INSTITUTE OF LATIN AMERICAN STUDIES | SCHOOL OF ADVANCED STUDY UNIVERSITY OF LONDON

New Private Financing for Development: Latin America in comparative perspective

23rd November 2018, 9.30am to 5.30pm
Room G4/G6, Ground Floor, Senate House, Malet Street, London WC1E 7HU

Kindly supported by the British Academy/Leverhulme Small Research Grant Scheme
Contact: Jessica Sklair (jessica.sklair@sas.ac.uk, 07800 870427)

9.30am **Coffee and registration** (Room G6)

9.50am **Introduction and welcome** (Room G4)

10am **Keynote address: Confronting and Overcoming Elite Development Theory and Practice** (G4)
Professor Benjamin Selwyn (University of Sussex)

11am **Coffee/tea** (G6)

11.15am **PANEL ONE: Global trends in private development financing** (G4)
Discussant: Jo-Anna Russon (Nottingham Trent University)

i) **The private sector and development finance: Equity and sustainability**
Kate Bayliss (SOAS, University of London) & Elisa van Waeyenberge (SOAS, University of London)

ii) **Philanthropic organisations as bridges?: The case of private development financing**
Arun Kumar (University of York) & Sally Brooks (University of York)

iii) **From elitist to sustainable pathways: A long-run methodology to identify group behaviour in financial accumulation**
Aurelie Charles (University of Bath) & Sunčica Vujić (University of Antwerp)

12.30pm **Lunch** (G6)

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1.30pm **PANEL TWO: Inclusive finance and 'socially responsible' markets** (G4)
Discussant: Sally Brooks (University of York)

i) **The political economy of inclusive finance in Pakistan: Development or shadow banking?**
Juvaria Jafri (City, University of London)

ii) **Financial sector development and finance inclusion: The case of Argentina**
Carolina Szyp (Institute of Development Studies, University of Sussex)

iii) **A State of Abandon? Neoliberalism and Private Ethical Financing through Fair Trade in the Costa Rican Coffee and Banana Sectors.**
Peter Luetchford (University of Sussex) & Layla Zaglul (University of Sussex)

iv) **Pursuing local development through the market: Emerging impact investing strategies in Brazil**
Jessica Sklair (University of Sussex/ILAS)

3pm **Coffee/tea** (G6)

3.15pm **PANEL THREE: New forms of public-private partnership and their implications**
Discussant: Kathryn Hochstetler (LSE) (G4)

i) **Brazilian higher education funding: The case of FIES loans**
Bruna Cataldo (Universidade Federal Fluminense, Rio de Janeiro) & Fábio Waltenberg (Universidade Federal Fluminense, Rio de Janeiro)

ii) **Private sector engagement in violence prevention: Hybrid security approaches to gang demobilization in El Salvador**
Kari Mariska Pries

iii) **Safeguards and reputation: Corporate social and environmental responsibility in the Belo Monte Dam** (pre-recorded video presentation)
Catarina Morawska (Universidade Federal de São Carlos, Brazil)

iv) **Can the Social Impact Bond (SIB) become a new public contracting model for the global goals?**
Margaret Rose (University of Bath)

4.45pm **Discussion** (G4)

5.30pm **Close**

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Paper Abstracts

PANEL ONE: Global trends in private development financing

i) **The private sector and development finance: Equity and sustainability**
Kate Bayliss (SOAS, University of London) & Elisa van Waeyenberge (SOAS, University of London)

Recent years have seen a step up in efforts to channel private capital into development projects with a revival of advocacy of Public Private Partnerships (PPPs) (see Bayliss and Van Waeyenberge 2017) as well as new mechanisms to support private financing of infrastructure provision. The "billions to trillions" agenda promoted by the international development community puts private capital at the heart of development finance. This presentation will consider:

- How the new agenda has unfolded, identifying the mechanisms and the actors that link the SDG financing gap to private finance, projected as key to the upscaling of infrastructure.

- What this means for development policy, with countries across the world framing infrastructure needs in terms of what might suit investors. Comprehensive development plans are replaced with pipelines of "bankable" projects.

- What this means for global finance, as infrastructure deficits are being repackaged as potential investment opportunities for global capital. Elements of a previously public service become tradable assets and incorporated into global financial circuits. Policy goals are shaped in terms of how much private finance is raised, which is itself projected as a contributor to development.

- What this is likely to mean for development outcomes. In SSA, private finance has been slow to mobilise and implementation of PPPs has been constrained by weak state capacity. In the long term there are concerns regarding the role of global capital including the fiscal effects, the nature of risk allocation and the overall impact on equity.

ii) **Philanthropic organisations as bridges?: The case of private development financing**
Sally Brooks (University of York) & Arun Kumar (University of York)

In the field of international development, philanthropy – and its contemporary avatar, philanthrocapitalism – has played an influential but no less problematic role. The role, particularly of US foundations, has been characterised as cultural imperialism, hegemony, domination etc. More than characterising their role, however, we are interested in the mechanics by which foundations have become so influential, drawing on the case of philanthropic foundations' role in the increasing and increasingly insidious and un- or under-regulated privatisation of development financing. Thus, we place debates about development financing in Latin America within a global perspective on philanthropy's role in its privatisation, worldwide. To do this, we trace the intellectual lineage of what we term philanthropy's unique 'bridging' function which, we argue, enables them to connect, by-pass, separate, and traverse epochs, geographies, imaginaries, and institutions; in ways that other development actors could or would not have done. By investing resources, purposively and calculatedly, foundations build connections and disconnections of Appadurai's (1990, 1996) 'scapes of encounters', of which we focus on ideas, technologies and finance. While 20th century philanthropy transplanted institutional blueprints that enabled the bypassing of developing country institutions to accelerate particular models of development – and preclude others; the contemporary articulation of 'bridging' is partnership, arguably the defining feature of the post-Washington Consensus. Such partnerships sustain a hegemonic 'ideology of market-led capitalist development' (Morvaridi, 2012), while obscuring processes whereby states subsidise philanthropy (rather than the reverse), channelling public funds into private sector-led initiatives (McGoey, 2015).

iii) **From elitist to sustainable pathways: A long-run methodology to identify group behaviour in financial accumulation**
Aurelie Charles (University of Bath) & Sunčica Vujić (University of Antwerp)

The elite is characterised by the magnitude of income accumulation which has been particularly exacerbated over the past forty years. This paper proposes methodological groupism, instead of methodological individualism, to argue that group behaviour overtakes individual decision-making in financial flows. The methodology is then applied to the US and UK occupations which shows that the cumulative effects on group earnings is a pattern visible across the labour force. Learning from such group behaviour on financial accumulation in market interactions, the discussion then looks at the possibility of "sustainable earning" trends that feed into the financial needs for the green transition. The paper concludes that sustainable earning trends would require individual economic actors to be aware of own group biases to avoid business-as-usual pathways in financial accumulation, and move from social-based to ecological-based legitimacy in financial flows.

PANEL TWO: Inclusive finance and 'socially responsible' markets

i) **The political economy of inclusive finance in Pakistan: Development or shadow banking?**
Juvaria Jafri (City, University of London)

My doctoral research draws attention to two distinct features of financialisation in poor countries. One of these is the traction gained by the inclusive finance movement, which is attributed here to the growing influence of the shadow banking industry. The second feature highlights a fundamental contradiction of inclusive finance: the tendency to promote economic dualism by bifurcating the financial sector. This bifurcation is an outcome of shifting banking models: commercial banks continue to rely on a traditional 'originate to hold' model but microfinance banks and other providers of inclusive finance utilise disintermediated models of banking reliant on private institutional investors, both domestic and foreign. Inclusive finance is thus a manifestation of the global shadow banking industry, driven by regulatory arbitrage and a search for yield. The notion that inclusive finance is a form of shadow banking is not a novel one: Ghosh et al (2012) note that shadow banking in developing countries is exemplified by finance companies and microcredit lenders that provide credit and investments to underbanked communities, subprime customers, and lowrated firms. Lyman et al (2015) focus on the destabilizing role of shadow banks noting that despite similarities, inclusive finance tends to be closely regulated and is thus far removed from the shadow banks responsible for the financial crisis of the last decade. The outcome of this is a financial system in which the poor — those previously described as 'unbanked' or 'financial excluded' — are offered higher costs and limited access for the same services used by their relatively wealthier counterparts. These issues of inequality and its reproduction (Bateman and Chang 2012; Taylor, 2012) have been aggravated by the rise of fintech and what Gabor and Brooks (2017) and Mawdsley (2015) call the 'philanthropy-finance-development complex'.

ii) **Financial sector development and finance inclusion: The case of Argentina**
Carolina Szyp (Institute of Development Studies, University of Sussex)

Abundant literature advocates for a positive relation, even a virtuous cycle, between Financial Sector Development and sustainable development outcomes. However, Financial Sector Development was found to be necessary but not sufficient to achieve sustainable development, as it needs to be both pro-growth and pro-poor to avoid undermining the SDGs, e.g. poverty-reduction and equality. These goals intend to leave no one behind, as no goal should be met unless it is met for everyone. With 2.5 billion people worldwide lacking access to any form of financial services, SDGs realisation might struggle without prioritising inclusion. Therefore, Financial Sector Development needs Financial Inclusion to achieve the universal access and usage of financial services necessary to attain the SDGs. Policies in a context of Financial Inclusion that tackle the SDGs and their financial supply and demand constraints can lead to sustainable development.

This study uses the case of Argentina, due to its relevance for Financial Sector Development, to explore the key national constraints to Financial Inclusion. It shows how the government and central bank policy responses to overcome these constraints by promoting Financial Sector Development can ultimately help achieve sustainable development outcomes. This is outlined through a systematic association between contemporary national policy action initiatives and their effect on the different SDGs.

iii) **A State of Abandon? Neoliberalism and Private Ethical Financing through Fair Trade in the Costa Rican Coffee and Banana Sectors.**
Peter Luetchford (University of Sussex) & Layla Zaglul (University of Sussex)

Following the 1948 civil war and the victory of social liberalism under José 'Pepe' Figueras, Costa Rica created one of the most progressive welfare models in Latin America, if not the world. Abolishing its army, the country introduced free education up to secondary school level, free healthcare, and universal pension rights for citizens. In the agricultural sector, state sponsorship was pursued through financial support for cooperatives, and state regulation of many aspects of production and exchange. All this ended abruptly in the 1980s, when Costa Rica became the first country in the world to renege on its debts, instituting a 'structural adjustment' crisis, and ushering in an era of 'neoliberal governance'.

However, rather than a radical rupture, we argue that the welfare state always had variable impacts on different kinds of people and interests in the agriculture sector, and so has only ever partially and unevenly provided social protection. Likewise, PFIs in the shape of Fair Trade, rather than reinforcing or replacing forms of state support in the face of market deregulation, tends to reproduce rather than rectify structural inequalities and forms of precarity. In this paper we document the complex interactions between welfarism, neoliberalism, and Fair Trade in two major agricultural sectors in Costa Rica, coffee and bananas. Drawing on long term fieldwork, we identify continuities, differences, and silences in Fair Trade's engagements with workers, landowners, and cooperatives in the two industries.

iv) **Pursuing local development through the market: Emerging impact investing strategies in Brazil**

Jessica Sklair (University of Sussex/ILAS)

During the 2000s, successive Workers' Party (PT) governments brought both economic growth and significant advances in social policy to Brazil. This, however, accelerated the withdrawal of international development NGOs, who had already begun to shift their focus over previous years to countries considered more economically vulnerable. By the mid-2010s, this exodus of development finance had proved premature, as mounting corruption scandals and the impeachment of president Dilma Rousseff plunged the country into political and economic crisis, and drew renewed attention to the country's myriad and on-going development challenges. Meanwhile, awareness of the now pressing need for sourcing development finance locally, has begun to intersect with growing interest in global trends for more proactive engagement of the private sector in development policymaking and practice. One consequence has been the emergence of a small but dynamic social business sector in Brazil, and a nascent impact investment market designed to finance it, occupied by a range of private investors and philanthropic foundations. Drawing on recent field research in São Paulo among impact investors, fund managers and social business incubators active in this market, this paper will examine the conceptual shift that sees philanthropists turn increasingly towards market-based models in the pursuit of their aims for local development solutions in Brazil. In particular, it will examine how impact investors understand the relationship between social impact and financial return on their investments, and the implications of this for how development strategy and practice are envisaged in the Brazilian context.

PANEL THREE: New forms of public-private partnership and their implications

i) **Brazilian higher education funding: The case of FIES loans**

Bruna Cataldo (Universidade Federal Fluminense, Rio de Janeiro) & Fábio Waltenberg (Universidade Federal Fluminense, Rio de Janeiro)

Brazil's higher education funding is divided in three pillars: fully government-funded, fully privately-funded, and mixed-funded. For students who cannot access the highly-selective public system or afford full costs of the private one, federal government offers FIES and PROUNI. FIES is a government guaranteed loan, and PROUNI a partnership where private institutions are granted tax exemptions in exchange for offering scholarships.

Following political turmoil and economic recession, fiscal revenues have melted. The government has chosen to implement expenditure cuts, and a World Bank report has suggested expanding FIES to public universities to solve their underfunding without demanding more public resources. Similar scenarios of stringent fiscal restrictions with pressure on higher education systems have been observed in other Latin American countries.

Considering this, the objective is to make a critical analysis of FIES, scrutinizing its design (through theoretical insights from economics of education and welfare state), and actual results (through administrative records, and descriptive statistics from national surveys). The analysis should prove useful to other Latin American countries that have programs similar to FIES, such as the Colombian ICETEX and Chilean *Fondo Solidario,* and face similar pressures.

Primary conclusions indicate FIES has design problems: large interest-subsidies, few quality control mechanisms, and repayments fixed in time. These issues seem to prevent programs like FIES from promoting efficiency and equity. If Brazilian government insists on a loan system, it should have an income contingent design.

ii) **Private sector engagement in violence prevention: Hybrid security approaches to gang demobilization in El Salvador**
Kari Mariska Pries

Crime governance and violence prevention strategies have become a major focus of international security-building initiatives and have attracted growing interest from the private sector in creating local anti-crime partnerships. Rather than representing solely a retreat of state institutions from social programmes and security provisions, relationships between the state, non-governmental organisations, and the private sector are being rearticulated in structures akin to hybrid governance. Theories of hybridity or state transformation posit that the gaze should be directed on those spaces where security problems, once identified, are managed in practice (Hameiri & Jones, 2015). In the context of El Salvador, this paper examines the roles of non-state actors as they range from agenda-setting policy development to the implementation of violence prevention programmes in local communities, arguing that private sector involvement is reconfiguring how security issues are addressed as well as redirecting the emphasis or political ideologies used to guide those approaches. Through examples of youth engagement programming, ex-gang recruitment for targeted employment initiatives, and public space recovery efforts, this paper contends that the increasing involvement of non-state actors in violence prevention programming has implications for who is secured, whose security agenda is implemented, and how those efforts are developed and sustained.

iii) **Safeguards and reputation: Corporate social and environmental responsibility in the Belo Monte Dam** (pre-recorded video presentation)
Catarina Morawska (Universidade Federal de São Carlos, Brazil)

The Belo Monte dam project on the Xingu River has been licensed to operate on the condition that a so-called "Consensual Hydrograph" be applied, guaranteeing a minimum flow of the river during dry and full seasons in the region known as the *Volta Grande do Rio Xingu*, the Great Turn of the Xingu River. This paper addresses the conflict around the Consensual

Hydrograph between Norte Energia S.A., the company that manages the dam, and the Juruna (Yudjá), one of the indigenous group inhabitants of the *Volta Grande do Rio Xingu* that are directly impacted by Belo Monte. I will describe the efforts of the Juruna (Yudjá) to undertake an autonomous monitoring of the impacts of the dam, which reveal how Norte Energia's socio-environmental responsibility policy appears in the marketing of the company as a way to ensure its reputation among stakeholders, and in its annual balance, as an externally imposed cost. In this paper I will discuss how the Belo Monte case sets a moral dilemma to financial agents when it comes to how the flow of the river is calculated in relation to the profits expected by Norte Energia's shareholders and its main creditor, BNDES (Banco Nacional de Desenvolvimento Econômico e Social). The Consensual Hydrograph sheds light on how the company's economic reasoning is driven solely by profit maximization, and the safeguards put forward in the company's socio-environmental responsibility policies are seen as merely limiting factors. If Norte Energia were to take as a reference in such calculations the life of the river, as do the Juruna (Yudjá), it would set a precedent for socio-environmental responsibility policies not to restrict themselves to marketing pieces, but to become a self-imposed principle endorsed by shareholders and incorporated into the company's economic reasoning.

iv) **Can the Social Impact Bond (SIB) become a new public contracting model for the global goals?**

Margaret Rose (University of Bath)

The challenges facing people and planet today are urgent and complex. Despite global and national commitments to the ambitious and potentially transformational 2030 Sustainable Development Goals and targets in the Paris Climate Agreement, our current rate of progress is lagging what is required to meet them and there is an estimated annual SDG spending gap of at least 2.5 trillion USD. At the same time, SIBs have attracted a lot of attention within the last decade and in some cases have been touted as a potential saviour to cash-strapped governments seeking to finance social innovation. Despite the rapid proliferation of the model primarily in western industrialized countries since 2010 many still view the new mechanism, formulated out of market-based narratives, with suspicion. The enthusiasm is also ahead of practice as evidence to date is limited and equivocal at best on whether the model is living up to its touted potential. The paper reviews the literature on SIBs and interrogates the neo-liberal theoretical perspectives underpinning current risk mitigation mechanisms such as capital protection and guarantee mechanisms as well as early termination clauses within SIB contracts. The author urges the consideration of whether a more *altruistic* form of SIBs may prove a more relevant and innovative public contracting model for the financing, procurement and democratization of the 2030 Agenda.