Side events

Blended finance

30th November 2016

Objective:

Financing the ambitious 2030 Agenda for Sustainable Development will be a huge undertaking, with a funding gap estimated at US$1.9–3.1 trillion each year between now and 2030. Blended finance – using development cooperation to de-risk, crowd-in or 'leverage' private investments in development – has been presented by some as having the potential to help fill this funding gap. Yet challenges exist in delivering blended finance in line with development effectiveness principles, and evidence allowing stakeholders to understand the opportunities and risks involved is limited. This panel discussion between providers of blended finance and key stakeholders and experts from civil society and partner countries aimed to explore blended finance partnerships, deepen understanding of challenges and opportunities for development effectiveness and, where possible, identify solutions.

The objectives of the event were to:

- promote commitments to enhancing the effectiveness of blended finance under the auspices of the GPEDC;
- create a community of stakeholders interested in driving behaviour change and monitoring progress;
- increase participants' awareness of the contributions, risks and challenges blending may present for the financing and delivery of Agenda 2030.

Participants:

Panel

1. Mr Klaus Rudischhauser, Deputy Director General, Directorate-General for International Cooperation and Development, European Commission
2. Dr Fanwell K. Bokosi, Executive Director, Afrodad
3. Mr Rolando G. Tungpalan, Deputy Director General (Undersecretary) for Investment Programming of the National Economic and Development Authority (NEDA) in the Philippines
4. Mr Suresh Samuel, Managing Director for Africa, OPIC

Moderator Ms Harpinder Collacott, Development Initiatives

Key issues discussed:

Ms Harpinder Collacott welcomed the panellists and audience. She cited the background briefing[1] for the session, noting that blended finance was a new and growing form of development cooperation, accounting for US$14.3 billion of international flows to developing countries in 2014. However, at current rates of growth, data show blending is unlikely to mobilise enough finance to

[1] Development Initiatives, Oxfam International, and UK Aid Network (2016) Innovation...and effectiveness? Challenges, risks and opportunities for blended finance. http://devinit.org/#!/post/innovation-and-effectiveness-challenges-risks-and-opportunities-for-blended-finance

meet the financing needs of developing countries for the Sustainable Development Goals (SDGs). She therefore challenged the panel to consider how blended finance could be used more effectively for financing the 2030 Agenda, and to consider the relevance of the GPEDC for this purpose.

Mr Suresh Samuel opened by introducing the Overseas Private Investment Corporation (OPIC), the US Government's development finance institution. OPIC's ambition in Africa is catalysing private sector investments. They do this by providing financial products, including long-term loans, political risk insurance and support for private equity funds. Mr Samuel noted that for OPIC, blended finance is becoming another 'tool in the toolkit', which is not intended to displace ODA but rather increase the types of funding available. Currently, OPIC primarily uses blending for financing large infrastructure projects; they report blended finance activities to the OECD DAC Creditor Reporting System as 'other official flows' (OOFs). He shared an example of a recent project financed through blending: OPIC provided a long-term (15 year) loan in a co-financing arrangement with private investors to secure financing for a power plant in Nigeria. As part of this arrangement, the World Bank came in to provide a credit guarantee. The project 'catalysed' investments from private investors. Mr Samuel also shared the case of OPIC's East Africa Loan Guarantee Facility, which provides financing for small agribusinesses facing difficulties in securing loans due to perceived risk. The Facility works with local banks: it takes on a portion of their portfolios and provides guarantees against risks, so the banks can invest further in riskier areas.

Mr Ronaldo Tungpalan, representing the government of the Philippines, said that blended finance is not entirely new in his country. For his government, the idea is to move the approach to partnerships for financing development beyond governments only, involving both national and subnational actors, and all converging around a single results framework. Mr Tungpalan noted that the utility of aid to catalyse and reduce risk for private investments can be both direct and indirect. The indirect approach is the 'macro' approach, which uses ODA to improve macroeconomic policy and the investment-friendliness of the country, for example through public sector reforms. More directly, ODA is used in blended finance to catalyse investments in infrastructure and to bring in much-needed capacity, technology and innovation. Both uses of aid are important. The Philippines mainly implements build-operate-transfer schemes,[2] under public–private partnerships (PPPs), though in future they may use other modalities.

Dr Fanwell Bokosi of Afrodad then shared the perspectives of civil society, who are sceptical about blended finance. CSOs do recognise that there is an annual financing development gap of approximately US$2.5 trillion that prevents developing countries attaining the SDGs, and that this gap will not be filled by traditional development financing. The reason often given to justify the support for blended finance is that about US$280 trillion of private capital is available to be unlocked for development. However, the motive of the private sector is not to achieve development impact but to make a profit, and therefore Afrodad has concerns about the narrative around blending, the instruments proposed to achieve these goals and whether blended finance is the solution to mobilising private investments. Dr Bokosi raised key issues and challenges, including the lack of evidence on leverage ratios. He noted that different leverage ratios are claimed by development finance institutions and donors, which makes it difficult to know how much finance blending can generate. For this reason, he recommends instead focusing energies on domestic resource mobilisation. Dr Bokosi also said that none of the top 20 countries receiving blended finance is a low income country. He said that private finance tends to follow profit opportunities, which may mean less potential benefit from blending for the poorest countries, and that donors increasingly pursuing blending may 'skew' the development agenda. Dr Bokosi noted the need for clear methodology for assessing financial additionality, greater transparency and accountability, including for the private actors involved, ensuring decision-making is transparent to the public.

[2]BOTs are a form of project financing, wherein a private entity receives a concession from the private or public sector to finance, design, construct, and *operate* a facility stated in the concession contract.

Mr Klaus Rudischhauser of the European Commission stated that the EU wants to ensure that the contributions of blended finance support a poverty-focused development agenda; many developing countries have trouble mobilising resources, and this is the rationale justifying blended finance. He also noted that blended finance is not a homogeneous resource, but comes in many different forms. Clarifying the EU context for generating blended finance partnerships, he said that the EU invites development banks and partner countries to present development projects, usually in public infrastructure. Development banks will ask the EU to contribute to projects that they (and host countries) cannot finance privately, and the EU will often finance feasibility studies and provide equity and liquidity arrangements. Projects are development focused, for example in the renewable energy sector. The proposed new European External Investment Plan for Africa[3] is designed to expand the use of blended finance on the continent.

The private sector needs different forms of support, instead of just loans, such as equity and guarantees. Blending is an attempt to expand the 'toolbox' of available, innovative financing tools. Responding to Dr Bokosi's point, Mr Rudischhauser clarified the leverage rate for the EU is 1:40 (one Euro of aid brings 40 Euros of private money). In his view, blending instruments support developing countries to access reasonable, long-term financing. Considering risks and challenges, he noted that when reviewing the country context for blending, the EU considers different factors, such as indebtedness, to inform a decision on financing instruments used. Blended finance approaches can support country ownership, as they provide incentives for the host country to 'own the project', perhaps more so than grant financing. The EU has built experience in understanding where blending works, and will not finance projects that do not have a development objective. Mr Rudischhauser also noted that when the EU uses ODA funds they apply 'ODA standards'.

The moderator asked Mr Tungpalan how his government manages potential risks. Mr Tungpalan advised that his government provides viability gap funding for companies; they have also institutionalised a 'risk matrix' and are familiar with which risks are best borne by government. His government tries to maintain strong oversight of the private sector to ensure it delivers development results.

Mr Haje Schutte, of the Development Policy Division, OECD, referred to the speech made by President Kenyatta during the HLM2, which highlighted the need for countries to leverage the private sector to play a role in development. OECD are working to define blended finance and methodologies to measure it, including through surveys assessing amounts mobilised through blending; improvements in reporting the ODA used in blended finance instruments by DAC members; and developing case studies to capture impacts and inform best practice. The GPEDC is a useful forum to discuss this because of its inclusion of multiple stakeholders. The DAC chair therefore invites GPEDC stakeholders to continue the discussion with DAC members on effective blending.

Dr Paul Oquist Kelley, representative of the Presidency of Nicaragua, stated that, like the Philippines, Nicaragua has been undertaking blended finance partnerships with the private sector to finance infrastructure and renewable energy projects, for example through the Forest Carbon Partnership Facility. In this case, grant funding from the World Bank was used to de-risk investments and create incentives for private sector investments for re-forestation in the country.

Mr Jeroen Kwakkenbos of Eurodad countered Mr Rudischhauser's points on the EU's use of blending, asking (if a leverage ratio of 1:40 exists) whether additionality can be questioned. In this case, is the public intervention really making a difference? He noted that the OECD needed to broaden the discussion on definitions to ensure all stakeholders have clarity on what blended finance means and what impact it has.

Mr Alex Nkosi of the Africa Trade Union Development Network (ATUDN) stated his concerns about managing the divergence of motivations between public and private actors, and how to

[3] http://europa.eu/rapid/press-release_MEMO-16-3006_en.htm

reconcile different results intended. A case study that ATUDN had conducted in Malawi pointed to the need for greater transparency and accountability to both civil society and to parliament around private investments in development. There is a need for privately financed projects to safeguard people in poverty (for example, ensuring projects do not result in expensive tariffs or fees for services), and create decent work (safeguarding against labour abuses).

Responding to these points, the panellists agreed that there is a need to tread with care as we move into new areas, and a need for blended finance to be targeted where it can have impacts. It was also noted that blending does not remove the risks to financing actors, but transfers risk to the public sector, and this needs to be managed very carefully.

Conclusions and next steps:

The panel concluded that it was important to enhance the effectiveness of blended finance, highlighting priority action areas, and noting areas where the GPEDC could support these efforts:

Creating tools to enhance impacts of blended finance on poverty: understanding how effectiveness principles can be adapted for new instruments and developing guidelines; defining key principles of blending like 'additionality'; building frameworks for understanding impacts of blending on development; developing tools for supporting actors in managing different objectives between public and private partners to ensure people in poverty benefit and are safeguarded. *The GPEDC can inform blended finance actors about development effectiveness principles, input to results frameworks, and support planning, delivery and evaluation.*

Building clarity and mutual understanding of blending instruments through definitions and reporting: GPEDC stakeholders should engage with DAC efforts to help clarify definitions and build understanding of instruments. Additionally, the Total Official Support for Sustainable Development (TOSSD) measure being developed can help give visibility to non-ODA flows used in blending. *The GPEDC could build links with the DAC and UN discussions on TOSSD to ensure discussions are informed by multi-stakeholder dialogue.*

Building institutions and systems that can support impactful partnerships: panellists noted the critical importance of good governance and public sector oversight to monitor and direct the private sector, and the necessity of strong country ownership to oversee private investments in-country. *The GPEDC can bring together government and the private sector to help define strategies and results frameworks, and support dialogue about where blended finance can play a role.*

Supporting the use of blended finance in delivering on international commitments: the Addis Ababa Action Agenda commits governments to mobilising a wide range of resources for development, and the SDGs commit public actors to partnering with the private sector to deliver development, but the technicalities of 'how' are missing from these agreements. *The GPEDC can support actors to deliver on these commitments by providing an inclusive platform for technical dialogue, ensuring blended finance is delivered in line with effectiveness principles, and that partnerships called for by international agreements are informed by technical knowledge*.

The organisers of the event will be working to take forward next steps, in partnership. If you would like to be involved, or have feedback on this note, please contact:
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