Global Donor Platform
for Rural Development

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Traveller:
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Date

30 January - 02 February 2018

Destination

Paris, France – OECD:
1. Conference: Knowledge Exchange and Learning Session on Blended Finance, organised by OECD Development Centre and Convergence;
2. Bilateral talks with OECD Development Centre and Development Co-operation Directorate

Purpose and expectations

- **The purpose of the travel was to get a better insight into blended finance opportunities through the conference and to establish closer cooperation between the Platform and the OECD Development Co-operation Directorate working on blended finance in view of the upcoming analysis on opportunities for ARD through blended finance;**
- **Bilateral talks with OECD Development Centre on the issue of youth inclusion and cooperation possibilities around the topic and the AGA;**

Mailing list

Bernhard Worm (BMZ), co-chairs and GIZ-G500

Persons met/participants

Thomas Foerch (GIZ), Peter M. Sullivan (CITI Corporate and Investment Banking), Christopher Clubb and Aakif Merchant (Covergence), Mike Muldoon (Rockefeller Foundation), Paul Horrocks, Wiebke Bartz-Zuccala, Alexandre Kolev, Pablo Suárez Robles, Ian Brand-Weiner (OECD);

OECD Knowledge Exchange and Learning Conference on Blended Finance

OECD Development Centre and Convergence invited to a two-day conference in Paris to discuss what blended finance is and how to strategically use this new tool for development impact[1]. The conference and the presented case studies looked at the SDGs as a new framework that can help traditional ODA to attract targeted private finance for developing countries to close the financial gap needed to implement Agenda 2030.

Blended finance has a long history – it is an instrument that keeps on evolving and gaining more importance. It operates under the assumption that risk distribution needs to be newly defined – the private sector cannot be expected to invest if public finance does not take over an important part of the risk mitigation in any blended finance arrangement. OECD recognised that there is no common standard format for blended finance, because every arrangement is responding to the respective circumstances.

However, the OECD DAC members agreed on a set of principles to guide blended finance arrangements[2]. There is also high level of international interest in blended finance. G20 released an action plan to optimise MDBs balance sheets, bilateral donors and multilateral banks are also looking into deploying investments that mix public with private commercial finances. The co-organisers of the

[1] See: Better Finance – Better World, Consultation Paper of the Blended Finance Taskforce
[2] OECD DAC blended Finance Principles for unlocking Finance for the SDGs

event, Convergence, for example act as an institution that connects, educates, and supports investors and agencies to execute blended finance transactions that increase private sector investment in emerging markets.

Although the Agenda2030 is seen as complex, financial experts see the complexity as an opportunity to create new investment markets. The AAAA calls for action on all pillars of financial development - institutional environment, business environment, financial stability, banking financial services, nonbanking financial services, financial markets and financial access. The SDGs create a monitoring and evaluation framework that can help guide and justify private investments. Still many SDGs, especially the ones related to public goods are seen as difficult to invest in – being risky and dependent on political will and stability. The blending of finance is therefore less plausible in least developed countries and in many of the eligible countries, which are associated with high-level of risk and low level of returns. These conditions explain why in the past blending finance was mainly conducted by catalysing MDB and DFI financing in investments, with rather slow rate of involvement from the commercial private capital.

The move towards engaging more with the private commercial capital raises the question about development impact and consolidation of different interests. Present donor agencies, KOICA and USAID, are already cooperating on gathering evidence for successful blending initiatives to inform future policies and projects. Evidence of qualitative and quantitative impacts are important for both sides to engage in blended finance. On this matter, OECD presented their definitions of results and impact. They define results as what is directly happening to the beneficiaries plus outputs and impact as benefits beyond those captured by the direct beneficiaries of the project. The impact measurement involves an estimation of indirect effects and measures the functional changes on markets, economies and the potential long-term transformation effects.

The European Commission underwent an analysis of their blending instruments and practices. The results showed limited involvement of private capital. It was agreed to continue blending instruments by focusing on transactions that follow the national priorities and at the same time the development priorities of the EU, thus ensuring sustainability. Additionally, projects should involve trainings in policy frameworks beyond technical assistance. EBRD reported on their struggle to define inclusiveness. EBRD is using a compendium of indicators to evaluate a transaction as inclusive of not. The aspects are: gender, regional inclusion, age inclusion (youth), looking at the processes – ensuring participation of business and private sector, access to financial resources or addressing laws that might discriminate these groups. Commonly, the term *development inclusiveness* is often used in relation only to economic opportunities; however, ODA investments from donor countries focus on the social and political inclusiveness of their actions. These discrepancies will require higher level of dialogue and joint work to define common understanding and the practical implications of all these aspects of inclusiveness.

Roberto Ridolfi, formerly head of EC DEVCO-C1 is now working as a special advisor for FAO. He spoke about the risk minimization for development cooperation due to the different interests of constituencies in blended finance arrangements. Therefore, FAO is now closely working with the European Investment Fund, coordinating action and knowledge. The EIF has three pillars – policy, investment and additionality – by covering all of them, the EIF looks to enable sustainable investment and deliver impact. FAO provides expertise mainly on the first two pillars – linking investment with policies, creating the enabling environment and shaping the investment markets, focusing on the smallholder farmers, while EIF looks for opportunities to blend finance and attract private investments.

A case study from the African Guarantee Fund presented some practices of blending finance that specifically target SMEs. SMEs make up 81% of Africa's private sector firm and will be the engine of growth and the driver for poverty reduction, thus directly contribute to SDG1, 2 and 8. SMEs also contribute to over 80% of new jobs creation and the Sub Saharan Africa has the highest rate of female entrepreneurship across the globe. The fund has deals signed in 38 countries in Africa and in 2017 was rated by Fitch with the excellent AA- rating. The Fund also reports on rather unproblematic dealings with smaller size SMEs, since they mostly also require smaller volume of capital and therefore no deeper analysis.

Issues to follow up:

- Blending finance also means blending policies, development priorities and social/environmental indicators – how far can the private sector (companies, financial service providers etc.) "blend" those into their portfolio without losing interest?
- Blended finance in agriculture – OECD Development Center to enter into an analytical "deep dive" – cooperation between Platform and OECD arranged for in cooperation with SAFIN; (see below - meeting with OECD) – possible cooperation partner for the pre-AGA event on Finance for ARD under Agenda 2030;
- Close cooperation with SAFIN recommended – practical outcomes of the network to inform Platform membership. How far does the interest go in the AG community?

Meeting with OECD development cooperation directorate

The colleagues from the OECD Development Cooperation Directorate informed about the planned "deep-dive" analysis of the use of blended finance instruments in the agricultural sector. The analysis will focus on blended finance 2.0, meaning that it will actively search for examples of private commercial financial involvement in ARD development cooperation projects.

The analysis will look into the differences of markets and investment strategies between least developed countries and middle-income countries. The new ODA classification will also have implications of the concessionality rates and the volume of grants flowing to the newly "upgraded" level of development for some countries and therefore offer more or less opportunities for blended finance arrangements. The OECD team is looking forward to exchange more often with the secretariat and possibly interested members.

Youth inclusion meeting at OECD Development Centre

The secretariat team met with colleagues from the OECD Development Centre to discuss the final touches on the Youth Inclusion Project of EU and OECD and possible collaboration in support of the upcoming AGA. The OECD team is organising this years' Global Forum for Development, which will take place on 5 April 2018 in Paris at the OECD Conference Centre. The topic this year will be youth and women. On 4 April 2018, a final meeting on the aforementioned Youth Inclusion Project will be held and Platform's engagement is encouraged.