SCALING BLENDED FINANCE IN DEVELOPING COUNTRIES, LDCS & SIDS: CHALLENGES AND OPPORTUNITIES

Jointly hosted by the [OECD Private Finance for Sustainable Development Community of Practice (CoP – PF4SD)] and the [Tri Hita Karana Blended Finance Platform], in support of Indonesia's G20 Presidency and the work of the G20 Development Working Group on Innovative Finance for Sustainable Development

TUESDAY 22ND MARCH 2022, MEETING HIGHLIGHTS

BACKGROUND

The **2030 Agenda for Sustainable Development** – with the Sustainable Development Goals (SDGs) at its core – and the **Paris Agreement** on climate change have redefined global ambitions: creating a better world for all is a collective responsibility. The **Addis Ababa Action Agenda** provides the framework and calls on a diverse array of actors – governments, private sector investors, businesses, foundations and individuals – to finance these collective ambitions.

Blended finance – the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries – has become an established pillar of the financing for sustainable development landscape. While not a silver bullet that will solve the myriad challenges associated with mobilising investment for the SDGs, blended finance can complement other approaches.

However, despite existing efforts and agreed principles on blended finance, blended finance flows are far from reaching the scale needed. This is most marked in Least Developed Countries (LDCs) and Small Island Development States (SIDS), and social sectors. While important efforts are underway, **frameworks and standards for developing country policymakers and practitioners are currently lacking**.

The OECD is undertaking work on behalf of the Indonesian G20 Presidency's to support developing country policymakers to address this shortfall and overcome obstacles to blended finance, even in the most challenging contexts.

Synopsis

PARTICIPATION

120 participants, including representatives from foreign affairs and development co-operation, impact investors, development banks and other international financial institutions.

FORMAT & APPROACH

The meeting commenced with opening remarks and a presentation from the OECD, followed by an expert panel discussion on the proposed Action Areas to scale blended finance:

1. *Create conducive investment climates, and develop and deepen domestic financial systems;*
2. *Target local development priorities and 'the last mile' in the context of blended finance';*
3. *Aim for scale through systematic and transformational approaches;*
4. *Generate and disseminate information and evidence on what works in blended finance, what does not work and why.*

The meeting provided an opportunity for blended finance experts to provide feedback on the challenges remaining to scale blended finance and proposed action areas.

OPENING REMARKS

Haje Schütte, Senior Counsellor and Head of the Financing for Sustainable Development Division at the OECD, opened and highlighted the three objectives of the meeting: reflect on main challenges to bring blended finance to scale in developing countries; gather insights on success factors and lessons learned in scaling blended finance; facilitate discussions around the proposed action areas for developing countries to bring blended finance to scale.

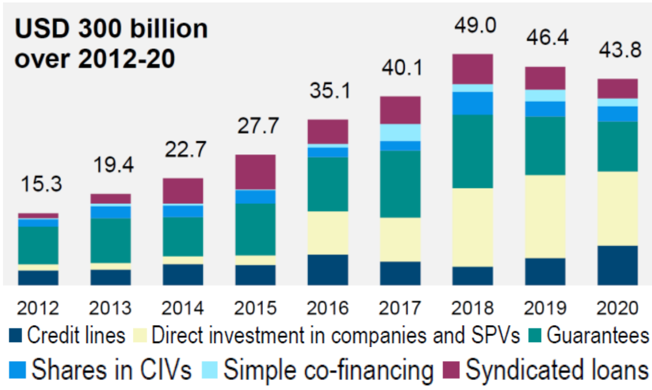
In her opening remarks, Ibu Raden Siliwanti, Director for Multilateral Funding, Ministry of National Development Planning of Indonesia (Bappenas), outlined that the Indonesian G20 Presidency aims to develop '*G20 Principles for Scaling Up Private and Blended Finance in Developing Countries, LDCs and SIDS*'. These principles will take a developing country perspective to create a vision for developing country actors to actively and effectively engage in blending and bring it to scale. The principles will build on existing frameworks and standards such as those from the Tri Hita Karana Blended Finance Platform, the OECD Development Assistance Committee and the Development Finance Institutions. This emphasis on developing country actors can serve as a powerful tool to harness the full potential of blended finance, including by addressing enabling environments for investments as well as implementation and capacity gaps that impede blended finance to reach scale.

Ibu Siliwanti further highlighted the need for effective partnerships among stakeholders to unlock private capital for local development priorities and highlighted the relevance of the private sector – as a vast source of capital, knowledge, technological innovation and job creation – for sustainable development in developing countries. Advancing the blended finance agenda in developing countries can create avenues to tap into these sources and enable them to grow further through access to private capital at scale. G20 blended finance principles will be critical to ensure a common vision exists to guide coherent and consistent efforts of bringing blended finance to scale.

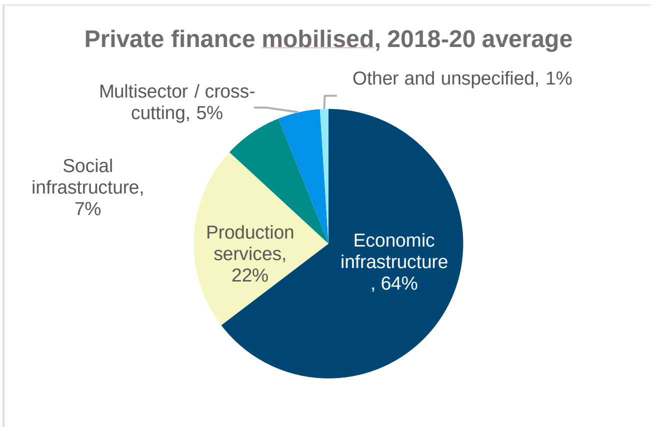
SCENE-SETTING PRESENTATION: CHALLENGES, OPPORTUNITIES & PROPOSED ACTION AREAS TO SCALE BLENDED FINANCE

Paul Horrocks, Manager of the Private Finance for Sustainable Development Team at the OECD, kicked off the discussions with a presentation of recent OECD data and research on private finance mobilised across regions and sectors, and the roadblocks to blended finance reaching scale in particular LDCs and SIDS.

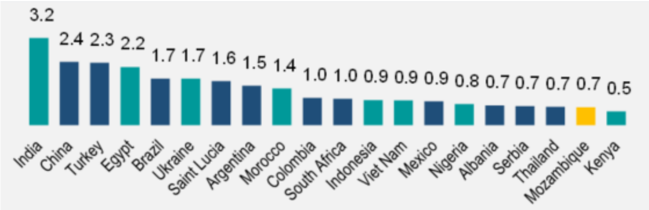
Indeed, there is a critical shortfall: private finance mobilised has experienced a downward trend since 2018, at a rate of 6% per year on average from 2018-2020.



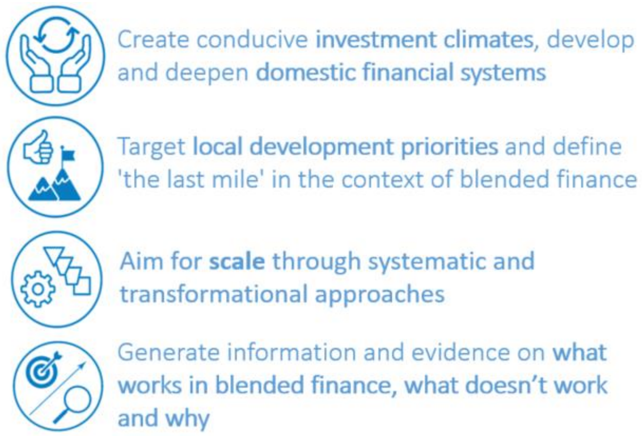
Importantly, only 10% of which was mobilised in LDCs and 7% towards social sectors respectively across the same time period. By contrast, 86% was mobilised towards banking and financial services from 2018-2020.



Mr Horrocks framed the challenges to implementing and scaling blended finance in developing countries threefold: (i) missing frameworks for developing country actors; (ii) reaching social sectors, such as public health, water supply and sanitation, and (iii) capacity in developing countries, in particular LDCs and SIDS.



The four Action Areas proposed by the OECD (below) represent an important step in providing a vision for developing country actors to more actively and effectively engage in blending and address these gaps.



SUMMARY OF DISCUSSIONS

Moderated by: San Bilal, Head of Economic Transformation and Recovery at European Centre for Development Policy Management

ACTION AREA 1. CREATE CONDUCIVE INVESTMENT CLIMATES; DEVELOP AND DEEPEN DOMESTIC FINANCIAL SYSTEMS

Sarah Alade, Special Advisor to President Buhari of Nigeria, stressed that private sector investments would be limited without an active government that tackles investment barriers head-on. Further, blended finance cannot be considered in a vacuum, but that its success is interlinked with macroeconomic stability.

Examples of good practice from Nigeria underlined these points. For instance, Nigeria's new 5-year development programme will see the introduction of legislative laws and reforms specifically targeted towards creating a more conducive investment environment. Complementary to these reforms, the infrastructure sector has already benefitted from blended finance in Nigeria, including with the support of GuarantCo where the private sector was mobilised at scale into a number of projects.

ACTION AREA 2. TARGET LOCAL DEVELOPMENT PRIORITIES AND 'THE LAST MILE' IN THE CONTEXT OF BLENDED FINANCE

Executive Secretary of the United Nations Capital Development Fund (UNCDF), Preeti Sinha, spoke to the need to promote local financing priorities and reaching the "last mile". Ms Sinha stressed that the 46 LDCs represent frontier markets that are investable with the support of institutions that have the capacity to reach contexts where other development finance actors might be constrained due to deal size or a lack of local expertise, regulation and infrastructure among other factors. Given their potential for economic growth and entrepreneurialism, Ms Sinha emphasised the need to channel more blended finance towards small and medium-size enterprises, which have the potential to break the poverty cycle, in addition to other target sectors such as digitalisation and local infrastructure. Additionally, Ms Sinha provided examples of increasing financial inclusion at (i) the institutional level through supporting e.g. local pension funds to participate in blended finance activities and (ii) and the individual level through e.g. loan repayments used to provide credit ratings allowing women entrepreneurs to borrow from local banks.

Participants echoed the need for blended finance to be rooted in a strong development rationale that is in turn grounded in national and local development priorities, as demonstrated by clear evidence of the long-term investment opportunities, jobs and other benefits created.

ACTION AREA 3. AIM FOR SCALE THROUGH SYSTEMATIC AND TRANSFORMATIONAL APPROACHES

Mr. Amar Bhattacharya, Senior Fellow at the Brookings Institution underlined that the 2030 Agenda cannot be achieved without developing countries. Complementing Mrs Alade's intervention, Mr Bhattacharya emphasised that blended finance needs to be considered alongside broader, systemic and macroeconomic conditions and developments, including human development (e.g. education), sustainable infrastructure and the clean energy transition. Mr. Bhattacharya further highlighted that private finance needs to play a dominant role in delivering the 2030 Agenda, but that the structures required for its mobilisation in developing countries are not yet in place. In particular, developing country actors, together with development co-operation providers, need to develop the policy and institutional underpinnings for mobilisation, and further create a more conducive international financing architecture.

An additional recommendation for bringing blended finance to scale from the audience was the integration of blended finance solutions across the project and investment lifecycle, and not only in the early stages. Achieving this will require effective multi-stakeholder coordination between actors with different mandates at each stage.

ACTION AREA 4. GENERATE AND DISSEMINATE INFORMATION AND EVIDENCE ON WHAT WORKS IN BLENDED FINANCE, WHAT DOESN'T WORK AND WHY

The choice for blended finance should be based on the assessment that it is delivering the best outcomes within a given project among all financing options available. Robert Kraybill, Chief Investment Officer at the Impact Investment Exchange (IIX), provided insights into impact measurement, monitoring and transparency in blended finance transactions, in particular on the opportunities and challenges they pose to developing country partners. He provided insights from the IIX Women's Livelihood Bond Series that uses a digital tool for impact verification to address challenges of impact reporting. Transparency and knowledge of the impact of blended finance is crucial for understanding where, when and how blending works effectively, as well as where blended finance does not work. In addition, Mr Kraybill pointed to the importance of technical assistance to support high-impact enterprises such as micro, small and medium-sized enterprises to become investment-ready. The speaker provided examples of concessional capital subsidising the cost of reporting and adhering to transparency standards and emphasised that, the more blended finance is brought to scale, the more affordable and attainable these standards will become.

Mr David Ekabouma, Director of Monitoring and Evaluation at the African Guarantee Fund emphasised the need to balance reporting and monitoring requirements with reasonable expectations. Costly and resource or technically-intensive requirements can prevent impactful projects and organisations from accessing investments. Audience contributions also identified technical difficulties and costs posed by the disclosure of impact and other non-financial data and results for many potential blended finance actors and investees in developing countries. Participants noted the many working definitions of blended finance and pointed to harmonisation as an essential solution for reducing bespoke reporting requirements and costs, as well as for ensuring greater consistency and comparability across reported development results to better understand the 'where, when and why' of blended finance.

CONTACT POINTS FOR FURTHER INFORMATION

G20 Presidency of Indonesia https://g20.org

OECD

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Financing for sustainable development https://oe.cd/fsd-dac

Amounts mobilised from the private sector for development https://oe.cd/privfin

DAC Private Finance for Sustainable Development Community of Practice (CoP-PFSD) https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Co-%20FSD-Brochure.pdf

Tri Hita Karana Blended Finance Platform https://thkblendedfinance.org/