PRIVATE FINANCE FOR SUSTAINABLE DEVELOPMENT

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

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OECD Paris Boulogne Auditorium

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The inaugural OECD Conference on Private Finance for Sustainable Development brought 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 question: *"Milestone 2020: How can we make sure private mobilisation leads to greater transformative impact?"*

Over 250 participants attended the conference, representing policy makers from OECD members and developing countries, international organisations, development finance practitioners, private investors, civil society organisations and the press. The discussion was enriched by the launch of the new OECD report Making Blended Finance work for the Sustainable Development Goals.

Introduction by the OECD

Welcome by Jorge Moreira da Silva, Director, OECD Development Co-operation Directorate

Plenary address by Gabriela Ramos, OECD Chief of Staff and Sherpa to the G20

The OECD has been playing an active role in supporting better policies for inclusive and sustainable development finance. Our mission is to develop policy guidance to help maximise the impact of these investments. A diverse set of stakeholder has convened to examine how private financing models can bring additional commercial capital, but also deliver better results for the 2030 Agenda. The Conference kicks off a new era of joint strategic work that will transform how development finance touches lives.

What innovative financing partnerships are needed to achieve more mobilisation, transformation and impact in developing countries?

Scene Setting Panel

Moderator: Amar Bhattacharya, Senior Fellow, Brookings Institution

Panellists:

- Jean-Michel Severino, Chief Executive Officer, Investisseurs & Partenaires
- Nancy Lee, Visiting Fellow, Centre for Global Development
- Thierry Déau, Founder and Chief Executive Officer, Meridiam

During the first panel discussion, key practitioners from the Blended Finance, Social Impact Investing and Green Finance scene agreed that more financing partnerships are needed to fill the SDG investment gap.

More equity investment is needed in Africa to promote formal business and job creation, particularly through **entrepreneurship**. Because of its potential, collaboration between private investors and DFIs is the key to success.

Another challenge is the **lack of risk mitigation** tools. Creating projects and capital on the ground is very difficult due to diverse and higher risk. In order to attract more private investors, DFIs should focus more on their risk mitigation mandate.

Governments, investment funds, and private citizens abide to different rules, which may at times result in conflicting interests. Partnerships are hampered by the lack of **institutional incentives** to collaborate. The 'attribution problem' leads each investor to claim individual development outcomes and may thus deter them from working together. More research and agreement is needed on what additionality is and how it should be measured.

What more and what else can we do to steer private finance towards inclusive and sustainable international development?

State of Play: Principles & Policies

Moderator: Haje Schütte, Head of Division, Financing for Sustainable Development, OECD

Discussants:

- Cameron Khosrowshahi, Chief Investment Officer of Private Capital & Microenterprise Office at the U.S. Agency for International Development
- Colin Buckley, Chief Operating Officer, UK DFI CDC Group
- Kajsa Olofsgård, Ambassador for the Post-2015 Development Agenda, Sweden
- Wimboh Santoso, Chairman, Indonesia Financial Services Authority

Policy makers and development finance providers, from donor and developing country perspectives, tried to answer this question during the second plenary debate.

Since the adoption of the Addis Ababa Action Agenda, there has been greater emphasis on the private sector.

Development finance institutions have never played a more prominent role, but they are faced with growing pressure to reinvent their strategy. They are still conservative in their **risk appetite**: too little investment goes to early stage infrastructure projects and SMEs. Also, their action should target more local capital markets, to build self-sustainable financial ecosystems.

Engaging business was part of the SDGs vision since the start. The alignment of interests can be facilitated by the creation of **joint platforms**, where all partners commit to pursue the SDGs, both domestically and abroad.

Connecting domestic savings and growing demand from emerging market is a win-win solution. To this end, development banks must actively engage to lower **real and perceived risks**. There is a positive conjuncture as citizens, and retirees, are becoming more sensitive about the environmental and social impact of their savings.

As new tools become available to donors, and development banks are willing to share risk with the private sector, more **local intermediaries** are needed in developing countries to facilitate investment.

Emerging countries are also increasingly adopting innovative and inclusive strategies to develop their infrastructure. Due to the scarcity of public resources, the private sector stands out as an indispensable partner to sustain a country's development.

Takeaways on cross cutting priorities

By addressing the cross cutting objectives of mobilisation, transformation and impact, Blended Finance, Social Impact Investing and Green Finance practitioners were invited to reflect upon their use of the three different financing approaches.

MOBILISATION

Moderator: Paul Horrocks, OECD

Discussants:

- Aron Betru, Managing Director, Center for Financial Markets, Milken Institute
- Kruskaia Sierra-Escalante, Manager of the Blended Finance Unit, IFC
- Ibrahima Kane, Chief Executive Officer, FONSIS
- Lasitha Perera, Chief Executive Officer, GuarantCo
- Rodrigo Salvado, Deputy Director, Development Policy and Finance, Bill & Melinda Gates Foundation

What financing structures are well adapted to mobilise private and commercial capital for sustainable international development?

- Finance is not the end goal: we are here to solve a problem, and we need to take a landscape view of the SDGs, looking at the interactions and cross-cutting themes.
- The main challenge is to translate development needs into sustainable investment opportunities, and to channel finance at reduced costs, through a well-managed risk-return balance.
- We must allow leverage ratios to grow over time but they should not become an objective per se.
- Regulatory frameworks need to be more flexible to boost blended finance.
- The OECD DAC accounting rules should be reformed so that donors can get more credit for the guarantees they provide.
- The ‘invisible hand’ of capacity building is crucial to enable and sustain the impact of private finance for sustainable development.

TRANSFORMATION

Moderator: Jens Sedemund, OECD

Discussants:

- Alexandra Sombsthay, Diplomatic advisor, Solar Impulse
- Amal-lee Amin, Chief of the Climate Change Division, Inter-American Development Bank
- Olav Kjørven, Chief Strategic Officer, EAT Foundation
- Pasi Hellman, Managing Director, Nordic Development Fund

How can donors and development finance providers better connect investment demand and supply to enable transformative impact in green investment?

- Green finance needs to be sustainable finance, widening its focus beyond climate to encompass a broader range of issues. Infrastructure is a key to this and to achieving the transformation.
- There is still a mismatch between the way finance is supplied and the needs on the demand side.
- Tailored instruments need to be combined with investments in the enabling environment to enable sustainable transformative change.
- Considerable finance and development assistance is still going to fossil energy where renewable energy alternatives are fully viable and competitive.

IMPACT

Moderator: Karen Wilson, OECD

Discussants:

- Alice Chapple, Head of Development Impact, Private Infrastructure Development Group
- Gerbrand Haverkamp, Executive Director, Index Initiative
- Lars Christian Oxe, Senior Advisor, DANIDA
- Mara Bolis, Senior Advisor on Market Systems, Oxfam America
- Royston Braganza, Chief Executive Officer, Grameen Capital

How can private and commercial capital best be leveraged for the achievement of social, economic and environmental impacts in developing countries?

- All investments, including development finance, should have a clearly defined theory of change, which in turn sets up the criteria and metrics to measure their impact.
- Impact measurement approaches should distinguish between direct impact and systems change.
- Public authorities should improve dialogue with the private sector. Donors should consult more broadly and bring new actors to the table, including the banking sector.
- Impact evaluation and measurement must balance between the need for more accountability and learning versus what projects and people on the ground can effectively afford to report back.
- All actors are calling for more and better data to increase transparency but the question which lies unanswered is who is willing to invest the resources, both time and funding.

What urgent actions must be implemented by 2020?

Way forward

Moderator:

- Amar Bhattacharya, Senior Fellow, Brookings Institution

Reports back by:

- Adrienne Klasa, Editor of This Is Africa, the Financial Times Group
- Alexandre Cabaret, Associate Director, Devex
- Patrick Lane, Banking Editor, The Economist

Pannellists:

- Angus Friday, Ambassador of Grenada to the US and Mexico
- Edward Brown, Director of Policy Advisory Services, Africa Centre for Economic Transformation
- Shari Spiegel, Chief of Policy Analysis and Development, Financing for Development Office, United Nations Department of Economic and Social Affairs

The final panel discussion identified key initiatives to push this agenda forward.

An iterative process must occur, between reviewing regulatory frameworks and actions. Climate change has brought about a real sense of urgency and vulnerability, especially in Small Islands and Developing States. This prompts both public and private actors to engage in new collective frameworks for resilience.

In order to reach scale, shareholders must increase their appetite for risk and idle capital assets must be used to their full potential.

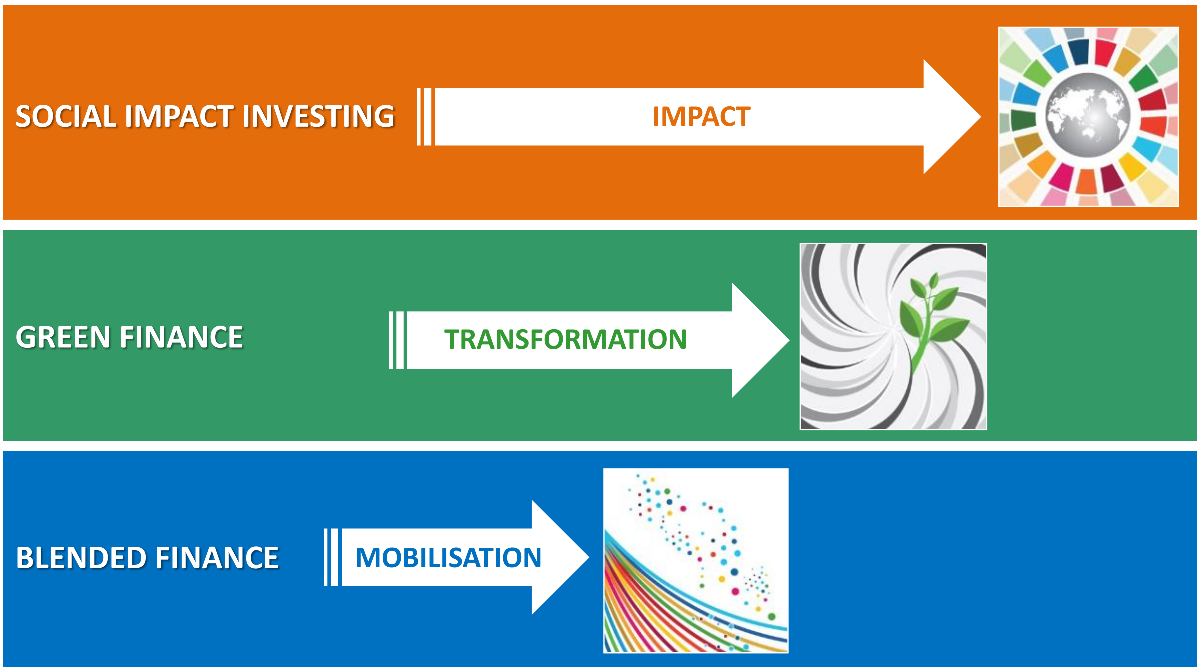
Blending is about sharing, restructuring and transferring risks. The **regulatory framework** is essential to define who will ultimately be managing the risk and to incentivise long term investments.

If we want to foster the demand for private finance, developing governments must also be supported to build their own **capacity**. Due to the unstable macroeconomic environment and nascent financial markets, interest rates are high in developing countries and subsidized loans cannot be foregone. Local intermediaries are indispensable to facilitate transactions.

In the mainstream donor community, private finance remains controversial. As we gather **evidence** on these innovative financing approaches, mutual confidence can be built to ensure that partners are indeed targeting the same goals.

Closing remarks

We need to establish a common framework, produce more data and increasingly coordinate to make private finance work for the SDGs. As part of this learning process, the international community must gather evidence and reflect upon what works in terms of policies and implementation in Blended Finance, Social Impact Investing and Green Finance.



Key learnings

Finance is not the end goal, it is **a means to an end**: the SDGs. Blending is indeed trending: it is necessary to fill the SDG financing gap and, to some extent inevitable, as Official Development Assistance is dwarfed by private capital flows into developing countries. A culture shift is underway for development finance institutions, institutional investors and private shareholders.

The donor community mustn't forget the need to support **capacity building**, to build project pipelines, establish intermediaries and improve the enabling environment. We need **improved regulation** allowing more flexibility on different instruments, more incentives for long term investment, but also more clarity on who bears the responsibility for risk management. This calls for increased **consistency** between the development and the investment policy communities.

A lot of finance is still going in the wrong direction; all investment should be consistent with greener pathways. More consistency is needed on metrics and definitions for well-informed decision-making and to scale up private finance mobilisation. **Measuring impact is key** and critical to all development finance, especially if deployed in partnership with private investors. Impact should be measured in terms of contribution rather than attribution. In order to assess the development effectiveness of private finance, the donor community must commit to and invest in the necessary **monitoring and evaluation standards**.