CIVIL SOCIETY FINANCING FOR DEVELOPMENT Mechanism

First Intersessional: Response by the Civil Society FfD Mechanism

25th April 2025

II. B. Domestic and international private business and finance

The role of private finance in development and the role of the state to regulate in the public interest and in line with national priorities

FfD4 offers a critical opportunity to reach a much-needed political agreement on a renewed narrative on the role of the private finance in development. This should account for the lessons learned after 10 years of implementing the Addis Ababa Action Agenda, which promoted a narrative based on attracting private investment, under the belief that it is possible to go ‘from billions in public resources to trillions in private finance’. For that, a strong emphasis was placed on creating a business enabling environment at the national level. Today, there is ample evidence that this approach has not delivered to the extent promised, both in quantity and quality, and in fact generated a race to the bottom on regulations. In early December last year, we heard from the World Bank’s Chief Economist that ‘the snappy slogan’ of going from billions to trillions, ‘turned out to be a fantasy’.

FfD4 must not endorse the same narrative than in 2015 or even policy proposals doubling down on this approach. While private finance can play a relevant role in supporting countries to advance on the Agenda 2030, there is a need to reaffirm the role of evidence-based modalities and approaches and uphold the regulatory role of States, ensuring alignment of private business and finance with democratically determined national development strategies and priorities. There is a strong need to ringfence social services, like healthcare and education, from market forces and protect the most vulnerable in their rights. An overreliance on de-risking and deregulating to attract foreign investments and generate bankable projects overlooks the complex issue of the type of private sector (local, regional, national, international) to be supported, the appropriate regulation to so do, and their linkages to the much-needed structural transformation of countries in the Global South. The latter will be the only way of moving away from commodity, aid and debt dependencies.

On this basis, we <u>support</u> language on:

- pointing to the need for finance to support national development plans and priorities (26)
- pointing to the need for regulatory reforms (26)
- private business not as “a substitute for traditional ODA, or the provision of scaled up finance and grants to developing countries” (26 bis)
- the need to create enabling environments at all levels, not only at the national level (27)
- a special focus on small-owned and small-led business, and among others, social and environmental safeguards (27a)
- promoting sustainable and inclusive industrialization (27f)
- considering FDI “in accordance with the respective countries’ investment policies” (28a)
- deletion of mentions of (financing) facilities (28a)
- deletion of paragraph 28k on MDBs and technical assistance
- deletion of paragraph 29a on impact investing and innovative financing instruments

We <u>do not</u> support language on/that:

- growing micro-, small and medium-sized enterprises for "participation in international, regional and national markets and integration into global value chains" (27d bis), noting the need for the primacy of national over global markets, especially given the risks posed by an overreliance on volatile global markets/finance
- supporting/endorsing existing initiative and platforms driven by exclusive forums like the G20 (27)
- enabling policy environment which facilitates private sector investment in agriculture and food systems (27 f bis)
- underscoring "the importance of reducing existing regulatory and structural constraints, challenges, systemic inequities and barriers to access to finance for private actors", as long as this does not differentiate which type of private sector is referring to (27 g pre)
- committing to advance the expansion of MDBs and DFIs, without taking a comprehensive intergovernmental review of their governance, mandate and role, with an ecosystem approach that allows for an inclusive and transparent discussion on the role of national, regional and global institutions. Currently, multilateral institutions lack democratic governance, and their internal incentives are geared towards quantity over quality and they lack the process and mechanism to ensure the structural transformation of countries of the Global South, and a do-no-harm approach (28d pre)
- recommending "MDBs and DFIs should become real catalysts for private capital, placing significantly greater emphasis on equity investment" (28d pre)
- increasing infrastructure project development that are "both public-led and private-led", (28b) which presumes equal role of both sectors
- "instruments like the OECD Policy Framework for Investment (PFI) and the OECD FDI Qualities Policy Toolkit (FDIQ)" (28c)
- promoting "well-designed public-private partnerships with shared ownership" (28c), particularly given the evidence of their high costs and fiscal risks, and the lack of evidence of what "well-designed" entails
- mainstreaming blended finance and other de-risking mechanisms (28d)
- increasing the mobilization ratio of private finance mobilized from public sources by 2030 (28f)
- encouraging "efficient use of development funds to support innovations that achieve system change to enable private capital flows without the need for derisking" (28e)

We call for:

- A UN intergovernmental process to review the sustainable development outcomes, the fiscal, labor and human rights impact of blended finance and other financing instruments established to leverage private finance. This should serve as a basis to discuss in an inclusive way the most appropriate toolkit of policy measures to regulate private investments in the public interest, and the best way to protect the public purse and ringfence social services from make forces. Globally agreed standards and guidelines are needed, as the regulation cannot be left to the ability of individual countries to regulate in a context of highly unequal power distribution, including between countries of the Global South and corporations.

- A narrative that promotes a cautious and selective approach for the use of private finance in development. This entails avoiding a narrative (and policies) that focused on standardizing and scaling up the use of different types of innovative financing instruments, regardless of their risks, the specific country contexts, sectoral specificities and their implications for the public purse, citizens and democratic accountability. Private finance should be framed at the service of national development plans and in support of structural transformation of countries in the Global South.