in global trade. The decision to enforce such strict budgetary limits forced a de facto prioritization that was disempowering for politicians. As the tides were changing from ‘poverty eradication’ to ‘prosperity for all’, the emphasis on agriculture-related programmes like the Plan for the modernization of Agricuture (PMA), the Rural Development strategy and PfA made it clear that the productive sector was not getting significant donor funding.

The new Minister was arguing that since farmers were getting subsidies in the donor countries, it made perfect sense to do likewise for local farmers. This ‘rubbed’ several donors the wrong way with many complaining that the government was back tracking on the macroeconomic policies that has secured it place over the years as one of the fastest growing economies in Africa. The war now turned to the free market economist versus the heavily interventionist political supporters. Although this was an approach espoused by politicians, especially during election periods, it was clear that a more relaxed fiscal stance would only be effective if it could

be assured that additional funds would be available from donors. With very few donors rallying behind the intervention paradigm that accompanied the new political thinking around prosperity for all, there were very little resources available for financing these initiatives. In the end there was an aggressive bashing of programmes like the National Agricultural Advisory Services (NAADS) which was a classical donor driven agricultural programme with heavy capacity building components and limited intervention strategies. This irked several politicians, and led to the programme being suspended, reviewed and reinstated with some clever reform meant to allow some of its funds to finance the prosperity for all initiatives, all of which were met with firm resistance from donors.

Third and finally, the events described above led to further complications managing the transition from the PEAP to new policy initiatives, especially the National Development Plan (NDP). In the fall 2007, internal discussions begun in the Ministry of Finance on what needed to be done in terms of revising the PEAP now that it was due to expire during the 2008/9 financial year.

2.2 Uganda's Fiscal Strategy

Public expenditure and taxation have historically been low in Uganda, as a share of GDP. Since independence to 1989, public expenditure was only briefly ever higher than 15% of GDP and domestic revenues were rarely in excess of 10%.[11] Revenues have been sensitive to the volume of trade and the exchange rate. In the 1960s and 1970s taxes on international trade constituted some 45% of total revenue. By the late 1990s the share of trade taxes had fallen to 10% following fiscal reform, to be replaced by other indirect taxes (VAT and excises) as the main source of revenue (two-thirds of the total).[12] Fiscal buoyancy increased thanks to the reforms in tax administration implemented by the autonomous Uganda Revenue Authority created in 1991 and charged with levying both direct and indirect taxes. The latter half of the 1990s saw a reduction in import tariffs, with the average effective rate of protection was at 15% in 1999.

The decline in the trade/GDP ratio in the 1970s and 1980s critically weakened revenue mobilization. One sign of improvements in tax administration is that revenue performance in 2002/03 achieved 99% of the approved budget estimates. There has been debate about how to improve Uganda's modest revenue performance. One obvious and convincing approach is to create strong incentives for the rapid expansion of the formal, tax-paying, sectors of the economy.

For example, Collier (1996) argued that aid should be partly used to lower corporate taxes in order to encourage development of the formal private sector, which would enlarge the future

[11] Kayizzi-Mugerwa, S. (2002) *Fiscal Policy, Growth and Poverty Reduction in Uganda*, WIDER Discussion Paper No. 2002/33, Helsinki, March

[12] Collier, P. and Reinikka, R. (2001) 'Reconstruction and Liberalization: An Overview', in **Uganda's Recovery: The Role of Farms, Firms, and Government**, World Bank, Washington, DC.

tax base.[13] In view of Uganda's still modest rate of domestic savings mobilization, the encouragement of inward investment also played a useful role. After a very slow beginning, the pace of inward investment accelerated towards the end of the 1990s. The fiscal deficit (domestic revenues – expenditure) from the 1970s to the 1980s was typically of the order of 5% of GDP, though it was episodically higher. It was restrained by the government's ability to mobilize domestic and external financing. Domestic financing – largely monetary – was negligible in the 1960s, and on only a modest scale – 3.5% of GDP – in the 1970s and 1980s. However this fiscal picture kept changing over the years and in the 2005-2006 several important policy shift took place.

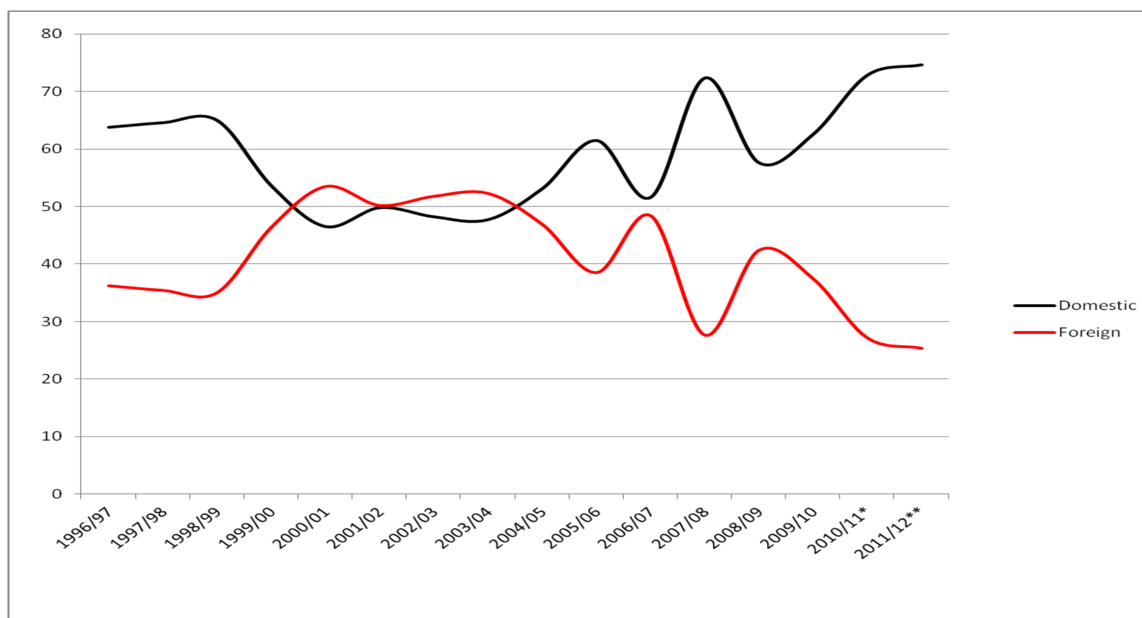
In 2006, the World Bank and IMF announced that Uganda had graduated from being a Heavily Indebted Poor Country.[14] Several other reforms accompanied the same period. The discovery of oil in the Albertine region of South Western part of Uganda as well as the declining reliance on international aid becomes important markers in the policy shifts in Uganda. These shifts in policy were informed by different realities. First was the fact the political regime in the new multiparty dispensation was become more concerns about its maintain its grip on power and therefore was intolerant of the dissenting voices in the political class. Donors were also starting to recognize that there were several governance cracks that could be traced in the hitherto 'darling country' position that Uganda had enjoyed since 1986 when the current president took power in 1986.

Several donors were for example disturbed by the way the opposition politicians were treated during the campaign period leading to the 2006 general elections. Emerging from this reality has been the declining levels of trust and tensions between donors and government. The figure below shows how Uganda over time has shifted its level of reliance on aid by raising more domestic resources.

Figure 1: Share of Domestic to Foreign Resources in Uganda's Budget

[13] Kayizzi-Mugerwa, S. (2002) Fiscal Policy, Growth and Poverty Reduction in Uganda, WIDER Discussion Paper No. 2002/33, Helsinki, March

[14] Glyn Williams, Paula Meth, Katie Willis (2009) **Geographies of Developing Areas: The Global South in a Changing World**, Routledge, London



Source: Background to the Budget (2009/10:52)

Emergence of New Relations with Private Sector Actors

Another significant change as mentioned earlier was the discovery of oil and the emergence of new relations between Uganda and the private sector. This new relationship was characterized by the increased attention of new economic and geopolitical forces, most likely China. Estimates in 2006 suggested that up to two billion barrels could be available for exploitation. Such potential wealth attracted the interest of several new players, including China, Libya and Iran, as well as French and British oil companies.

The emergence of what could be seen as blended projects started emerging in 2001 when China "….agreed to commence drilling for oil on Lake Albert in western Uganda and extended grants and free loans, including for the building of a $40 million food research facility".[15] In October 2010, Tullow Oil (one of the two main companies involved in exploiting Uganda's reserves) was given the go-ahead to sell rights to the China National Offshore Oil Corporation (CNOOC, and also the French company TOTAL) in a deal worth $1.45bn.[16]

This new participation of China's private sector in the development of national large scale projects did represent a steep trajectory of involvement for China in Uganda. In the past China was a partner with Uganda mostly through offering scholarship to Ugandan students to study in China. The 2006 Sino-Africa pact represented a significant change in the relationship with China. In 2006 Government of Uganda signed six agreements around key areas of the

[15] See Lee Lee, M.C. (2007) 'Uganda and China: Unleashing the Power of The Dragon': see file:///C:/Users/elite%20book/Downloads/03_Uganda+and+China.pdf – downloaded 17 June 2014

[16] Wall Street Journal, 19/10/2010

economy, including: trade, investment, water conservation, agriculture, infrastructure, telecommunications, energy, textiles, human resource development and agro-processing. By 2010 China had become the lead investor in Uganda with a hand in most key sectors, although according to a recent report from the Uganda Investment Authority it is only approaching dominance in some of these (manufacturing and increasingly construction, roads and oil).[17] China's involvement in several mega-projects, from the Namboole Stadium to the President's new office block (estimated cost $25 million) has given it a high profile. In terms of development assistance, it is difficult to track China's aid contributions, not least because it is not a member of OECD-DAC and does not attend joint donor meetings. China has developed a growing interest in Uganda and is poised to play an influential role in shaping its development thinking and trajectory over the next few years.

The privileging of China in infrastructure development work which seems to be the new policy change is now clear in the National Development Plan that is being revised. The first National Development Plan envisages GDP growth to gradually accelerate from around 6 percent in 2009/10 to 7.5 percent by 2014/15. Public expenditures are expected to rise from 17 percent of GDP in 2008/09 to just below 20 percent of GDP by the end of the plan period, reflecting the drive to boost public infrastructure. [18] On the heels of tax mobilization efforts, revenues (excluding grants) are projected to rise by about 0.5 percent of GDP per year, reaching 15 percent of GDP by end of the plan and compensating for the expected decline in concessional support.[19] Thus, the fiscal deficit will remain sustainable and readily-financed by a mix of aid and borrowing. Public debt ratios will increase to close to 20 per cent of GDP by the end of the period, but will remain well below the sustainable threshold.[20]

2.3 Financing public services and goods in a modernizing economy

While Uganda can boast of significant development gains over the last three decades, it is still significantly challenged by the level of infrastructure available and ability to finance it by the government. The lack of access to basic infrastructure services continues to undermine living standards in Uganda. While the Uganda Vision 2040 aims to transform the country into a middle income country in 30 years, the required investments and growth level are still too high. Clearly the policy aspirations for growth are fuelling the expansion of infrastructure networks across the country. It is also recognized that to be able to tackle the systemic challenges that Uganda is faced with – like rapid urbanization, high fertility, food insecurity and other forms of

[17] In 2009 China was second, Britain established 20 projects in the country with a total planned investment of 267 million U. S. dollars, creating 3,958 jobs. China invested 213 million dollars on 40 projects with planned employment of 6,117 (EPRC 2007).

[18] World Bank (2010) *National Development Plan 2010/11–2014/15* - Joint Staff Advisory Note Prepared by the Staffs of the International Development Association and International Monetary Fund, Washington D.C

[19] Ibid, p.3

[20] Ibid, p.5

social challenges will need significant levels of interconnectedness of society.[21] These second generation issues require deep levels of sectoral linkages that can accelerate growth.

[21] Respondent, National Planning Authority, September 2014

3.0 Profiles and Assessment of Selected Blended Projects in Uganda

In the sections that follow we look at the three different investment areas that Uganda has worked with using a blending mechanism. These projects are illustrative of the efforts of Government of Uganda to reach out and find solutions to the large infrastructure projects that are planned. The selected projects include – two in the energy sector and one in the agricultural sector.

3.1 Bujagali Hydro Power Project

In response to the significant expansion in power consumption in Uganda that has been characterized by load shedding for up to 12 hours in some parts of the city, Government initiated the process of building a second dam in Jinja – next to the old Owen Falls Dam. In terms of economic impact, it was estimated that daily load shedding directly accounted for between 1 to 1.5% loss to Uganda's GDP, thereby slowing the country's economic and social development.[22] In October 2012 the President of Uganda inaugurated the 250MW Bujagali Hydropower Plant in the presence of His Highness the Aga Khan. The project was set to be a significant contribution to the power generation capacity of Uganda. It was estimated that by the end of the project, it should have contributed up to 49% of the electricity needs of Uganda. This contribution would be double what was being generated through the Owen Falls Dam that was built in the late 1950s. The project was also envisaged to save Uganda of the high costs of renting generators to supply electricity. Since its commissioning, Bujagali has replaced over 100MW of expensive rental generation, saving the government over US$9.5M per month in subsidies.[23]

The dam was inaugurated in 2012, the project is already meeting almost 50 percent of the country's electricity needs, selling power for about a third the previous cost. The project was financed by a consortium of Sithe Global Power of the US and the Aga Khan Development Network. The project received $130 million in IFC loans, a $115 million IDA guarantee, and $115 million in MIGA insurance. The World Bank Group supported the work that laid the foundation for the project through challenging conditions for nearly 10 years.

3.1.1 Bujagali Hydro Power Project – Evolution and Challenges

The proposal to construct the Bujagali Hydro Power Project was initiated 1996 as a response to the need to increase electricity for domestic and industrial development. The dam was supposed to be built 8 kilometers downstream of the Naluubale (Owen Falls dam) area. The Government of Uganda approached the World Bank for financial support to construct the energy facility. The World Bank and Government of Uganda claimed the project will double electrical output, stimulate industrial development and bring electricity to Uganda's poor.

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[22] Respondent – Electricity Regulatory Authority, September 2014

[23] See - file:///C:/Users/elite%20book/Downloads/bujagali-uganda-kaplan-hydro-plant-advertorial.pdf - downloaded in 15 August 2014

Several environmental activists led by the National Association of Professional Environmentalist (NAPE) protest the way the project was being rolled out. The major contention at the time was the fact that the dam would not benefit Ugandans and it presented numerous social, economic and environmental problems. They also argued that the dam would destroy Uganda's "national treasure," the beautiful Bujagali Falls at the Source of the Nile. Whitewater rafting on the spectacular series of cascading rapids just 8 km from Lake Victoria was at that time generating $60 million a year in tourist revenues.[24]

However, the Government of Uganda and the World Bank went ahead and initiated the process of the project and approved the project. In 2001 Government of Uganda awarded Multi-national power producer AES Corporation, based in Virginia, the powers to construct the Bujagali dam. The dam immediately encountered a series of challenges ranging from social, economic, environmental including bribery claims. AES power pulled out of the project.[25] Environmental activists in Uganda and abroad petitioned the Inspection Panel of the World Bank over the controversies surrounding the dam project. The Inspection Panel investigated the project and AES pulled out of the project in 2003. Then the project went to limbo for over five years. In May 2006, the Compliance Review and Mediation Unit (CRMU) received a Request from Ugandan NGOs and individuals to conduct a compliance review of the Bujagali Project. There were claims that the appraisal of the projects was based on inadequate economic analysis and assessment of hydrological risks and dam safety, and that the projects' resettlement and compensation plans, and treatment of environmental, cultural and spiritual issues were deficient.[26]

Government again revived the project and in 2007 awarded the Aga Khan's Industrial Promotion Services (IPS), a Switzerland based foundation to build Bujagali Dam. The environmental activists continued to challenge the project. The project was investigated four times - by the Ombudsman of World Bank (WB), the African Development Bank (AfDB), the European Investment Bank and an independent coalition Counter Balance. All the reports from the different investigations showed the project implementation did not meet the international required standards. But despite these findings, Government of Uganda and the International Financial Institutions (IFIs) pursued the project and constructed the dam. In Uganda it is common knowledge for the President to criticize past leader and NGOs for 'sabotaging' the construction of the Bujagali Dam.[27]

The Bujagali Dam was completed in 2012, but some of the difficult-to-resolve problems continue lingering over it. Most notable is generation capacity of the dam. Bujagali dam was expected to add 250 MW to the national grid. Today the dam is only able to produce 180 MW

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[24] Respondent NAPE, July 2014

[25] See http://www.corpwatch.org/article.php?id=8250, downloaded July 2014

[26] Independent Review Mechanism (2008) Independent Review Panel: Compliance Review Report on the Bujagali Hydropower and Interconnection Projects, African Development Bank and IRM, June 20, 2008

[27] See http://www.newvision.co.ug/news/636134-museveni-commissions-bujagali-dam.html

and electricity demand continues to rise in the country. Respondent from NAPE indicated that they had warned that Bujagali would not generate the projected megawatts. Frequent power outages and load shedding is still the order of the day. Some parts of rural Uganda, especially in the North and North-east do not have electricity. Some communities near the project area suffered the impact of blasting of the parent rocks during construction, their houses cracked. The project did not take into account such an anomaly, therefore, there was no mitigation measure factored in the implementation and those who suffered effects of blasting were not compensated. About 557 people who were affected by the transmission line that evacuates power from Bujagali to Mutundwe sub-station are up to the present day still waiting for compensation. The project has also promised to employ some project-affected people, and it attempted to do so. However, those who considered themselves to be lucky to get jobs in the project and suffered occupational accidents were not compensated. NAPE told us that it helped these people with outstanding complaints to seek legal redress and now they are waiting to receive justice.

Some respondents[28] noted that the Government of Uganda and the proponents of the dam claimed the Bujagali dam was the least cost project that would salvage Uganda from energy poverty. But the Bujagali dam cost kept on growing from $580 million at inception to $860 million and finally $902 million ($3.6 per megawatt) at completion. Independent investigations by the parliamentary ad hoc committee on energy in 2013 put the dam's actual cost at $1.3 billion ($5.2 per MW or more). The environmental activists warned government and the project proponents on the project cost and benefits, and it has now come to light that Ugandans will now have for many years to come continue paying for power which is not benefiting them. Electricity tariffs in Uganda are still the highest in the East African region.

3.2 The Vegetable Oil Development Project (VODP) – 'Bidco'

The Vegetable Oil Development project (VODP) was initiated in 1998 by the Government of Uganda, the World Bank and the International Fund of Agricultural Development (IFAD).[29] The stated goal of the project was to tackle poverty and increase palm oil production for domestic consumption in Uganda. In pursuit of this, Oil Palm Uganda Limited signed an agreement with the Uganda Government to undertake an integrated palm oil project in Kalangala District of Uganda in 2002. Kalangala Oil Palm project was and still part of the Ugandan Government Vegetable Oil Development Project (VODP) initiative geared towards increasing vegetable oil production in Uganda. The project is supported by IFAD and the World Bank with Bidco Uganda Limited and Wilmar Plantations playing a major role as the private investors.

The overall goal of the Vegetable Oil Development Project (VODP) is to increase household cash income of smallholders by revitalizing and increasing domestic vegetable oil production, in partnership with the private sector. The project is structured around three different subprojects: (i) introduction of commercial oil palm production on Bugala Island in Lake

[28] Interviews with two environmental activists and governmental officials that did not want to be quoted directly, July 2014

[29] Republic of Uganda, Vegetable Oil Development Project 2 (VODP2), Project Design Document, Working Paper 4: Oil Palm Development

Victoria; (ii) development of traditional oilseeds in northern, eastern and mid-western districts of Uganda; and (iii) research and development (R&D) of essential oil crops piloted in a variety of districts. Total project costs were originally estimated at US$60 million, consisting of an IFAD loan of US$20 million, US$33.1 million in co-financing from the private-sector partner, and contributions of US$3.8 million and US$3.1 million from the Government and the beneficiaries, respectively.[30] However, because of an increase in the scale of the oil palm subproject, the private investor and the Government increased their contributions to US$120 million and US$12 million, respectively, thereby bringing total project costs to about US$156 million. The changes in private sector partner and the scale of the oil palm subproject had several implications and delayed project execution and resulted in an extension of the implementation period. The project is now scheduled to close in December 2011.

In 2004, the World Bank withdrew from the project on the grounds that it might not comply with the Bank's internal forestry policies. The oil palm subproject in the Kalangala area is carried out by Oil Palm Uganda Limited (OPUL). OPUL is a subsidiary of Bidco Uganda, which holds 90% of its shares. Bidco Uganda is a joint venture, in which Wilmar has a large stake, including its interests held through Josovina Commodities. The first phase of the project aimed to plant 10,000 hectares of oil palm in the Kalangala islands, which involved conversion of at least one quarter of the land on the main island, Bugala. So far, only 7,500 hectares has been planted. In 2011 an internal evaluation of the first phase recommended continuing the project and the next phase is currently acquiring another 10,000 hectares of land.[31] The tripartite agreement bound the Government of Uganda into acquiring land 'free of encumbrances' to the project under a 99 year lease.[32] The parties to the agreement claimed the land would come from willing landowners on a willing buyer-willing seller sales basis. Nonetheless, environmental activists reports that there was active involvement by the private sector in the land acquisition process, and the president of Wilmar International visited the islands to 'pave the way for rapid land acquisition.' However in a response letter from Wilmar to Friend of the Earth, Wilmar point out that there were no forceful land acquisitions and all the affected families were not forced off the land.[33]

Respondents associated with the project did indicate that the sunflower component have been commendable. The project had was able to stimulate the growth of sunflower by other stakeholders and there were over 200,000 beneficiary families that had been reached by the project. The households that were part of the traditional oilseed and essential oil production realized major improvements in their incomes and living standards according to the project leaders.[34] However the IFAD evaluation noted that;

..while the model (developing a nucleus estate and supporting outgrowers and smallholders) is innovative and supports an equitable relationship between smallholders and the private sector -

[30] ibid
[31] IFAD (2011), "Republic of Uganda Vegetable Oil Development Project Interim Evaluation"
[32] Republic of Uganda, Vegetable Oil Development Project 2 (VODP2), Project Design Document, Working Paper 4: Oil Palm Development
[33] See full response by Wilmar - file:///C:/Users/elite%20book/Downloads/Bidco%202012%20report.pdf
[34] Respondent from the Kalangala community, August 2014

with benefits to smallholder farmers expected to be substantial - very few of them are currently participating. The oil palm subproject got off to a delayed start..[35]

In the project the Kalangala Oil Palm Growers' Trust (KOPGT) provided loans, extension advice and other services to farmers. Smallholder and outgrower development of oil palm has been slower than anticipated, whereas the implementation of environmental protection measures for oil palm has been satisfactory. However, negative publicity and public concerns about the environment persisted.

Overall, IFAD considered it an innovative, high-profile project that represents one of the first large public-private partnership (PPP). Important lessons were derived from all three subprojects regarding the advantages and challenges of a PPP, the potential for replication and scaling up traditional smallholder development through a value-chain.[36]

3.4 GET FiT Initiative Project

The GET FiT idea is for governments in the developed world to support the upgrading of the existing regulatory framework in emerging economies and to improve the risk profile and commercial viability of renewable energy investments.[37] The GET FiT (Global Energy Transfer Feed-in Tariffs) concept was developed by Deutsche Bank in 2010. It intends to combat climate change and the lack of available energy by supporting private sector investment in capital intensive renewable generation assets in emerging and developing countries. The concept follows the larger global move to combat climate change through the use of renewable energies. It is based on a recommendation by the United Nations and was developed by a team of experts of Deutsche Bank Climate Change Advisors. The Advisory Group on Energy and Climate Change (AGECC) of the Secretary General of the United Nations had asked the Deutsche Bank to present new concepts for promoting renewable energy.[38]

The main purpose of the GET FiT Program Uganda is to fast-track a portfolio of up to 15 small-scale renewable energy generation projects (1MW-20MW) promoted by private developers. It is envisaged that this will generate clean energy that will be added to the national grid and result in emissions reductions of 11 million tons of CO2. Uganda was chosen as a pilot country and the project was officials launched on the country in Kampala on 31 May 2013. The project is intended to support approximately 125 MW of renewable energy.[39] The donors involved in the pilot include the following countries; German, Norway, UK and the Ugandan governments. The World Bank participates in the project as a multilateral donor.[40]

The project is an innovation that is responding to the energy scarcity in Uganda. The project point of departure is that energy scarcity is a mega problem in Uganda but the megasolutions

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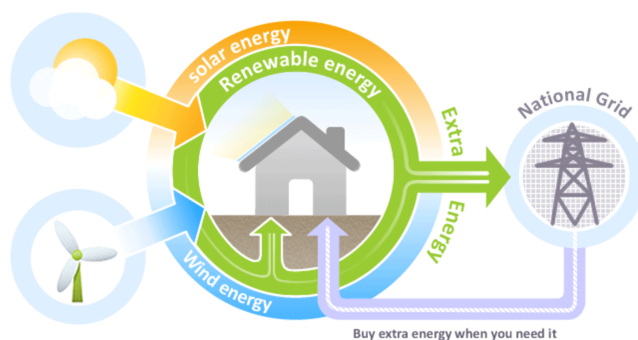
[35] IFAD (2011) Republic of Uganda: Vegetable Oil Development Project, Interim Evaluation, March 2011, p. xiv
[36] Ibid, p.xv
[37] Silvia Kreibiehl and Sabine Miltner (2013) *GET FiT in Uganda: Observations and Open issues from a Financial Perspective*, Natural Resources Policy Paper, Deutsche Bank Research, Frankfurt
[38] Ibid, p.7
[39] GET FiT Program Uganda (undated), Overview Brief: *Facilitating Private Investments in Renewable Energy,* Kampala
[40] Ibid, p.1

like the proposed 600 MW Karuma hydro power plant are far away. The project notes that they do not believe the megasolutions are the only ones to address the megaproblem. GET FiT therefore focuses on the medium scale renewable energy generation process. The project is seen as a short term intervention that focuses on providing medium scale solutions to the energy crisis in the country by increasing supply of electricity from renewable sources.

3.4.1 How the Project is organized

The project uses the concept of Feed-in Tariffs. These are also popularly also known as Clean Energy Cashback Schemes. They are usually used in situations where households or firms generate their own green or renewable energy and are paid by government for doing so. These firms would be ensuring that the excess energy they generate is put onto the national grid. The figure[41] below shows how a typical feed-in tariff process works.



For the GET FiT program it supports that the generation of 125 megawatt (MW) of renewable energy capacity in 10-15 projects. The project generate between 5 and 20 MW. The projects supported focus on energy generated from sources like biomass/bagasse (primarily co-generation from sugar production) and river hydro.

GET FiT program uses three types of support for this work

It offers a FiT top up (cash payment) and guarantees mitigating risks, which cannot be managed by the private sector. The program offers 2USD cents per kilowatt hour (c/kWh) for river hydro and 1USDc/kWh for biomass/bagasse up to 60%/40% capacity factors. The Net Present Value (NPV) equivalent of a 20 years FiT top-up will be paid as a combination of a grant on commercial operation date (i.e. after successful construction) and a 5 years FiT top up.[42] It is envisaged that the Government of Uganda has committed to increase base FiTs in the long term to replace donor support.

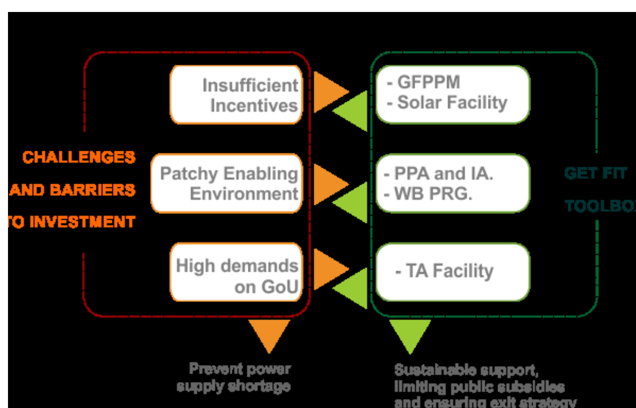
The program has a component of guarantees that are offered by the World Bank. The guarantee is a Partial Risk Guarantee (PRG) that is available for projects that are benefitting from the GET FiT program. The guarantees are combined with the letters of credit from a commercial bank. The letters of credit are supposed to help ensure that there is greater

[41] See - http://www.uswitch.com/solar-panels/guides/feed-in-tariff/ for a full explanation of a typical Feed-in Tariff
[42] Silvia Kreibiehl and Sabine Miltner (2013) *GET FiT in Uganda: Observations and Open issues from a Financial Perspective*, Natural Resources Policy Paper, Deutsche Bank Research, Frankfurt, p.7

certainty over timely receipt of payments for the private sector investor when they have to be paid by the Government of Uganda for their FiT top up.[43]

The participating donors include; UK Government Department of Energy and Climate Change (DECC), UK Department for International Development (DFID), the Governments of Norway and Germany as well as most recently the Africa Infrastructure Trust Fund of the European Commission, have committed donor money to contribute to the approximately $90 million required to finance the feed-in tariff top up.[44]

In terms of the process of access of funds: Applicants (also known as developers) can for the GET FiT financial support as well as the guarantees once their projects have reached an advanced development phase and as long as they have not signed a PPA with UETCL. KfW on behalf of ERA is in charge of organizing the process of requests for proposals. An Independent Investment Committee then decides on the financial support that the project is supposed to get. This follows an extensive expert review of the project to determine the economic, technical and socio-ecological aspects of the project. It is this independent investment committee that decides upon the financial support that is given for each project. The World Bank process for deciding on the level of the Partial Risk Guarantee takes place in parallel to the process of the selected projects. Below is a diagrammatic representation summarizes the approach of GET FiT Program.



Quantities, Priorities and Sectors for Blended Projects

Sector	Project	Private Sector Investors	Public Sector Investors (Agencies/Gov'ts)	Quantity
1. Energy	GET FiT Uganda	Multiple	EU/Norway/UK/Germany	$400
2. Energy	Umeme Electricity Distribution	Multiple	Actis [Subsidiary of CDC - UK]	-

[43] Ibid, p.9
[44] Ibid, p.12 and interviews with GET FiT officials

Sector	Project	Private Sector Investors	Public Sector Investors (Agencies/Gov'ts)	Quantity
	Project			
3. Energy	Bujagali Hydropower Project	Bujagali Energy Limited	IFC; EIB; AfDB; FMO; AFD; DEG & KfW + IDA & MIGA	$900
4. Financial Services	DFCU	RABO Development P.V. (27.54%)	CDC (15%); NORFUND (27.54%)	
5. Construction & Real Estate	Rwenzori Towers	PINE Investments Ltd	IFC	
6. Trade & Industry	TradeMark East Africa (LIFT & TRAC Funds)	Multiple	DFID	-
7. Agriculture	Support to World Food Programme	Farmers	DFID	-
8. Financial Services	Improving Access to Financial Service in Uganda	Multiple	DFID	-
9. Financial Services	Support to Village Savings and Loan Associations In Northern Uganda	Multiple	DFID	-
10. Agriculture	Improving Rural Market Value Chains in Northern Uganda	Multiple	DFID	-
11. Multi-sector	Promoting Youth Employment in Northern Uganda	Multiple	DFID	-
12. Agriculture	Vegetable Oil	BIDCO	IFAD	-

Sector	Project	Private Sector Investors	Public Sector Investors (Agencies/Gov'ts)	Quantit y
	Development Project	Uganda Limited		

The table above is an attempt to show the different kinds of projects that are financed using blended model. We have been able to find only twelve projects that have used blended instruments. It is also clear that some of them have got more than one partner financing the project and this makes it hard to assess the impact of each project. DFID is by far the largest provider of financing that uses blended finance.

Most of the projects it supports do not have specified private sector partners and these are chosen during the implementation phase of the project. Financing volumes of some of these projects are not readily available to provide an accurate picture of the volumes of financing going into blended projects in Uganda. To generate the figures actual for the above projects requires finding information for the financers. All the above projects are off-budget investment and it is therefore impossible to work out how much these projects cost.

It is also important to note that it is not possible for one to work out exactly if any of these project paid attention to all the principles of the Busan Partnership of Development Effectiveness. As one can see from the selected three case studies, there is no available evidence of how development effectiveness principles influence the execution of these projects. While it is clear that the projects do respond to needs that are linked to the national government policy, discussions on development effectiveness related principles is not evident.

It is also worth noting that it is not possible to identify the specific development effectiveness principles of the various development partners participating in these initiatives. In blended project, mostly development partners put forward resources and it is up to each particular project to develop its own operational mechanisms for the execution of the blended projects. Clearly to understand the practice of various development actors is something that requires more work with each of the development actors to understand their own motivation of financing a particular projects. Within the context of this project it is not possible to determine the particular practices of development partners.

4.0 Conclusions

The three projects researched for this paper are very interesting projects. Two of them deal with support to the infrastructure sector and the third to agriculture. All the projects involved the participation of a variety of donors and private sector firms. The following are some of the insights that emergence from the project profiles above:

Two of the projects – Bujagali and Bidco involved the acquisition of land from local communities. In Bujagali that acquisition was related to a tourist and cultural site. The project invited a lot of attention about the level of disregard to the local communities. In Bujagali an arbitration process had to be conducted and the first contractor had to leave the project because of several accusations of bribery and failure to compensate local communities. The projects were eventually implemented and they are up and running. A couple of critical points emerge from scenario:

a) In both projects it was clear that at the initiation stage there was no formal mechanisms for community and civil society participation and consultation. This was even ad mitted by the evaluation of Bidco that did indicated that either on the strategic direction or during the implementation process there was little participation of these actors. There were efforts to try and reach out to these actors in situations where agreements were taking place, like in the case of Wilmar (a partner in the Bidco project) that had to answer to a scathing report[45] by Friends of Earth – a civil society organization that claimed that there was land-grabbing happening in the project.[46] The third project GET FiT is at its initial stages but it is clearly concerned with mostly the relationship between the Government, donors and the private sector actors. It is not clear how group like civil society participate in these processes.

b) It is hard to see how all these project were able to deal with issues of transparency. It is clear that for Bujagali its faulty state was very much related to the lack of transparency and meaningful engagements with stakeholders like parliaments, affected communities and civil society groups. The fact that there was little information for example about the land acquisition processes in both the Bujagali project and the Bidco project is testimony to this apparent lack of transparency. This prevents any proper assessment and meaningful participation, which undermines the development effectiveness of such mechanisms and is inconsistent with the principles agreements like the Busan and Mexico declaration on development cooperation.

c) The private sector partners implementing the Bidco and Bujagali project were also faced with a challenge that there were no effective mechanisms for complaint or redress for affected communities. It took the intervention of institutions like that Independent Inspection Panel of the World Bank and even that withdrawal of the World Bank from financing Bidco because in the latter case the World Bank felt that the project investment was inconsistent with its forestry policy. In the former case, the international reports on land grabbing are the ones that triggered that response of a multilateral arbitration mechanism. This absence of a country level mechanism for handling complaints is particularly problematic given the focus on large scale agriculture

[45] Friends of the Earth International (2012), "Land, life and justice: How land grabbing in Uganda is affecting the environment, livelihoods, and food sovereignty of communities," http://www.foeeurope.org/new-report-uncovers-land-grabs-230412

[46] See Wilmar - file:///C:/Users/elite%20book/Downloads/Bidco%202012%20report.pdf

and infrastructure projects, which inevitably lead to serious issues for those living nearby, including resettlement and environmental damage.

d) The current governance structure of all the blended project that were researched seems to be biased towards European or foreign domination, with low involvement of the Government. While for example the GET FiT project mentions in many of its project documents that Government of Uganda is in the driver's seat it is still debatable if this is the case. The GET FiT concept was initiated the a German bank responding to an United Nations recommendation. While it is responding to the felt need at country level it is still very much understood and conceptualized from outside the country. The project documents for GET FiT also mention that the project proposals submitted are assessed by a team that is led by KfW. While this is a good gesture it still puts project squarely in the hands of the donor partners and their private sector counterparts. While this approach can be appreciated it can clearly crowd the opinion of other stakeholders in and create serious transparency problems, and multiple conflicts of interests. Current blending mechanisms still have to find creative mechanisms of ensuring that they are truly development oriented.

e) The projects selected, two of them are the in the field of energy infrastructure. While it could be argued that developing countries like Uganda do not have sufficient resources for infrastructure financing, it is not clear whether large infrastructure projects need blended resources in order to take on the risk and even more importantly, whether supporting such projects is the best use of limited public resources. For example, in the case of the Bujagali project, it was argued that load shedding would become history with the onset of the Bujagali Dam. This has not become a reality and another dam is being planned. The project cost kept raising over time and it is still being argued if there was a good return for money from this project for Uganda. What this may require is a more transparent and open discussion on how to invest the scare resources in a country with meagre resources. This open discussion will be one that can help to ensure that economically prudent choices are made that are beneficial at a society-wide level.

f) A key question that needs to be asked is; who is the final beneficiary of the dam, the planation and even the renewable energy investment? In the three cases the local communities were not behind the call of these projects. The projects were conceived by the government and its partners and then benefits to the communities were envisaged. While from the business planning process it may not be necessary to get initial stakeholder and community demand, for development to be truly owned and for democratic ownership to flourish, communities that are affected needed to be part of the problem identification and the problem solving.

g) These projects profiled are all big projects and usually require significant technical assistance. GET FiT does explicitly have a component area are focuses on providing

technical assisance (TA). But TA is one of the most heavily criticized forms of aid.[47] An Action Aid Report had this to say about it:

'Technical assistance absorbed $19 billion of aid in 2004, a quarter of global aid flows. But as we show in this report, much of the current spending is ineffective, over-priced, donor-driven and based on a failed development model'[48].

TA is known to be mostly donor driven which means that TA has been heavily over-supplied in relation to demand. TA is usually seen as adding value by providing the much needed technical input in situation of scarcity. The sticky point around TA is usually related to how much it is country driven and therefore owned.

h) The Busan Outcome Document[49] and the Mexico Outcome Document[50] – both of the Global Partnership for Effective Development Cooperation have been characterized by increased recognition of the role of the private sector in development. It is true that a thriving private sector plays a key role when it creates jobs, pays a fair share of taxes to the government and provides high-quality goods and services. There has also been a big push towards stimulating private flows, particularly foreign investments, although key features of these flows are not always properly considered, such as predictability, volatility and pro-cyclicality.[51] While the idea of supporting provate sector is good, it is also evidence from these profiled projects that the most dominant private sector are those from the donor countries and this can minimize the impact on the local economy since local private sector is not be to compete in such environments. It is also true that the private sector is also significantly differentiated and composed of a wide variety of economic entities, ranging from large international and transnational corporations to state enterprises, domestic companies, micro, small and medium-sized enterprises, and a range of social enterprises, which include formal or informal entities. Clealt these enterprises require different kinds of business model and indeed all may not be benefiting from the blending approach.

Recommendations

1. There is a need to ensure that at the initiation stage there is a formal mechanisms for community and civil society participation and consultation in all blended projects

[47] ActionAid, *Real Aid 2:* http://www.actionaid.org/sites/files/actionaid/real_aid_2.pdf
[48] Ibid, p.4
[49] See http://www.oecd.org/dac/effectiveness/busanpartnership.htm
[50] See http://effectivecooperation.org/wordpress/wp-content/uploads/2014/07/ENG_Final-ConsensusMexicoHLMCommunique.pdf
[51] Eurodad (2013) A dangerous blend? The EU's Agenda to 'blend' Public Development Finance with Private Finance, Eurodad, Brussels

2. Blended projects should develop transparent systems of governance and ensure meaningful engagements with stakeholders like parliaments, affected communities and civil society groups.

3. For blended projects working in areas populated by communities, effective country level mechanism for handling complaints or redress for affected communities needs to be in place.

4. Blended projects should strive to ensure that their governance structures are not biased towards European or foreign domination. They should ensure that there is a visible balance between different stakeholders in the design, management and implementation of projects.

5. In the use of Technical Assistance, blended projects need to ensure that it is not donor driven and not over-supplied in relation to demand. Ensuring that TA is country driven is of paramount importance.

Appendix 1: Terms of Reference

ODA and Private Sector in Development Research For RoA Africa Network - Research Period: June – October 2014

Introduction

The recent global financial and economic crises and the resulting austerity policies implemented by many wealthy countries have constrained resources for development finance. Private sector resources have dried up and government budgets have come under serious pressure. Domestic government resources2 remain very low in many countries with more than three billion people living in countries where government spending is less than USD 1,000 per person each year, in purchasing power parity (PPP) terms3. 380 million people living in abject poverty on less than PPP USD 1.25 a day are in countries where the government spends less than PPP USD 500 per person. At the same time competing demands such as climate change and the need for sustainable financing have dramatically increased the financing needs within the developing world. As a result, the need for new alternatives to increase the volume of development finance without worsening debt sustainability in developing world is on the rise. Within donor countries there is an increased focus on utilizing market like instruments supported by public money earmarked for development. Blending mechanisms, which combine loans and grants, are seen as one of the key alternative financing instruments to meet current demands. These facilities are meant to respond to the increased need for resources as well as the desire to increase the volume of development finance in a context of constrained resources. Arising from this proposal is the pressure from donors to use grants proactively to leverage their businesses, support their trade and foreign policy, regional development strategy and partnership in the targeted regions and countries. The guiding principle being the desire to join forces of development expertise and resources to fulfil partner countries development needs in the most efficient manner.

Blending is a mixture loans and grants. It entails a combination of loans raised from capital markets with grants drawn from official development assistance (ODA). Around the globe there are various components of blending instruments which include direct investment grants, Interest rate subsidies, loan guarantees, and technical assistance. The facilities specialize in large-scale infrastructure investments, and SME support including transport, energy, social, environment and finance for SMEs. Partners in the beneficiary country are generally the public sector, private or mixed.

Rationale

Blending mechanisms, when adding grants to loans, aim to achieve a number of objectives, including the need to increase the volume of development finance in a context of constrained resources. The existing literature point to the following justification for blending

1. Making transfers to heavily indebted countries without exacerbating debt overhang problems;
2. Addressing positive externalities to bring the financial rate of return closer to the economic rate of return for projects with a high socio-economic and/or positive environmental impact;

3. Improving the quality of funded projects (in practice the grant component also allows projects to be funded which otherwise recipients are unable to finance, in addition to improving the quality of projects compared to a no grant situation);

4. Strengthening ownership by funding measures which build on recipient countries' policies; and to which the partner provides their own resources;

5. Enhancing development partner visibility, and supporting the division of labor by strengthening coordination between donors and lenders.

The foregoing justification has gained political momentum in the development discourse. At the global policy level, ODA - private sector financing has gained prominence not just because of the reasons aforementioned but also because the emerging economies such as China have increasingly and successfully used the blending instruments, to shore up its investment interests in Africa. The result is the desire for donor countries to adopt a similar approach of supporting their own companies.

The fourth high level meeting on Aid Effectiveness held in Busan strengthened the visibility of private sector not only in development financing but also in developing partnership for effective development co-operation. This by implication has seen donor countries increase aid towards blending instruments, while at the same time strengthening their policies on private sector financing making it more enabling to participate in financial blending.

For East Africa, these developments have not only implication for the quality and quantity of ODA flows in the region but also for where resources allocated for development are targeted. East Africa must assess its readiness to engage with blending instruments in order to address not only the economic growth challenges but also poverty eradication challenges. Policy and legal framework for engagement as well as institutional and human resource capacity should be at the core in understanding the African countries preparedness to absorb the blending instruments for its development needs.

The developments on private sector ODA financing bring private sector accountability for development results into sharp focus. This is particularly due to the use of not only the Official Development Partners in the case of donors, but also Public resources through Public Private Partnerships (PPPs) in the case of developing countries. Busan provides a framework that should be used to measure development effectiveness of private sector through the principles of ownership, inclusive partnership, transparency and accountability and outcome based development results. Therefore the use of blending instruments to finance development partnerships in developing countries must not only show how these instruments use the Busan partnership principles in their program design but also be able to measure up when development results are assessed within the Busan principles for effective development co-operation.

The Study.

This study will examine the Officiate Development Assistance used to support the private sector investments and interventions in development. Currently, there is limited body of evidence on the effects of blending on development results where it has been used. While literature exists on the theoretical use of loans and grants, how it works in practice to deliver development results if at all remains a mystery.

As the global aid architecture shifts to blending, assessing how this has been achieving development results on the ground is crucial to inform the policy choices of both the donors and developing countries. RoA Africa would like to focus specifically on the quality and quantity of financing for blended projects and how these elements of development co-operation have adjusted to the demands of the Busan partnership principles. While aid has remained an important ingredient in funding development programs in Kenya, Uganda and Tanzania, PPPs and other blended projects have remained critical in funding big infrastructure projects, SME and energy projects in these countries. A clear understanding of how blended projects have contributed to development results in the countries they are involved in and what lessons can be learnt from the utilisation of these instruments of financing for nationally defined goals. It is with this in mind that RoA Africa proposes to carry out three country researches in Kenya, Tanzania and Uganda on accounting for the Busan Principles the case for blended projects, lessons and proposals. The studies will be used to develop policy alternatives for ODA private sector financing.

The focus is that ODA leveraging private sector investments must lead to a transformative agenda that addresses the root causes as well as symptoms of poverty, inequality, social exclusion, injustice and environmental degradation. This project seeks to provide policy alternatives to sustainable development financing as opposed to the current approach adopted for leveraging aid through private sector funding. We will work with our partner networks Uganda NGO forum in Uganda and Tanzania Coalition on Debt and Development co-ordinate and manage the research process.

The Task

In executing this task, ROA Africa seek to recruit a researcher preferably from Tanzania and Uganda whose task will be as follows:-

4. The researcher is required to use relevant literature including direct interviews and focus group discussions with relevant stakeholders

5. Assess the quantities, priorities, sectors and development impact for blended projects of GIZ, Finland, World Bank's IFC and European Investment Bank in your respective countries of the periods between 2008 – 2-13.

6. Propose ROA Africa specific actions that relevant stakeholders can take to ensure that ODA leveraging and supporting the private sector leads to development Effectiveness

7. Submit well written reports with key conclusions and recommendations to ROA Africa covering the following key areas

In general terms the study methodology will proceed as per 4 iterative steps:

Step 1: Review existing studies

The first step in the analysis should be a review of all past and current policy documents. These include, but are not limited to blending instruments of the institutions under study, PRSP, National Development plans, and various sectoral,strategic plans already produced and existing evaluations. There are also a number of donors leveraging aid for private sector investments in the country that may serve as useful reference materials

Step 2. Set of criteria of when to use grants or loans on blending

a) What are the formal and specific guidelines or criteria used on taking the grant and loan decision?

b) What is the level of transparency of the data with regard to blending instruments?

c) Is the project assessed according to a set of fixed criteria? Assess If the performance of a project against these criteria can be openly assessed

d) Who designs the form and the size of the grant?

e) Asses how the grant component adds value to the overall project; what is the impact of the grant component?

Step 3. Project Ownership

Assess the framework for ensuring country/democratic ownership of the blended project through the following

a) how the Blending instrument links with the country's development strategy and priority
b) The extent to which donors use the grant allocation to support donor priorities including those from recipient countries and country strategy papers?
c) Assess the role of beneficiaries in setting strategic project priorities? Are their views incorporated in the project design?
d) Establish and report on how choices are made as to which projects are to seek blending support and how are the beneficiaries involved in this process

Step 4. Assess development objectives v/s development results

Establish and describe with clear cases the following Development objective of the project:

a) Support higher risk activities for which access to finance is limited, such as: i.e broadening access to services
b) Improvement of social services and social infrastructures?
c) Contribution to reduction of regional disparities in income per capita, to improvement of development capacities and to increase access to services?
d) Promotion of social returns or global public goods returns and improve access to finance for micro, small and medium enterprises?
e) Support the development of local capital markets?
f) Support the development of a local labor market and improved opportunities for employment?
g) Support environmental projects with cross-border effects?
h) Ensure donor harmonisation and complementarity of investments at national level
i) Promotion sustainable socio-economic development, with a particular focus on pro-poor growth
j) Assess whether projects have a specific focus on poverty eradication and results indicators that align with development objectives.

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