Colin Powers

# A »Wall Street Consensus« for MENA?

## The Prospects of the »Maximising Finance for Development« Agenda

FOR A JUST FUTURE

FRIEDRICH EBERT STIFTUNG

# FOR A JUST FUTURE

## A project of the Friedrich-Ebert-Stiftung 2022-2023

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# Executive Summary

*A »Wall Street Consensus« for MENA? The Prospects of the »Maximising Finance for Development« Agenda* analyses the development paradigm currently being pushed in the Middle East and North Africa by the world's leading international organisations and international financial institutions. In the World Bank's terms, Maximising Finance for Development (MfD) constitutes a bold *and* new strategy for »systematically leverag[ing] all sources of finance, expertise, and solutions to support developing countries' sustainable growth.« In actuality, the report demonstrates that MfD represents a dangerous attempt at reconfiguring how official development assistance is extended, how national financial systems are structured and how public services are provided. For the countries being encouraged and/or coerced into adopting its prescriptions, the report demonstrates that MfD threatens to increase financial volatility, compromise public finances, intensify inequality, and obstruct the infrastructure upgrades needed to power equitable development and survive ecological change.

For the sake of comprehensiveness, this Friedrich-Ebert-Stiftung report begins by addressing MfD's rise to prominence as well as the policy initiatives that at its core. Concerning the latter, MfD's three main pillars are discussed in great detail: financial system reform, investment derisking and securitisation. Situated thusly, the report proceeds to analyse how MfD has been advanced within the Middle East and North Africa (MENA), the myriad effects wrought as a result and what risks may lie ahead. Pertaining to risks, the report flags the perils inherent in the transition from bank-based financial systems to market-based alternatives. It also explains the diversity of hazards that have been ushered in on the back of plans for investment derisking, highlighting in particular those hazards being smuggled in through the structuring of new PPPs.

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# Introduction

For nearly a decade, a paradigm shift has been in motion inside the halls of the leading institutions for international development. Converging under the moniker *Maximising Finance for Development* (MfD), the ascendant regime constitutes, in the World Bank's words, a bold *and* new strategy for »systematically leverag[ing] all sources of finance, expertise, and solutions to support developing countries' sustainable growth.«[1]

The public-facing rationale of MfD is expressed through the following logic model: The capital needs of low and middle-income countries exceed what can be mobilised domestically, whether by the state or by private elements. They also exceed what can be raised through traditional forms of bilateral and multilateral assistance. The resulting financing gap — of a magnitude sufficient to compromise not only the developmental prospects of the bottom billions but their capacity to survive ecological changes wrought by the anthropocene — can be closed in but one way: through deploying those public resources that are available in conjunction with wide-ranging policy reforms in order to marshal large sums of external investment into these parts of the world. Articulating a prescription for which there is no alternative and knighting financiers in New York, London, and Tokyo as the new protagonists of international development, the tenets of MfD, endorsed today by everyone from the International Monetary Fund (IMF) to the United Nations Development Programme (UNDP), prompted Daniela Gabor to dub the emergent paradigm the »Wall Street Consensus.«[2]

For development agencies and multilateral development banks (MDBs) like the World Bank, implementing MfD implies substantive changes to mission and modus operandi. Where they once acted as direct lenders and/or investors of last resort — as sources of (predominantly) concessionary debt and equity financing to those unable to access international capital markets at reasonable cost — these institutions are now attempting, in fits and stops, to pivot towards serving as catalysts instead. Going forward, their intention is to use in-house capital less for the purpose of sponsoring development projects than for derisking investment opportunities within aid-dependent economies. In adopting this tack, the organisations in question are making private actors from the Global North into partners, mediating instruments and beneficiaries of international assistance. Doing so naturally lends ambiguity to the matter of who aid is *for*, and to whom these organisations are obliged in the final instance.

For the governments being coerced and convinced into adopting the terms of MfD, the changes being introduced — and the risks thereby incurred — are even more pronounced. On the one hand, policymakers are being nudged into reordering their financial systems in such a manner as to bring them into alignment with the preferences of the investor classes. Doing so, however, exposes their economies to heightened levels of volatility and opens the door to potentially devastating deleveraging episodes. On the other, they are being called upon to upgrade their energy, transportation, food, health, and education infrastructures so as to create sufficiently bankable and derisked investment opportunities. In so doing, they are allocating scarce resources to elevate the profit rate on foreign investment. More than that, they are imperilling the quality and accessibility of critical public services and accepting contingent liabilities which, if realised, stand ready to ravage budgets for years if not decades to come.

Regarded in full, *Maximising Finance for Development* can be seen as an attempt to reconfigure how official development assistance is extended, how national financial systems are structured, and how public services are provided. In view of both the dangers presented, it is imperative that MfD be subjected to a comprehensive appraisal. This Friedrich-Ebert-Stiftung report aims to do just that, with a particular focus on the non-Gulf countries of the Middle East and North Africa.

The report is arranged into five sections. Section one traces the rise of MfD into the latest orthodoxy/orthopraxy of international development. A first subsection details the constellation of restraints, incentives, and needs brought about by the eruption of the global financial crisis of 2007 – 2009 and explains how each of these variables lent momentum to a paradigm shift within international development. From there, a second subsection hones in on the specific junctures and processes through which MfD emerged as the main pillar of intervention for the IMF and the world's leading MDBs.

Section two then furnishes an overview of the major policy reforms being advanced as part of MfD. Three categories of reform are described at length largely in the terms of the institutions pushing MfD: (i) financial system reform, i. e., initiatives to transition national financial systems from bank-based modalities to market-based alternatives; (ii) investment derisking, i. e., a variety of measures meant to both improve the business climate (more generally) and reduce and/or transfer risk for individual investment opportunities (more specifically); and (iii) securitisation, which in this case refers to the creation, pooling, and selling of immobile contractual debts derived from infrastructure development and/or management.

1 In fact, MfD's plans for mobilising private capital to close »financial gaps« are hardly new. In substance and style of argumentation, these types of strategies date back at least as far as the British Empire of the mid-20th century. See: Nick Bernards (2022): The finance gap: poverty finance from colonial Kenya to microcredit markets. Analysis: Phenomenal World.

2 Daniela Gabor (2021): The Wall Street Consensus, in: *Development and Change* 52:3.

Section three unveils how MfD made its way into the non-Gulf Middle East and North Africa in the last few years. Therein, a first subsection centres on the region's genuine needs for investment. A second evaluates the varied and complementary means — including epistemic proselytising, lending conditionality, and technical assistance — through which the World Bank Group (WBG) and associated institutions have pushed MfD as a way of addressing these needs. Situated thusly, a third then considers the fruits of MfD's labours to date in terms of policy change, legislative change and institutional reforms.

Proceeding to critique, section four commences perhaps the most important segment of the report: an interrogation of what *Maximising Finance for Development* has already done and what it stands to do. The first subsection of this interrogation focuses on the many misconceits of MfD and documents the extent to which the initiative has failed to live up to its promises. The second highlights the plethora of risks that derisking presents. With close attention paid to the derisking of public-private partnerships (PPPs), this subsection maps the causal pathways through which these arrangements threaten the quality and affordability of public services, sovereign debt sustainability, and lead to income and wealth polarisation. The third and last subsection turns to financial sector reform and evaluates how these changes lead to greater volatility — and all that comes with it.

Section five, finally, concludes the report. Reviewing the point we have reached over the course of the previous pages, it makes the case for why the Middle East and North Africa's investment challenges demand a response far more prudent and ambitious than what MfD has to offer.

# Section One: The Origins and Evolution of *Maximising Finance for Development*

### (I) Is Crisis the Mother of Invention? The Wellsprings of *Maximising Finance for Development*

Maximising Finance for Development (MfD), today endorsed by nearly every development organisation of significance, is best understood as a response to a series of exigencies which emerged in the years following the global financial crisis of 2007–2009.

The first such exigency concerned the widening gap between the Global South's demand for capital and the capital made available to it. The collapse of the market for collateralised debt obligations (CDOs) — mortgage-backed securities in particular — famously ravaged the balance sheets of many American and European commercial banks beginning in mid-2007. The resulting scramble for liquid assets made it necessary for many of the world's largest financial institutions to swiftly deleverage out of positions in emerging markets. For the economies subject to the outflows, the damage incurred by this episode of capital flight would be devastating in and of itself. However, it was made worse by dint of the defaults which eventually cascaded throughout the economies of the core. One effect of this was to wipe out much of the monoline insurance industry, which had previously played a critical role in lowering the downside risk of investments in infrastructure and emerging market debt.[3]

If providers of credit had already grown scarce in the developing world due to the panic and dysfunction taking root within the major financial centres, they only became harder to find once new microprudential regulations were imposed on international banks via the Third Basel Accord. With more stringent reserve and risk weighting requirements installed as of 2009, exposure to assets with low investment grades — which included the debt and infrastructure of low and middle-income countries — had to be reduced commensurately. Beyond prompting disinvestment itself, Basel III brought about a spike in the return financiers demanded for debt and equity investments in Southern infrastructure, a rise in the quality standards applied during project selection, and a sharp decline in the number of actors willing to participate in a project beyond the construction period.[4] With infrastructure investment needs in emerging and developing economies conservatively estimated in the area of 1.8 – 2.6 trillion US dollars per annum, annual funding deficits in the area of 1 trillion US dollars became a recurring (and distressing) reality.

These deficits were understandably viewed as a call to action by the IMF and the major MDBs. The call only grew louder once the investment sums needed to achieve the UN's Sustainable Development Goals (SDGs) were revealed.

The fruits of a three-year planning and negotiation process begun in 2012 and led by the Rio+20, the SDG's targets for developing countries alone came with a bill of 2.5–3 trillion US dollars in *extra* capital investment per year. Though these amounts encapsulated much of the costs discussed above in reference to infrastructure, they nevertheless threw the distance between where we stood and normative outcomes into even starker light. Coming into focus just prior to the announcement of the Paris Agreement — which, despite its shortcomings, established some sense for the magnitude of financing required to stave off ecological collapse (6.3 trillion US dollars per annum through 2030 by the OECD's count[5]) — the urgency of the moment in the mid-2010s was rather hard to miss.

That said, the creativity that ultimately crystallised in the form of the Maximising Finance for Development programme did not only draw from the fount of crises past and future. A number of other factors played a role, competitive pressures first and foremost.

By the middle of the 2000s, China's historic run of growth had translated into a number of exceedingly well-capitalised national financial institutions. Animated by the state's renewed global ambition — a shift both consummated in and expedited by the launch of the Belt and Road Initiative in 2013 — the China Devel-

3 Greg Inderst and Fiona Stewart (2014): Institutional Investment in Infrastructure in Emerging markets and Developing Economies. Report, World Bank Group PPIAF (March 2014): 4.

4 Andrew Fitzpatrick, Veronique Sovaro and Sabri Draia (2014): *Public-Private Partnerships in the Middle East and North Africa: A Handbook for Policy Makers*. OECD: 16, 45.

5 See: OECD, the World Bank and the United Nations Environment Programme (2018): Financing Climate Futures: Rethinking Infrastructure — Policy Highlights.

opment Bank and Chinese Export-Import Bank, in particular, would vastly expand overseas lending and investment, targeting infrastructure opportunities above all else. To give a sense for the scale of their mobilisation, between 2008 and 2019, the two institutions in question allocated more than 450 billion US dollars for external debt and equity investment, according to Boston University's Global Development Policy Center.[6] Nor were these upstarts the only new players on the development finance scene. By 2015, China's national institutions would be joined by two freshly formed multilateral bodies — the Beijing-based Asian Infrastructure Investment Bank and Shanghai-based New Development Bank[7] — both of which had come into being at least partially due to frustrations over the IMF's and World Bank's reluctance to redistribute voting power within their executive board and board of governors, respectively.

Whether it changed the terms of actual lending conditions for the debtors of the global periphery or not, the arrival of *Southern*-led financing alternatives did present a challenge that could not be ignored for the old guard of development lending. Their mere existence — never mind their growing market share — clearly provided an impetus for reform.

So too, of course, did the declining yields that holders of credit money within the core's largest financial markets experienced in the wake of 2007–2009. A function of loose monetary policy and the unprecedented quantitative easing administered by the Federal Reserve, the low interest rate climate of the post-global financial crisis years left commercial banks and institutional investors of different stripes flush with cash but facing lower margins on their domestic lending and lower returns on their investments in traditional fixed-income securities. These conditions encouraged investors to seek out greater alpha and portfolio diversification in alternative asset classes — particularly assets where valuations and returns were generally uncorrelated with the vagaries of Northern equities markets.[8]

The search ultimately led many to take another look at emerging market sovereign debt and infrastructure — from which they had just fled — and to push their colleagues at the World Bank *et alia* to facilitate investment opportunities.[9]

Last though not least amongst the catalysts of the IFIs' new thinking are long running processes of ideological drift inside Western capitals. Be they driven by residues of mercantilism, devotions to the *market*, or commitments to fiscal responsibility, governments of the world's largest economies have pushed for official development assistance (ODA) to be reconceptualised and/or administered differently so as to increasingly prioritise private sector development. One early deliverable of their campaign was the decision made by the OECD Development Assistance Committee in 2016 to begin registering moneys allocated via private sector instruments (PSIs) within the wider category of ODA.[10]

The Committee made this decision, one should note, despite actually existing PSIs having often violated the defining characteristics of ODA: namely, that the moneys be extended on concessional terms and designated for welfare promotion in the recipient country.[11]

It is certainly the case that many highly influential people at the World Bank and IMF had long been keen to further blur the lines between aid and profit seeking. Nevertheless, the exigencies outlined above, in conjunction with the ideological militancy evinced by Western governments, gave their cause greater momentum. By the middle of the 2010s, the conditions had ripened for a bold pivot in strategy.

### (II) Impetus into Action: The Institutional Rise of Maximising Finance for Development

What became the Maximising Finance for Development programme saw its first modern articulation in 2015.

Taking on a vanguardist role, the Joint Ministerial Committee of the Board of Governors of the WBG and IMF published *From Billions to Trillions: Transforming Development Finance* in April of that year. Resembling a concept note more than anything else, the document proceeded from the presupposition that aid and public resources were insufficient for realising the SDGs or delivering the infrastructure and resilience to climate change that countries needed. On the basis of these self-evident facts, *From Billions to Trillions* proposed significant operational reforms, which, if accepted, would see the institutions in ques-

6 See: Ray, Rebecca, Kevin P. Gallagher, William Kring, Joshua Pitts and B. Alexander Simmons (2022): Geolocated Dataset of Chinese Overseas Development Finance. Scientific Data. doi: 10.1038/s41597-021-01021-7.

7 The New Development Bank, birthed to no small degree by the commodities boom which helped lift Brazil, Russia, India, and South Africa to new levels of economic prominence during the first decade of the new millennium, was founded in 2014 with 100 billion US dollars in authorised capital. Though Uruguay, the UAE, Bangladesh, and Egypt are also members, the institution is largely directed by representatives from the BRICS countries.

8 Inderst and Stewart: p.iv

9 For more on this, see: Yannis Dafermos, Daniela Gabor and Jo Michell (2021): The Wall Street Consensus in pandemic times: what does it mean for climate-aligned development?, in: *Canadian Journal of Development Studies*.

10 See: Cecila Caio and Nerea Craviotto (2021): Time for action: How private sector instruments are undermining aid budgets. Report: European Network on Debt and Development (February 2021).

11 At the national level, France, the United Kingdom, and Canada have been most aggressive in growing the share of annual ODA allocated through PSIs, though they are far from alone in pursuing this tack. At the multilateral level, it was the interventions of the Trump White House that were most instrumental in ensuring ODA could increasingly be run through commercial mechanisms. In 2018, the U.S. Treasury Department under the direction of Secretary Steven Mnuchin held up the 6 billion US dollar capital increase that then World Bank Group President Jim Yong Kim had requested, making the funds' release contingent on the institution's acceptance of an emboldened market-making agenda. Leadership swiftly agreed to the terms imposed by Mnuchin in a decision that tilted resources and influence towards the WBG's one non-concessional lending body (the International Finance Corporation, or IFC) and in so doing, significantly impacted the internal distribution of power and resources at the institution.

tion and the MDBs they coordinated with move away from traditional concessional lending to focus instead on conducting and amplifying private capital flows.

As will be discussed in greater detail in a subsequent section, materially speaking, the prospective reforms would entail expediting policy and regulatory change within borrowing countries in addition to deploying risk-bearing capital in such a manner as to turn development projects into viable (and highly profitable) business opportunities for private investors. To facilitate scale of impact and allow riskier projects to be seeded *without* threatening the MDBs' own credit ratings, the World Bank and IMF advocated these institutions also optimise their balance sheets and embrace financial innovation — as had been recommended to and accepted by the WBG, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and European Investment Bank at the G20 Summit of 2013.

As might be expected in view of the gravitas retained by the IMF and World Bank alike, the impact of the ideas put forth quickly reverberated across the field of international development. By summer 2013, the pivot the two institutions had prepared had been endorsed by the UN, which granted blended finance, PPPs, and risk mitigation instruments a prominent place on the Addis Ababa Action Agenda. Not long after this, all the largest MDBs — which include not only those listed above but also the Asian Infrastructure Investment Bank, Inter-American Development Bank, Islamic Development Bank, and New Development Bank — signed up for the de facto change in mandate.[12]

Beyond committing to what the World Bank and IMF had laid out in principle, the MDBs in question agreed to a number of actionable items, pledging they would use credit enhancement, insurance, and other derisking facilities to increase private sector mobilisation by 25–35 per cent as of 2019. National development finance institutions (DFIs[13]) moved to incorporate the new programme as well. Armed with capital injections furnished by an assortment of (primarily) public donors and coordinated by the WBG's International Finance Corporation — which began chairing the DFI Working Group on Enhanced Blended Concessional Finance for Private Sector Projects in 2017[14] — these institutions allocated approximately 3.5 billion US dollars to blended finance arrangements as early as 2018, mostly in the form of (concessional) senior debt.[15] Brought together under the auspices of the G7 and OECD in the fall of 2018, the largest DFIs also expressed the intention, via the Tri Hita Karana Roadmap for Blended Finance, to significantly expand investments of this type going forward.

Around the same time, development agencies like USAID and the Swedish International Development Cooperation Agency were also getting in on the act, issuing concessionally priced investment guarantees for more than 30 private sector projects before 2020. And over in Brussels, the strategy sketched out by the Bretton Woods twins had received a warm welcome, too. Having previously reformulated development policies to emphasise greater private participation in the delivery of public goods between 2011 and 2013 (and having already launched a platform for promoting blended finance in external cooperation in 2012), the European Commission used the mid-term review of its Multiannual Financial Framework in 2017 to establish a number of instruments (and funding sources) fit for the purpose of elevating private sector participation in essential development projects.[16] The most significant addition — the European Fund for Social Development, which was capitalised to the tune of 5.1 billion US dollars and which represented the financial arm of the novel European External Investment Plan — was to primarily deploy guarantee schemes and an assortment of blended finance arrangements.[17]

As this brief review attests, by the late 2010s, the wind was clearly running in the sails of Maximising Finance for Development. Nevertheless, the IMF and WBG still proceeded to further entrench the emergent orthodoxy in their MfD proposals, receiving the collective blessing of the G20 governments.[18]

The WBG did this first by raising the profile, power and resources of the International Finance Corporation (IFC) — the one organisation within the Group that did not primarily engage in concessionary lending — relative to its peers.[19] Meas-

12 They did so via 2016's Joint MDB Statement of Ambitions for Crowding in Private Finance.

13 Development finance institutions are »a sub-set of public development banks. They are specialised institutions set up to support public policy objectives, mainly private sector activities in developing countries. They are usually majority-owned by governments and benefit from public guarantees.« Note that the primary mandate of national DFIs is typically to support the business interests of national corporations operating abroad. The largest national DFIs, also called bilateral DFIs, are the United States' Development Finance Corporation, the Netherland's FMO, France's Proparco, Germany's DEG, and the UK's CDC. See: Jan Van de Poel (2020): Development Finance Institutions and Covid-19: Time to reset. Briefing Paper: European Network on Debt and Development (November 2020).

14 Details of the project are available at: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/bf/bf-details/bf-dfi

15 Convergence Blending Global Finance (2021): The State of Blended Finance 2021. Report (October 2021).

16 For more on this history, see: Kate Bayliss, Bruno Bonizzi, Ourania Dimakou, Christina Laskaridis, Farwa Sial and Elisa van Waeyenberge (2020): The use of development funds for de-risking private investment: how effective is it in delivering development results. Report: European Parliament Policy Department (May 2020).

17 Details on the European Fund for Social Development are available at: https://ec.europa.eu/eu-external-investment-plan/about-plan/how-it-works-finance_en

18 This blessing was granted at the Hamburg Summit of 2017. As per the Action Plan released following the Summit, the member states of the Group of 2020 affirmed the MDBs commitments to crowding in private finance, balance sheet optimisation, and scaling investment in infrastructure.

19 Though a long time coming, the IFC's rising fortunes became most apparent in the wake of SARS-CoV-2. At the time, the organisation received an 8 billion US dollar capital injection, while its peers the International Bank for Reconstruction and Development, the

ures were also taken to expand the activities of the Multilateral Investment Guarantee Association (MIGA), whose primary mandate concerned the provision of risk insurance and credit enhancement mechanisms for cross-border investment. Most directly in keeping with new directives, the WBG leadership launched the IDA 18 IFC-MIGA Private Sector Window in late 2017. Designed to catalyse private sector investment in fragile and conflict-affected states, the Private Sector Window was capitalised at 2.5 billion US dollars and comprised risk mitigation, guarantees, local currency, and blended finance facilities.[20]

Meanwhile, externally, the WBG and IMF implemented a multipronged programme. They reinforced the intellectual edifice of the MfD programme, most comprehensively through the 2017 publication *Maximising Finance for Development: Leveraging the Private Sector for Growth and Sustainable Development*. Two novel research and advisory tools were created — Infrastructure Sector Assessments (InfraSAP) and Country Private Sector Diagnostics (CPSD) — allowing World Bank staff to identify problems and opportunities for client governments and, by extension, to prime officials to opt for the kind of solutions which were favoured under the MfD agenda.

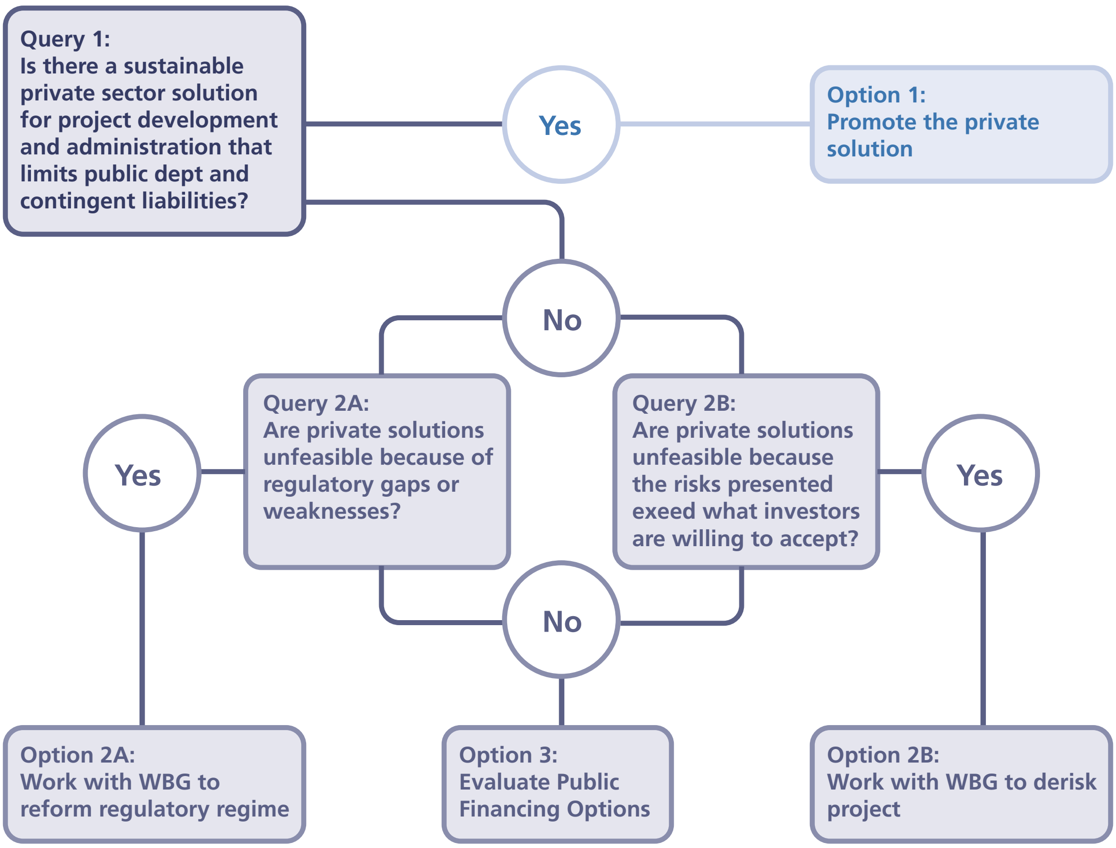
To this same end, the WBG also redoubled the efforts of the Public-Private Infrastructure Advisory Facility (PPIAF) and leveraged advisory service contracts to expedite the regulatory, administrative, and legislative changes needed for the desired »crowding in« of private capital to be actualised. One example of the latter, the Joint Capital Market Program (J-CAP), launched by the World Bank and IFC in 2017, was designed to support local capital markets development and »expand private sector engagement to deliver capital-markets financing in areas such as climate, housing, small and medium enterprises (SMEs), and infrastructure.« Pertinent to our concerns, Morocco was included as one of the six priority countries of J-CAP. In addition, though somewhat vague when it comes to the details, the WBG inaugurated a series of national pilot projects in 2018 to test out elements of Maximising Finance for Development in the *real world*, with three other MENA countries — Egypt, Jordan, and Iraq — amongst the nine sites selected for experimentation.

Last but not least, intensive proselytisation campaigns were undertaken to promote the WBG's revised recommendations concerning the financing of major investment in public goods, encapsulated in what the institution has called the »Cascade Model«:

International Development Agency, and the Multilateral Investment Guarantee Agency received a mere 6 billion US dollars combined.

20 See: Bayliss et al. (2020): 26.

## Visualisation 1: The Cascade Model



# Section Two: The Contents of *Maximising Finance for Development*: Financial Sector Reform, Investment Derisking and Securitisation

Programs for Maximising Finance for Development are built on three main pillars: (i) financial system reform; (ii) investment derisking; and (iii) securitisation.

## (I) Financial System Reform

The restructuring of a country's financial system is a prerequisite measure upon which the rest of the Maximising Finance for Development agenda hinges. The prospective changes are broad in scope and impact, and presented as the best way of efficiently mobilising domestic savings and attracting significant capital inflows from the outside.

Reform starts with the overhauling of existing public financial management policies: specifically, the issuance of government securities (local currency treasury bills in particular). According to the institutional advocates of MfD, the function of sovereign debt issuance concerns not only the funding of public expenditures, but the development of capital markets and the transmission of monetary policy.[21] Treasuries' utility vis-a-vis capital markets stems from their capacity to serve as a benchmark for price discovery and from their capacity to act as a reliable and liquid form of collateral against which financial institutions may borrow from one another. In the presence of active secondary markets, their utility to monetary policy transmission lies in their allowing policymakers to affect credit conditions *indirectly* via the conducting of open market operations.

To extract the maximum benefit from sovereign debt issuance, MfD encourages relevant national authorities — typically central banks — to adopt an emphasis on the regular and predictable issuance of *short-term* treasury bills. Provided these securities have been consolidated into standard maturities, the proponents of this strategy contend that auctioning them will furnish a reference point upon which a rational yield curve for government debts of longer maturities can be built. The argument is put forward that by facilitating price formation for privately issued fixed-income securities, the issuing of these treasuries will also allow market actors to better price the cost of debt and equity financing for the rest of the economy.[22] Implicitly, then, the World Bank Group and its fellow travellers are pushing policymakers to move away from debt strategies centred on the issuance of longer-term treasury bonds — and to forego the benefits that these types of securities provide when it comes to fiscal planning.

Maximising Finance for Development stipulates that, after the market for government securities has been restructured like this, governments must continue to deepen and diversify of their capital markets. To smooth the management of short-term liquidity needs for domestic and foreign investors, it is recommended that money markets be established. Markets for repurchase agreements (repo) and commercial paper are most critical in this regard. Repo markets provide a forum where an actor can temporarily sell an asset for cash — cash it can use to invest or pay off debts — while retaining the right to repurchase the asset in question at a fixed price in the immediate future. They also allow an actor to borrow an asset, use it as collateral for obtaining financing from a third party, and then return the asset in question to the original owner.[23] Commercial paper markets, meanwhile, provide an alternative space for raising cash for short-term needs: there, corporations can issue non-secured (i.e. non-collateral backed) promissory notes in exchange for a line of credit that must be repaid within 270 days.

21 ee: Catiana Garcia-Kilroy and Anderson Caputo Silva (2011): Reforming Government Debt Markets in MENA. Policy Research Working Paper 5611: World Bank.

22 Ibid: 43.

23 For more on repo markets and development finance, see: Rick Rowden (2019): From the Washington Consensus to the Wall Street Consensus. Report: Heinrich-Boll-Stiftung (October 2019).

To enable firms to raise capital with longer-term horizons, MfD recommends that corporate bond and equities markets be expanded at both national and regional levels. Doing so will not only ease the financing of growth-oriented activities, but will also have the second order effect of lessening the dominance that domestic commercial banks have maintained over credit intermediation in much of the Global South — something that the World Bank Group and its partners have identified as especially important in the case of the Middle East and North Africa. Lastly, to facilitate risk management and enhance market efficiency further, MfD advocates the building up of derivatives exchanges. In the estimations of the OECD[24] and WBG, these exchanges not only aid with price discovery and the generation of public information,[25] but lower transaction costs while furnishing investors with the tools they need to hedge against and/or transfer different forms of risk. As foreign exchange (FX) volatility constitutes one of the largest sources of risk for investors from the Global North, establishing exchanges for FX swaps and forward contracts is presented as the highest priority.[26]

Also critical are the establishment of active futures markets[27] and exchanges for interest rate swaps and forward contracts — the latter of which offers those lending and borrowing locally coverage against sudden shifts in the price of credit.[28]

Seen in full, implementation of the capital market reforms discussed above stand to expedite a country's transition from a bank-based financial system to a market-based one.[29] As intimated, this transition implies a downgrading of the role played by domestic commercial banks, and an upgrading of the role played by a second cast of local and foreign actors, namely: (x) *institutional investors*, i.e. domestic and foreign pension funds, mutual funds, sovereign wealth funds, and insurance companies; ($x_1$) *impact investors,* i.e. profit-oriented firms and organisations guided by a social mission*;* and ($x_2$) *shadow banks*, i.e. intermediary non-deposit taking institutions including investment banks, hedge funds, exchange-traded funds, credit investment funds, money market funds, private equity firms, securities broker dealers, and credit insurance firms. Regarding the magnitude of these prospective changes, it is appropriate to point out that the United States and the United Kingdom are the only countries where market-based finance has become the dominant modality.

### (II) Investment Derisking

Having restructured the financial system in the manner described, the next task incumbent upon policymakers and their partners with the multilateral development banks is the derisking of investment opportunities. On the one hand, this encompasses making generalised improvements to the business environment, principally via enhancing governance capacity, buttressing property rights, and instituting key policy and regulatory reforms — especially with regard to monetary policy, capital controls, and, in the case of the Middle East and North Africa, energy subsidies. On the other hand, investment derisking entails the mobilisation of a variety of financial tools designed to either reduce investors' exposure to downside risk or secure desired internal rates of return vis-à-vis specified projects.

#### (A) DERISKING THE BUSINESS ENVIRONMENT

Private counterparties tend not to accept investment risks they deem *endogenous* to — i.e. subject to the discretion of — a government partner.[30] This is particularly the case when operating in an emerging market context due to the lack of familiarity with the relevant players, institutions, and procedures. Moreover, when it comes to the kinds of capital-intensive infrastructure projects being targeted by MfD programmes, it can be expected that investor caution will be heightened even further, as the projects in question often require investors to use high levels of leverage in order to cover their significant upfront costs. In conjunction with the financial system reforms discussed above, it is therefore imperative for those hoping to maximise finance for development that they build trust with investors by mitigating sources of governance-related concerns. Though insufficient in and of itself, doing so is presented as a necessary condition for receiving significant capital inflows.

Addressing reputational deficits and risk perceptions requires action be taken across a number of different domains. Politically, leadership is expected to communicate policy commitments to internal and external audiences and where appropriate, to institutionally enshrine the relevant commitments.[31] To signal seriousness vis-à-vis foreign exchange and price stability-related commitments, for instance, measures need be taken to strengthen the independence of a country's monetary authorities. When it comes to energy and utilities, a premium is also placed on leadership establishing »visibility« of technology deployment and medium-term plans for upgrading transmission and interconnection systems.[32]

24 See: Fitzpatrick et al. (2014): 45.

25 For an early World Bank argument on derivatives exchanges, see: George Tsetsekos and Panos Varangis (1997): The Structure of Derivatives Exchanges: Lessons from Developed and Emerging Markets. Working Paper.

26 FX swaps and forward contracts allow investors to enter into private, customisable agreements with counterparties so as to lock in an exchange rate for the purchase or sale of a currency at a designated future date.

27 Futures markets provide a central financial exchange where people can trade standardised contracts which lock in future delivery of a commodity or security at a price set today.

28 Interest rate swaps allow investors to exchange a debt contracted with a fixed rate of interest for one with a floating interest rate (or vice versa).

29 On the full implications of this, see: Daniela Gabor (2019): Securitization for Sustainability: Does it help achieve the Sustainable Development Goals. Report: Heinrich-Boll-Stiftung.

30 Fitzpatrick et al. (2014): 29.

31 See: Garcia-Kilroy and Silva (2011): 37.

32 Fitzpatrick et al. (2014): 73.

On the administrative front, officials are expected to reduce complexity and uncertainty, often by resolving problems with overlapping ministerial jurisdictions and reducing discretionary powers hitherto assigned to high and low-level bureaucrats. Key in this regard is the streamlining and standardisation of permitting and licensing procedures, the withdrawal of screening and incentive-awarding authorities from Investment Promotion Agencies and similar bodies,[33] and the introduction of measures for ensuring procurement processes are transparent, rationalised and competitive. For facilitating investment in PPPs, in particular, it is considered best practice that officials establish and staff PPP Central Units to handle the tendering and closing of contracts in addition to satellite PPP units and line ministries to manage and troubleshoot projects arranged as a result.[34]

A multitude of separate steps need be taken to address investor hesitancy stemming from uneasiness regarding the legal environment. The competence of regulatory authorities and the judiciary must both be upgraded, in the latter's case through the establishment and training of specialised commercial, intellectual property, and land courts.[35] The rights of investors must be further consolidated via legislation as well. Doing so will generally first warrant updating the existing property rights' regime,[36] principally through installing precise restrictions on the nationalisation or confiscation of assets either privately owned *or managed* and through imposing checks on acts classified as »creeping expropriation.«[37] It will also require updating commercial and corporate governance codes; updating bankruptcy and insolvency, companies, and competition laws; and clarifying existing investment incentives within a unified tax or investment code. To strengthen investor rights around cross-border capital movements, policymakers are encouraged to proceed, legally and administratively, towards the full liberalisation of the capital account.[38] Should restrictions need be imposed on the inflows side, use of negative lists specifying the precise domains where foreign investment is subject to equity-based restrictions or administrative approval is recommended.[39] Lastly, in order to account for contingencies related to a potential breach of contract, it is suggested that officials put clear dispute resolution mechanisms in place. Though the OECD has expressed some misgivings on the matter — especially when these rights are conferred via *first-generation* bilateral investment treaties — governments are also generally encouraged to legally guarantee foreign investors' recourse to third-party arbitration hearings such as those hosted at the International Centre for Settlement of Investment Disputes (ICSID).[40]

Before closing on the topic of business environment derisking, it is important to note that policymakers have also been encouraged to institute a number of particular measures in order to alleviate apprehension around investment in countries' green transitions. Preliminarily, it is recommended that electricity grids be upgraded and the legal mandates of those entities granted monopolies over electricity distribution — often state-owned enterprises — be amended in order to guarantee fair treatment of independent power producers when selling their output. It is also put forward that fuel subsidies provided to conventional energy producers, airlines, and the trucking industry, amongst others, be cut or lifted altogether, as these public policy interventions have created artificial price gaps rendering many solar, wind, and green transportation investments non-competitive. In the same vein, the MfD programme makes the case for rationalising the price of tariffs for water and energy use for the final consumers so as to create more enticing revenue streams for those considering investment in either public utility.[41]

### (B) FINANCIAL DERISKING

Given the magnitude of the capital allotments required to get most major infrastructure projects off the ground, attempts at derisking the business environment alone are unlikely to convince investors to part with their money. Whether the goal be to draw in their capital indirectly (via participation in a fund or trust) or directly (via investment or lending to a specific project), these private parties will need to be further incentivised through a variety of financial derisking measures.

As mentioned in the previous section, a country's international partners — principally, MDBs, national DFIs and agencies, and foundations, NGOs, and impact investors — certainly have a part to play here. Their role primarily involves putting grants along with their blended finance commitments to work. Blended finance refers to a structuring approach to investment whereby institutions such as MDBs deploy concessional instruments as a way of enticing private capital flows into a project presenting a higher risk profile.[42] Concessionality, in these instances, may come in the form of debt capital priced at below market rates or with grace periods and/or maturities unavaila-

33 Faris al-Hussami, Sarah Marion Dayon, Marie-Estelle Rey and Ana Novik (2021): *Middle East and North Africa Investment Policy Perspectives*. OECD: 142.

34 Fitzpatrick et al. (2014): 46.

35 Al-Hussami et al. (2021): 157

36 For recommended best practices pertaining to PPPs in particular, see: United Nations Commission on International Trade Law (2020: *UNCITRAL Legislative Guide on Public-Private Partnerships*. UNCITRAL.

37 Creeping expropriation refers to the state's gradual acquisition of a privately owned asset via taxation, regulation, access, or a change in the law.

38 The overarching recommendation of the IMF remains that policymakers aim for capital account convertibility, with some conditional allowances provided in the event of financial crisis.

39 Al-Hussami et al. (2021): 73-84.

40 Ibid: 29–30.

41 Yasmine Abdeliliah, Lucila Arboleya, Ali al-Saffar, Adam Brown, Arthur Contejean, Craig Hart, Tae-Yoon Kim, Jinsun Lim, Arnaud rouget, Hugo Salamanca and Molly Walton (2020): Clean Energy Transitions in North Africa. Report: International Energy Agency: 77–78.

42 Note, these tools can be used to facilitate both direct and indirect (i.e. fund or trust-based) investment opportunities. See: Inderst and Stewart (2014): 33.

ble from commercial alternatives — moves that serve to bring down the leverage ratios a private partner needs to accept in financing a given project.[43] It may also (and simultaneously) take the form of risk-absorbing capital, which serves to reduce a private partner's exposure to potential losses.

Empirically speaking, risk absorption is the most frequently operationalised form of concessionality, and generally comes via specially structured debt arrangements: in these arrangements, the repayment profile of a borrower is defined in such a manner as to ensure the private investor has the first claim on a company's or asset's cash flow.[44] Risk absorption has also been incorporated into equity-based co-investments, typically through ownership arrangements where the equity share of the derisking institution is allocated to a first loss (or junior) tranche.[45]

Though less commonly extended, funded and unfunded guarantees schemes are also part of the derisking toolkit for the MDBs and the development agencies-backed Private Infrastructure Development Group (PIDG Group[46]), with the unfunded variety favoured due to its not having to be officially listed as a liability on the guarantor's balance sheet.[47] Also classified within the derisking category is the concessional insurance plans that the WBG's Multilateral Investment Guarantee Agency and the Islamic Development Bank's Islamic Corporation for the Insurance of Investment and Export Credit provide private partners against non-commercial risks.

Client states are expected to engage in financial derisking, too. For projects subject to traffic risk or volume risk — say, a privately managed highway or airport where levels of traffic are difficult to anticipate, or a solar farm where the expected volume of energy demand from the electricity distributor is uncertain — governments are encouraged to guarantee a certain level of return for the investor. Historically, such guarantees have often been implemented through minimum price standards and the provision of feed-in tariffs (also known as premium payments).[48] Lest the bid prices for a particular PPP project be driven up, states must be willing to extend a sovereign guarantee on the obligations of the relevant contracting authority as well — be they a municipal government or fiscally independent port authority.[49] Given the state's taxing power and lower funding costs, it will often also be expected to shoulder the financial burdens incurred through *force majeure* (i. e. unforeseeable circumstances that would prevent an investment from yielding the expected returns). As concerns the provision of traditional investment incentives, capital subsidies, soft loans, sub-market land sales, and a constellation of tax abatements, reductions, and exemptions generally remain par for the course, despite the Organisation for Economic Co-operation and Development (OECD), amongst others, expressing concern about the efficacy of prevailing tax-based policies.[50]

In the case of investments into renewables, it has been recommended that states mobilise direct subsidies and establish net metering provisions in order to nudge small and large-scale projects towards commercial viability.

### (III) Securitisation

The third and final pillar of the Maximising Finance for Development programme is securitisation. Gathering momentum ever since the leaders of the G20 called upon the MDBs to optimise their balance sheets in 2013, securitisation is conceived of as a financial technology with the potential to not only supercharge development lending, but to create the precise asset types that the holders of *patient capital* — i. e. large institutional players such as pension and mutual funds — seek to invest in, while also injecting greater liquidity into the financial markets of Southern countries. It therefore constitutes a critical, if often neglected, aspect of the MfD programme.

Having been vested with the role of catalytic financier, it is the major developmental lenders that are primarily responsible for executing securitisation initiatives within the MfD programme. The immobile, illiquid contractual debts that are supposed to serve as the building blocks of these financial operations include a pool of loans extended for regional infrastructure projects; a pool of loans extended to the private sector of a developing country or region[51]; or a single large loan extended for the purpose of financing a road, airport, school, hospital, or wind energy farm. In the case of the first two examples, the process of securitisation would work in much the same way as described in the text box above. In the case of the single-loan example, securities would be somewhat artificially constructed through dividing the debt contract so as to create a number of

43 Convergence Blending Global Finance (2021): 24.

44 Bayliss et al. (2020): 7.

45 In investing in the junior tranche, the derisking institution agrees to incur a specified amount of losses prior to the commencement of loss sharing by other equity holders.

46 The PIDG Group is a joint venture of the UK's DFID, the Netherlands' DGIS, Sweden's SIDA, Switzerland's SECO, Australia's DFAT, the German development bank KfW and the IFC.

47 By not listing the guarantee as a liability, the issuing institution can free up capital for more lending and investment. These types of practices — viewed as balance sheet optimisation — are a major point of emphasis for the MDBs at the time of writing.

48 Feed-in tariffs are most commonly used in the case of investments into renewable energy production. Most plainly put, they are a mechanism by which the government fixes the price of energy generated by a designated renewable source at a level *in excess* of the prices paid for energy generated by other sources. When smartly designed, these policies will have degression provisions attached so as to allow the prices being offered to fall over time, thereby incentivising innovation and not locking the state into the use of obsolescent technologies.

49 Fitzpatrick et al. (2014): 43.

50 In the case of the Middle East and North Africa, the OECD recommends governments move away from profit-based tax incentives to merit-based cost incentives, as the latter reduces the costs of investment instead of benefiting firms that are already profitable.

51 Bundling such loans for securitisation has been made easier, of course, by the aforementioned Joint MDB Statement of 2018, which increased the volume of the institution's private sector lending considerably.

## Visualisation 2: How Securitisation Works

Mechanically speaking, securitisation works as follows: a quantity of relatively illiquid and immobile contractual debts are originated by a creditor. The creditor then gathers this pool of debts and divides them into different tranches, with the intent of selling specific tranches (or shares of specific tranches) to outside investors. Tranches are typically carved out on the basis of differentials in the maturity dates of individual debts or the reputability of the individual borrowers.

Sorted thusly, the creditor proceeds to set the coupon yield, or interest rate, that will be attached to each tranche of the now-divided loan pool. This coupon yield will have a fixed rate and be paid out to the ultimate owners of the tranche in question until the loans contained therein retire and/or fall into default. At this point, each tranche of loans has been transformed into what ist called a debt-backed security and can be brought to the market for sale. Byers in this market will be bidding for the right to collect the future income streams that bundled loan repayments generate for a given security.

As a technical matter, securitisation can be of a true sale or synthetic variety. True sale securitisation sees the original loan issuer transfer legal ownership of the debts in question to a second (external) entity called a Special Purpose Vehicle (SPV). The SPV then turn the loans into a debt-backed security (or multiple debtbacked securities) through the process detailed above before placing the security (or securities) into a trust. Based on the future income that the security is scheduled to generate, the SPV issues bonds that it sells to investors. The coupon yield attached to these bonds — the payment of wich the SPV is able to cover due to the income it receives via the scheduled loan repayments accuring to the security it holds in trust — ist slightly below the interest rates attached to the underlying loans discounted for risk, allowing the SPV to capture a profit for itself. As for the original debt issuing institutions, its books have been cleared due to the transference of the originated loans to the SPV.

Synthetic securitisation operates according to much the same logic, with one primary difference: the original issuer does not transfer ownership of the loans that are to be securitised to a second, external entity: though an SPV may be used to handle the Securitisation and bond issuance, in this instance, the SPV is an in-house operation, wich means the loans at the heart of everything were never moved from the original issuer's balance sheet. All things being even, the issuer's retention of these assets would require that it maintain requisite capital reserves in order to cover the risk of the debtor defaulting. What synthetic Securitisation does, however, is use loan guarantees or credit derivates — purchased from external parties — to reduce the issuer's exposure to borrower defaults. In so doing, synthetic Securitisation reduces the capital reserves that the issuer must hold relative to the security, freeing the institution to create more loans.

tranches, distinguished according to their claim on the underlying asset's income stream. Taking the simple example of a loan extended for a new highway project, this can be done by earmarking, say, the first 100 million US dollars received of an expected 1 billion US dollars in annual revenues for payment to a high-grade security with a relatively low coupon rate (due to the relatively low level of risk that the investor is accepting). From the same loan, a junk-grade security (with a relatively high coupon rate) could also be constructed by defining that the purchasers of such an asset will only be paid out provided that the last 100 million US dollars is received of an expected 1 billion US dollars in annual revenues. Medium-grade securities can similarly be constructed by adjusting the terms appropriately.

There are three utilities that securitisation provides the MfD programme. First, securitisation offers the MDBs a backdoor to higher volumes of lending. By allowing the lender to move originated loans off their balance sheets, securitisation reduces the value of their risk-weighted assets. This, in turn, frees up the institution in question to create new loans without violating regulatory requirements introduced by the Third Basel Accord and without needing to raise more capital. At once able to scale up lending, move into riskier asset classes, and preserve their cherished AAA credit rating, securitisation constitutes a financial innovation allowing the MDBs to invest big and avoid the potential downside.

Second, securitisation offers a mechanism for spreading the default risk an investor incurs through ownership of a debt liability: in bundling a pool of loans and dividing ownership of the underlying debt obligations, the losses an investor stands to suffer from any individual default event is reduced. For the MDBs, this effect constitutes a means for attracting private investment to MfD initiatives.

So too does the third utility of securitisation: the transformation of a collection of small assets into one big asset. Given their obligations and assets under management, institutional investors, such as pension funds and insurance companies from the Global North, have a preference for larger deal sizes, both due to the fact that investments of this type reduce losses incurred through transaction costs and because they are easier matched to the maturities of the investor's liabilities.

By catering to these preferences, securitisation widens the investor pool for MfD further.

It is important to acknowledge that the MDBs have yet to make the progress they hoped for when it comes to securitisation. For a number of reasons — not least the ruptures caused by SARS-CoV-2 — to date, the African Development Bank (AfDB) can claim their most significant securitisation-related achievement via its Room2Run Risk Protection Agreement. Constructed from 47 non-sovereign loans made in the power, transportation, financial, and manufacturing sectors of African countries, the debt contracts held by the AfDB were synthetically securitised by Mizuho International in 2018 by means of the firm's provision of insurance on the mezzanine credit risk of the portfolio to the securities' eventual buyers (Africa50 and Mariner Investment Group).

This review has hopefully familiarised the reader with the concepts and policies central to Maximising Finance for Development programming. In the next section, we will map the ongoing export of this initiative to the Middle East and North Africa.

# Section Three: *Maximising Finance for Development's* Arrival in the Middle East and North Africa

## (I) Why MENA?

The non-Gulf countries of the Middle East and North Africa were obvious targets for the institutions pushing programmes for Maximising Finance for Development (MfD).

On the one hand, this attractiveness can be attributed to the scale of investment needs in the region. Though the peak of the region's demographic boom was reached in the early 2000s, as of the mid-2010s, the populations of Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the Palestinian territories, and Tunisia were still expected to grow by an additional 40 per cent over the course of the following two decades.[52] In conjunction with (slowly) ascending income levels, the projected demographic expansions imply substantial prospective increases in energy and water consumption.

With regards to energy, per capita electricity demand continues to trend upward in the Arab countries despite having already doubled between 2000 and 2018.[53] Coinciding as this shift in individual (and business) electricity use has with the aforementioned increase in population size, the region's total annual electricity consumption is now climbing at twice the rate of the global average.[54] With the electricity sector in particular being responsible for much of the region's greenhouse gas emissions — accounting for roughly 40 per cent of total carbon emissions — the fact that it will need to double generating capacity by 2030 and quadruple it by 2050 presents grave ecological risks to the countries in question, their neighbours, and the world at large.[55] Accounting as well for the profound social and political dangers that the diversity of subsidies provided for fossil fuels still posed as of the mid-2010s — the fiscal sustainability of which was dubious for the vast majority of MENA states in the medium term[56] (net energy importers most especially) — the need for an expedited energy transition (and the money to finance it) is hard to miss.

And yet, prior to the Arab Spring, MENA had received amongst the lowest volumes of foreign direct investment (FDI) in renewable energy sources of any region in the world.[57] Eight years later, it still ranked bottom in terms of the share of total foreign investment being allocated to renewables[58] and amongst the worst performers of the 2010s when it came to enhancing energy efficiency.[59] Such consistent and potentially calamitous underperformance on the investment front is only made more jarring by the region's unmatched endowments of solar irradiation.[60]

The outlook on water in much of the Arab world is every bit as troubling. The demographic changes referenced above are expected to boost total regional demand for freshwater by approximately 60 per cent by the middle of the century, according to the Arab Forum for Environment and Development. This jump in demand is to come at a time when every country in the region is simultaneously facing climate-induced supply issues of significant and intensifying magnitudes, with a ten per cent reduction in water runoff conservatively anticipated by 2040.[61]

With the current lack of mitigating measures, the World Bank projects the misalignment of supply and demand will yield a

52 Al-Hussami et al. (2021): 173.

53 Abdeliliah (2020): 27.

54 Observatoire Mediterranean de L'Energie (OME) (2011): Mediterranean Energy Perspectives. Report.

55 See: World Energy Council (2013): World Energy Scenarios: Composing Energy Futures to 2050. Report.

56 According to the IEA, as of 2015, Algeria was spending in excess of 10.6 billion US dollars on oil, electricity and gas subsidies; Egypt was spending in excess of 14 billion US dollars, Iraq 4.7 billion, Libya 5.6 billion, and Saudi Arabia 54 billion.

57 Nadejda Komendantova (2016): Renewable Energies in the Middle East and North African Region: can Private-Public Partnerships Address Existing Barriers and Risks?, in: *International Proceedings of Chemical, Biological and Environmental Engineering* 91.

58 Al-Hussami et al. (2021): 55.

59 Abdelilah et al. (2020): 23.

60 Solar irradiation in the MENA region ranges between 4,000 and 8,000 watts/m²/day. This is three times the irradiation rates of Europe.

61 Dorte Verner (ed.) (2012): *Adaptation to a Changing Climate in the Arab Countries: A case for Adaptation Governance and Leadership in Building Climate Resilience*. MENA Development Report: 144

50 per cent gap in renewable water resource availability for the MENA region as a whole within 20 years. For those countries dealing with exceptionally low freshwater endowments — the Gulf countries, Jordan, Libya, the Palestinian territories, Algeria and Tunisia most especially — these gaps will be much higher.[62] With conditions so desperate to begin with, faulty and long-neglected infrastructure are costing the countries across the region water losses in the area of 25 per cent per annum — this can only be seen as a cry for help.[63] Short of a heroic and unprecedented mobilisation of capital for desalination, waste water treatment, water recycling and upgrades to existing water distribution networks — alongside a total revamp of the prevailing practices of export-oriented irrigated agriculture — the existential truly threatens.

The need for qualitatively higher levels of investment for transportation infrastructure is apparent, too. Most critical in this regard are MENA's urban public transit, road networks, ports and freight system. Weak bus, subway and light rail networks undergird, at least in part, the extreme prevalence of automobiles and all the consequences this presents Arab cities in terms of traffic and pollution. The same deficiencies also contribute to the economic exclusion of people or communities lacking the capital required to purchase a car. A lack of handling capacity at many regional ports, meanwhile, persists, alongside underdeveloped intermodal connectivity and poor logistics services, in driving up uncertainty, delays and transaction costs for exporters.[64] As well as acting as restraints on growth, these same factors also increase economies' broader dependence on energy-intensive road trucking.[65] Viewed comprehensively, the costs being incurred due to logistics and transport infrastructure can be seen as both ecological and developmental. The price of remedial action, meanwhile, is prohibitive for most governments, coming with a regional bill of around 10–20 billion US dollars per annum over the course of the next five to ten years.[66]

In total, economists at the World Bank have posited that MENA countries must mobilise 8.2 per cent of the region's GDP per annum over the next ten years in order to adequately maintain existing infrastructure and upgrade energy, water, ICT and transportation systems to the extent needed to realise the SDGs.[67] Given the actually existing investment sums — roughly three per cent of GDP over the past decade — these figures are expected to leave most of the countries in question facing annual capital expenditure gaps of rather enormous magnitudes.[68] In light of this, the region being brought to the fore of MfD-related initiatives is somewhat unsurprising.

Alas, it is not only MENA's needs that explain the region's centrality to Maximising Finance for Development: it is the opportunity the region affords finance capital. For any number of reasons — inclusive of legal and administrative restrictions on investment, elevated political risk, reputational deficits and investor biases — these actors have been relatively weakly positioned when it comes to the economies of the Middle East and North Africa.[69] This is particularly so for financiers from outside the region. In the aftermath of the 2007–2009 global financial crisis, the number of international banks investing in MENA infrastructure halved to a mere 20.[70]

The absence of external finance is perhaps most notable when it comes to the infrastructure asset class. It is the case, of course, that private investment writ large — including domestic and foreign allotments — is comparatively meagre when it comes to MENA infrastructure, be it in terms of capital volumes or total project participation. With the exception of a spike in 2017 powered by a few mega projects, private investment figures ranged between roughly 700 million US dollars and slightly more than 3 billion US dollars per annum throughout the past decade.[71] To put this in context, the figures for Latin America and the Caribbean during the corresponding years were in excess of 30 billion US dollars per year. Nevertheless, the absence of foreign capital still stands out. To the extent that it exists at all, foreign stakes in this asset class are held almost exclusively by MDBs, such as the European Investment Bank, European Bank for Reconstruction and Development, and the Islamic Development Bank.[72]

Importantly, finance capital from the North has not only been deprived of infrastructure-related opportunities, but also the chance to seek gains via fixed income instruments. Recent reforms notwithstanding (discussed later in this section), local and hard currency bond issuance in MENA — sovereign and corporate[73] — remains comparatively small in volume and secondary markets are comparatively illiquid, especially outside the Gulf and Egypt.[74] Offering some indication of this, with the exception of the Gulf countries, only the aforementioned Egypt and Morocco have ever managed to have their government securities included in the major local currency sovereign debt indexes (principally, JP Morgan's Government Bond-Emerging Market Index and Markit Iboxx's GEMX). The region's generalised exclusion from these indexes has limited foreign investors' ability to

62 See: Amal Kandeel (2019): Freshwater Resources in the MENA Region: Risks and Opportunities. Report: Middle East Institute.

63 Abdelilah (2020): 73.

64 See: Al-Hussami et al. (2021): 170-190.

65 Fitzpatrick et al. (2014): 55.

66 Al-Hussami et al. (2021): 170.

67 Paul Noumba Um (2020): Building forward better in MENA: How infrastructure investments can create jobs. World Bank Blogs.

68 Ibid: 176.

69 Since 2003, 37 per cent of all greenfield investment in the non-GCC MENA has come from the GCC countries.

70 Nick Collins and Mark Godfrey (2013): *The Middle East and North Africa: How the MENA Region is Meeting the Funding Challenge.* Report: Latham & Watkins LLP.

71 Al-Hussami et al. (2021): 176.

72 Ibid: 176.

73 The UAE hosts the only hard currency (i.e. dollar or euro-denominated) corporate bond market of note. See: IFC Doc on Corporate Bond Issues in Local Markets.

74 Shereen Attia (2020): Developing Countries' Access to International Capital Markets: What Constrains MENA? Working Paper: ERF 2020 26th Annual Conference.

arbitrage interest rate differentials on MENA public debt considerably, as these indexes are used to structure exchange traded funds (ETFs) and constitute the primary means through which many of the world's largest investors get exposure to *Southern* government securities.[75] Investors have largely stayed away from most MENA stock markets as well, as is attested by the region's comparatively low portfolio investment flows.

The upshot of MENA's underdeveloped links with international capital markets is that major Northern pension and mutual funds, commercial banks and more speculative actors such as shadow banks have had relatively few ways of earning a buck in the region.[76] As is the case with infrastructure, multilateral and bilateral lenders continue to constitute by far the largest source of external finance writ large for the region's economies.[77] The centrality of MENA within early MfD plans is at least partially explained by finance capital's desire to change these realities.

### (II) The Migration of MfD into MENA

#### (A) MAKING THE CASE

The advance of MfD programming within the MENA region was, with a brief lag, synchronised with the broader rise of the policy agenda within the MDBs. At the level of ideas, the World Bank Group began making the case for MfD in early 2019. Building on earlier pushes for blended finance and ongoing attempts at »crowding in private finance« to climate-related infrastructure, this effort was led by the Vice President for the Middle East and North Africa Farid Belhaj and regional Chief Economist Rabah Arezki.[78]

Working in collaboration with the WBG's Global Practices team, the two principals first oversaw the publication of *From Transition to Transformation.* After recapitulating the WBG's traditional explanations for development failures in the MENA, the manuscript positioned the adoption of the Cascade Model laid out at the end of section one alongside the contracting of derisked PPPs as the single viable means of achieving the SDGs. Shortly thereafter, the WBG released an edited volume entitled *Promoting A New Economy for the Middle East and North Africa.* A diversity of contributions contained therein presented the reasoning for an expedited transition to market-based finance.

These arguments and recommendations were subsequently fleshed out in a series of policy research working papers. The first — authored by Laura Senbet and the aforementioned Arezki[79] — was published in June 2020. After diagnosing MENA's bank-dominated financial systems as one of the main sources of regional development pathologies, the paper in question presented »deep structural reform« and the capital account liberalisation/capital market diversification combination described at length in section two as the there-is-no-alternative (TINA) solution to MENA's woes. Mindful of the preference Northern institutional investors retain for liquid markets and larger deal sizes, the authors also advanced the call for both regional capital market integration[80] *and* the harmonisation of monetary, exchange rate, trade and investment policies across countries. At around the same time, a second working paper — penned on this occasion by Arezki and Belhaj — reiterated and further developed the two authors' previous arguments in favour of PPP derisking.[81]

An archive of works stumping for the application of blended finance approaches was compiled by the IFC and others, with the Middle East and North Africa featuring prominently there within.[82]

#### (B) MAKING IT A REALITY

Operationally, the IMF, the MDBs and the international organisations they coordinate with have instituted a number of measures for promoting the pillars of Maximising Finance for Development within the Middle East and North Africa.

For getting particular infrastructure projects off the ground, the institutions in question have mobilised not insignificant volumes of concessional and non-concessional capital. Though the region has been the recipient of relatively few blended finance arrangements (13 per cent of the global total in 2019, 6 per cent in 2020[83]), infrastructure developments have still received considerable material support. As the table below reveals, the construction of a vast array of renewable energy production facilities — the overwhelming majority of which are owned by non-national parties — have been made possible due to sizable debt financing, green bond subscriptions and insurance offerings agreed to by the MDBs. Public-private partnerships in the domains of transportation, sewerage and wastewater treatment have been secured by MDB-furnished loans and guarantees as well, as have the building of new highways, ports and hospitals and the growth of export-oriented agribusinesses.

75 More than ten years after being expelled, Egyptian bonds were was reintroduced in the JP Morgan GB-EMI in January 2022.

76 MENA has regularly ranked as the region where infrastructure funds attract the least investment. See: Inderst and Stewart (2014): 14.

77 Attia (2020): 8.

78 Indicative of the close relations that bind the major MDBs, Arezki currently also serves as Vice President for Knowledge Management and Economic Governance at the African Development Bank.

79 Rabah Arezki and Lemma Senbet (2020): Transforming Finance in the Middle East and North Africa. Policy Research Working Paper 9301: World Bank Group.

80 Upon the eruption of Covid-19, the World Bank's Chief Economist Office of the Middle East and North Africa, directed by Rabah Arezki, attempted to further advance the cause of regional integration through the publication of a special report titled Trading Together: Reviving Middle East and North Africa Regional Integration in the Post-Covid Era.

81 Rabah Arezki (2019): Developing Public-Private Partnership Initiatives in the Middle East and North Africa: From Public Debt to Maximizing Finance for Development. Policy Research Working Paper 8863.

82 For some examples, see: Belhaj and Arezki (2019) and Emily Mutambetsere and Philip Schellekens (2020): The Why and How of Blended Finance. Discussion Paper: International Finance Corporation.

83 Convergence Blending Global Finance (2021): 19

## Visualisation 3: Direct Investment in MENA Infrastructure

**A Representative List of MDB Financial Operations**

| Donor Institution | Country | Year | Sector | Project | Financial Commitment |
|---|---|---|---|---|---|
| IFC | Tunesia | 2020 | Agrifood | CHO Tunesia II | 30,000,000 € |
| IFC | Egypt | 2020 | Finance | DCM CIB Green Bond | 65,000,000 € |
| IFC | Morocco | 2019 | Transport: Train/Metro | Casa Tramway | 100,000,000 $ |
| IFC | Iraq | 2019 | Energy | Basrah Gas Co. | 400,000,000 $ |
| IFC | Egypt | 2018 | Energy | Lekela EG Wind 1 | NA |
| IFC | Jordan | 2016 | Energy | ACWA Power Thermal | 175,000,000 $ |
| MIGA | Egypt | 2019 | Energy | Lekela EG Wind Power | 122,000,000 $ |
| MIGA | Iraq | 2015 | Energy | UNIT Zakho Power Plant | 400,000,000 $ |
| MIGA | Jordan | 2019 | Energy | Falcon Ma'an Solar | 5,500,000 $ |
| MIGA | Palestinian t. | 2017 | Energy | PRICO Rooftop Solar | 6,930,000 $ |
| EIB | Egypt | 2022 | Water/Sewerage | Alexandria Wastewater Treatment Plant | 20,050,000 € |
| EIB | Egypt | 2021 | Transport: Train/Metro | Urban Transport Infrastructure Framework | 528,000,000 € |
| EIB | Jordan | 2020 | Water/Sewerage | Jordan Water Sector Framework | 257,989,916 € |
| EIB | Morocco | 2019 | Energy | PV Noor Atlas | 129,000,000 € |
| EBRD | Tunesia | | Energy | Scatec Sidi Bouzid Mezzouna PV Power | 15,000,000 € |
| EBRD | Jordan | | Water/Sewerage | Ain Ghazal WW Treatment Plant | 8,000,000 $ |
| EBRD | Morocco | 2021 | Energy | Koudia al Baida Wind Farm | 48,500,000 € |
| EBRD | Egypt | 2021 | Transport | GrCF2 W2-CML2 Urban | 250,000,000 € |

Substantial as these direct capital allotments have been, more consequential for the region's long-term outlook have been the efforts to expedite financial system reform and the adoption of derisking practices — each a prerequisite for the broader the MfD agenda. In these domains, the institutions in question have acted through research and analysis production, technical assistance, lending conditionalities and material investments in market-building. As concerns research and analysis, the IMF's most important interventions have come via Article IV Consultations. During the period with which we are concerned, these Consultations were conducted and their findings released as Staff Reports for Algeria (2016, 2018 and 2021), Egypt (2017 and 2021), Iraq (2017, 2019 and 2020), Jordan (2017 and 2020), Lebanon (2017 and 2019), Morocco (2017, 2019, 2020 and 2021) and Tunisia (2021). Functioning at once as a technology of surveillance, a market signalling tool and a means of passing official judgment on governance and economic performance, such reports — in conjunction with the biannually released *Regional Economic Outlook* series — have played a critical role in convincing/pressuring local officials to take remedial actions around macrostability and monetary policy reform.[84]

In the domain of ideas, the World Bank Group has proceeded most vigorously via its Systematic Country Diagnostics (SCDs).[85] In the years since MfD's emergence, these studies have been prepared for Egypt (2021), Morocco (2018), Iraq (2017), Jordan (2016), Lebanon (2016) and Tunisia (2015). In each instance, SCDs conveyed not only the WBG's official verdict on all that

84 The influence of the Regional Economic Outlook has been expressly acknowledged by Moroccan government officials. See: Sriram Balasubramanian, Karim el Aynaoui, Prakash Loungani, Jose Ocampo and Roxana Pedraglio (2020): IMF Advice on Capital Flows to Africa and the Middle East. Background Paper: Independent Evaluation Office of the International Monetary Fund.

85 The staff of the WBG's Middle East and North Africa Region also, of course, regularly releases book-length manuscripts and working papers focused on specific regional issues.

ailed a particular economy, but the institution's preferred solutions as well. Hardly an intellectual exercise, these evaluations were nevertheless subsequently incorporated as the intellectual foundations for the five-year Country Partnership Frameworks which guide all WBG operational plans. In addition, when it came to highlighting governance issues, specifying prognoses and exacting pressure on client governments regarding the investment environment, it is important to note that the WBG had, in conjunction with its production of quarterly economic briefs and the biannual *MENA Economic Update,* leaned heavily upon its annual *Doing Business Report* prior to the Report's ignominious cancellation in 2021.[86]

Regarding infrastructure in particular, as mentioned in section two, the WBG has also made use of its recently introduced Infrastructure Sector Assessment Programs (InfraSAP). Though, of the countries relevant to this study, the analytical tool has only been administered for Egypt (2018), it is reasonable to expect that more InfraSAPs — furnishing declarative evaluations of country needs and recommendations for private sector-led fixes — are on the way for the region. The research, claim-making and advocacy put forth via InfraSAPs are also complemented by the work of the PPP Knowledge Lab, which represents the WBG's main hub for proselytising around PPPs.

Many of the other MDBs operating in the region — the European Bank for Reconstruction and Development especially — are helping build the intellectual edifice for financial reform and business environment derisking, too. Most recently, they have done so via the production of Country Private Sector Diagnostics. These analyses were prepared for Egypt (2017 and 2020), Jordan (2020), Morocco (2019) and Tunisia (2018). They not only address intermediary inputs to Maximising Finance for Development — issues like the rule of law, market access and regulatory reform — but one of the central desired outputs of the agenda: private sector participation in infrastructure.

Outside the space of development finance proper, one should note that the OECD has also introduced research of considerable gravity as concerns matters of investment policy reform, PPPs, corporate governance and public integrity and anti-corruption. The Arab Monetary Fund, for its part, has developed research on a wide range of topics pertinent to these pillars of the MfD programme as well, including on the development and integration of regional capital markets and the harnessing of pension funds to support the SDGs.

The research and analysis of the major international financial institutions were rarely left to stand on their own, of course. Rather, they have been paired with technical assistance and lending arrangements to better ensure implementation of reform.

86 Worryingly, the *Doing Business Report* appears to be in the midst of returning in the form of a new Business Enabling Environment Project at the Bank.

Conditionalities attached to Standby Arrangements and Extended Fund Facilities furnished by the IMF have induced significant policy reform in a number of areas. Amongst other things, the contracting of debt was used to establish the legal and institutional basis for central bank independence in Tunisia; hasten fiscal consolidation, exchange rate liberalisation and interest rate hikes in Egypt[87]; restructure the banking sector, advance fiscal consolidation and reduce capital account restrictions in Iraq; and advance fiscal consolidation, rationalise water and energy pricing, strengthen central bank independence and revise capital market regulations in Jordan. Less coercively, the IMF has also advanced reform through advisory services provided to regional central banks. These services are extended in conjunction with Article IV Consultancies, Financial Sector Assessment Program reviews, or as part of Precautionary Liquidity Line arrangements, and encompass matters ranging from macroprudential regulations to exchange and interest rate policy.[88]

The WBG has organised its efforts predominantly through an instrument called Development Policy Lending (DPL). Heir to the Structural Adjustment Loans of days past, the conditionalities attached to DPL arrangements — which allocate funds directly to a government's general budget rather than for a specific project — are being leveraged to enact legal, regulatory, procedural and institutional changes of considerable significance. Within the past few years, the yields of these credit offerings have included reforms to the (i) public expenditures policies and sustainable energy strategy of Iraq; (ii) business climate, public procurement processes and land registration laws of the Palestinian territories; (iii) investment code, capital account regulations, competition law and Public-Private Partnership Law of Tunisia; (iv) investment code, trade policy, sustainable energy strategy and organisation and regulation of capital markets of Morocco; (v) labour law, foreign investment restrictions, and water and energy pricing policies of Jordan; (vi) as well as reforms to the investment code, competition law, public revenue and expenditures policies, and sustainable energy strategy of Egypt.

Beyond these lending arrangements, the WBG has also stepped up its technical assistance operations for the purpose of strengthening »policies, regulations, and institutions that enable sustainable infrastructure with private-sector participation.« These efforts have been organised through the Public-Private Infrastructure Advisory Facility (PPIAF), which named six MENA countries — Tunisia, the Palestinian territories, Lebanon, Morocco, Jordan and Egypt — amongst its 30 priority sites for 2018–2022. In addition to maintaining active consulting channels with regional policymakers and assisting in the development of PPP pipelines, the PPIAF has produced major strategic documents such as the Maghreb Infrastructure Diagnostic (2017).

87 See: Salma Hussein, (2018): The Inequities of the International Monetary Fund Program in Egypt: How Monetary Policy Conflict With the Fiscal Policy Objectives. Policy Brief: Arab NGO Network for Development.

88 The Arab Monetary Fund provides technical training for these policy domains as well.

## Visualisation 4: Development Policy Loans (DPLs) in MENA

**The WBG's Preferred Means of Expediting Reform**

| Year | Country | Name of Loan Program | Financial Commitment | Reform Focus |
|---|---|---|---|---|
| 2020 | Palestinian t. | Strenghtering Fiscal Stability and Financial Integrity | 30,000,000 $ | Public Procurement Process + Financial Stability |
| 2018 | Jordan | Second Equitable Growth & Job Creation Programmatic Development Policy Financing | NA | Improving Market Accessibility, labor market flex, fiscal consolidation |
| 2019 | Tunesia | Investment Competitiveness and Inclusion | 500,000,000 $ | Business Climate Reform, Market Accessibility, Pension Reform, Financial Sector Reform |
| 2017 | Egypt | Third Fiscal Consolidation. Sustainable energy and Competitiveness DPF | 115,000,000 $ | Fiscal Consolidation, Investment Code Reform, Attracting private Investment into sustainable energy projects |
| 2017 | Morocco | Second Capital Market and SME Finance DPL | 350,000,000 $ | Capital Markets Development and Diversification, Banking Sector Regulation, and Pension Fund Reform |
| 2016 | Iraq | Second Expenditure rationalisation, Energy Efficiency and SOE Governance Programattic DPF | 144,382,000 $ | Expenditures Rationalisation, Energy Efficiency, and Reform of SOEs |

Through advisory services contracts (and the previously mentioned J-CAP in the case of Morocco), IFC technocrats have involved themselves in a multitude of relevant policy initiatives as well. Since 2017, the organisation has initiated projects targeting investment framework reform (Tunisia); business licensing, registration and permitting processes reform (Jordan and Lebanon); the greening of capital market regulations (Morocco); promoting capital market diversification and deepening (the Palestinian territories and Morocco); transport infrastructure project identification and development (Morocco); solar power generation project identification and development (Egypt); and the development of a regional platform for supporting investors seeking opportunities in renewables.

Nor has technical assistance aimed at financial system reform and the derisking of business been the preserve of the IMF and WBG alone. Lending the IFC a hand in identifying *bankable* energy projects and in advising governments on how to best use public resources for incentivising investment has been the UNDP.[89] Funded partially by the MENA Transition Fund, established in the wake of the Arab Uprisings, the OECD, meanwhile, has directed a diversity of relevant projects. Under the auspices of its MENA-OECD Competitiveness Programme, the organisation mobilised support services to enhance Egypt, Jordan and Tunisia's investment environments, and under the auspices of the Investment Security in the Mediterranean Support Programme, actively assisted in the reform of policies around PPPs. Under the umbrella of its MENA-OECD Governance Programme, it offered the same assistance for enhancing the rule of law in Egypt.[90] Working with the African Development Bank, the organisation also provided technical assistance for building Tunisia's Public-Private Partnership strategy.[91] The European Bank for Reconstruction and Development (EBRD) too has taken a front-footed approach. Following from directives established in the bank's Local Currency and Capital Markets Development Strategy of 2019–2024, the EBRD has been scaling up both advisory efforts — including through the arrangement of EBRD SEMED Business Forums — and local currency lending within the Arab countries that it operates.[92]

89 Amongst the five countries where the UNDP's Derisking Renewable Energy Investment programme currently operates are Tunisia and Lebanon.

90 For a list of recently implemented projects, see: https://www.oecd.org/mena/competitiveness/thedeauvillepartnership.htm

91 For details, see the World Bank's Middle East and North Africa Transition Fund document catalogue.

92 These countries are Egypt, Jordan, Morocco, Tunisia, Lebanon and the Palestinian territories.

## Visualisation 5: IFC Advisory Services Contracts in MENA

| Year | Country | Name of Contract | Reform Focus |
|---|---|---|---|
| 2021 | Marocco | Casablanca Cities Project | Developing Pipeline of bankable infrastructure projects that can attract commercial financing |
| 2021 | Jordan | Integrated Business Registration and Licensing Reform | Business Climate Reform (registration and licensing processes in particular) |
| 2020 | Marocco | Governance for Sustainability | Developing Pipeline of Infrastructure Projects, Integrating ESG Standards into Capiatal Market Regulations |
| 2020 | Tunesia | IC RP II | Opening Markets to New Investors and Strenghtening Investment Code Reforms; Enhancing Business Regulations |
| 2019 | Egypt | Egypt Solar | Support for Solar Power Auction Program |
| 2019 | MENA | MENA SEF II | Establishing Regional Platform to Support Financial Institutions providing climate financing to private sector; assistance in developing a region-wide pipeline of bankable infrastructure projects |
| 2017 | Marocco | J-Cap Moroc | Capital Market Development / Diversification |

In both cases, these efforts have been geared towards enhancing the efficiency of debt and equity capital markets, the repo trade especially.[93]

Lastly and as mentioned at the outset, financial sector reform in the MENA region has also been facilitated through many of the principals in question mobilising direct, market-making investments. Playing the largest role here are the IFC, the European Investment Bank (EIB) and the EBRD. Each such institution has provided significant funds — typically in the form of debt — for the purpose of deepening and diversifying regional capital markets. Some of these loans are steered through national banking institutions. Earmarked to fund the expansion of »financial inclusion«, these capital injections have often supported banks' establishment of special facilities for lending to small and microenterprises. Other debt offerings have been extended to non-bank credit intermediaries, thereby helping seed and grow the industries purportedly needed for market-based finance to take off. The most frequent recipients of this kind of MDB capital are venture capital, private equity and insurance firms, be they domiciled in the region or merely operating there.[94]

### (III) The Fruits of MfD in MENA to Date

The yield of these forays into financial system reform and business environment derisking have been considerable — be it in terms of legal and regulatory change, administrative reform or market development. MENA governments have significantly increased market access for foreign investors, notwithstanding either the persistence of certain de facto restrictions or the protectionist measures which block external parties from participating in backbone services. On a statutory level, Egypt and Morocco now rank as liberal as OECD member states in this regard and Jordan, Lebanon and Tunisia are all positioned within non-OECD global norms.[95] Even Algeria, hitherto one of the world's economies most closed to non-national capital, has pivoted in a substantive manner: the Finance Law passed in 2020 lifted long-standing caps on foreign equity ownership in domestic firms and assets, strategic sectors excluded.

In addition, screening, approval, and licensing processes — previously constituting a discretionary mechanism for discriminating against non-nationals — have been considerably reformed throughout the MENA.[96] Where investment restrictions are retained, moreover — most commonly in the logistics and transportation sectors — transparency has been enhanced by virtue of nearly every country in the region now defining restrictions through the negative list approach recommended by the OECD. (The negative list approach enhances transparency by authorising all foreign investment projects without any discriminatory conditions *with the exception* of those sectors or subsectors included on the negative list.) Seen in full, though the region still ranks below relevant comparators on most metrics pertaining to investment, it has unambiguously closed the gap.

93 See European Bank for Reconstruction and Development (2019): *LC2 Strategy 2019: Local Currency and Capital Markets Development*.

94 As an example of support offered to external actors, the IFC has provided debt financing to an Australia-based private equity firm — the Omni Bridgeway Group — whose primary line of work is scavenging the world for distressed assets to be scalped.

95 With the introduction of Regulations no.77 and no.80 in 2016 and 2019, respectively, Jordan in particular has taken substantive steps in opening up all areas of the service economy to non-nationals.

96 Lebanon and Jordan continue to subject business-oriented foreign land acquisitions to oversight though they are increasingly an exception within the region.

Beyond furnishing access, MENA countries have enhanced investor rights in country in a number of ways. Egypt, Jordan, Morocco and Tunisia all now adhere to the OECD's *Declaration on International Investment and Multinational Enterprises,* and have thereby pledged to treat foreign controlled enterprises no less favourably than domestic firms. Legal commitments derived from bilateral trade and investment treaties or omnibus investment laws bind most other regional governments to the principal of non-discrimination as well. Concerning property, legal or even constitutional protections against the expropriation, nationalisation, sequestration or freezing of privately owned assets are in place throughout the region.[97] Intellectual property protections — either enshrined in domestic law or established via treaty and/or accession to World Trade Organization — are similarly robust across most of the relevant jurisdictions. Saliently, recourse to timely and fair dispute resolution mechanisms — and the right to seek external arbitration in the event that a contractual disagreement cannot be worked out locally — has also been legally reinforced across all relevant areas.

Though some problems remain, it is important from the perspective of finance capital that MENA governments have taken steps both to boost the rights of creditors and to clarify relevant procedural matters by introducing a wave of new bankruptcy and insolvency law legislation. The modernisation of companies' law and relevant tenets of national commercial codes, meanwhile, have not only enhanced shareholders' rights but installed regulations on corporate governance designed to unburden investors of any extraneous concern with social or environmental obligations: Only in Egypt and the West Bank are there any meaningful legal provisions related to investor duties towards environmental impact, sustainable development or gender effects.[98] Conditionalities related to local content use[99] and domestic hiring have largely been extracted from investment codes at this stage too as have been requirements related to the composition of corporate boards of directors, most recently in the latter case via 2019 reforms in Lebanon. In addition, to ease concerns around pricing distortions and simplify investor evaluation of business viability, governments have taken steps to reduce their capacity to interfere in particular markets, both through the introduction of new competition laws or via the steady withdrawal of pre-existing subsidy regimes.

As concerns getting one's money out of country, currency convertibility and unrestricted freedom of capital repatriation are guaranteed for foreign investors in Egypt, Jordan, Morocco, Tunisia and the Palestinian territories. Parties operating in export processing zones in other countries are typically afforded these rights as well. In conjunction with the lifting of restraints on capital inflows and the gradual liberalisation of foreign exchange policies throughout the region, these measures have led to a significant liberalisation of MENA economies' capital

97 Al-Hussami et al. (2021): 68.

98 Ibid: 71.

99 Ibid: 139.

## Visualisation 6: Recent Major Legislative Reforms

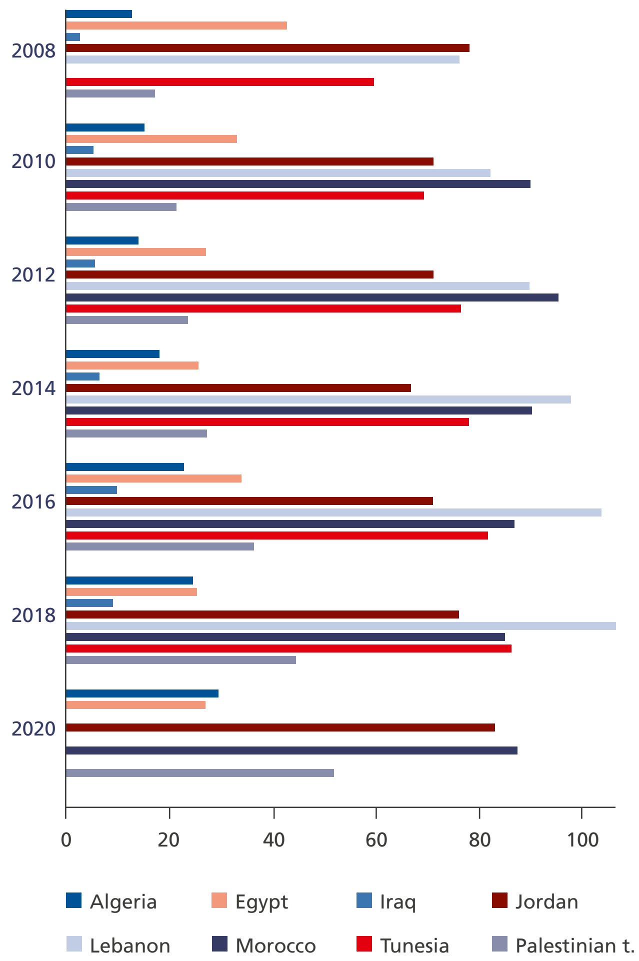
**Precursors to MfD**

| Country | Recent Legislative/Regulatory Reforms |
|---|---|
| Algeria | 2015 Public Procurement Regulation (Presidential Decree 15-247); 2016 Investment Promotion Law; 2020 Finance Law |
| Egypt | 2015 Investment Law; 2017 Investment Law; 2019 Amendments to Investment Law; 2015 Collateral Registry Law; 2017 Law on Streamlining Industrial Establishments Licensing; 2018 Companys Law; 2018 Bankrupcy Law |
| Jordan | 2014 Investment Law; 2018 Amendment to Arbitration Law; 2014 Public-Private-Partnership Law |
| Lebanon | 2001 Investment Development Law; 2018 Public-Private-Partnership Law; 2018 Revision of the Commercial Code; 2019 Private Equity Law |
| Morocco | 1995 Investment Charter; 2014 Competition Law; 2017 Amendments to Stock Exchange Law; 2016 Amendments to Commercial Code; 2014 Public-Private-Partnership Law; Numerous reforms to Bankruptcy Regulations |
| Palestinian t. | 2014 Encouragement of Investment Law |
| Tunesia | 2016 Investment Law; Numerous investment-related Executive Decrees (2016–2018); 2016 Banking Law; 2015 Public-Private-Partnership Law; 2015 Competition Law; 2019 Law on Impoving the Investment Climate |
| Iraq | 2006 Investment Law; 2015 Reforms to Investment Law; 2015 Accession to International Convention on the Settlement of Investment Disputes; 2010 establishment of First Commercial Court of Iraq (specialised jurisdiction for hearing disputes involving foreign parties); 2019 Draft Law of Public-Private-Partnerships |

## Visualisation 7: Financialisation in MENA

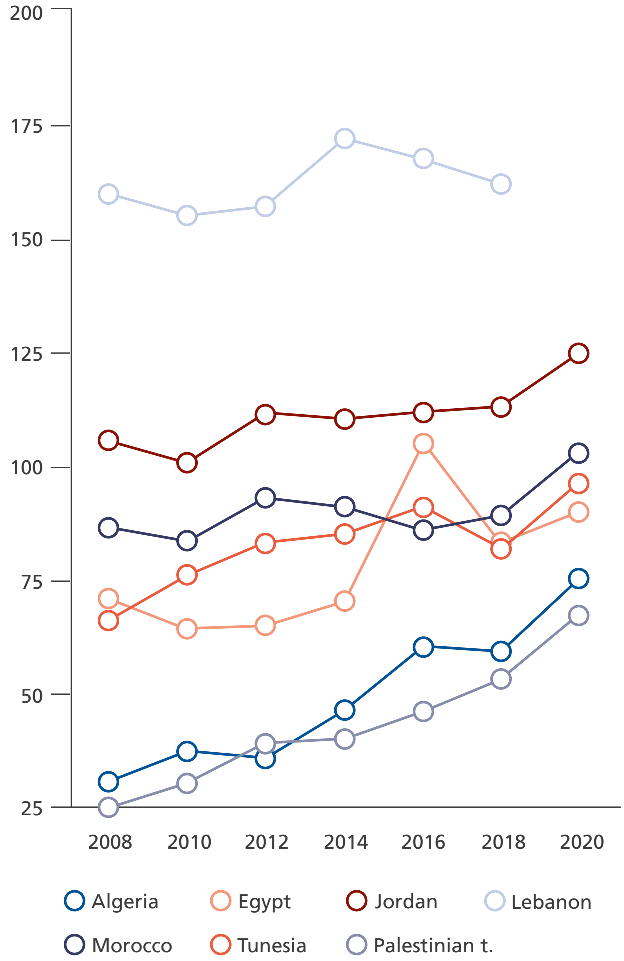
**Stylised Facts of a Change in Motion**

Domestic Credit to Private Sector (% GDP)




Data furnished by World Bank's Global Financial Development Database

Deposit-taking Banks' Assets (%GDP)




Iraq was comitted from this graph as its lower values made it more difficult to capture change in the other countries. That being said, not that the assets of its domestic banks evinced ernormous growth in relative terms for the period in question, increasing from 4.62% GDP in 2008 to 19.17% as of 2018.

accounts. Seen in light of the laws recently introduced for the purposes of strengthening central bank independence and establishing price stability as the institution's primary mandate, the broader monetary policy regimes of most relevant countries are now *derisked* to a considerable degree, and largely in alignment with the preferences of foreign capital.

On the incentives side of things, the vast majority of MENA governments continue to provide a generous system of corporate welfarism. Although it also includes grants, this welfarism is primarily made available via the tax code in the form of a constellation of permanent and temporary exemptions, holidays, deductions and corporate income tax reductions. Eligibility criteria for these benefits are typically very broad, overly so, in fact, in the OECD's estimations. Nevertheless, and despite the fact that concerns remain — mostly due to the fact that incentives are rarely consolidated within a single piece of legislation and doled out by national investment promotion agencies with a bit too much discretion — these are modalities of welfarism that give investors very little reason to complain.

Critical to the MfD agenda (and as the table above attests), nearly every country with which the report is concerned has also recently made efforts to bring public procurement processes and PPP laws, procedures and administration into conformity with the recommendations put forward by their international partners.[100] In contracting individual projects,

100 For a full review of existing policies, see: Mohamed Ismail (2020): *Public Private Partnership Contracts: The Middle East and North Africa*. Routledge.

## Visualisation 8: Financialisation in MENA - Expanding Central Bank Balance Sheets

**Precursors to MfD**

| Country | Institution | Assets (USD) |
|---|---|---|
| Egypt | Central Bank of Egypt | 46.8 billion $ |
| Iraq | Central Bank of Iraq | 83.3 billion $ |
| Jordan | Central Bank of Jordan | 24.58 billion $ |
| Lebanon | Banque du Liban | NA (financial crisis) |
| Palestinian territories | Palestine Monetary Authority | 2.3 billion $ |
| Algeria | Bank of Algeria | 103.37 billion $ |
| Tunesia | Banque de Centrale de Tunisie | 13 billion $ |
| Morocco | Bank al Maghrib | 43.1 billion $ |

So as to be able to better manage economies where financial sectors are growing increasingly dominant, the Central Banks of MENA countries have expanded their interventions (and balance sheets) conciderably in recent years. With the partial exceptions of Algeria and Iraq – countries where oil rents drive CB assets – the figures listetd above offer testament to the steady financialisation of regional economic life.

governments have also incorporated new orthodoxies concerning derisking. Materially, this has meant structuring revenue-related components of a contract in the manner preferred by the private counterparty; extending sovereign guarantees to individual projects; extending long-term demand guarantees on both user-pay and availability-based concessions; and furnishing projects with subsidies and feed-in tariffs, amongst other things. The fruit of these labours is that Morocco currently hosts 33 active PPP projects with a total of 22.5 billion US dollars in private investment, Jordan 43 active PPP projects with a total of 10.56 billion US dollars in private investment, and Egypt 56 active PPP projects with 15.26 billion US dollars in private investment.

Partially by dint of the aforementioned legislative changes and partially owing to new regulatory directives, the region's capital markets have already made significant progress on the diversification front targeted by MfD initiatives. Money markets — formal and informal repo industries in particular — are up and running in Egypt, Morocco and Tunisia, while Lebanon and Jordan host not an insignificant number of commercial paper markets. The volume of corporate bond issuance remains small in relative terms,[101] though it is increasing, and is complemented by the rapidly growing issuance of Islamic law-compliant debt instruments. Pertaining to government securities, whether out of choice or not, many countries are indeed trending in the direction of the short-maturity treasuries endorsed by MfD advocates, especially in the post-SARS-CoV-2 era. As of 2021, approximately 60 per cent of Egypt's public debt was already of a maturity of one year or less,[102] and the portion of short-term local currency treasury issuance in Tunisia, Jordan and Iraq is pushing the composition of their sovereign debt stocks in the same direction as well. On the risk management front, insurance industries have made headway in many countries in the region, particularly in Morocco, though also in Jordan. Egypt and Morocco, meanwhile, have both fostered active markets for derivatives trading.

As for macroeconomic consequences, it is important to emphasise that all these developments have contributed to the broader financialisation of many non-Gulf MENA economies — a process which, at the most basic level, refers to the increase in size and importance of a country's financial sector relative to its overall economy. It may be the case that equities markets in much of the region are still yet to fully recover from the losses and disruptions suffered during the great financial crisis of 2007–2009. Stock market capitalisation figures aside, however, the national economies in question otherwise evince the properties and tendencies of formations in the midst of financialisation. Be it the expansion of financial activities, the rapid growth of bank balance sheets, the size of financial sectors relative to the rest of the economy or the spread of debt relations, MENA appears to be undergoing the same epochal transformation that much of the Global North experienced beginning in the early 1980s, partially though by no means exclusively due to the advance of MfD programming.

101 Jean-Marie Masse, Haruko Koide, Yang Li, Jessica Anne Stallings and Lukas Paul Jaehn (2020): Emerging Markets: Assessment of Hard-Currency Bond Market. Report: International Finance Corporation.

102 African Development Bank (2020): Egypt Economic Outlook. Report.

# Section Four: The Dangers of *Maximising Finance for Development*

The scale of Maximising Finance for Development's ambitions are sizable. So too are the consequences that the initiative is capable of generating. Mindful of these facts, this section provides a critical evaluation of *actually existing* MfD initiatives before attempting to project the most salient risks that this broader paradigm shift is likely to introduce in the non-Gulf MENA region in the years ahead.

### (XI) Delivering on Its Own Terms?

Let us begin with a first-order critique: have the institutions pushing MfD succeeded on their own terms? Put differently: empirically speaking, has the fact that the World Bank et al. have encouraged financial sector reform and embraced catalytic financial operations sufficed to usher hundreds of billions in *patient* investment into the infrastructure of the Middle East and North Africa? In a word, no.

The causes of MfD's *unfulfilled potential* are multiple. To begin with, there is the stubborn conservatism of the multilateral development banks themselves. Grand statements notwithstanding, these institutions continue to prioritise the retention of pristine credit ratings above all else. Consequently, they have proven exceedingly reluctant to take on the very risk-bearing roles they have been promoting in proselytising for MfD, and persist in steering clear of investments presenting a modest probability of default.[103] On certain occasions, the institutions in question have even resisted scaling up operations in the absence of meaningful risk. For instance, despite the six largest MDBs of the Global North having the option of adopting what amounts to a change in accounting practices in order to increase lending volumes by 745 billion US dollars[104] — a move that would also allow them to preserve existing AAA credit ratings — they remain steadfast in choosing not to take that option. More galling given the economic suffering caused by the pandemic, these multilateral lenders have also refused to countenance a one-notch downgrade to their credit ratings — an action which is likely to only increase their own borrowing costs by <.15 per cent — even though doing so would enable them to lend as much as an additional 1.3 trillion US dollars.[105]

The MDBs' hesitance to put their money where their mouth is has been particularly evident in the Global South.[106] Taking blended finance arrangements as a proxy for their broader MfD-related initiatives, it is clear that these lenders have mobilised but the most paltry of sums of concessional capital for the purpose of conducting private investment into the infrastructure of low-income countries. Between 2014 and 2016, aggregate annual commitments of concessional capital to blended finance arrangements provided by members of the Development Finance Institutions' Working Group overseen by the IFC averaged out at just 700 million US dollars.[107] These flows eventually climbed to the low summit of 1.6 billion US dollars per annum between 2017 and 2021, though throughout, primarily supported investments in upper middle-income countries.[108]

Moreover, even in the circumstance where the MDBs' shareholders have financed lending facilities for the express purpose of supporting peripheral economies, they have shown either unwilling or unable to write the check in the final instance. The much-ballyhooed IDA-18 IFC-MIGA Private Sector Window (PSW) discussed in section one of this paper — capitalised to the tune of five billion US dollars by the WBG's donor governments — had only disbursed 694 million US dollars in concessional debt and equity financing as of the end of 2021, and had made over just over two billion US dollars in commitments.[109]

Of course, alone, the MDBs' hesitancy when it comes to putting real skin in the game cannot explain the failures of MfD to turn *billions into trillions* of infrastructure investment. Also

103 For a longitudinal review of the MDBs investment records, see: Global Emerging Markets Risk Database (2021): Multilateral Development Banks and Development Finance Institutions Default Statistics: Private and Sub-Sovereign Lending 2001–2019. Report.

104 Specifically, they would need to include their callable capital — i.e. guarantees provided to the banks by their shareholders — within their capital adequacy ratios. For more on this, see: Chris Humphrey (2020): All Hands on Deck: How to Scale up Multilateral Financing to Face the Covid-19 Crisis. Policy Paper: Overseas Development Institution.

105 Johnathan Wheatley (2022): Multilateral Development Banks' balance sheets strained by global rises, in: *Financial Times* (May 2022).

106 As mentioned at the end of section two, the same institutions have made very little headway when it comes to balance sheet optimisation and the use of financial innovations like securitisation as well.

107 DFI Working Group on Blended Concessional Finance for Private Sector Projects (2020): *Joint Report December 2020 Update*: 17.

108 Bayliss et al. (2020): 5

109 Charles Kenny (2022): Billions to trillions is (still) dead. What next? Blog Post: Center for Global Development.

implicated in this outcome is the naivety upon which the entire strategy was constructed. It is the case, after all, that the precise kinds of investors which MfD has hitched the prospects of the SDGs to — financial institutions who theoretically retain the ability to invest at scale and over long time horizons — face enormous if not insurmountable hurdles in actually participating in these schemes.

These obstacles derive primarily from fiduciary obligations: legally speaking, the large commercial banks and institutional investors targeted by MfD programmes cannot lend or invest without the asset in question having first been vetted and rated as investment grade by the likes of Moody's, S&P, or Fitch. This is a problem as infrastructure projects in most low or middle-income countries are almost certain to fail to make the mark of the Credit Rating Agencies in question. Plots to derisk the asset — including a government extending a sovereign guarantee — meanwhile, hardly constitute a sufficient workaround, as the states offering investors such protection are themselves regarded as non-creditworthy, a reality rather starkly reflected in the sub-investment grade status of their own debts. It is therefore only through alchemy or the introduction of a remarkable regulatory pivot in the Global North that the trillions sitting in mutual funds and similar financial institutions in New York, London, Hong Kong and Frankfurt could be dispatched for the South. When we also account for how the matured and defined pension funds found in most high-income countries are limited in the investment they can undertake due to the unique structures of their liabilities,[110] it becomes clear that the holders of patient capital upon whom MfD has bet the house are ill placed for fulfilling the heroic role assigned them.

Whether the blame lies in the MDBs' miserliness or foolhardiness, the outcome is the same: meagre sums are being raised from private finance for investment in global infrastructure. The small allotments of risk-bearing capital that the MDBs have summoned made as part of the aforementioned blended finance operations have managed to attract a mere nine billion US dollars a year in total project financing.[111] The obvious inadequacy of these yields becomes all the more pronounced when one considers that these derisking operations are not even being used to crowd in private investment, but to prop up the MDBs own commercial lending.

To date, the most common type of blended finance arrangement is one where an institution like the IFC mobilises a specified amount of concessional capital so as to reduce the downside risk on its own profit-oriented investment. Taking 2021 as an example, the members of the aforementioned Working Group mobilised 1.4 billion US dollars in grants, subordinate debt or guarantees so as to *usher in* 5.1 billion US dollars of their own commercial financing to the projects in question.[112] As expected, the misconceptions of the architects of MfD have redounded negatively to the non-Gulf countries of the Middle East and North Africa. MfD's singular focus on the mobilisation of private capital can even be said to have had particularly pernicious effects in the case of MENA. After all, by dint of the region's reputational deficits, its having long ranked worst on most indices of political and social fragility and its being subject to the kinds of event risks which render investor modelling techniques unusable, the notion that investors could be swayed into taking up the kinds of positions being projected was uniquely improbable from the start.

The empirics on actual capital flows into the region are a clear reflection of the recklessness of the MDBs gamble. As previously mentioned, total private investment in regional infrastructure assets remains marginal. In nominal terms, Algeria, Egypt, Jordan, Iraq, Lebanon, Morocco, Tunisia and the Palestinian territories combined to mobilise less than 16 billion US dollars worth of infrastructure-bound private investment between 2016 and 2021, with Egypt and the two monarchies responsible for nearly the entire total.[113] Small to begin with, note that these sums are also partially inflated by private acquisitions of previously publicly owned properties — i.e. non-greenfield investment — meaning that their real life impact is even less than appears at first blush.

Note as well that the figures in question were not dragged down by lag effects and/or weak performance during the early days of MfD adoption. Quite the opposite, in fact, private investment in infrastructure has followed a stark downward trend in recent times: for the first half of 2021 — the period for which the most recent data is available — gross private investment in infrastructure for the MENA region, inclusive of the Gulf states, was a mere 415 million US dollars, roughly 60 per cent less than the amounts mobilised at the outbreak of SARS-CoV-2 the year prior.[114] And the situation looks set to get even worse going forward. A 2021 survey of senior leaders of national development agencies, DFIs and multilateral banks indicates that the MENA region — having absorbed two per cent of these organisations' blended finance outflows in recent years — is not currently regarded as a priority region for any of the relevant principals.[115]

If attempts at Maximising Finance for Development have not achieved what they set out to in the MENA region — namely, to direct large volumes of capital flows into infrastructure assets — are there other effects or externalities that can be attributed to the implementation of these initiatives?

110 In the former's case, the growing share of retirees within their membership makes tying up capital in long-term investments increasingly difficult. In the latter's case, the ease with which members may withdraw their capital or switch between investment programmes puts a premium on liquidity as well.

111 Bayliss et al. (2020): 5.

112 Convergence Blending Global Finance (2021): 38.

113 Data furnished by the World Bank's Private Participation in Infrastructure database.

114 See: World Bank (2021): Private participation in infrastructure (PPI): 2021 Half Year (H1) Report.

115 See: Nancy Lee, Mauricio Cardenas Gonzalez and Samuel Pleeck (2022): More blended finance? Not so much: the results of CGD's Survey on Aid Agencies and Blended Finance. Blog Post: Center for Global Development.

This time around, one must answer affirmatively, and with considerable trepidation.

### (II) Divestment and the Many Consequences / Externalities of Derisking

Most immediately, MfD can be seen to have intensified the very investment crisis that was its raison d'être. In simultaneously failing to marshal significant capital private flows *and* obstructing-cum-delegitimating the use of public finances, the initiative's net consequence for infrastructure investment can be deemed neutral at the very best. In view of the high leverage moment in history at which those pushing MfD have intervened — a moment that seems likely to represent the planet's final chance to fend off a climate catastrophe — such a net zero effect equates to a tragically missed opportunity.

To the extent that the institutions backing this initiative can be charged with mystifying the truth that public resources will need to play a leading investment role should we have any chance of fending off the worst,[116] presenting MfD as a mere missed opportunity might even be considered too generous an adjudication.

In building upon past reform initiatives in the spaces of privatisation and public-private partnerships, MfD also ensconced a number of longer-running dynamics that are of substantial concern. Politically and developmentally, there are the myriad consequences inherent to a strategy premised on attracting credit money from abroad and turning over essential elements of a country's utilities, infrastructure assets and capital stock to foreign parties. These consequences include the heightening of many MENA economies' external dependence, the expediting of the commodification of public goods and the conducting of outward transfers of wealth.

The first two effects follow directly from MfD's contributions to non-nationals' acquisition of critical assets. As pertains to dependence, the causality is hard to miss: in handing over elements of energy, transportation, logistics, water, financial and food systems infrastructure to external parties (be they benevolent or not), a country, by definition, suffers losses in terms of economic sovereignty and its capacity to act independently. As for the point on commodification, this is an outcome born of both investor fear of market distortions as well as of their preference for projects offering predictable future cash flows. Cognisant that the former could render an investment non-competitive, investors will tend to insist that existing subsidies be lifted or reduced and that the tariffs paid for water and energy consumption be rationalised prior to committing their capital.

Cognisant too that availability-based PPPs — arrangements whereby a government agrees to directly transfer designated sums to the private counterparty in exchange for the latter providing a service or constructing an asset — render project viability contingent on a state's somewhat discretionary performance evaluations, investors will also tend to insist that contracts be structured as user-pays concessions. The revenue structure of user-pays concessions, regarded as more bankable by the investor, is built on the final consumer of a service paying a fee — be it for the use of water, energy, a highway or medical care. The adoption of this pay-to-play model *ipso facto* implies the commodification of public service provision and in conjunction with the lifting of subsidies, facilitates the market's colonisation of domains once outside its remit. Due to MfD-related projects and a host of other variables, the creeping effects of commodification of public goods can now be observed across a number of spaces within the MENA countries this study focuses on. As private money becomes more central to infrastructure investment in the years ahead, these dynamics can be expected to intensify.

MfD's relation to outbound transfers of wealth, meanwhile, derives from the outsized returns that participants in these investment projects earn for themselves.[117] For those providing debt financing, interest rates of nine per cent can be expected in the case of loans to the renewable energy sector, a return roughly 250 per cent greater than can be achieved on similar credit arrangements in Europe.[118] Yields on equity are even higher, regardless of derisking measures installed. This claim may be unsurprising given the enormous profit rates (11–13 per cent on average) that private actors are able to extract from OECD countries when taking equity positions in infrastructure-centric PPPs.[119] Nevertheless, the figures we are speaking of in the region — 20–25 per cent annual yields — are jarring all the same. Indeed, even Morocco's Noor 1 Concentrated Solar Power project in Ouarzazate — generally regarded as one the region's most successful derisking operations and a project where the procurement process was genuinely competitive[120] — equity holders have been able to secure annual profits of 13.1 per cent.[121]

Such elevated returns necessarily imply a net loss of income from the country hosting the infrastructure project to the country owning the project's debts or equity,[122] a loss that may only

116 See: Kenny (2022).

117 For a more systemic analysis of the benefits of MfD for the investor classes, see: Fathimath Musthaq (2020): Development finance or financial accumulation of asset managers? The perils of the global shadow banking system in developing countries, in: *New Political Economy* 26:4.

118 Nataliya Kulichenko and Jens Wirth (2011): Regulatory and Financial Incentives for Scaling up Concentrating Solar Power in Developing Countries. Energy and Mining Sector Board Discussion Paper no. 24: World Bank.

119 Fitzpatrick et al. (2014): 45.

120 Abdelilah et al. (2020).

121 See: Thomas Schinko and Nadejda Komendantova (2016): Derisking investment into concentrated solar power in North Africa: Impacts on the costs of electricity generation, in: *Renewable Energy* 92: 280.

122 For examples of this foreign ownership phenomenon: Jordan's largest wind, solar and thermal energy projects are owned by either Korean, Saudi Arabian or Emirati investors. One of Egypt's largest wind farms — Lekela Egypt Wind Power — is owned by Actis, a London-based private equity firm. Morocco's largest solar plants are owned by Saudi capital.

be mitigated (or reversed) in the event that the capital provided manages to spur economic activities in the host country that would otherwise never commence. It is possible to argue, of course, that such transfers represent an inevitable if not necessary cost of the region acquiring the infrastructure required to survive the coming century: capital, intellectual property and technological endowments are, after all, what they are. Nevertheless, acknowledging these facts does nothing to reduce their implications. As the kinds of capital returns we are speaking of also serve to elevate the break-even price level that must be cleared for a project to achieve commercial viability, one should note that the costs of securing foreign investment will often include elevated prices for the final consumer of essential goods and utilities.

In addition to contributing to international wealth polarisation and prospective sovereignty losses, certain aspects of MfD programming have given rise to novel sources of fiscal risk. Most of these stem from the derisking measures governments have been tasked with installing — the acceptance of contingent liabilities (CLs) first and foremost. Be it due to the naivety with which MENA governments have approached the question of *privatised* infrastructure[123] or the difficulties they have understandably experienced in navigating the complex financial and legal structures of PPPs,[124] regional policymakers have evinced a tendency towards establishing large off-the-books financial commitments via the extension of demand guarantees or similar forms of project backstopping. Though adopting these measures can help keep the national accounts looking healthy, they do nothing to reduce the size of the bill the state stands to inherit in the final instance. The Palestinian Authority learned this the hard way when revenue guarantees offered to the privately owned Palestinian Electricity Company saw it forced to compensate the latter for millions of foregone revenues after its power plant ceased to operate due to the actions of the Israeli Defense Forces.[125]

As PPPs continue to proliferate throughout the region, these kinds of situations are certain to recur, and for far more mundane reasons than the hostile interventions of an occupying army. Indeed, given the frequency with which expected traffic for project use have been inflated when it comes to major infrastructure developments (including in Tunisia[126]) — estimations which in turn inform the revenue projections which the private counterparty inserts into a PPP contract and, by extension, the financial obligations the sovereign must often accept — they are most likely to happen merely by dint of over-exuberant prognostications. Regardless of the cause, the dangers thereby posed to the public coffers will be significant. Globally speaking, the realisation of CLs in the domain of PPPs tend to cost 1.2 per cent of the host country's GDP.[127] Equally concerning, shocks of this type will often strike with no time for preparation. This is because of the commercial information confidentiality clauses in most PPP contracts, which leave watchdog organisations and even many elected officials ignorant of the extent of a state's liabilities until the moment they become due.

This is certainly the case in the MENA today, where a lack of transparency on existing contracts makes it virtually impossible to evaluate the size of contingent liabilities *ex-ante*. Amongst many other prospective negative effects, the occluded nature of these obligations increases the chances of a sharp and unexpected jump in public debt levels as well as of unplanned budget cuts, the latter of which is likely to hit the vulnerable the hardest. When we consider the revenues states have already foregone by their decision to privatise infrastructure assets in the first instance — never mind the income loss due to the generous tax incentives that are provided to investors throughout the region — to then incur such downside risks leaves the fiscal merits of these arrangements on but the flimsiest of legs.

The long-term nature of most PPP contracts — typically binding for 25–30 years — introduce a host of issues as well. Most immediately, the locking in of PPP-related expenditures within the state's mandatory budget across the span of decades serves to deprive elected officials of the fiscal manoeuvrability they need to weather the vagaries of shifting local and global conditions. Even the IMF's Fiscal Affairs Department has flagged this is a potential problem.[128] There is also the very real possibility that agreeing to contracts of such lengths will bind an economy to obsolescent technologies. Such risks pertain especially to projects involving renewable energy production — a major focus of MfD in the MENA — where frontier technologies witness rapid evolutionary growth. Then the prospects of rent-seeking must be considered. Indeed, according to the World Bank's own top economists for the region, PPPs in these spaces, lest deftly structured, can invite private counterparties to forego the adoption of best practices — to collect cheques for years on end while providing suboptimal services at above-market prices.[129] Alas, beyond offering warnings in the quiet pages of a working paper, it is far from clear that the WBG has actually aided regional governments in negotiating PPP contracts in the manner needed to avoid such eventualities.

To conclude on these aspects of MfD, it is worth driving home just how reckless the bet on PPPs and privately run infrastructure is. Regardless of where they are implemented, these types

123 Fitzpatrick et al. (2014): 27.

124 Ibid: 31.

125 For more on this, see: Toufic Haddad (2016): *Palestine Ltd.: Neoliberalism and Nationalism in the Occupied Territory.* Bloomsbury Publishing: 134–138.

126 See: Jihen Chandoul and Cecilia Gondard (2019): Failure to fly: Challenges and lessons learned from public-private partnerships in Tunisia. Report: Tunisian Observatory of the Economy and Eurodad.

127 Elva Bova, Marta Ruiz-Arranza, Frederik Toscani and H. Elif Ture (2016): The Fiscal Costs of Contingent Liabilities: A New Dataset. Working Paper: International Monetary Fund: 13.

128 See: Jane Lethbridge and Pippa Gallop (2020): Why Public-Private Partnerships (PPPs) Are Still Not Delivering. Report: European Network on Debt and Development and European Public Service Union (December 2020).

129 Arezki and Belhaj (2019): 14–16.

of arrangements have rarely returned value for money, and in the instances where they have, they have often done so at the expense of product/service quality. Moreover, if it is truly the case, as the World Bank Group has itself asserted, that a PPP's prospects of success are contingent on the presence of »strong state capacity and integrity«, it seems odd that the institution would nevertheless insist upon their use in the case of the MENA. Was it not, after all, in making the argument for why the Arab state cannot lead the green transitions that the World Bank contended these states to be deficient in precisely those qualities?[130]

It would appear to be more prudent to heed the words of interviewees cited in a European Investment Bank report released two decades ago: »If you're a good public sector, you shouldn't need PPPs. If you're bad, you shouldn't go near them.«[131]

Derisking investment opportunities via granting investors recourse to international arbitration — a measure MfD advocates have presented as being essential despite the data on the relationship between arbitration access and increased investment flows being ambiguous at very best[132] — has proven every bit as problematic. In the decade since the Arab uprisings, 60 investor-state dispute settlement (ISDS) cases have been brought against MENA states, roughly 8.2 per cent of the global total.[133] Saliently, a plurality of all the cases over the past ten years have concerned disputes over infrastructure assets, with monetary compensation being awarded to the relevant private claimant in slightly less than a third of all the decisions rendered. In terms of amounts, the financial penalties in question have not infrequently been of a magnitude sufficient to threaten a government's annual budget. Prior to being saved by Egypt's Court of Cassation, for instance, the Libyan state was to be on the hook for paying Kuwaiti investors for 83 years of lost future profits (approximately 900 million US dollars) as result of a broken contract concerning the construction and operation of a tourism complex. Since 2012, private claims registered against Egypt, meanwhile, have added up to a gross sum of 22 billion US dollars. Pending an annulment, one such arbitration ruling alone is poised to cost the state two billion US dollars.[134] Factoring in the high costs that states incur merely by retaining legal counsel to represent them at these tribunals — approximately 8–10 million US dollars per case[135] — the fiscal dangers presented by *derisking* a country's business climate through providing access to external arbitration is clear, present and substantial.

### (III) Opening the Gates to Financial Volatility

Finally, there is a discussion to be had about the abundant risks introduced by MfD's advance of financial liberalisation.

There is, at this stage, a well-developed literature establishing the relationship between this kind of liberalisation — inclusive of the lifting of capital account regulations and the wider move to market-based finance — and capital flow bonanzas, particularly in the Global South.[136] Such a relationship derives from the hierarchical structure of the global financial system itself.

As scholars from a number of different disciplines have recently emphasised, this is a system that sees money capital *and* knowledge production concentrated in a handful of Northern capitals (as well as in the offshore sites that financial actors based in these metropoles use for purposes of secrecy, wealth preservation and tax avoidance).[137] By dint of the material and epistemological power concentrated in this handful of cities, it is their *parochial* dynamics — liquidity conditions above all else — which not only shape credit conditions throughout the world, but asset and commodity prices as well.[138] When liquidity is abundant within the global financial centres (GFCs), the major financial institutions tend to seek out greater yield in emerging markets, be it by arbitraging interest rate differentials on the price of credit or by buying up properties of one variety or another. This type of speculation triggers sharp spikes in asset prices within the country receiving the capital flows, and often an appreciation of the local currency as well. It also tends to bias the receiving economy towards financial activities, thereby distorting macroeconomic fundamentals and expediting broader processes of financialisation. In light of the latter's residual effects on inequality, premature deindustrialisation and democracy, the negative consequences of the boom times

130 Lethbridge and Gallop (2020): 14.

131 Quoted in: Robert Bain (2009): Review of Lessons From Completed PPP Projects Financed by the EIB. Report: European Investment Bank.

132 Joachim Pohl (2018): Societal benefits and costs of international investment agreements: a critical review of aspects and empirical evidence 2018. Working Paper: OECD.

133 Amongst its regional peers, Egypt is currently the most exposed to the forcible rulings handed down by these extrajudicial tribunals, the most significant of which are seated at the Arab Investment Court.

134 The case involves a post-2011 government suspension of a pre-existing gas purchase agreement with Spain's Union Fenosa Gas. As things stand, Egypt will be obligated to pay more than two billion US dollars to the private claimant.

135 See: Roeline Knottnerus (2013): The EU Trade and Investment Agenda: Quashing the Aspirations of the Arab Spring? Report: Transnational Institute.

136 See: Elissa Braunstein (2018): Financial crises among emerging and developing economies in the modern era, in: Gerald Epstein (ed.) *The Political Economy of International Finance in an Age of Inequality: Soft Currencies, Hard Landings*. Edward Elgar Publishing. Yilmaz Akyuz (2017): *Playing with Fire: Deepened Financial Integration and Changing Vulnerabilities of the Global South*. Oxford University Press.

137 See: Ilias Alami et al. (2022): International financial subordination: a critical research agenda, in: *Review of International Political Economy.* Bruno Bonizzi et al. (2022): Financialised capitalism and the subordination of emerging capitalist economies, in: *Cambridge Journal of Economics* 46:4.

138 Silvia Miranda-Agrippino and Helene Rey (2020): U.S. Monetary Policy and the Global Financial Cycle, in: *Review of Economic Studies* 87. Andrew Rose and Mark Spiegel (2009): International financial remoteness and macroeconomic volatility, in: *Journal of Development Economics* 89:2.

alone can be seen to be substantial.[139] For MENA economies already trending in the direction of financialisation, those negative consequences could be even more pronounced.

What is more, the busts that follow capital bonanzas — the probability of which is increased by adopting MfD-styled financial reforms — are likely to create issues of a far greater magnitude. As is the case with boom times, the occurrence of these busts in the Global South (MENA included) is overdetermined by the position of these countries within the global financial system. When liquidity conditions tighten in the GFCs — be it due to a shift in central bank policy or a shock like the sudden devaluation of mortgage-backed securities in 2007–2008 — the need to maintain solvency and the ability to borrow dictates that large investors convert their portfolios into the most liquid assets possible. Materially, this implies a rush for safe-haven assets such as dollars and US treasuries, and, inversely, a rapid deleveraging from less liquid properties such as emerging market debt and equities. During the Federal Reserve's »taper tantrum« of 2015, for instance — actions which made credit relatively less available in the Global North — emerging markets witnessed capital outflows of 735 billion US dollars.[140]

For the countries hosting these fire sales, their onset introduces a number of harrowing developments. In the most immediate sense, capital flight will imperil a country's balance of payments, threatening rapid currency depreciation and the ability to both pay for imports and cover debt repayment obligations. The crash in asset prices set in motion through fire sales opens the door to two other dangerous scenarios as well. In the first, vulture funds and similar actors from the Global North swoop back into the country to purchase distressed treasuries for peanuts. After acquiring these bonds, the parties in question would be able to prevent a government from negotiating a debt restructuring with its creditors, as happened in Argentina, and sue to have their assets — acquired for but a fraction of their face value — paid out in full. Such a development would vastly reduce the state's capacity to contain the fallout from the original crash, and prolong recessionary conditions as a result.

In the second scenario, a catastrophic expansion of sovereign debt is introduced. This stems the potential effect of the asset price crash on the domestic banking system. If the assets held on the balance sheets of these banks were to lose considerable value and their access to international capital markets were to tighten — both high probability events in the context of a global financial panic — the ability of these institutions to cover their own liabilities would decline commensurately. Staring down a cascade of prospective defaults, policymakers would be pressured into recapitalising the banking system, lest they risk a full-blown financial crisis. The present and future costs of doing so, however, can be enormous. Indeed, historically, it is explosive episodes such as these and the bailouts they demand — not the running of annual fiscal deficits — that have served to elevate the public debt to dangerous and developmentally corrosive levels.[141] To the extent that MfD increases the risk of an economy suffering such an episode through deepening its integration in the global financial system, it may pave the way not to achieving the SDGs, but to debt bondage.

These dangers are hardly theoretical when it comes to the MENA region. A 2020 study published by the IMF established that the region is the most sensitive in the world when it comes to shifts in sentiment and liquidity conditions within the GFCs.[142] This sensitivity unfortunately reared its head in early 2022, with devastating consequence for Egypt in particular. After liberalising its local treasuries market in the manner prescribed by MfD — and providing some of the highest yields on sovereign debt in the world — Egypt had managed to attract significant capital inflows in recent years. When the Federal Reserve began hiking rates in late 2021, however, the direction of these capital movements quickly reversed. Between January and March alone, investors offloaded more than 15 billion US dollars' worth of the country's treasury bills, repatriating their dollars in the process.[143] The rapid depletion of foreign currency reserves not only rendered Egypt one of the countries that is, at the time of writing, most at risk of a sovereign default. It also precipitated steady depreciation of the pound, the selling of valuable national assets to Gulf investors, a variety of crushing emergency measures — including energy rationing, and an imminent return to IMF-imposed austerity.

If it had not already been clear, Egypt's example ought to clarify the considerable downside risk that is intrinsic to MfD-style financial sector reform. As countries in the region accelerate their own pushes for reform in the years ahead, we can expect more of these types of outcomes.

139 For discussions on the effects of financialisation on all these dynamics, see: Philip Mader, Daniel Mertens and Natascha van der Zwan (eds.) (2020): *The Routledge International Handbook of Financialization*.

140 See: Ilene Grabel (2018): Capital Controls in a time of crisis, in Gerald Epstein (ed.) *The Political Economy of International Finance in an Age of Inequality: Soft Currency, Hard Landings*. Edward Elgar Publishing Ltd..

141 Laura Jaramillo, Carlos Mulas-Granados and Elijah Kimani (2016): The Blind Side of Public Debt Spikes. Working Paper 16: International Monetary Fund.

142 Jihad Azour and Ling Zhu (2020): Ensuring the Benefits of Capital Flows in the Middle East, in: *IMF Blog* (January 2020).

143 Mamdouh al-Wali (2022): 'Hot money' leaves Egyptian debt instruments 10 times in 16 years, in: *Middle East Monitor* (12.4. 2022).

# Section Five: Conclusions

It is difficult to argue against the non-Gulf countries of the Middle East and North Africa being in need of some kind of financial reforms. Generally, credit intermediation in the region can still be characterised as dysfunctional, exclusionary or predatory. Relative to comparators, banking systems evince higher levels of concentration and lower levels of competition.[144] Collateral requirements imposed on borrowers remain prohibitively high.[145] In conjunction with a host of other variables, this leads nearly half of all firms in the Palestinian territories, Iraq, Jordan and Lebanon to identify a lack of access to finance as a major constraint to business development, and nearly one in every four in Morocco, Egypt and Tunisia.[146]

Existing efforts to mobilise foreign investment, meanwhile, are woefully inadequate. In terms of volumes, FDI inflows into the MENA region plateaued nearly a decade ago and have been in decline since 2014. As of 2018, flows were still only about half what they had been in 2008.[147] From such low levels they then collapsed by 80 per cent in 2020 with the outbreak of SARS-CoV-2, a decline more than twice the global average. To date, few signs of recovery are observable. To make matters worse, the capital that is moving in — predominantly from the Gulf — tends to settle in speculative non-tradables such as real estate, generating preciously little in terms of social or developmental benefit as a result.

If we take stock of things as they are more generally, the picture grows even bleaker. Coronavirus devastated MENA economies in 2020 to a degree exceeded only by the countries of Latin America and though the long-term repercussions of the shock are hard to estimate, they are certain to be pronounced. According to Daniel Munevar's calculations, MENA countries will not return to pre-pandemic GDP per capita levels until 2024.[148] With global growth rates in 2022 vastly underperforming projections and commodities markets ravaging energy and food importers, tragically, Munevar's projections might even be optimistic. The burden of servicing debts will be certain to cripple public investment in the coming years as well. For 2022, the World Bank anticipates that service on external debts alone will amount to more than 7.2 billion US dollars in the case of the Egyptian state, 2.23 billion US dollars in the case of Jordan's, and 4.3 billion US dollars, 3.13 billion US dollars and 1.74 billion US dollars for governments in Lebanon, Morocco and Tunisia, respectively. With growing sums also being earmarked for paying back local lenders, barring any change, states' ability to fend off advancing ecological collapse will effectively be null.

If this state of affairs establishes the necessity for bold change, this report has hopefully established why plans to maximise finance for development do not represent the appropriate fix. For reasons already explained, the mix of hopeium, financial liberalisation and aggressive derisking being promoted under MfD constitute less an elixir for climate resilience than a recipe for greater volatility, deficient investment and rising public indebtedness. Accounting for prospects and opportunity cost, one can only recommend that the programme be abandoned by relevant parties as soon as is possible, before any more time is wasted or any more damage done.

The development of fully considered and realistic alternatives to MfD is, unfortunately, beyond the scope of this report. Please see the attached Policy Brief for a proper discussion of this nature. In conclusion, allow us to merely say that any path to a better future will be paved less with derisking and financial innovation than with debt relief, climate reparations, capital controls and emboldened public investment. Though insufficient for realising the SDGs in and of themselves, such measures represent a necessary input to any successful programme. Without them, frankly, it is hard to imagine a scenario where the region escapes some truly harrowing outcomes in the decades ahead.

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144 See: World Bank Global Financial Development Database

145 See: OECD (2019): Access to finance and capital markets, in: *Corporate Governance in MENA: Building a Framework for Competitiveness and Growth*.

146 See: World Bank Enterprise Survey Database.

147 Al-Hussami et al. (2021): 40.

148 Daniel Munevar (2021): A debt pandemic: Dynamics and implications of the debt crisis of 2020. Briefing Paper: Eurodad.

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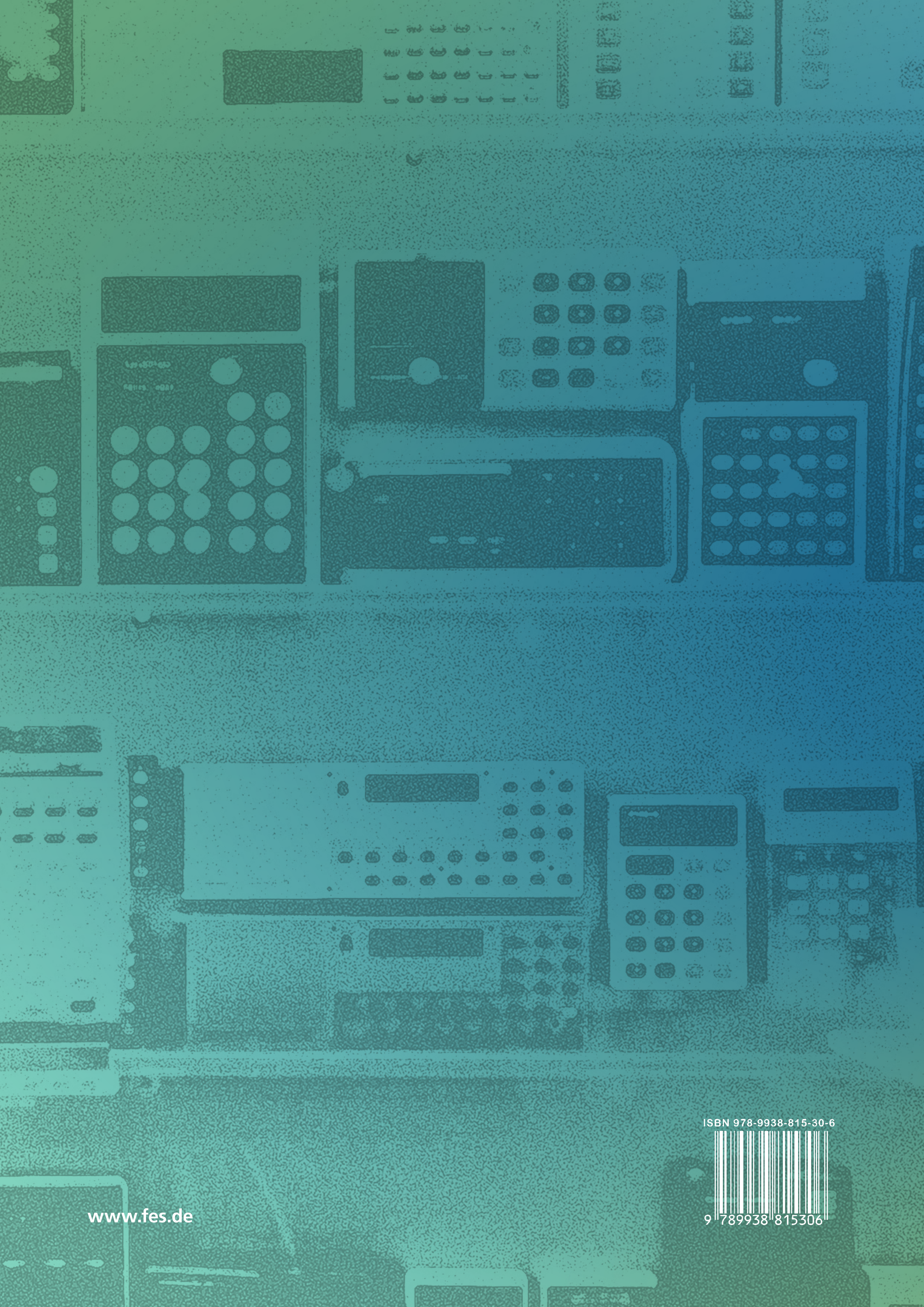

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