PRIVATE FINANCE FOR SUSTAINABLE DEVELOPMENT

New approaches in development finance: the need for mobilisation towards greater transformation and impact

Monday, 29 January 2018
OECD Paris Boulogne Auditorium

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Background document

Objective

The Sustainable Development Goals and Paris Agreement require new approaches and innovative solutions to finance development outcomes. Private finance plays an increasingly important role in bringing innovation, expertise and additional resources to help developing countries achieve the Sustainable Development Goals. Recognising this, development finance providers are finding new ways of engaging with the private sector as a key partner, including through Blended Finance, Social Impact Investing and Green Finance. Delivering the resources at the scale required to achieve the SDGs within the next 10 to 15 years requires concerted action from all actors.

The inaugural OECD Conference on Private Finance for Sustainable Development (PF4SD) will bring together - for the first time in a single forum - the main actors from policy and practice on Blended Finance, Social Impact Investing and Green Finance to answer the following question: "Milestone 2020: How can we make sure private mobilisation leads to greater transformative impact?"

Discussions will address how the three financing approaches can work together to better and further mobilise private and commercial capital towards the 2030 Agenda. The underlying objectives are to:

- Gather leading actors engaging in Blended Finance, Social Impact Investing and Green Finance from the development finance community, developing countries and the private sector;
- Demonstrate the comparative strengths and synergies between the three financing approaches;
- Discuss concrete, innovative examples drawn from the three approaches, highlighting good practices around proven solutions.
The discussion will build on the main deliverables of the OECD, in particular: the recently approved OECD Blended Finance Principles for unlocking commercial capital for the SDGs, evidence from a new report “Making Blended Finance work for the SDGs”, insights from the OECD Social Impact Investing Initiative and from the OECD G20 report Investing in Climate, Investing in Growth.

Structure and Audience

This one day international event will highlight new trends in private finance for sustainable development and promote experience sharing within the development finance community, by bringing together policy makers, practitioners from the public and private sector, researchers and beyond with an interests in innovative approaches to deliver the SDGs.

The conference will first draw a state of play on relevant donors’ principles and policies, and then examine actual projects implemented in the context of Blended Finance, Social Impact Investing and Green Finance. Discussions will tackle both government efforts to scale up innovative private finance models, and how private financiers can bring greater transformation and impact to development cooperation. At the same time, the OECD will also launch its new report “Making Blended Finance work for the SDGs”.

Approximately 150 participants are expected, including OECD members, policy makers from emerging and developing countries, development finance practitioners and opinion leaders. This event is open to the press.

Background

The imperative of private finance to achieve the 2030 Agenda

The 2030 Agenda for Sustainable Development and Paris Agreement aspire for a better future for all, which calls for an innovative and sophisticated financing strategy. The global community needs to move well beyond the USD 145 billion provided as official development assistance (ODA) in 2016. The investment gap for delivering the Sustainable Development Goals (SDGs) in developing countries is estimated at USD 2.5 trillion per year.

Smart and strategic use of development finance to catalyse private capital is an emerging frontier and a growing priority for most the international development community. Development co-operation providers are increasingly working with the private sector to mobilise and target commercial finance through Blended Finance, Social Impact Investing and Green Finance. A coherent strategy by policy makers along with effective implementation by development actors will be crucial to ensure the scaling up of development co-operation with the private sector. The OECD provides new evidence and policy advice to assist donor governments in attracting commercial investment that generates a measurable social and environmental impact and steering it to where it is most needed.
The three approaches - Blended Finance, Social Impact Investing and Green Finance - are closely related to the modernisation of development finance and the imperative to use ODA most effectively. Blended Finance solutions combine financial resources from the public, philanthropic and private sectors to create large pools of investment for developing countries, with these funds often deployed into Social Impact Investing or Green Finance projects. Besides being innovative in aiming to engage commercial actors and ensure development impact, they all rely on the catalytic use of development finance flows to unlock additional financing for the SDGs. At the same time, key distinctions remain between the approaches, such as the main actors involved, the financial tools used, the average transaction size and the diversity in the monitoring and measurement of impact.

**Different approaches, same objectives?**

Altogether, the three financing models are directly relevant to the SDG framework and the Paris Agreement, providing complementary approaches to achieve the 2030 Agenda. These approaches are used by different, but partially overlapping stakeholders, as illustrated below.
The main rationale for blending is the **mobilisation** of additional, commercial finance to invest in developing countries and achieve the SDGs. Development finance providers use different instruments and mechanisms to attract private and commercial finance and steer it toward SDG-relevant operations. Blending is also a key aspect of Green Finance as it helps to bridge the viability gap for environmentally sustainable projects.

Green finance is driven by the need to support the **transformation** of developing country economies and societies toward more environmentally sustainable pathways. Green finance and investment include financing approaches and tools to support environmental solutions that positively impact the environment. With the next ten years being critical for action to determine whether developing countries can achieve their commitments under the Paris Agreement, it is critical that all approaches - Blended Finance, Impact Investing, and other forms for development co-operation take into account this 'green' aspect.

Social Impact Investing is, by definition, deployed on the basis of an expected **impact**. It involves the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial, return. A core characteristic and challenge of impact investing is the measurement and management of social and environmental impact alongside commercial results. As Blended Finance becomes an integral part of donor countries’ development cooperation strategies, development finance institutions and other implementing agencies will have to ensure similar levels of accountability, especially to policy makers and in the public eye.

At the crossing of these three approaches lie the most effective solutions to private finance for sustainable development, which the Conference speakers and participants will be challenged to identify.

**Innovative partnerships for innovative solutions**

The [2017 OECD Ministerial Council Meeting](https://www.oecd.org) recognised the role the financial system can play in support of sustainable growth and development, by addressing the existing and future challenges presented by globalisation and technological change. Resilient financial sectors have an important role in promoting stronger and more inclusive growth whilst ensuring that public debt remains at sustainable levels.

Globalisation has increased the interconnectedness of financial markets and institutions across countries. Financial markets innovate at rates that regulators can rarely maintain. As the level of complexity grows, governments must better design policies in order to fight rising inequalities and deliver on the promise to “leave no one behind”.

Recent OECD initiatives on [New Approaches to Economic Challenges](https://www.oecd.org) and the [Inclusive Growth Framework](https://www.oecd.org) have raised the debate on the international agenda. Models like the Doughnut economy by Kate Raworth invite us to rethink economic development policies within the existing planetary and social boundaries. Can development finance also be distributive and regenerative by design? How can the main donors better shape their national and multilateral cooperation strategies? What
The role should the OECD play, in order to fulfil its mission of promoting better policies for better lives? The discussions at this conference will try to answer these and many other questions.

**Expected outcomes**

*Let’s not miss the 2020 milestone*

OECD data shows that the move from “billions” to “trillions” in investment needs for the SDGs is still far from materialising. Over the 2012-15 period, USD 81.1 billion was mobilised from the private sector by official development finance interventions in the form of guarantees, syndicated loans, shares in collective investment vehicles (CIVs), credit lines and direct investment in companies. About 77% of the private finance mobilised went to middle-income countries, while bilateral ODA declined to least developed countries, small island developing states and fragile and conflict-affected contexts. Two years since the adoption of the Addis Ababa Action Agenda, figures are not yet moving in the right direction.

The year 2020 represents a shared milestone for the communities gathered at this Conference:

- The “tipping point” for impact investing, when global impact assets under management are expected to reach USD 300 billion, double the level estimated at 2017;
- The first year of implementation on the Paris agreement, when signatory countries must adopt long-term low greenhouse gas emission development strategies; and,
- The next Global Sustainable Development Report and the high-level global review of the 2030 Agenda that will be undertaken at the United Nations.

With 10 years left to achieve the ambitions of the SDGs, the sense of urgency is rising steeply and all stakeholders should feel equally committed.

*Shape the future development cooperation agenda and beyond*

The OECD aspires to improve development financing and a better use of Official Development Finance, through deeper coordination amongst national and multilateral development institutions, and enhanced engagement of the private sector towards the SDGs. By bringing the three financing approaches and respective communities together, the OECD is seeking alignment towards a common agenda that will drive existing synergies and innovations further, for greater sustainable international development results.

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3. [https://www.youtube.com/watch?v=UbD_NoNZb0A](https://www.youtube.com/watch?v=UbD_NoNZb0A)
5. [https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf](https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf)
The conference objectives are to facilitate discussions that are both visionary and practical. This event represents a key milestone for shaping further OECD work on results-oriented Blended Finance, Social Impact Investment and Green Investment, which will be the theme of future OECD work. Insights from this conference will help the OECD build further policy guidance on private sector mobilisation and will contribute to shape the future OECD agenda on impactful development finance. In order to shape this new thinking, participants are called upon to share their experience and bring forth examples of how these three communities work together in practice.

The central objective of the conference is to identify key actions for 2020: this is the turning point for taking the action required to achieve the SDGs ten years later. Outcomes of the conference will also be shared with the G7 and the G20 as well as other international fora such as the UN Sustainable Development Summit, the Global Partnership for Effective Development Co-operation, the Global Social Impact Investment Steering Group and the World Economic Forum.