OECD BLENDED FINANCE AND IMPACT WEEK
Delivering the 2030 Agenda in the COVID-19 era and beyond
1 – 4 FEBRUARY 2021

1st Anniversary of the OECD-DAC Community of Practice on Private Finance for Sustainable Development
ABOUT the OECD Blended Finance and Impact Week

Since 2018, the OECD has hosted the annual Conference on Private Finance for Sustainable Development (#PF4SD), with the aim to foster dialogue and exchange between the development cooperation community and the private sector. Over the years, this event has become a key reference in calendars of the PF4SD community, which grows every year both in volume and diversity of actors involved, ranging from governments, DFIs and MDBs, to banks, asset managers and institutional investors, NGOs, CSOs, think tanks and civil society.

Building on the success of previous editions of the PF4SD Conference, in 1-4 February 2021 the OECD virtually hosted the Blended Finance & Impact Week, marking the first anniversary of the OECD Development Assistance Committee (DAC)’s Community of Practice on Private Finance for Sustainable Development (CoP-PFSD). The event comprised a series of discussions focused on how blended finance can deliver development impact and help achieve the 2030 Agenda in the COVID-19 era. In particular, the following overarching priorities were put forward and discussed:

- Closing the SDG financing gap: making the most of blended finance;
- Driving impact: the role of frameworks and standards;
- Focusing on climate and gender to build back better;
- Addressing regulatory and financial capacity constraints.

ABOUT the OECD DAC Community of Practice on PFSD

In January 2020, the OECD Development Assistance Committee (DAC) established the Community of Practice on Private Finance for Sustainable Development (CoP-PFSD), a platform for mutual learning and exchange between DAC members and the private sector. The objective of the CoP-PFSD is to enhance the ability of DAC members to mobilise private sector resources through blended finance approaches and stimulate impactful investments in the SDGs. As DAC members are at different stages of engagement with the private sector, having a platform for dialogue, discussion and information sharing among DAC members, and between DAC members and the private sector is critical to identify good practices and approaches on blended finance and development impact.
The 2021 OECD Blended Finance & Impact Week

➤ In numbers

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➤ In the media

Investment and Pension Europe (IPE) was the 2021 Blended Finance and Impact Week media partner. As the leading publication for institutional investors and pension funds, the partnership with IPE encouraged more private investors to join the development finance dialogue.

Articles featuring the event


Official opening of the event

Jeffrey Schlagenhauf, Deputy Secretary-General of the OECD and Susanna Moorehead, Chair of the OECD Development Assistance Committee (DAC), opened the event, highlighting the urgent need to leverage public finance and mechanisms to mobilise additional private finance into developing countries, investing in projects that are scalable, replicable and impactful.

This community last met in January 2020, on the cusp of the ‘Decade of Delivery’ for the SDGs. One year later, COVID-19 has compounded existing challenges, representing the most significant test in the history of development co-operation and multilateralism. Development finance actors across the spectrum must work harder than ever to recalibrate economies towards the SDGs.

- Jeffrey Schlagenhauf, Deputy Secretary-General, OECD

As public and private financial institutions collaborate more closely to support a fair and green COVID-19 recovery in developing countries, we must recommit to the shared ambition of achieving the SDGs by 2030 and build on our respective strengths.

- Susanna Moorehead, Chair, OECD Development Assistance Committee

Taking the development system forward in the COVID-19 context: the role of blended finance and impact

This panel, moderated by Martin Wolf (Financial Times), aimed at shedding light on the role of multilateral development banks in supporting and financing a sustainable and climate-compatible recovery from the COVID-19 crisis. All speakers highlighted how the crisis pushed MDBs to work closer together, for instance on standard-setting, as well as to further collaborate with bilateral DFIs.
Pierre Gramegna (Minister of Finance of Luxembourg) provided opening remarks, highlighting how the pandemic showed the impact of human activities on the environment – and the urgency to act on climate change to save the planet. He reflected upon some of the developments towards sustainability at the EU level, such as the growth of the green bond markets as well as the green priorities of the Recovery Plan for Europe. He also shared Luxembourg’s commitment to the blended finance agenda, introducing the Luxembourg-EIB Climate Finance Platform, a joint initiative between Luxembourg and the EIB to mobilise and support investment in international climate finance.

Karin Finkelston (IFC) introduced IFC’s priorities in terms of reaching low-income and fragile countries, scaling up investments for climate as well as gender equality. She also shared IFC’s experiences with mobilising private capital to create markets, with examples such as the Benban Solar Park, where World Bank Group-supported energy sector reforms, coupled with IFC innovative financial approach contributed to mobilise private capital to put in place one of the largest solar farm in Egypt. Another example is IFC’s Scaling Solar program, a “one stop shop” bringing together several World Bank Group services to help governments mobilise privately funded grid-connected solar projects at competitive tariffs. IFC will also further work on supporting local banks to issue green and social bonds through capacity building.

Pierre Heilbronn (EBRD) highlighted that, as the pandemic increased inequalities, EBRD refocused on promoting equality of opportunities and gender equality. He explained that the EBRD played a countercyclical role, providing emergency support, especially to sectors most hit by the crisis. EBRD takes a holistic approach, combining financing, capacity building and support for policy reform. He underlined the importance of country ownership and ensuring creation of opportunities at the local level. He also shared insights on Team Europe, a joint initiative combining resources from the EU, its Member States, the EIB and EBRD to support partner countries in the fight against the coronavirus pandemic and its consequences.

Ambroise Fayolle (EIB) underscored how access to vaccines is creating significant inequalities for developing countries. To tackle this issue, the EIB, as part of Team Europe, has contributed EUR 400 million to enable the global vaccine initiative COVAX to provide one billion doses of vaccines specifically to low- and middle-income countries. He also underlined that improved collaboration between MDBs is crucial for them to achieve their common goal of reducing inequalities. Going forward, the EIB will focus on mobilising finance for projects with the highest impact in terms of reducing inequality, with more local partnerships.

- OECD DAC Blended Finance Guidance: The official launch

Jorge Moreira da Silva (OECD) opened the official launch of the OECD DAC Blended Finance Guidance, a practical tool for donors and practitioners to put the Blended Finance Principles into Practice and effectively design and implement blended finance programs. He also called on all blended finance actors in the room to commit to the Guidance and continue to stay engaged as we further build the evidence base on blended finance. The session was moderated by San Bilal (European Centre for Development Policy Management).
Elissa Golberg (Global Affairs Canada) explained how transparency and gender equality are two important pillars to have quality blended finance transactions. Transparency helps to build trust between all parties in blended finance. To ensure transparency, it is important to disclose reliable data (including gender-disaggregated data, as called for in the OECD Blended Finance Guidance). Global Affairs Canada has put gender equality and empowerment of women and girls at the centre of its development co-operation as well as at the core of its COVID-19 recovery plan, including through gender-lens investing. To achieve this, it is fundamental to have a good understanding of the blended finance ecosystem and close engagement with all parties involved, including unconventional voices such as women’s rights organisations.

Bringing the DFI perspective into the discussion, Tellef Thorleifsson (Norfund) underlined that blended finance can be and is an effective tool but also has pitfalls. He emphasised the importance of the OECD DAC Blended Finance Principle 2, to ensure minimum concessionality in blended finance, thus avoiding a ‘race to the bottom’ and market distortion. For Norfund, project development is of crucial importance in blending, especially in early stages of the project cycle and in fragile states and LDCs, allowing getting projects off the ground that would not have attracted commercial finance otherwise. The problem is that there are not enough investible projects. Transparency and monitoring is also important to be able to make good judgements in often hard-to-read situations.

Dr Sarah Alade (Government of Nigeria) shared Nigeria’s experience with blended finance, which helped attract commercial capital in the country. As an example, Nigeria benefited from guarantees from IBRD, support from MIGA, and IFC funding for a power generation project. The innovative financial structure allowed further private investment in the project. Moreover, in 2017, with support of KfW, AFD, World Bank, EIB and AfDB, the Development bank of Nigeria was established, helping to de-risk transactions and mitigate financing constraints specifically for SMEs. Further, in 2017, in partnership with GuarantCo, Nigeria created the Nigerian Infrastructure Credit Enhancement Facility (InfraCredit), a Lagos-based credit guarantee institution providing Naira-denominated guarantees to enable infrastructure projects to raise debt finance in local currency from the domestic market.

Building on her advisory experience on blended finance, Laura Frigenti (KPMG) explained how blended finance is all about alignment of a wide range of actors with different business models, cultures and risk appetites. She shared that, when entering high-risk countries or contexts, larger investors tend to focus on those companies with a capable management team, a strong track record, transparent business models, local knowledge and ability to measure results. This is often hard to find in Tier 2 companies or SMEs, which is where blended finance should focus to achieve development impact.
This panel, moderated by Liam Kennedy (IPE) brought together stakeholders to discuss the potential of blended finance for climate action. Anne-Marie Trevelyan (UK Department of Business, Energy and Industrial Strategy) opened the session, calling on the international community to deliver its climate finance commitments, following the UK’s plan to double its international climate finance in the next five years. The Minister also announced the launch of the UK’s COP26 Blended Finance Initiative, led by Convergence, aiming to bring together public and private investors to catalyse finance at scale for climate action.

Providing background on the climate finance landscape, Haje Shütte (OECD) highlighted the large gap between action and actual investments to support developing countries in their transition to low-carbon, climate-resilient economies. Recent OECD data shows that official development finance mobilised USD 17.7 billion of private finance for climate in 2018—accounting for 34% of the total amounts mobilised—and mostly in middle-income countries. The majority was mobilised for mitigation, while only about 2% went to adaptation.

Oyun Sanjaasuren (Green Climate Fund, GCF) shared how the GCF aims to achieve a 50:50 balance between adaptation and mitigation in its portfolio, with at least 50% of adaptation funding to LDCs, SIDS and African countries. To attract the private sector, innovative financing at sub-national level is crucial. GCF recently partnered with Pegasus (an asset manager) and created the Global Subnational Climate Fund, to leverage private investment in adaptation and mitigation at sub-national level across 42 countries. GCF committed a USD 150 million first-loss tranche, combined with technical assistance and capacity building, to unlock USD 600 million from private investors.

Luky Alfirman (Ministry of Finance, Indonesia) introduced initiatives on blended finance for climate in Indonesia, hard hit by climate-related disasters. Since 2018, Indonesia issued three global green sukuk, Sharia-compliant bonds that raised USD 2.75 billion. With support of MDBs, climate funds and others, Indonesia set up the Geothermal Resource Risk Mitigation Facility, aiming to provide financing and risk mitigation for geothermal exploration activities and attracting the private sector. Lastly, Indonesia established SDG Indonesia One, a blended finance platform that so far has raised USD 3.03 billion from 33 partners across MDBs, DFIs, philanthropy and the private sector, for SDG-related projects in Indonesia.

Bringing the donor perspective, Jae Myong Koh (Korea’s Delegation to the OECD) highlighted the need to mainstream blended finance in climate change discussions. With the expected population increase in developing countries, supporting climate-compatible urban energy and transport infrastructure will be increasingly needed. “It is the right time to take blended finance more seriously” – Jae concluded.

Finally, Sofía Martínez (European Commission) underlined that the COVID-19 crisis cannot be solved without tackling climate change. The EU has several initiatives aiming to raise private finance for climate, including sectorial approaches such as ElectriFI (for electricity) and AgriFI (for agriculture). The EU External Investment Plan plays a key role in this agenda, with EUR 3.5 billion available for blending. With the 2021-2017 Multiannual Financial Framework, EUR 60 billion euros are expected to be mobilised via the European Fund for Sustainable Development Plus. Overall, appropriate national and subnational frameworks are fundamental to avoid green washing.
This chat focused on the role of guarantees for mobilising private finance for sustainable development. Haje Schütte (OECD) opened the session explaining that the OECD data shows that guarantees are the financial instrument with the highest mobilisation potential. They also bring several advantages, such as low capital commitments upfront. However, guarantees are still an under-utilized instrument.

Lasitha Perera shared insights from experience of GuarantCo, a guarantee provider aiming to mobilise local currency credit solutions for infrastructure projects in developing countries. The main advantages of guarantees are their flexibility, allowing solutions tailored to the challenges on the ground, as well as their capital efficiency. For a guarantor, a partnership mind-set is fundamental, as such types of transactions require close relations with a wide range of partners.

Guarantees can also contribute to local capital markets development. As an example, in 2020 the Infrastructure Credit Enhancement Facility (InfraCredit) provided a guarantee that allowed a local company to issue a bond raising funds from domestic pension funds. Established by GuarantCo in 2017, InfraCredit is a Lagos-based credit guarantee institution providing Naira-denominated guarantees to enable infrastructure projects to raise debt finance in local currency from the domestic market.
This session, moderated by San Bilal (European Centre for Development Policy Management) was hosted within the Tri Hita Karana Roadmap for Blended Finance, with the aim to foster a discussion on the role of DFIs, MDBs and their shareholders in supporting the recovery from the COVID-19 crisis, building on the THK Working Paper for DFIs and the THK Statement.

Nancy Lee (CGDev) introduced three inter-related priorities to support developing countries recover from the COVID-19 crisis: (i) expand the access to SME finance, as SMEs have been hard hit by the crisis and often lack fiscal support; (ii) focus on women SME owners, since women often work in sectors most affected by the COVID-19 crisis; and (iii) provide financing to early-state firms, using more equity and guarantees. The THK Statement proposes the set-up of a MSME COVID-19 Facility, an off-balance-sheet vehicle with lower targets for risk-adjusted returns and higher mobilisation ratios.

Samantha Attridge (ODI) explained that while DFIs and MDBs investments are growing, the pace is slow, leverage is often low and allocations are concentrated in middle-income countries. She highlighted three necessities going forward: (i) addressing country risk; focusing on early-stage investments and building pipelines of investable opportunities; and (iii) actively seeking to partner with local institutions.

Søren Peter Andreasen (EDFI) explained that DFIs, with their long-standing experience and capacity in risky environments, are poised to take on risks during the COVID-19 crisis and to continue supporting financial institutions and businesses in developing countries. Going forward, European DFIs will work on delivering their commitments on climate action, gender-lens investing and inclusive finance, to reach the most vulnerable. DFIs will also need to work more with local financial intermediaries and further mobilise private investors.

Kruskaia Sierra Escalante (IFC) highlighted how blended finance allows to invest quickly and to be creative and can thus be an effective tool to mobilise finance for the COVID-19 recovery. While the immediate COVID-19 emergency response mainly focused on liquidity support, going forward a broadened scope of activities and instruments will be needed to reach low-income countries and the most vulnerable. The public sector arms of MDBs are also crucial as they can contribute to the improvement of the policy environment.

Rebecca Bell (GAC) shared Canada’s priorities on blended finance, namely maintaining a focus on gender equality and women’s empowerment. FinDev Canada, the Canadian DFI, has been a crucial partner in the coherent Canadian response to COVID-19, maintaining a focus on gender-lens investing. In partnership with the 2X Challenge Working Group and the Gender Finance Collaborative response to the COVID-19 pandemic, FinDev contributed to a series of recommendations for investors to ensure that their COVID-19 responses apply a gender-lens. More broadly, Canada is also actively engaging with other stakeholders on dialogue and partnerships, within THK, the OECD DAC CoP-PFSD as well as other international fora such as the UN.
This session, moderated by Robert Patalano (OECD) aimed to discuss better policies and regulations to unleash sustainable investing and scale up blended finance, building on the recommendations of the 2020 report of the Global Investors for Sustainable Development Alliance, a group of leading financial institutions and corporations coordinated by UN DESA. This Alliance was inspired by the Swedish Investors for Sustainable Development (SISD), a partnership between some of the largest Swedish investors as well as Sida. Eva Lövgren (Sida) opened this session, highlighting how the COVID-19 crisis is exacerbating inequalities, not only between and within countries, but also in global financial markets, with a widening divide between developed and developing countries. She called on the international community to address bottlenecks in the financial systems that are hindering capital to flow to countries where it is needed the most.

Daniel Hanna (Standard Chartered) called for the need to catalyse more sustainable finance, to standardise the products and democratize the benefits. Sustainable finance is raised mostly in developed countries, while the biggest climate change risks as well as opportunities are in developing countries. Governments need to improve on explaining how their budgets are linked to the SDGs and take ownership. For instance, the government of Ghana developed a system tracking budget allocations at the SDG target level. Moreover, more multi-geographical programs with a clear, specific mission are needed, replicating the Scaling Solar Program.

Navid Hanif (UN) shared three main messages from the 2020 report of the Global Investors for Sustainable Development Alliance. First, making sustainable reporting mandatory with harmonized standards. Second, ensuring both public and private investors show measurable results, calling on IASB and FASB to integrate material sustainability disclosures into their accounting standards. Third, shifting the mindset and move towards long-term investing and away from short-termism. Blended finance has potential but it is bypassing most LDCs. Country ownership needs to be ensured, with capacity building, as well as impact integrity. Some innovations have been put in place, such as the blended finance fund SDG500, but more are needed.

Jay Collins (Citi) highlighted that the COVID-19 crisis has widely amplified the funding gap to frontier markets. Blended finance is a critical tool but it is falling short of the needs as it has not yet reached scale. The report calls for a blended finance fund for the SDGs, modelled after the IFC’s Managed Co-Lending Portfolio Program. What is needed is to build a culture of trust between stakeholders and to bring different competencies and capacities from both public and private sector.

Andre Wepener (Investec) underlined that blended finance potential lies in its ability to leverage different pools of capital with different risk appetites. He highlighted the need for an enabling environment, a predictable and coherent regulatory framework, a stable judicial system, trust in the political system and transparent governance of procurement processes. This is essential to encourage sustainable infrastructure investments with a long-term horizon.
In this fireside chat, Adva Saldinger (Devex) interviewed two experts on the trends, opportunities and challenges of scaling up SDG Bonds.

Scott A. Mather (PIMCO) shared insights building on the experience of one of the largest asset managers in the world. He explained that last year has seen positive trends in terms of growth of not only green bond issuance, but also sustainability-linked financial instruments and social bonds issuance, with an increasing number of issuers from emerging markets. He highlighted that there is a lot more that the private sector can do and more partnerships are needed. For instance, in 2020 PIMCO partnered with the UNECA, DBSA and the Nigerian Sovereign Investment Fund to establish the SDG 7 Initiative for Africa, aiming to add 10,000 MW by 2025 to Africa’s electricity capacity – all in the form of clean energy, including solar, wind, hydro, and geothermal, through public and private investments.

Caroline Wellemans (European Commission) shared her view building on the experience of the EU, where most green bonds have been issued. She explained that while green bonds issuance is on the rise, worth USD 250 billion in 2019, they account for only 3.9% of the total bond market, thus much more needs to be done. One of the barriers is the lack of investable projects on the ground, for which technical assistance is needed to develop more projects that are suitable. Another challenge to scale up green bonds is the lack of clarity and transparency on what is “green”. The EU has developed green bonds standards to ensure market integrity, which will be linked to the EU Taxonomy. In 2019, the EU also launched the International Platform on Sustainable Finance, together with a group of developed and emerging economies, with the objective of promoting dialogue and exchanges on sustainable finance policies in respect of national and regional contexts.
Opening keynote: The impact imperative

Sir Ronald Cohen
Chair, The Global Steering Group for Impact Investment (GSGII)

"If investors begin to invest in companies on the basis of both their profits and impact, it will change the behavior of companies. If we change the behavior of investors and companies, we will change the whole economic system.

The fundamental change to bring about this paradigm shift is transparency on impact. Governments should mandate that companies must publish financial accounts reflecting the impacts they create through their operations, employment and products on the people and the environment."

Responding to the impact challenge
How harmonisation is driving better impact measurement and management

This session, moderated by Haje Schütte (OECD), discussed the need for harmonization of impact measurement and management (IMM) practices in the financing for sustainable development landscape. Haje introduced the OECD/UNDP Impact Standards for Financing Sustainable Development (IS-FSD) (forthcoming), a best-practice guide and self-assessment tool for donors, their DFIs and other partners (such as private fund managers) to improve their IMM systems and practices, with the end goals of fostering transparency and accountability, encouraging dialogue and building trust in the ecosystem.

Elizabeth Boggs Davidsen (UNDP) introduced the UNDP SDG Impact, a global initiative aiming to eliminate the key barriers investors face when allocating and aligning their capital with the SDGs. One of the challenges she highlighted is that impact is not yet fully integrated into mainstream decision-making, due to limited application of appropriate accountability mechanisms, governance practices and disclosure policies. The Initiative developed standards for bond issuers, private equity fund managers and enterprises, and now also
Nerea Craviotto (Eurodad) highlighted some of the findings of the Eurodad 2021 Time for Action report. While trends indicate that the use of private sector instruments (PSI) in development cooperation shall increase in the years to come, little information is available on their financial and/or value additionality. This assessment underlines the transparency and accountability limitations of the current development finance architecture. This is why the IS-FSD are important, as they can help harmonise standards on transparency and accountability and challenge the concept of commercial confidentiality.

Maria Teresa Zappia (BlueOrchard) explained that the IS-FSD have been an opportunity to review BlueOrchard’s own impact framework and better integrate impact into their own investment process, due diligence and reporting. As a result, BlueOrchard developed its own proprietary tool, “B Impact”. She also highlighted that, going forward, it will be important that mainstream investors also apply the IS-FSD.

Lori Leonard (DFC) introduced DFC’s new Impact Quotient (IQ), a tool to measure impact throughout the project cycle, report development outcomes to stakeholders and inform decision-making to maximise impact. She illustrated how the IQ aligns with the IS-FSD and shared key lessons learnt while designing the IQ, such as the importance of full agency support and participatory approach throughout the process.

Søren Andreasen (EDFI) shared insights on EDFI Impact Harmonization initiative, which aims at harmonizing European DFIs’ practices, methodologies and tools to measure direct impact on key sustainable development areas, such as Gender Equality (SDG 5), Decent Work and Economic Growth (SDG 8), Reduced Inequality (SDG 10), and Climate Action (SDG 13). For instance, the Initiative led to the harmonization of impact measurement on SDG 5, adopting the indicators of the 2X Challenge for reporting on all new commitments, as well as on SDG 8, using the Joint Impact Model to estimate indirect job creation.
Leticia Emme (GIIN) brought the impact investing perspective to the table, underscoring the importance of harmonization to achieve the SDGs. She introduced the IRIS+ System, a tool to help investors to set their impact goals and identify specific metrics to track progress on such goals. IRIS+ provides credible, comparable and consistent impact data, not only for reporting but in particular for informing decision-making. As DFIs and asset managers are increasingly co-investing for development, Leticia and Soren also highlighted the importance to harmonise the indicators used by both DFIs and impact investors. That is why EDFI and the GIIN are aligning HIPSO and IRIS+ metrics, to improve the comparability of investments' impact profiles.

Romina Boarini (OECD) introduced initiatives of the new OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE), which works to generate new data and solutions to improve people’s well-being and reduce inequalities. Through the initiative Measuring Business Impacts on People’s Well-being and Sustainability, WISE aims at generating evidence and assessing the impact of corporates. WISE also partners with a group of multinational companies in the Business for Inclusive Growth Initiative, aiming to pool, strengthen and harmonize efforts by private companies to reduce inequalities, building greater synergies with governments. Romina also highlighted that transparency and integrity can only be fostered by a convergence of IMM methodologies, an alignment of existing IMM frameworks and a significant investment in data collection by corporates. Ultimately, if we want corporates to measure and report on the impacts of their activities, we need to go beyond voluntary reporting.

Finally, Gary Forster (Publish What You Fund) shared the key findings of their DFI Transparency Initiative, a multi-stakeholder research program aimed to increase transparency on DFIs’ use of public funds for private sector investments. The Initiative’s Work Stream on Impact Management published a Working Paper showing that despite DFIs’ progress on improving impact management practices, many DFIs rarely disclose ex-ante impact predictions and that there is even less disclosure of ex-post development results. Confidentiality agreements embedded in contracts between DFIs and their clients are key bottlenecks. Aggregate impact reporting is more commonly used than project level reporting although with limited quality. DFIs also often lacked multi-year reporting, impact attribution, and disclosure of indicator definitions or methodologies. This leaves considerable room for improvement to foster DFIs’ transparency and harmonization of practices.

➤ Development CO.OP LAB : The Pathway to the Net-Zero Economy

This Development CO.OP LAB provided for a unique opportunity to discuss pathways to the net zero economy with Larry Fink, CEO of Blackrock, building on his 2021 letter to corporate leaders. IPE summarised the main takeaways of the LAB in this article.
This session, moderated by Magdalena Orth (Deval), focused on challenges and approaches in understanding and assessing additionality of blended finance interventions.

Ole Winckler Andersen (Danish Institute for International Studies) presented the findings of the recently published **Working Paper on additionality** he co-authored as part of the OECD DAC Network on Development Evaluation’s Working Group on Evaluating Blended Finance. The paper discusses some of the existing challenges on evaluating additionality of blended finance interventions, such as definition and terminology issues and the difficulty in assessing a counterfactual. The paper also analyses different ex-ante and ex-post evaluation approaches and emerging good practices from both academic literature and evaluation evidence. The paper suggests that more work is needed on additionality terminology (for instance how it differs from “contribution”) as well as on the relationship between different types of blended finance instruments and additionality. Further collaboration between evaluators and practitioners should also be fostered.

Alessandro Maffioli (IDB Invest) highlighted the need to align definitions of additionality. In the project approval process, IDB Invest assesses and scores both the expected development impact and the additionality (financial and non-financial) of every operation. Every financial decision is based on the counterfactual, thus considering what the alternative use of capital in terms of social returns would be. Experimentation, monitoring and evaluation as well as knowledge sharing were also highlighted as being important.

Jim Turnbull (EBRD) explained that EBRD’s investing approach focuses on not crowding out private finance, thus ensuring financial additionality. The EBRD also aims at achieving non-financial additionality, ensuring that projects results in better outcomes by mitigating non-financial risks. A key question the EBRD asks itself when investing is whether benefits continue once the intervention ends, as blended finance transactions should be transitory and eventually lead to commercial sustainability. Beyond quantitative approaches, qualitative indicators can also be useful to assess additionality.

Paddy Carter (CDC Group) underlined that quantitative tools might not be enough to address the issue of additionality, which also requires qualitative research and experts’ reviews. CDC’s impact framework takes into account the Impact Management Project’s five dimensions, one of which is “contribution”, namely whether an enterprise’s and/or investor’s efforts resulted in outcomes that were likely better than what would have occurred otherwise. As DFIs need to take investment decisions under uncertainty, they can make mistakes such as investing when they should not and failing to invest when they should. Before investing, mechanisms such as auctions and contract designs can increase the likelihood of achieving additionality. Experimentation is needed to make progress on the issue of additionality.
Fireside chat: The role of development banks to accelerate the green transition

This session was a fireside chat between Jorge Moreira da Silva (OECD) and Laurence Tubiana (European Climate Foundation), which highlighted key priorities to move the climate agenda forward and the role of national development banks in the green transition. Jorge shared insights from OECD research, which shows that national development banks have often been overlooked in the international discourse, while they are critical actors in financing for sustainable development. He highlighted that for NDBs to play a transformational role, three key changes are needed:

1. Stronger mandates and incentives for climate action;
2. Models to attract new investors in climate markets;
3. Strategic use of concessional finance to enable development banks to drive the green transition.

Laurence highlighted that the OECD has a leadership role in rethinking the development paradigm, signalling that we need to shift investment towards climate action. Climate is no longer considered a side issue, it is now embedded in the economic security and sustainable development agenda. However, if we continue to postpone investment in sustainability, we are deemed to fail. National development banks should leverage on their embedded knowledge about the financial connection with local saving, public finance and the private sector to push the alignment with the SDGs and the Paris Agreement.

We cannot develop decarbonised economies without putting social justice at its core. It is not about trade-offs, it is about choices. We need a radical change in the mind-set.

- Laurence Tubiana, European Climate Foundation

The OECD is committed to make 2021 a remarkable year on aligning policies and finance with climate action, biodiversity and the SDGs.

- Jorge Moreira da Silva, Director, OECD Development Co-operation Directorate
This session, moderated by Ulrika Åkesson (Sida), focused on opportunities and challenges for the mobilisation of institutional investors in climate mitigation and adaptation projects in developing countries.

Vikram Widge (Climate Policy Initiative, CPI) highlighted that mobilisation of climate finance is still too far from the trillions needed for climate-compatible infrastructure. Institutional investors still face several challenges, such as high risks and small ticket size. He shared insights from the experience with the Climate Investor One fund, originally incubated by the Global Innovation Lab. Combining three innovative investment facilities into one, the Fund supports projects in the wind, solar and hydro sectors in developing countries, providing a one-stop shop for institutional investors. He also highlighted how too little climate finance targets climate adaptation. To tackle this, the Lab launched the Climate Adaptation Notes, an innovative financial solution for water and wastewater projects in Southern Africa, aiming to catalyse institutional capital by combining construction financing and post-construction refinancing phases into a single instrument.

Peter Branner (APG) shared experiences of APG, which manages assets on behalf of Dutch pension funds. He highlighted some of the challenges encountered when investing in emerging markets, such as political instability and the difficulty in finding the right local financial institutions to partner with. Conducting digital due diligence is also proving challenging, thus partnering with like-minded investors is crucial.

Pierre Rousseau (BNP Paribas) explained that one of the difficulties in blended finance is aligning diverse organisations under common objectives, view and targets. In such deals, transaction costs are still very high, especially due to implementation and due diligence. He also highlighted how insurance companies can play an important role in blended finance, although this has been to some extent hindered by regulation.

Julia Prescott (Meridiam) underlined that infrastructure opportunities in emerging markets are scarce and too small, which is why Meridiam takes a platform approach. Due to the urgency of the COVID-19 crisis, the much-needed long-term planning for infrastructure is often being put aside at the moment. Other issues are the low credit quality of utilities, as well as the lack of local capacity, which Meridiam contributes to building through its Africa Infrastructure Fellowship Program, aiming to help governments across Africa to develop their infrastructure procurement capacity. Meridiam’s governance has also evolved, for instance with the establishment of a Mission Committee, to monitor and evaluate investments’ impact against SDG targets.

Mohan Vivekanandan (DBSA) underlined how private sector mobilisation for infrastructure in Africa has simply not reached scale yet. To encourage private participation, long-term vision, appropriate legislation and transparent procurement process are needed. National development banks can play a role in supporting project feasibility at early stages to make project bankable, as well as to attract private capital from local investors. In February 2021, DBSA also announced the launch of its first green bond, through a private placement with AFD, for climate mitigation and adaptation projects.
In light of the widening SDG financing gaps and shrinking public budgets, this session, moderated by Thomas Venon (Eighteen East Capital), aimed to foster discussion on using balance sheet optimisation techniques to maximise the use of DFIs’ and MDBs’ resources within the boundaries set by prudential regulations.

Tim Turner (Trade and Development Bank) shared insights from his experience at the African Development Bank with balance sheet optimisation transactions, such as the Private Sector Facility and the Room2Run, a synthetic securitization of a portfolio of seasoned African Development Bank private sector loans. He shared the main lessons learnt, such as the need for clear buy-in from senior management, and for the establishment of proper organizational arrangements and incentives. He also shared some of the remaining challenges, such as how the capital benefit recognition from credit rating agencies is still marginal and the need to address preferred creditor status concerns for MDBs’ sovereign portfolio risk transfers. Tim Turner also shared insights from his experience at the Trade and Development Bank, which uses credit insurance to enhance quality of callable capital, established multiple risk participation facilities with partners, introduced Class B equity shares for institutional investors and is currently exploring a new Class C equity shares for impact investors.

Claude Brown (Reed Smith) explained that insurance and securitization are seen as the main two balance sheet optimisation techniques to respectively mitigate and transfer risks. Such techniques allow DFIs and MDBs to better collaborate with institutional investors and the private sector, bringing mutual benefits to all stakeholders. Some challenges remain to make more use of balance sheet optimisation, such as the diversity of legal forms of DFIs and MDBs as well as regulatory barriers.

Nadia Nikolova (AllianzGI Development Finance) shared some highlights from her experience with transactions such as the Room2Run and the Managed Co-Lending Portfolio Program (MCPP) by IFC. Both transactions were successful in attracting institutional investors, although in different parts of the capital structure. In both cases, MDBs had to open their track records and help institutional investors better understand the gap between perceived and actual risks in emerging markets. Current regulation tends to limit the potential of using securitization techniques by MDBs, making them less profitable for institutional investors. Regulation should be rethought, taking into account the good performance of MDBs’ loans. For this to take place, MDBs should be more transparent about their track records, which could help build trust and confidence with and between credit rating agencies, regulators as well as institutional investors. Moreover, one of the challenges is that DFIs and MDBs often have contradictory incentives and signals from their shareholders, which should be more consistent and coherent with the aim of mobilizing private capital.

Christian Novak (McGill University) explained that there are now several examples of risk mitigation and transfer techniques in the financial industry, which DFIs and MDBs could utilise to optimise the use of their limited capital. More and better disclosure of information on the financial risks and performance of development finance portfolios can be extremely valuable.
This session, moderated by Paul Horrocks (OECD), aimed at bringing stakeholders together to discuss how to harness blended finance for the COVID-19 recovery in LDCs.

Laura Sennett (UN Capital Development Fund), building on the 2020 OECD/UNCDF Blended Finance in LDCs report, explained that in LDCs, risks are often compounded and have been exacerbated by the COVID-19 crisis. Transaction support is needed in LDCs, as well as investors’ one-stop centres to identify investment opportunities. UNCDF manages a portfolio of risk-tolerant catalytic loans and guarantees, de-risking early-stage enterprises in LDCs to enable their access to additional finance. UNCDF is also establishing technical assistance facilities for two blended finance vehicles UNDCF helped to set up, the BUILD Fund and the International Municipal Investment Facility.

Sébastien Boyé (Investisseurs & Parternaires, I&P) shared I&P’s experience in impact equity investments in SMEs in African LDCs. One of the challenges is that SMEs in LDCs are often young and with limited capacity to absorb investments, thus increasing transaction costs. There is growing interest from donors and foundations to provide seed funding to support small, early-stage investments in LDCs, e.g. through reimbursable grants. Blended finance can help mitigate risks (e.g. with first loss) and reduce transaction costs, e.g. supporting SMEs’ investment readiness through grants or technical assistance. One of I&P’s success factors is its focus on high-impact companies: I&P developed its own impact measurement system and links staff remuneration to the achievement of impact objectives.

Shreekrishna Nepal (Ministry of Finance, Nepal) shared insights from Nepal’s experience with blended finance. While Nepal is at early stages of implementing blended finance, the government of Nepal adopted an international development cooperation policy in 2019, exploring innovative financial instruments, such as blended finance. Nepal is now developing a roadmap to implement blended finance, expected to be adopted in 2021. The roadmap will aim to bring relevant stakeholders together, reform the institutional and regulatory framework and build local capacity, by working with local actors, donors and banks.

Thomas Gass (Swiss Agency for Development and Cooperation, SDC) highlighted that, as donors traditionally provide grants, a cultural shift is needed to embrace the blended finance agenda. For concessional finance to be part of the solution, donors need to mobilise private investors while assuring development impact for beneficiaries/clients. The impact potential for this collaboration between donors and investors is considerable. SDC has started to innovate with partners and is ready to continue. Building trust with all stakeholders involved is key for success in blended finance. The Kampala Principles are key to build inclusive country ownership and partnership.

Admassu Tadesse (Trade and Development Bank, TDB) shared TDB’s experience in crowding in unconventional financiers, such as pension funds, insurance companies and other specialized institutional investors into its risk capital, its bonds and even at the project level through syndications. In the blending process, TDB used credit risk enhancement products, not only for its transactions but also its contingent capital. At project level, he emphasized the importance of risk sharing with trustworthy intermediaries with greater risk appetite, whether on a funded or credit enhancement basis. In terms of project pipeline, he underscored the importance of project preparation, feasibility studies and risk capital to develop bankable projects.
THANK YOU to all speakers, participants and partners who contributed to the OECD 2021 Blended Finance and Impact Week!

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