THK Mobilisation Working Group – Interim Summary Consolidating Working Paper
Penultimate Draft at October 1, 2020

Note to Readers at October 1. 2020:

The Summary Consolidating Working Paper is an early draft of the Paper to be finalised in October 2020. The Working Paper consolidates and summarises the THK Mobilisation Working Group's activities and recommendations at September 2020 to meet its mandate of ***where possible, accelerate mobilisation of private commercial finance by optimizing incentives, financial instruments and standardization efforts***

The Working Group plans several events to communicate the final version of the Working Paper in November.

Executive Summary

In 2019, the Tri Hita Karana Roadmap for Blended Finance community under the leadership of the OECD created five Working Groups to make recommendations and take actions to ***help ensure the effectiveness and efficiency in use and scaling up blended finance operations, and to establish the appropriate environment for blended finance**.* The THK Mobilisation Working Group (see Annex X for list of members) was tasked to "***where possible, accelerate mobilisation of private commercial finance by optimizing incentives, financial instruments and standardization efforts.***"

The Purpose of this Summary Report:

- Summarise the findings, activities and recommendations of the THK Mobilisation Working Group at September 30, 2020
- Identify the top 9 components of a better blended finance market to successfully mobilise higher amounts of private investment to developing countries (Section 3)
- For those components, direct the reader to the best global resources (Section 3)
- Identify proposed priority activities from October 2020 onwards

The Report is **not** meant to be a comprehensive, traditional stand-alone report. The higher-level plan of the THK Roadmap is to consolidate outputs and reports from the five Working Groups into an aggregated brochure. This Summary report provides details beyond the content of the brochure.

The top 8 observations from the Working Group for blended finance to increase significantly private investment mobilization are as follows:

1. The development community should segment and analyze private investors to determine which are the [five] optimal priority segments to mobilise, understand their investment mandates and criteria and fund blended finance vehicles that create investment opportunities that meet those investment criteria
2. Donors should collaborate on blended finance, including co-funding larger blended finance vehicles that can mobilize investment at scale
3. Blended finance solutions require clarity of the roles of financial intermediation at the key levels of the blended finance distribution channel, from the intermediaries that will originate and arrange debt and equity form $100 to $1 billion all the way through to institutional investors that will provide the wholesale funding
4. Blended finance should identify the sectors/SDGs where it is a good development tool (and where it is not), and then fund at scale those where scale is possible and devise solutions in under-funded sectors/SDGs
5. Blended finance must create a larger universe of bankable/investibe SDG projects through i) project preparation and (ii) risk mitigation at project level to transform near-bankable projects to become bankable projects

6. Standardisation of blended finance approaches must be complemented by standardisation of documentation to mobilise private investment
7. Blended finance must overcome its current state of high fragmentation and low collaboration – and create marketplaces where the demand and supply of capital for SDG projects can meet to execute blended finance transactions
8. Blended finance strives to improve on existing resources and practice in development, and therefore requires institutional and personal incentives to deviate from status quo

Section 1 Background of Mobilisation Working Group

1.1 Tri Hita Karana Blended Finance Roadmap Initiative

The Tri Hita Karana Roadmap for Blended Finance is an international shared framework for mobilising additional commercial capital towards the Sustainable Development Goals (SDGs). It establishes a shared value system among international partners, and the terms of reference enable collective action among the variety of actors that are required to disrupt the status quo, and deliver on the SDGs.

- **Scale:** The THK action groups will bring together blended finance stakeholders across the ecosystem in order to develop means and measures to scale the mobilisation of private finance for the SDGs, with the ambition to translate deliverables into action.
- **Impact:** The THK action groups will work towards scaling blended finance applying a holistic approach to integrating the delivery of the SDGs into blended finance models. The efforts will work towards delivering on the expectations that blended finance is an effective tool to achieve impact.
- **Innovation:** The THK action groups will identify, share and nurture innovative blended finance approaches as well as innovations that can be scaled by the use of blended finance to deliver on the SDGs.
- **Learning:** Facilitate the development and exchange of knowledge and good practices on scaling, impact and innovation in blended finance that will encourage wide implementation and systematic adoption

1.2 Mobilisation Working Group

The OECD and blended finance stakeholders established the Working Group with the following mandate: *Where possible, accelerate mobilisation of private commercial finance by optimizing incentives, financial instruments and standardization efforts.* The Working Group members established the objective to identify and describe the key components for blended finance to be more successful in mobilising private commercial finance to the Sustainable Development Goals in developing countries. The Working Group identified the eight components described in Section 3.

1.3 Current private investment mobilised by blended finance

Blended finance, as practiced in 2020, is primarily focused on mobilising private investment to private sector operations in developing countries. Mobilisation to public/sovereign projects is a small component of the activity.

The four best sources of information to estimate the amount of public, philanthropic and private investment mobilised by blended finance are listed below.

- *Mobilization of Private Finance by MDB and DFIs 2018*, MDBs and DFIs Joint Report, October 2019
- *DFI Working Group on Blended Concessional Finance for Private Sector Projects*, MDBs and DFIs Joint Report, October 2019
- *Blended Finance Funds and Facilities – 2018 Survey Results, OECD, 2019*
- *The State of Blended Finance 2019 Report, Convergence, 2019*

A reasonable estimate of the amount of total investment and private investment mobilised to developing countries by blended finance is as follows:

- Development finance institutions deploy their regular capital at market and near-market terms (e.g., funding from IFC and CDC) to finance around $100 billion of private sector operations annually, funded around $40 billion from the DFIs and $60 billion from private sector investors;
- Within that amount, the DFIs report they finance around $6 billion of projects annually that includes concessional funding, funded around $3 billion by DFI resources, $1.5 billion by private investment and $1.5 billion by concessional funds
- The Convergence report estimates total blended finance flows with an element of concessionality totals around $16 billion per year, with around $4 billion funded on concessional terms

Accordingly, a reasonable estimate of the size of the blended finance market to developing countries is:

Total value of projects around $110 billion annually, funded $40 billion by DFI funds at market and near-market terms, $66 billion by private investment and $4 billion by development finance at concessional terms. Around $94 billion of this activity is conventional development finance form the DFIs and MDBs.

Section 2 Overview of Effective Mobilisation of Private Investment in Blended Finance

The development community has many tools, instruments and approaches to achieve development impact. Blended finance is a junior tool in the development toolbox – currently receiving annual commitments from donors equal to less than [3]% of ODA. Blended finance will likely continue to be a junior tool, with low allocations, therefore the donor community needs to ascertain the most effective uses of development funds in blended finance.

The core objectives of blended finance is to augment development impact by mobilising private investment to developing countries to achieve the SDGs. Blended finance must focus on additional finance – mobilising private investment that would otherwise not occur. This requires a systemic understanding of private investment, including the main barriers/challenges that impede private investment into developing counties. There are many barriers, with the Working Group identifying the top five:

1. High risk: country risk in developing countries is high – the median sovereign rating is S&P-equivalent "B" – beyond the mandate and criteria of most debt and equity investors. This high country risk leads to high credit risk.
2. Remuneration for the risk – Given the risk profile, many investors advise they can find investment opportunities in developed countries with comparable or premium returns
3. Scale: Many institutional investors sate they seek investment assets of $50 million or greater – transaction sizes that are not frequent in developing countries. For example, the average private sector investment size is$25-30] million at IFC
4. Financial intermediaries and investment channel: Most investors require a financial intermediary to arrange and manage an underlying financial asset (e.g., loan to local company) and then an acceptable channel for their investment to make it to the underlying project. Finance in developing countries lacks this investment channel, with many of the underlying finance agreements arranged by local financial intermediaries unknown to investors
5. Investment access: Investors do not have a marketplace where they can easily identify investment opportunities in developing countries. Most SDG projects are financed by private debt or private equity, and are therefore non-public transactions. In addition to the financial intermediaries and channel described above, investors require a marketplace9s) to gain access to investibe/bankable transactions.

Accordingly, blended finance is not an appropriate tool for all SDGs and sectors. If the objective of blended finance is to mobilise additional private sector investment to project the private sector would otherwise not finance, then blended finance should focus on sectors and SDGs that have underlying activities that the solutions for reaching all SDG goals. Blended finance should channel finance to SDGs, sectors, companies and projects with revenue streams that can repay the private sector. And there needs to be alignment of interest between capital holders and intermediaries.

The 2014 UNCTAD World Investment Report estimated annual finance and investment needs of around $3.9 trillion to achieve the SDGS in developing countries, with actual investment at $1.4 trillion leaving a $2.5 trillion SDG Investment Gap.

- Estimate and describe the current finance and investment for SDG projects in developing countries using five main sources:
    1. OECD Global Outlook on Financing for Sustainable Development 2019
    2. UNCTAD World Investment Report 2014 that identified the $2.5
    3. UNCTAD World Investment Report 2020
    4. UNCTAD SDG Investment Trends Monitor 2019

5. [UN Financing for Sustainable Development Report 2020]

Based on a review of the two main DFI reports, the OECD Funds and Facilities Report, the OECD Global Outlook Report and the Convergence Blended Finance Historical Deas Database, provide a description of the most effective approaches for mobilisation

Development Activity	**Non-Concessional Development Finance**	**Concessional Development Finance**
Instruments	Financial Instruments (Loans, Equity, Guarantees and Insurance)	Grants and Risk Capital (Financial Instruments)
Approaches – Project level	Co-investment in projects financed by DFIs: Since DFIs employ business model of only [35]% financing of a project, then additional 65% required. Two types: • Project sponsor finance • Parallel external finance (e.g., local bank)	• Grants • Guarantees • Insurance • Results-Based finance • Subsidy • Project Preparation Facilities • Project Specific TA • Investment Grants
	Co-financing directly mobilised by DFI (e.g., A-B loans)	
Approaches – Portfolio Level	Financing mobilised by DFI into portfolio of DFI projects (e.g., IFC MCPP)	• Catalytic/concessional capital into funds – grants, debt and equity • Catalytic / concessional Guarantees • Catalytic / concessional Insurance
Approaches – Institutional Level	Full recourse funding at DFI level (e.g., private sector debt into DFI, such as IFC issuing a Green Bond)	• Not Applicable

Section 3 Specific Recommendations and Guidance for Effective Mobilisation

The Working Group met over the course of 2019-20 to cover the full breadth of observations and key recommendations to meet the mandate of the Mobilisation Working Group, that is, "***where possible, accelerate mobilisation of private commercial finance by optimizing incentives, financial instruments and standardization efforts.***" The Working Group identified more than 20 key observations and recommendations to improve mobilisation, and upon analysis and deliberation, agree to the Top 8 recommendations listed in this section.

Each sub-section in Section 3 is structured as follows:

- A table that identifies for the reader the most important and relevant information resources related to the recommendation. The first iteration of this Interim Report is published in October 2020 with the expectation that these information resources will be updated. Please contact OECD Development Cooperation Directorate or Convergence to propose additional resources to be added.
- A discussion of the recommendation

3.1 Private Sector investment: Segmentation and investment criteria

Key Information Resources for Private Sector Investment Segmentation and Investment Criteria	
Produced by Working Group or Working Group members	**Other sources**
How to Mobilize Private Investment at Scale in Blended Finance, Convergence and DFID, 2020	*Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital Through Blended Finance*, Convergence 2017 *Mobilization of Private Finance by MDB and DFIs 2018*, MDBs and DFIs Joint Report, October 2019 *DFI Working Group on Blended Concessional Finance for Private Sector Projects*, MDBs and DFIs Joint Report, October 2019

The Working Group agreed the critical need (i) to identify the private sector segments most likely to invest in SDG projects and investment assets derived by blended finance (Section 3.1.1), (ii) to understand the investment criteria of those investors (Section 3.2.1) and (iii) identify the optimal blended finance structures to mobilize those segments most efficiently (Section 3.3.1).

3.1.1 Segmentation

In Table X, the Working Group identifies private sector investment segments that blended finance should target for mobilisation, and identified their investment intentions on the following five types:

1. Real-economy investment (REI)
2. Debt investment: Investment Grade (DIIG)
3. Debt Investment: Non-Investment Grade (DINIG)
4. Equity investment: Direct Equity (EIDE)
5. Equity investment: Portfolio investment (EIPI)

Table X identifies the importance of each segments ability to continue meaningfully to the SDGs though blended finance. For example, blended finance should have (i) a HIGH prioritisation to mobilize Real Economy Companies (Large

Companies) to invest in real-economy investments (e.g., Foreign Direct Investment) and (ii) a HIGH prioritisation to mobilize Pension Funds to invest in Investment Grade Debt Investments.

Private Sector Segment (Organization Type)	Located in Developing Countries					Located in Developed Countries				
	REI	DIIG	DINIG	EIDE	EIPI	REI	DIIG	DINIG	EIDE	EIPI
Real Economy Companies - MSMEs	H									
Real Economy Companies - Mid-Caps	H					M				
Real Economy Companies – Large Companies	H					H				
Financial Institutions – Microfinance Institutions		L	H							
Financial Institutions – Commercial Banks		L	H				H	M		
Financial Institutions – Investment Banks							M	L		
Asset Managers - Asset and Wealth Managers					M		M	M		M
Asset Managers - Private Equity Firms					M				M	H
Investors / Asset Owners – Insurance Companies		H	M		M		H	M		M
Investors / Asset Owners – Pension Funds		H	M		H		H	H		H
Investors / Asset Owners – Sovereign Wealth Funds		M	M		M		M	M		M

3.1.2 Private sector investment criteria

Key Information Resources for Private Sector Investment Segmentation and Investment Criteria	
Produced by Working Group or Working Group members	**Other sources**
How to Mobilize Private Investment at Scale in Blended Finance, Convergence and DFID, 2020	*Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital Through Blended Finance*, Convergence 2017

Debt investors make investments that fit with a maximum risk profile (e.g., probability of default and expected loss) and pay an interest rate that equals or exceeds comparable benchmark investment assets. The biggest challenge to mobilise debt investors is as follows:

- **Credit risk** for individual projects is often perceived as too high by the financial intermediaries that could finance those projects
- **County risk** is perceived as too high relative to debt investor mandates. For example, the large majority of det investment globally is managed pursuant to an Investment Grade mandate, but the median sovereign risk rating of developing counties is S&P-equivalent "B" – well below Investment Grade.
- **Scale** is often too small for many investors. For example, 9i) MDBs and DFIs looks for transactions sizes above $10 million and institutional investors seek investments above $25 million. The large majority of SDG financing needs in developing counties are below these thresholds.

3.3 Financial intermediation for blended finance

Key Information Resources for Financial Intermediation in Blended Finance	
Produced by Working Group or Working Group members	**Other sources**

The Blended Finance Transmission Channel is depicted in Figure X.
INSERT FIGURE X

Blended finance requires financial institutions/intermediaries that will originate, arrange and manage a financing agreement for the SDG project. In developing counties, banks and microfinance institutions are the most active providers of finance/investment, but other organizations provide direct finance/investment to SDG projects (see table below). These “arranging” institutions typically procure funding from other sources who indirectly finance the SDG projects. The former “arranging” financial intermediaries are the most important link in the blended finance chain since they are closest to the actual SDG projects – providing the finance and investment to make the SDG project possible.

Description	Types of Intermediaries (Examples)
Financial Intermediaries originating, arranging and managing financing agreements directly for SDG projects	• Microfinance institution (e.g., Humo Tajikistan) • Domestic Banks (e.g., KCB Bank, Kenya) • Regional Banks (e.g., Standard Bank and Eco Bank) • International banks (e.g., HSBC and Standard Chartered Bank) • National Development Banks (e.g., Uganda Development Bank) • DFIs (e.g., FMO, Netherlands) • MBDs (e.g., African Development Bank) • Equity Fund Managers (e.g., SEAF) • Domestic capital markets (e.g., Ethiopia Stock Market)
Financial Intermediaries and investors channelling investment to SDG projects indirectly by funding the “arranging” financial intermediaries	• DFIs and MDBs • International banks • Fund of funds • Impact investors • Institutional Investors (e.g., pension funds and insurance companies) • Development agencies • Philanthropic foundations • High Net Worth Individuals • Private and public debt markets • Private and public equity markets

Partnerships with the right ‘arranging” financial intermediary is critical for the success and sustainability of blended finance. So are the possible additional partners and ecosystem of actors that are needed. Blended finance transactions often requires concessionary contributions to increase capacity among stakeholders. They should as all donor finance be well targeted and planned.

3.2 Blended finance structures to mobilise private finance and investment at scale

Key Information Resources for Private Sector Investment Segmentation and Investment Criteria	
Produced by Working Group or Working Group members	**Other sources**
How to Mobilize Private Investment at Scale in Blended Finance, Convergence and DFID, 2020	*Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital Through Blended Finance*, Convergence 2017

Scale Blended Finance Working Group, led by DFID and Convergence Moody's Research report	

The Working Group identified two deficiencies in blended finance that need to be rectified to mobilise more investment to developing countries:

1. Blended finance is far too fragmented with dozens - hundreds of solutions tested to date. Blended finance should support 2-5 standard approaches
2. Blended finance has not mobilised investment at scale yet – Convergence and he OECD estimate annual blended finance flows at $20 billion or less. Median blended finance project size to date has been around $80 million. Blended finance must support more large vehicles at $250+ million

Sections X and Y of *How to Mobilize Private Investment at Scale in Blended Finance* identifies how blended finance is best deployed to (a) mobilise investment to bankable and near-bankable projects and forego unbankable projects, and (b) mobilise investment at project and portfolio levels. It is critical for blended finance practitioners to deploy the most effective and efficient blended finance solutions to mobilise investment at two levels:

- Project Level: All SDG projects are financed at a project level – usually individual companies, but also projects and financial institutions. Project-level finance is usually provided as senior debt, sometimes equity and rarely mezzanine capital (e.g., subordinated debt). Financing amount range from a $100 loan to a microenterprise from a microfinance institution to a $200 million equity investment in a large infrastructure project from a foreign direct investor. This is the most important type of financing, but given the typically small sized of financing required for each SDG project, this financing requires thousands of financial intermediaries to originate and arrange these financial assets. The most active and important financial actors are banks and MFIs, with non-bank FIs and equity fund managers playing very important roles.
- Portfolio Level: Most cross-border financing for SDG projects happen on a portfolio basis – where best investors and equity investors allocate monies to funds, facilities and portfolios that in turn finance the individual projects. A typical example would be a two-tier private credit fund financed by senior capital and junior capital, with a debt investor subscribing to the senor capital of the fund and the fund manager in turn investing in the project.

Of the two, mobilisation at the project level is more important – mobilisation at portfolio level is only possible if individual SDG projects are financed, and in turn, those assets can be part of a portfolio.

Blended Finance Objectives

	Project Level	**Portfolio Level**
Real Economy Investment	Most important segment to mobilise. SDG Projects require an increase in real economy investment, and increase in supply of debt and minority interest equity to implement more projects	
Debt Investment	The source of debt investment in SDG projects can be viewed by financing amounts. Generally: Debt amounts less than $5 million are provided by domestic financial institutions (e.g., banks and MFIs). Debt amounts more than $5 million are provided by domestic and cross border financial intermediaries	

	These debt investors require two types of blended finance solutions: (1) **Project-Level Risk Mitigation solutions** and (2) **Increased Funding Solutions**.	
Equity Investment		

Project-Level Risk Mitigation includes measures that reduce (i) the probability of default or (ii) the loss given default. The most effective blended finance approaches are:

- Financial guarantees:
- Payment guarantees:
- Risk sharing on loans and loan portfolios:

Increased Funding Solutions comprise (1) equity capitalisation and (2) debt funding with emphasis on local currency finance.

3.4 Mobilisation to less explored sectors

Key Information Resources for Mobilisation to Less Explored Sectors	
Produced by Working Group or Working Group members	**Other sources**
Gender Equality and Water, Sanitation and Hygiene, Convergence Sida, 2019 Making Blended Finance work for Water and Sanitation, OECD (Sida) http://www.oecd.org/water/roundtableonfinancingwater.htm roundtable on financing Water additional links	Blended Finance in the Least Developed Counties 2019, OECD and UNCDF

Blended finance is not the solutions for reaching all SDG goals. Blended finance transactions needs to contain a potential future revenue stream and there need to be alignment of interest between capital holders. While the energy and infrastructure sector for many reasons have been seen as a good match other sectors have developed slower.

Getting donors and investor community comfortable to co-operate is key to the development new and expanding existing solutions to also include fields such as finance for innovations, water and sanitation, gender, ocean conservation or even agriculture/forest and fisheries.

There are several broad platforms (examples) that successfully brings stakeholders together and contributed to new partnerships and building trust and understanding around each parties different interests and goals. RARE, NGO in the field of environment conservation, brought together stakeholders with the specific, yet, broad topics of ocean conservation on numerous occasions.

Dialogue leading to concrete solutions requires stakeholders reaching out for each other's competences, knowledge and capital. Examples are to be found by the UNCDF and IFEED that started its cooperation with Bamboo capital or the cooperation between Sida, Act Church of Sweden, We effect and Oikocredit. Initiatives that are created in order to demonstrate the possible cooperation and deliver both revenues and development impact.

Blended finance can be used as a modality to extend and introduce investors' appetite for less explored sectors and poorer segments of the population. Impact investors and donors can actively initiate or support such discussions. Global and local NGOs as well as the research community are needed for the significant thematic and local knowledge.

3.5 Larger universe of bankable/investible SDG projects

Key Information Resources for larger Universe of bankable/investible SDG projects	
Produced by Working Group or Working Group members	**Other sources**
Links to the work of SDIP and DBSA	PIDG TAF facility Members to add list of : Overview of preparation facilities

The Working Group identified the mismatch between eh UN's estimate of the SDG Investment Gap (e.g., $2.5 trillion per annum) and the recurring observations from banks, MDBs, DFIs and institutional investors; "*there are not enough bankable/investible deals*" as one major challenge to increase mobilisation.
Indeed, access to early preparatory funds does not reduce the need for national governments initiatives of capital market reforms, land rights and sector regulations and enforcement. However, the patch work of project preparation facilities especially in the infrastructure and prominently in the energy and water sector have long been a concern for donors, project developers and governments.

There is an impressive array of donor sponsored project preparation facilities – often times a donor support several with different implementers - that work with governments and project sponsor to remedy the problem. A CEPA study for the Infrastructure Consortium for Africa from 2012 finds 67 project preparation facilities[1]. A recent ODI report from 2018 finds around 150 facilities in the area of clean energy only[2]. The G20 issues a set of principles for infrastructure project preparation[3].

Questions to be asked in further discussions on the topics relates to:

[What can we learn from the infrastructure space for other sectors to increase the universe of investible deals for other sectors?]

- What are new approaches in technical assistance facilities:
    - to increase local partnerships and coordination among facilities
    - to aggregate and to support scalability
    - to seek examples of business models where preparatory support can be reimbursable grants hence seeking sustainability

[1] https://www.icafrica.org/fileadmin/documents/Knowledge/ICA_publications/ICA-PPF-Study%20Report-ENGLISH-VOL%20A.pdf

[2] https://www.odi.org/sites/odi.org.uk/files/resource-documents/12504.pdf

[3] http://www.g20.utoronto.ca/2018/principles_for_infrastructure_project_preparation.pdf

More often than not, the lack of investible projects is a binding constraint to scale and to mobilize private investors. This does not mean that there are no projects. Investible in this context refers to projects, which are IDD and ESG compliant in a way that an international investor would reasonably expect. These demands also limit the universe of investment opportunities in Fragile and Conflict Affected States, unless investors, including DFIs, are willing to bear substantially higher reputation risk. Blending can support financial de-risking, but sponsor, project and macrocosmic risks will remain. A lot of the conversation has focused on structuring investment vehicles. That is something we know how to do. How do we increase the universe of investible deals? Are we on the right track?

3.6 Standardisation

Key Information Resources for Standardisation in Blended Finance	
Produced by Working Group or Working Group members	**Other sources**
Wharton Social Impact Initiative, supported by Canada and Sweden	

Private investors constantly cite a need for standardisation and complain about the high fragmentation, systemic lack of collaboration, bespoke financing agreements and expansive blended finance approaches. They require:

1. Standardisation of the description of the investment opportunity
2. Standardisation of financing agreements
3. Standardisation of blended finance approaches, a and resulting investment assets

One example is the Wharton Social Impact Initiative at the University of Pennsylvania, in partnership with Eighteen East Capital, that has undertaken research work focussed on the analysis of the different costs associated with the complexity, the lack of standardisation and the inclusion of confidentiality clauses in the contracting documents used by private equity limited partnership funds in the impact and development finance sector. The research team will assess how these can be improved, with a view to reducing the financial, time, and opportunity costs associated with current contracting practices, thereby unlocking greater capital flows. Their report will be widely consulted during autumn.

3.7 Marketplace(s)

Key Information Resources for Marketplace(s) in Blended Finance	
Produced by Working Group or Working Group members	**Other sources**
	Convergence Matchmaking Platform

Private investors cite high fragmentation of investment opportunities and limited electronic marketplaces where they can go to identify the investment opportunities.

3.8 Incentives for blended finance

Key Information Resources for Incentives in Blended Finance	
Produced by Working Group or Working Group members	**Other sources**

The private sector investment community has increased its interest in investment assets aligned to the SDGs in developing counties, in theory. There is significant and growing demand for private investment strategies and investment themes that align to SDG investments in developing countries, including the following labels:

- ESG (Environmental, Social and Governance) Investing
- Responsible Investing
- Sustainable Finance
- Impact Investing
- Green Finance
- SDG Investment
- Transition Finance

Annual financial allocations to these investment strategies and themes is very high, but due to limited investibe/bankable assets that meet investors investment criteria/mandate, the monies remain invested in developed countries. There is great opportunity for the development community to take advantage of the growing interest private investors in these investment themes and strategies.

Although the appetite is strong, the universe of investible/bankable assets at scale is de minimus. The development community has to created, on a wholesale basis, investment assets to capture this surge. The rhetoric of private finance mobilisation to developing countries to achieve the SDGs is not matched with funding and action. The following incentives are required to eb successful

Activity required	Development Challenge	Examples of Incentives
A Development Strategy for Private Investment Mobilisation		
Higher allocation of catalytic capital from development agencies to blended finance	The 30 OECD DAC members allocated around $145 billion annually to ODA in 2016-2019 – the SDG implementation period. Less than 2% of those funds were allocated to blended finance, and the amount/percent is not increasing.	
Collaboration amongst development agencies	The allocation to blended finance has bene low and will likely continue to not be significant. Therefore, if the objective of blended finance (relative to other development tools) is to mobilse private investment, then collaboration is required to maximize the impact of the blended finance.	

	The blended finance community is highly fragmented.	
Strategic collaboration and coordination ion mobilisation amongst development agencies, philanthropic foundations and shareholders of MDBs, DFIs and NDBs		
Higher prioritization of mobilization for DFIs	Less than [10]% of DFI financing transactions include direct mobilisation at project or portfolio levels – private sector finance is co-invested by project sponsors and local financial institutions. The amount of financing arranged by MDBs and DFIs during the DGS has not increased. The easiest way for blended finance. To mobilse private investment substantially over the remaining period do the SDGs is for (i) DFIs to arrange higher amounts of financing and (ii) mobilise private investment in those financing transactions as much as possible.	
Higher allocation of DFI capital to SME risk	Likely less than 2% of MDB and DFI exposure is direct exposure to SMEs, and yet the IMF and AfDB identify 80-90% of jobs to be created in Africa will eb created by SMEs.	

Section 4 Recommendations Going Forward from October 2020

The Mobilisation Working Group observed the benefit of merging the Practices and Mobilisation Working Groups into one Working Group to ensure a laser-focus on good-practice blended finance that will mobilise private investment at scale. Reviewing the recommendations of the two Working Groups. The Mobilisation Working Group recommends a focus on the [4-5] areas listed in Table X.

Recommendation	Description
Collaboration amongst donors to identify the role of blended finance relative to other development tools, focus SDGs and then a steady budget	There is lack of understanding and consensus within official development finance community on the role and priority for blended finance. Donors should agree the primary objective(s) of blended finance and then implement blended finance solutions accordingly. For example: • What are the distinct mobilisation objectives for non-concessional blended finance (from MDBs and DFIs) and for concessional blended finance (form development agencies) • Should blended finance focus exclusively on mobilising private investment and only on private sector operations
Codification, learning and implementation for blended finance **good practices**	
Collaboration of development funders to support most effective blended finance vehicles	
Deploying blended finance solutions to create investment opportunities that create investible/bankable investment assets aligned to private sector mandate, criteria and interests	

- Focus on two activities determined in collaboration with Practices