

Blended finance is emerging as an important tool to help mobilise private financing towards the SDGs. Blended finance is the use of development finance to primarily crowd-in additional commercial finance that is not currently deployed to support development outcomes, thereby growing the sustainable development pie¹. Blended finance has gained a lot of momentum as a result of multiple stakeholder efforts, most recently in the G7².

To capitalise on the collective strength in mobilising commercial capital towards the SDG-related financing gap, blended finance actors are engaging in a coordinated effort to ensure the effectiveness and scaling up of blended finance operations. Approaches to blended finance have evolved over different periods of time at varying speeds and in response to diverse actors and stakeholders. These diverse approaches have resulted in the need for effective coordination, in order for improved outcomes for the broader blended finance agenda and development impact. To address this, a multi-stakeholder endeavour, bringing together different perspectives, has sought to develop a narrative for a shared blended finance value system and contribute towards effective coordination. An outcome greater than the sum of the parts is the aim, as well as inviting a broader group of stakeholders into the discussion.

The goal is to work together, in parallel with the innovative and evolving investment environment, in order that the 2030 agenda can be effectively delivered. Beyond scaling up commercial investments in the development finance spectrum, blended finance providers and recipients must collectively champion the application of high standards and shared values throughout the financing process.

1. The OECD has framed blended finance as the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries. The roadmap is directed to any form of blended finance in line with the OECD definition, *i.e.* concessionality is not a pre-requisite for blending. The MDBs and European DFIs working on private sector operations focus on blended finance that has a concessional element. Though this definitional difference is important when gathering, analysing and presenting data, the roadmap links these two efforts through core common values that underpin both the policy level OECD Blended Finance Principles and the operational level DFI Enhanced Principles for Blended Concessional Finance in Private Sector Operations.

2. For more information, please see <https://g7.gc.ca/en/g7-presidency/themes/investing-growth-works-everyone/g7-ministerial-meeting/co-chairs-summary-g7-joint-development-finance-ministers-meeting/>

Blended finance stakeholders acknowledge that exploiting the potential of blended finance for the 2030 agenda cannot be achieved by a single organisation or country. In recognition of the need for a multilateral framework for delivering blended finance, multilateral actors, in this case the G7, have responded with requests for coordination, in order to widen engagement further. In line with the multi-stakeholder nature of blended finance, the roadmap below is being developed in order to further inform international agendas such as the G20 and UN. We consider that only then will the full spectrum of actors be effectively coordinated towards SDG delivery.

SHARED VALUES FOR ENSURING EFFECTIVE BLENDED FINANCE

Anchor blended finance into the SDGs

Commit to using blended finance to mobilise commercial finance

Design blended finance to move towards commercial sustainability

Structure blended finance to build inclusive markets

Promote transparency when engaging in blended finance

THE SHARED VALUE SYSTEM ON BLENDED FINANCE

The shared value system on blended finance promotes that stakeholders act coherently within established and existing blended finance frameworks by finding a common language. Having a common language will reinforce actions both at the policy level as well as at the operational level. In doing so, the common value system will work as a means to building on existing governance mechanisms within a value driven framework. The shared value system aims to set a framework for common values for all actors working to scale their blended finance operations and improve their effectiveness. As the blended finance market grows larger in terms of actors and activities, and as new stakeholder such as philanthropic and private sector actors enter the market, the common value system can provide guidance on the terms of references to those operating in the market. As a result, a shared value system not only enables improved engagement with the private sector, but it can ultimately drive alignment and greater efficiency in the market.

1. Anchor blended finance into the Sustainable Development Goals (SDGs)

Blended finance activities should support developing countries in achieving inclusive, social, economic and environmentally sustainable development that benefits women and girls equally. Blended finance should aim to go beyond what is available, or which is otherwise absent from the market, and should not crowd out commercial finance.

2. Commit to using blended finance to mobilise commercial finance

Blended finance should operate as a channel for commercial capital to address sustainable development. In doing so, blended finance operations should aim at scalability and leverage based on context and conditions. Blended finance should assume a pathfinder role of bringing in commercial capital into sectors and jurisdictions where financing needs are the greatest, such as in LDCs and women's finance, while balancing risks and rewards with minimum levels of concessionality.

3. Design blended finance to move towards commercial sustainability

Blended finance transactions should have a clear strategy for their duration and exit, in particular if concessional finance is involved. That is, the level of concessionality extended to subsequent projects should not only aim at mobilising additional finance, but also be reduced demonstrably over time. This includes that blended finance stakeholders should seek to actively locate pathways for financing private sector investments through market-clearing financing solutions. When blending with concessional finance, the *DFI Working Group Enhanced Principles on Blended Concessional Finance for Private Sector Projects*³ (DFI Enhanced Principles) should be respected. Suppliers of blended finance resources that can be utilised in a concessional manner can play a significant role in scaling up the effectiveness and efficiency of the blended finance market by actors respecting these DFI Enhanced Principles in all structures and initiatives to be funded with their concessional resources.

4. Structure blended finance to build inclusive markets

Blended finance should help to accelerate inclusive sustainable market development, including the local financial market. Local engagement and ownership should be pursued. At the same time, blended finance should be accompanied by efforts to

3. The DFI Working Group Enhance Principles can be accessed at http://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES.

promote a sound enabling environment and investment climate. In addition, availability of information relevant for market making should be coordinated among policy makers, development finance providers, commercial investors and investees to leverage experience and track record. Ultimately, in each market, clarifying, sharing and addressing the root causes for requiring blended financing should be prioritised.

5. Promote transparency when engaging in blended finance

Accountability and transparency on the appropriate use and impact of blended finance should be pursued. Financial flows and development results should be tracked, reported and communicated. Thereby, blended finance should seek to promote adherence to high standards of conduct by private sector investors and investee companies, including in the areas of corporate governance, environmental impact, social inclusion, transparency, integrity, and disclosure⁴.

SUPPORTING THE SHARED VALUES

The shared value system aims to establish a “common narrative” that builds on the recent dynamics and evolution in the blended finance ecosystem. This is anchored in the first instance in a common adherence to the Addis Ababa Action Agenda and underpinning principles in their entirety. Secondly, the common narrative is anchored in the variety of blended finance actors and frameworks currently in place. While the commitment to shared values is broad and inclusive there are a number of initiatives that form the core of the shared values, in particular the *OECD DAC Blended Finance Principles*⁵, which have been endorsed by the Ministers of the Development Assistance Committee (DAC) in October 2017 and received support from the leaders of the G7, the DFI Working Group who delivered the DFI Enhanced Principles, the multi-stakeholder *Blended Finance Taskforce which published Better Finance, Better World*⁶, the World Economic Forum and OECD in their joint role of hosting the Sustainable Development Partnership (SDIP) and bringing together private sector blended finance stakeholders, and the UN Inter-Agency Taskforce Report on Financing for Development as it relates to blended finance⁷. These initiatives will continue to remain the preserve of their organisation or taskforce, while ensuring complementarity and coordination with this roadmap.

4. As an example, DFI institution-wide policies, procedures and processes are applicable to blended finance investments in the same manner they apply to own account investing.

5. Please see <http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf>

6. Please see <https://www.systemiq.earth/blended-finance-taskforce>

Key stakeholders are now coming together at a critical point both in terms of the need for greater blended finance as well as the greater awareness of blended finance and its role in financing the SDGs. Together these efforts bring together different and valued perspectives to the blended finance common narrative. The OECD has coordinated various initiatives and included representatives from the CSOs, think tanks and the United Nations community in order to further inform the development of this roadmap. Supporting and promoting the shared value system is critical for all stakeholders and therein enabling the full strength of blended finance actors and activities to deliver the SDGs. All relevant actors are invited to join the common narrative, and to contribute within this shared value system

GUIDANCE BASED ON SHARED VALUES

The strength of a unified, multi-stakeholder approach is key to mobilising commercial capital towards the SDG-related financing gap. Capitalizing on that strength, some possible areas for action have been identified to help ensure effectiveness and efficiency in the use and scaling up of blended finance operations, and to help establish the appropriate environment for blended finance.

1. Practice: Translate a common narrative into good practices.

In order to ensure the agreed common narrative on blended finance is effectively turned into practice, the development and exchange of good practices will be facilitated, through sharing and coordinating. Moreover, generating and sharing good practices on the implementation of blended finance principles will further ensure that blended finance is driven by a sustainable development rationale and delivers on its expectations in respect to the SDGs.

2. Mobilisation: Where possible, accelerate mobilisation of private commercial finance by optimising incentives, financial instruments and standardisation efforts.

Incentive structures in multilateral and bilateral development banks as well as DFIs are a key variable in increasing private investments in emerging markets and developing countries. In addition, optimisation of blended finance instruments used by DFIs/MDBs/DBs towards mobilisation should be explored along the lines of risk absorption capacity in the market, innovative on- and off-balance sheet vehicles as well as the levels of concessionality applied. The role of standardisation in scaling up blended finance should also be addressed. A balance is necessary between a focus on leverage and scale on

7. Please see <https://developmentfinance.un.org/press-release-and-fact-sheet-financing-development-progress-and-prospects-2018>

the one hand, and development impact as well as acknowledging the existence and/or readiness of a market to attract private capital, on the other hand.

3. Transparency: Build on efforts to facilitate transparency in the use of blended finance, in particular blended concessional finance.

One of the bottlenecks holding back private investments in emerging markets and developing countries is the limited information available to commercial investors. A major component of investment risk stems from information asymmetries. Improving transparency efforts in blended finance could play a central role in enabling increased private financing. This includes making existing data available to a larger group of stakeholders, including the private sector, and scaling up the exchange of activity-level, disaggregated transaction and performance data of blended finance investments in developing countries and emerging markets. While information sharing may seek to further inform private investment through greater disclosure of risks and returns, reporting of concessionality within blended finance structures underpins this objective and therefore definitional differences must also be well understood.

4. Build inclusive markets: Addressing specificities in the local and international investment climate.

A flourishing investment climate enables a better quality and quantity of blended finance. Besides issues in the international regulatory environment, building inclusive local markets is crucial in mobilising private investment, including improving local currency investment. To that end, national and sub-regional development banks can play a greater role in crowding-in private finance. In addition, local private and institutional actors should be involved in blended finance operations. Furthermore, local ownership of blended finance operations will contribute to sustainable impact. Coordinated efforts should be undertaken in order to develop these markets.

5. Impact: Promote measurement and monitoring of the impact of blended investments towards the SDGs.

The use of blended finance should be driven by the objective of maximising development impact. This reinforces the importance to be clear about the development objectives pursued with a blended finance intervention, and the impact they aim to achieve. To that end, the social, developmental and environmental impact of blended investments should be measured and tracked.

OUTCOME STATEMENT: TURNING THE BLENDED FINANCE ROADMAP INTO REALITY

Developed in a multi-stakeholder process, Indonesia and the OECD, in conjunction with major partners from governments, DFIs and private sector entities, express their support to the objectives of the Tri Hita Karana Roadmap for Blended Finance at the Tri Hita Karana Sustainable Development Forum on “Blended Finance and Innovation for Better Business Better World” in Bali, Indonesia, from 9-10 October 2018. The DFI Working Group contributed to and supports the THK Roadmap, and sees it as providing important shared values for all stakeholders engaged in supporting private sector projects for development and achieving the Sustainable Development Goals (SDGs).

Building on the shared value system presented prior to the 2018 Annual Meetings of the International Monetary Fund and the World Bank Group, blended finance stakeholders will work towards turning this roadmap into reality. This will make for another tangible contribution and response to G7 and G20 requests including the G7’s request for promoting greater transparency and accountability in blended finance operations.

We support this shared value system and the respective guidance, with the full recognition that market-wide coordinated action is necessary to more effectively and efficiently deliver the necessary financing and development impact needed to support the fulfilment of the SDGs.

