

2018 DEVELOPMENT COOPERATION FORUM SIDE EVENT

Organized by UNDESA

Blended financing and LDCs: Implications and opportunities for strengthening broad-based country ownership and leadership

The DCF side event, held at UN Headquarters in New York on 22 May, featured presentations by Ms. Mulenga Musonda-Mulenga, Ministry of Finance, Zambia, Mr. Johan Gély, Head of Division and Head of the Global Programme Water, Swiss Agency for Development and Cooperation, Switzerland and Mr. Jesse Griffiths, Director, Eurodad, European Network on Debt and Development.

The presentations were followed by interactive discussion moderated by Ms. Shari Spiegel, Chief, Policy Analysis and Development Branch, United Nations Department for Economic and Social Affairs, with a focus on generating key messages and policy guidance.

Policy messages on blended finance from the 2018 DCF

Development cooperation actors show growing interest in blending their concessional development finance with private (commercial) financing. Blending is not a new modality – national governments have long supported and subsidized specific priority sectors and private sector activities to achieve public policy goals, through industrial and other financing policies. Actors today are turning to blending to help not only close the vast SDG investment gap but also to facilitate innovation, capacity building, technology development and transfer.

“Ultimately, blending is not about the amount of dollars raised but about the impact of blended finance on development outcomes.” Shari Spiegel, UNDESA

Developing countries must urgently be included in decisions on whether and how concessional resources are used to blend finance for sustainable development. Given growing role of blended financing, national policy makers should have a role in deciding which policy goals to pursue and thus which activities to subsidize.

“Blended finance can be thought of as a public subsidy to a select private sector. National policy makers must have a say on which activities to subsidize to ensure alignment with national priorities.” Jesse Griffiths, EURODAD

Yet, at present, most decisions on targeting blended finance are taken in donor capitals or at headquarters of multilateral development banks and development finance institutions. The decision-making process frequently bypasses developing countries involved and the systems they have set up to record and manage funds from external partners.

Blended finance should use and reinforce existing institutions to secure country ownership and leadership. Several countries have institutions in place to assess and greenlight blending projects, such as a public-private partnership commission. Most countries also have local development finance institutions or development banks that also aim to catalyze the mobilization of private resources. By making use of these existing institutions and involving local actors blended finance can help strengthen the domestic banking sector and financial markets while advancing SDG implementation.



Using blending effectively requires a careful approach to private sector engagement. Issues such as technology transfer, employment or income generation, linkages to domestic production chains, or avoidance of monopolistic practices should be clearly established during the design stage of blended financing projects. Involving relevant stakeholders early will ensure that sustainable development impacts are taken into consideration. When such issues are carefully considered, blended finance can deliver projects outcomes and impacts that also help address specific challenges that countries face for instance in developing viable markets that attract private sector investment.

Blended finance is not yet working for everyone and swift action is needed to protect past gains in development effectiveness. Blended finance thus far has mostly targeted middle-income countries, while largely bypassing LDCs. Current trends indicate that increased use of blended financing may divert concessional funding from LDCs and countries in vulnerable situations as well as from social sectors. Especially in areas where public goods cannot be delivered profitably, public investment will remain essential, both through concessional financing and domestic investments. The increased use of blended finance could also lead to further decline in the share of country programmable aid and budget support and further increase in tied aid: both trends pose an immediate threat to country ownership and leadership, transparency and accountability.

Where ODA is used to leverage private finance, principles of effective development cooperation and blended financing principles should be applied. For example, the results framework used by the entity providing the private sector financing should be compatible with the systems set up by the developing country to record and manage the financing. Private actors selected for projects should include environmental, social and governance considerations into their business models, including ex ante assessments of the project's development additionality.

Where ODA is used to leverage blended finance, established transparency and accountability standards and practices should be applied. Engaging governments and holding quality public consultations with domestic stakeholders and beneficiaries – during all stages of programmes and projects – can help ensure country ownership and leadership, alignment with country needs and priorities, and improved transparency and accountability for results. To share risks and benefits fairly, blended finance deals should for instance compensate the public provider of first-loss guarantees with a share of returns if an investment does well.

Investments in an enabling private sector environment may be more appropriate than blended financing projects in some cases. Promoting public-private partnerships or investment agreements without solid legal or regulatory frameworks and transparent fiscal accounting poses risks, particularly for the populations involved. In countries with limited capacities, development cooperation should prioritize support for building the enabling environment to maximize the development additionality of blended financing.

“We still lack sufficient data and tools to assess the impact of blended finance on development outcomes. As we scale up the use of this modality, quickly closing these data gaps must be a priority.”
Amy Dodd, Development Initiatives

Analytical work and mutual learning on blended finance must urgently be accelerated, through the DCF and other platforms. Scaling-up blended finance rapidly – without solid data to assess its development impact – bears significant risks. Donors' increasing reliance on blended finance poses several urgent challenges: how to achieve greater transparency and accountability; better understand the development impact of blending, including on women and marginalized and vulnerable groups; and ensure blended finance works for countries lagging most behind.