United Nations
Department of Economic and Social Affairs

SUMMARY: Blended finance in the SDG Era

DESA Technical Workshop on the margins of the 5th Biennial High-level Meeting of the Development Cooperation Forum (DCF)

(New York, 20 July 2016)

The Financing for Development Office (FfDO) and Office for ECOSOC Support & Coordination (OESC) of UNDESA held a technical workshop on “Blended finance in the SDG Era”, on the margins of the 5th Biennial High-level Meeting of the Development Cooperation Forum (DCF). The workshop fed into the ongoing work on these issues by both the DCF and the UN system, in particular the Inter-agency Task Force on Financing for Development (IATF).

The technical workshop continued the multi-stakeholder debates on this topic during the 2014-2016 DCF cycle. It followed up in particular on the workshop on “The role of catalytic aid in financing sustainable development”, held on 8 April 2015 on the margins of the DCF Republic of Korea High-level Symposium and in preparation for the Third International Conference on Financing for Development, and the special event on “The impact of private and blended development cooperation: What can we expect in practice?”, held that year on 16 July at the Conference. A key recommendation to emerge from the earlier work was a shift away from questioning whether or not it was useful towards seeking deeper understanding of the cases where it is most appropriate, and the risks that needed to be managed.

Discussions at the technical workshop focussed on three sets of questions:

- Under which circumstances and in which areas is it most appropriate to blend concessional public with private finance? How can such instruments be monitored in a transparent manner, identifying accurately public effort, the amount of private financing leveraged and contribution to sustainable development?
- How could development cooperation support the strengthening of national capacities – legal and regulatory framework; institutional framework; operational capacity; supporting investment climate; and financial facilities – to prepare and run the workable structure for blended finance instruments and manage diverse stakeholder activities effectively?
- What needs to be done to build a knowledge base on PPPs and to share lessons at a regional and global level? How can we ensure that appropriate lessons are learned from successful and failed PPP experiences in both developed and developing countries?

There were six main conclusions from the workshop:

1. While blended finance can contribute to achieving the SDGs, participants warned against feeding the misimpression that blending is *THE* tool for moving 'from billions to trillions' in development finance. Rather, use of blended finance would start with analyzing its use on a case-by-case basis, to avoid undue subsidies to the private sector and undue risk for the public sector, including in the form of contingent liabilities. Subsidies to the private sector could be positively considered where social returns to an investment exceed private return, but financial returns alone do not justify private investment.

2. Developing countries should play a central role in the decision to prioritize the use ODA for blending and in the planning, design and management of specific blended finance projects. In this context, participants underscored the importance of applying overarching principles of development effectiveness to blended finance, in particular, aligning programmes and projects with country priorities and ensuring strong country ownership.

3. Continued efforts are needed to ensure transparency and accountability of all actors in blended financing. Development finance institutions, bilateral and multilateral should publish relevant contracts and establish mechanisms for public feedback.

4. Development cooperation should also support public sector capacity in developing countries to more effectively engage in blended financing decisions and projects and to manage complex multi-stakeholder partnerships.

5. The DCF provides a neutral multi-stakeholder platform for building further evidence and providing policy guidance concerning the optimal use of blended financing instruments in favour of developing countries on issues including: enhancing public sector capacity; better managing associated risks; and ensuring alignment and country ownerships.

6. Participants welcomed the ongoing work of different UN agencies on blended finance, noted the importance of cooperation across agencies, and underlined that any rules and principles for blended finance and public private partnerships (PPPs) would need to be discussed in an open and inclusive manner. There is a need for additional work and further discussions on these issues, with the IATF providing the appropriate platform for such collaboration.

Detailed summary

In his opening remarks, Navid Hanif, Director, OESC/DESA, noted that blended finance is not a new concept, but that it has gained new impetus in the context of the 2030 Agenda and the Addis Agenda. However many conceptual, definitional and empirical questions remain. The DCF could be a platform to address these.

The moderator of the event, Shari Spiegel, Chief, Policy Analysis and Development Branch, FfDO/DESA, recalled that the Addis Ababa Action Agenda underlines the potential of blended finance, while raising several caveats, including i) necessary supportive policies; ii) careful consideration to the appropriate structure and use of it; iii) sharing risks and rewards fairly; including clear accountability mechanisms; iv) meeting social and environmental standards; v) ensuring transparency and that countries have the necessary capacities. She invited panellists and the audience to discuss these aspects in the subsequent interactive discussion.

Six panellists initiated this lively discussion:

- Paddy Carter, Research Fellow, Overseas Development Institute, ODI
- Laurence Carter, Senior Director, Public-private Partnership Group, World Bank Group
- Rose-Lourdes Elysee, Chief of the Central Management Unit of Public-Private Partnership, Ministry of Economy and Finance, Haiti
- Désiré Vencatachellum, Director, Resource Mobilization and External Finance, African Development Bank
- Geoffrey Hamilton, Chief of the Public-Private Partnership Programme, United Nations Economic Commission for Europe (UNECE)
- Jesse Griffiths, Director, European Network on Debt and Development (Eurodad).

Baseline for the discussions was the definition of blended finance in the Addis Ababa Action Agenda as activities that combine "concessional public finance with non-concessional private finance and expertise from the public and private sector, special-purpose vehicles, non-recourse project financing, risk mitigation instruments and pooled funding structures" (paragraph 48).

> *"You don't want to subsidize the private sector, but you want to make projects happen."*

In relation to suitable projects and sectors, participants found that subsidies to the private sector can be justified in situations when social returns to an investment exceed private returns, financial returns are not sufficient to attract private sector investment, and private participation is seen as enhancing the project. In such cases, private investors can be attracted to invest in areas relevant to sustainable development that they might not be active in otherwise, including for example in certain infrastructure projects.

> *"Blended finance is a bit like subsidizing bread - subsidized bread means more demand, but that does not mean that bread would not have been bought without subsidy."*

Participants also noted that blended finance instruments can be useful tools to incentivize investments at the margin, but that they alone cannot move investments from 'billions to trillions'. Moving from billions to trillions will require policy changes, international cooperation, and alignment of all financial flows – both public and private -- with sustainable development.

> *"The issue of blended finance is not just about increasing finance but also about managing the risks."*

Since private investors require a financial return, blending instruments face greater challenges for investments intended to serve the poorest communities where returns tend to be lowest. The relatively small number of PPPs in low-income countries lends evidence to this argument. In addition to this, the poorest countries also tend to have the least capacities to engage with private investors and negotiate PPPs. Nonetheless, examples discussed at the meeting did provide evidence that such projects are feasible, particularly with international support in the form of capacity building and international standards.

A challenge in ensuring the key role of the public sector is the difficulty in proving that subsidized projects could not have gone ahead without public support (“additionality”). Given that the counterfactual cannot be observed, no definitive assessment can be made. This, in turns, only increases the need to measure, track and assess development results from these projects and learn from success *and* failure in order to generate best practices.

As one response to address such concerns, some participants also recommended that subsidies from international public sources should be temporary and focussed on achieving sustainability, and that subsidies to the private sector should eventually be phased out completely or handed over to national authorities. Indeed, representatives from multilateral development banks noted that this is part of their current PPP policy and that they already have systems in place that assess additionality and development impact through independent boards. Overall, participants agreed that the use of blended finance needs to be justified on a case-by-case basis, to avoid undue subsidies to the private sector and undue risk for the public sector, including in the form of contingent liabilities.

“There is no risk "mitigation" – there is only risk "transfer."

Many speakers stressed that transparency was key, including in the disclosure of contracts (in particular the degree of public sector subsidization) as well as in the measurement of development outcomes and results. Transparency can help to ensure accountability of all stakeholders involved and is essential for knowledge sharing and mutual learning. There was a specific call on all development finance institutions, both bilateral and multilateral, to publish all their contracts and to establish public complaint mechanisms. The important role of various stakeholders, including national development banks, trade unions and academia, as well as parliamentarians was also discussed.

“It is easy to find a list of projects but very hard to find information on the degree of subsidization, which is too often confidential.”

A question raised was how to decide on the allocation of concessional finance for leveraging private investment compared to using it for other objectives, such as social needs. It was widely agreed that decisions on prioritisation and allocation of scarce public financial resources – including on whether, how and where to use blended finance – would need to be made as much as possible at the country level. It was noted, however, that currently these decisions are made most often at the donor level.

Participants also emphasized the importance of adhering to development effectiveness principles, in particular national ownership and alignment of blended development cooperation with national development plans. In this context, there was a call for national development banks to get involved more prominently in blended finance and for development cooperation efforts to support their capacities to do so.

“When using ODA, we need to respect effectiveness principles, no matter whether it is a public or a private deal - ownership and alignment are key!”

Concrete examples and experiences that participants presented, on public-private partnerships (PPPs), project preparation facilities, risk guarantees and other blending modalities underlined the importance of national ownership of projects for their long-term viability and sustainability. These examples showcased potential benefits, and also highlighted some shortcomings in the international support architecture, as well as risks.

For example, Haiti entered a PPP with a French company to help with the distribution of portable water in municipalities and has seen a number of important benefits from the project, including improved quality of service and job creation. At the same time, the contract had to be renegotiated because some initial promises were not kept by the company. Among the lessons learned from this and other projects was that better guidelines for the negotiation of such contracts would have helped the national government. In addition, involvement from local authorities, who have intimate knowledge of local circumstances, from the earliest stages of a project, including in the preparation of feasibility studies, was another important success factor. Indeed, it was noted that projects sometimes hire a local consultant to fulfil donor requirements of local participation, and such projects tend to carry greater risks than projects that make a concerted effort to engage local authorities.

In this context, the discussion also focussed more broadly on capacity building efforts to support developing countries in managing blended finance and PPPs. Existing efforts highlighted included work by the MDBs to provide fiscal assessment tools, prioritization tools, disclosure frameworks and others.

Lastly, there was a discussion on efforts to standardize contracts and establish guidelines, which would ensure greater adherence to such principles. In the context of PPPs, the United Nations Economic Commission for Europe (UNECE) has been working on standards, models and templates for 'people-first' PPPs. The World Bank has prepared a number of tools, including fiscal assessment tools, prioritization tools and disclosure frameworks likewise designed to enable better decision making by governments on PPPs.

Participants agreed on the need to further advance work on common standards for blended finance including PPPs, which would need to be discussed in an inclusive, open and transparent manner, in line with the call in the Addis Agenda (paragraph 48). Participants suggested that the Inter-Agency Task Force on Financing for Development could be a useful platform for further work and discussions on these issues across UN agencies.

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