PARTNERSHIP MODELS IN BLENDED FINANCE: AN OVERVIEW

Swiss Sustainable Finance
16 January 2018, 13:45 - 14:15

Wiebke Bartz-Zuccala, Policy Analyst, OECD
Haje Schütte, Head Financing Sustainable Development Division, OECD

BETTER POLICIES FOR BETTER LIVES

Agenda

Key Facts and Figures on Blended Finance

Blended Finance Definition & Principles

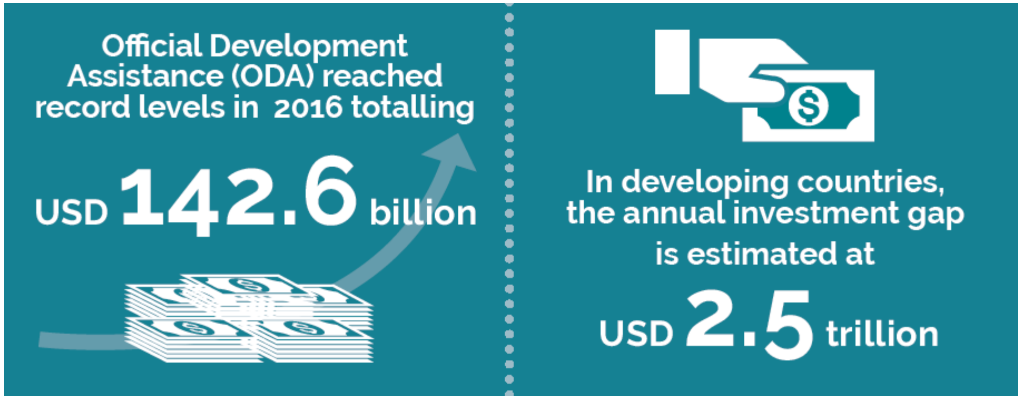
Partnership Models & Insights

Questions

KEY FACTS AND FIGURES ON BLENDED FINANCE

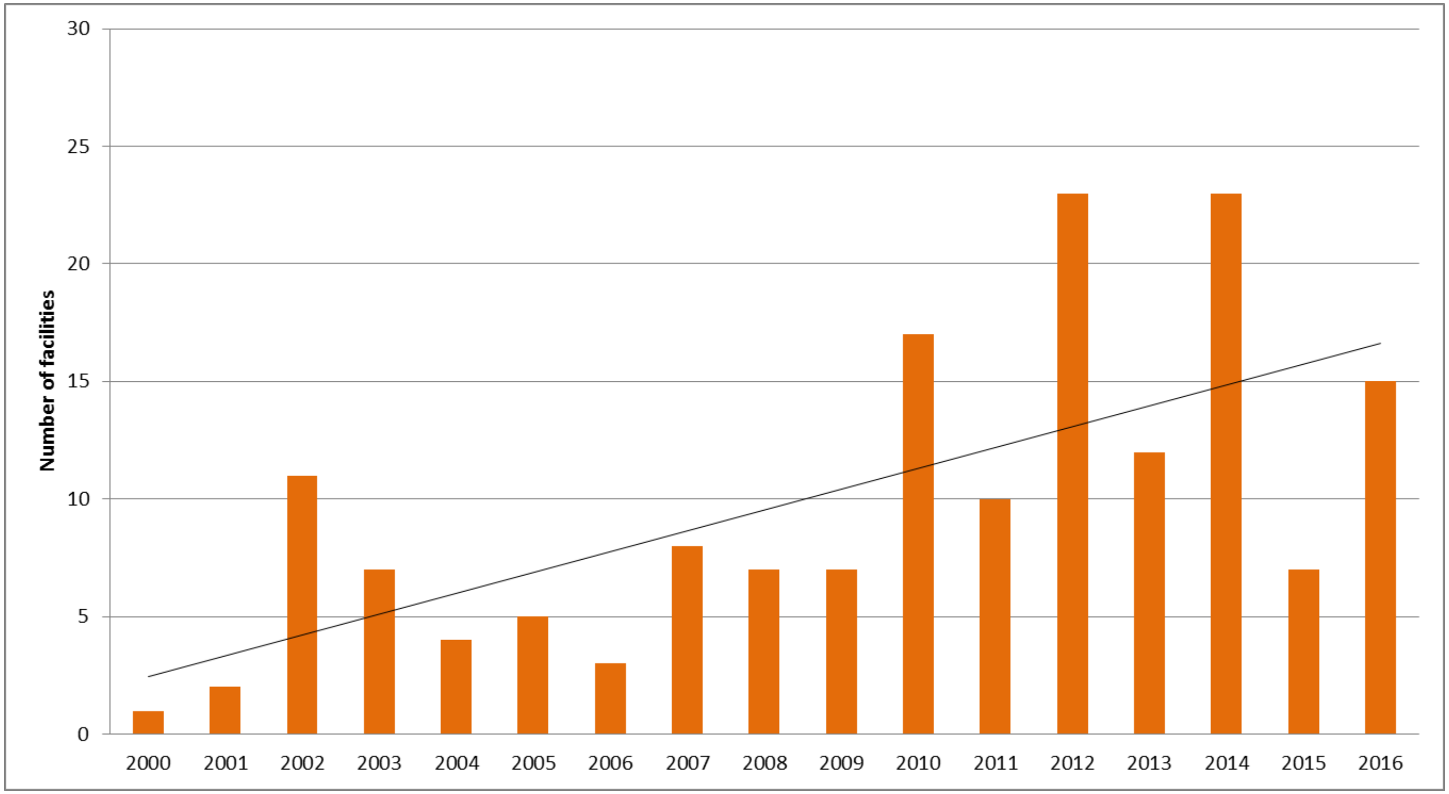
BETTER POLICIES FOR BETTER LIVES

The Challenge



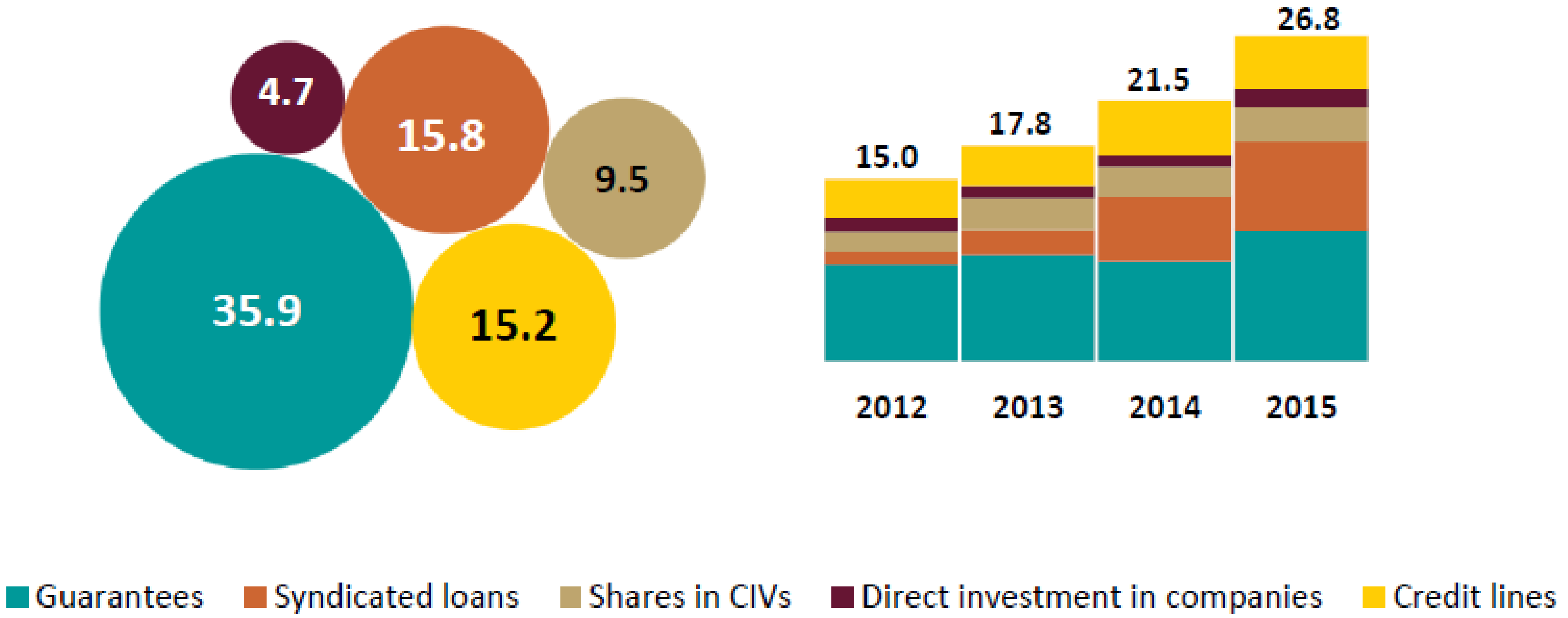
- Annual investment gap to deliver the SDGs in developing countries is estimated at USD 2.5 trillion
- Public development finance - from governments and donors - will not be sufficient to fill investment gap.
- 17 of 23 DAC members are engaging in blended finance; 10 of those report having well established programmes that have been in operation for a number of years and/or cover a range of instruments
- While interest in blending is increasing, the evidence base on blended finance is still quite limited.

Increasing Donor Interest



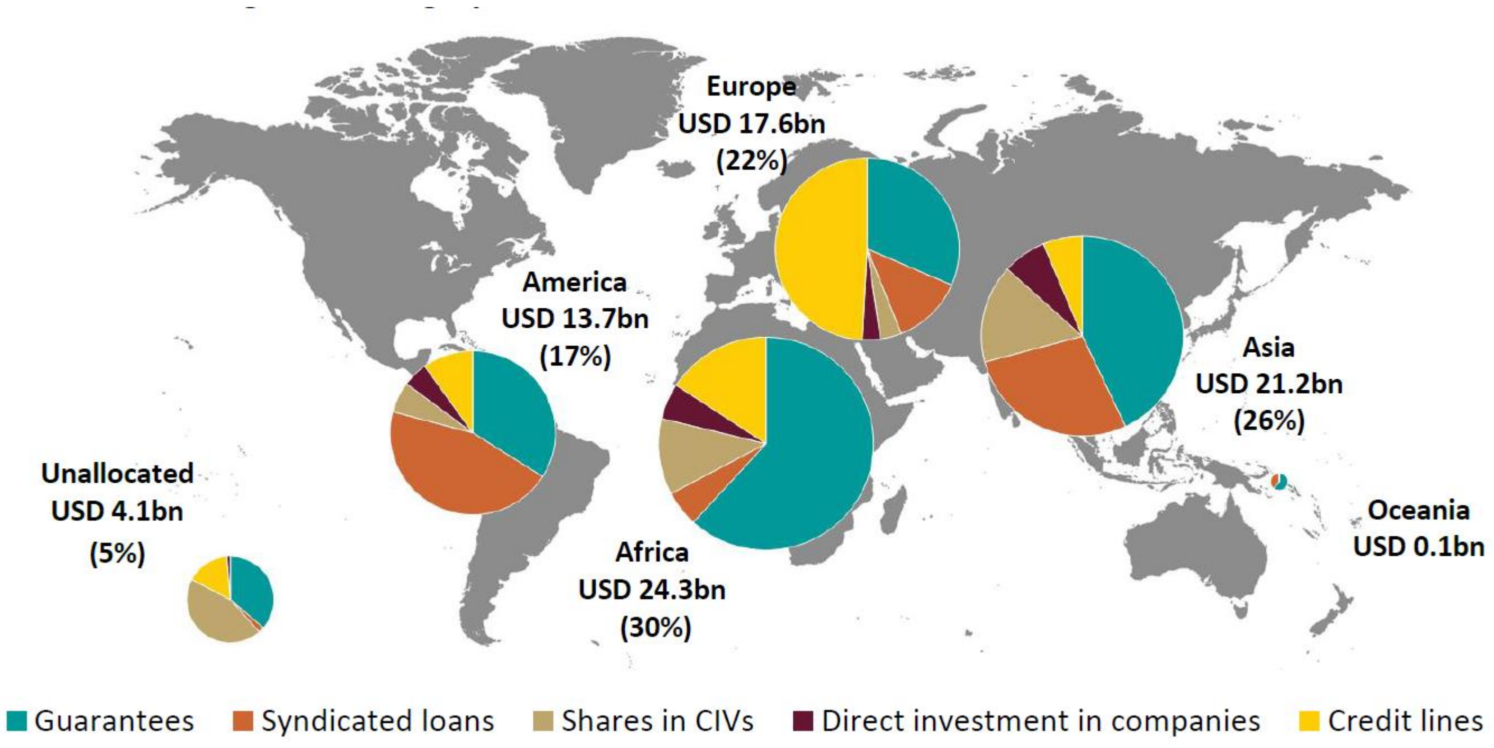
- Between 2000 and 2016, a total of 167 facilities that engage in blending were launched, with a combined size (as measured by commitments) of USD 31 billion by development finance providers (OECD 2017 and EDFI Survey 2015)

Private Finance Mobilised - Instruments



- A 2016 OECD Survey showed that, in 2012-15, USD 81.1 billion were mobilised from the private sector by official development finance interventions

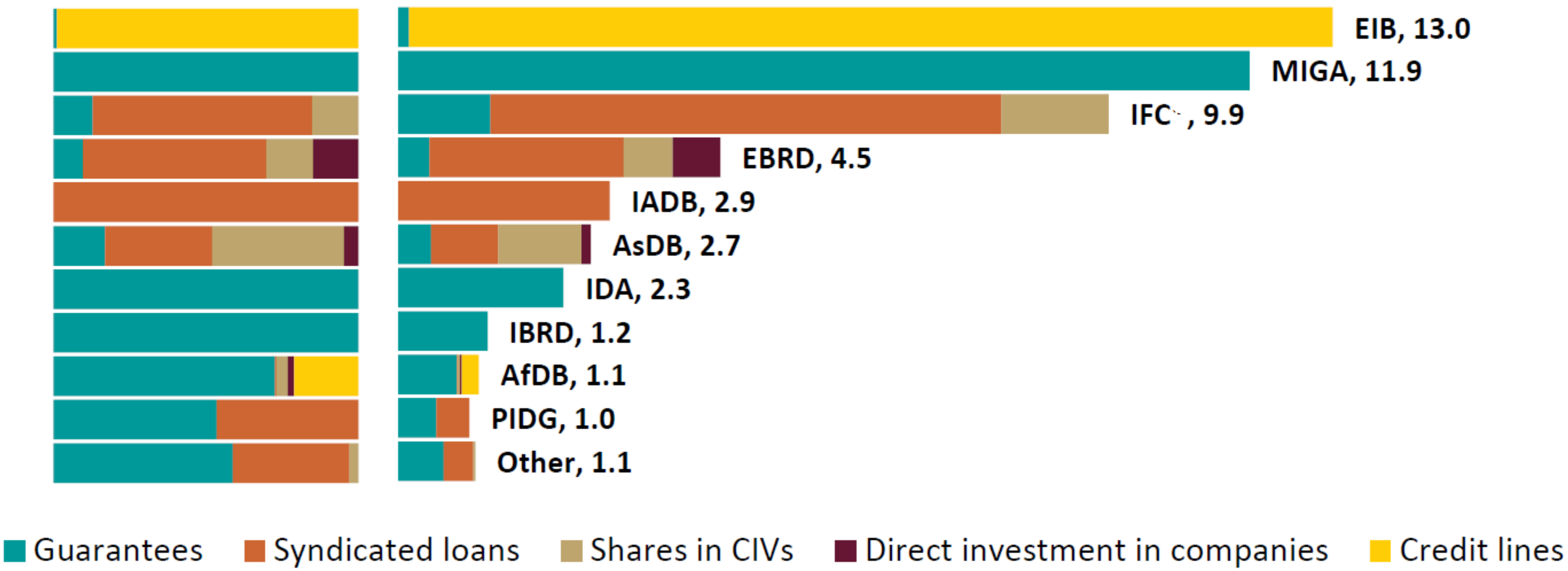
Private Finance Mobilised - Regions



- Over 2012-15, Africa (with USD 24.3 billion) remained the region benefiting the most from the mobilisation effect of the five instruments surveyed, followed by developing countries in Asia (21.2.billion), Europe (USD 17.6 billion, of which Turkey accounted for 58%) and Latin America (USD 13.7billion)

Private Finance Mobilised - Multilaterals

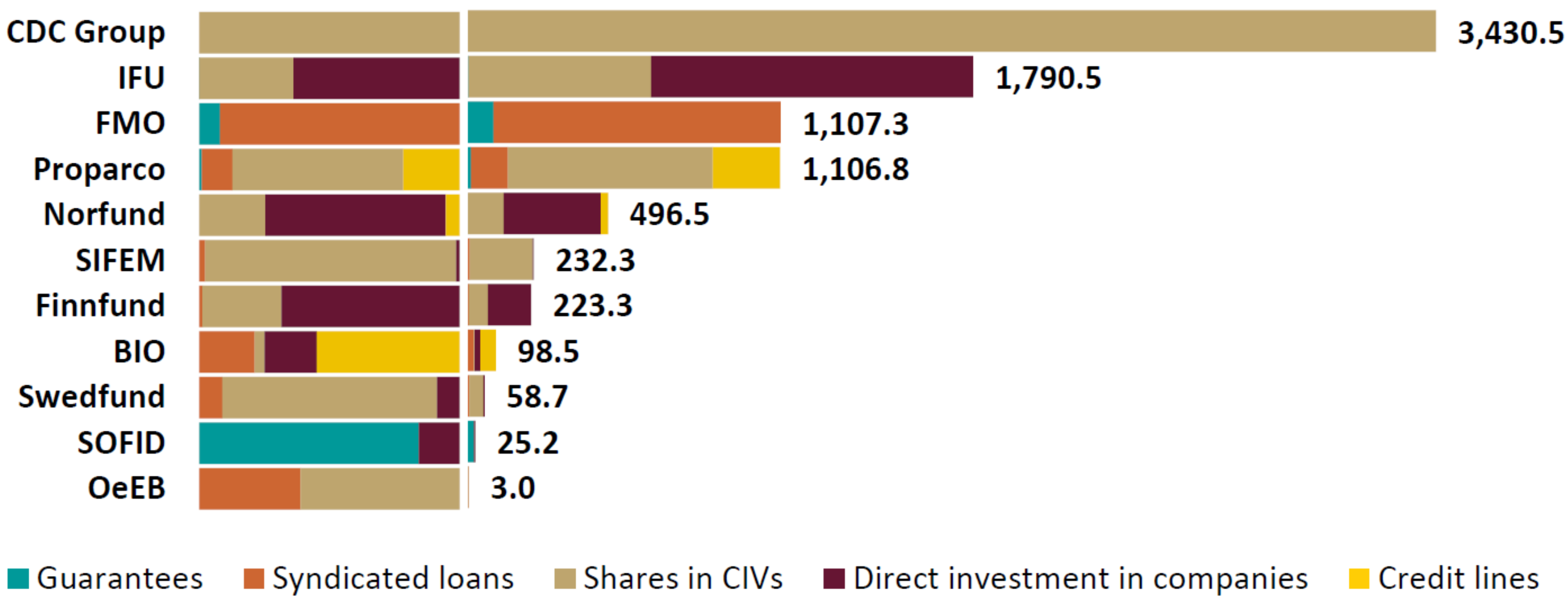
Top multilateral providers in 2012-15, 100% and USD billion



- Almost two-thirds of the total private amounts mobilised related to activities undertaken by MDBs such as the World Bank Group (31% of the total), EIB (16%) and the regional development banks (EBRD, IADB, AsDB, AfDB).

Private Finance Mobilised - EDFIs

Amounts mobilised by EDFIs in 2012-2015, 100% and USD million

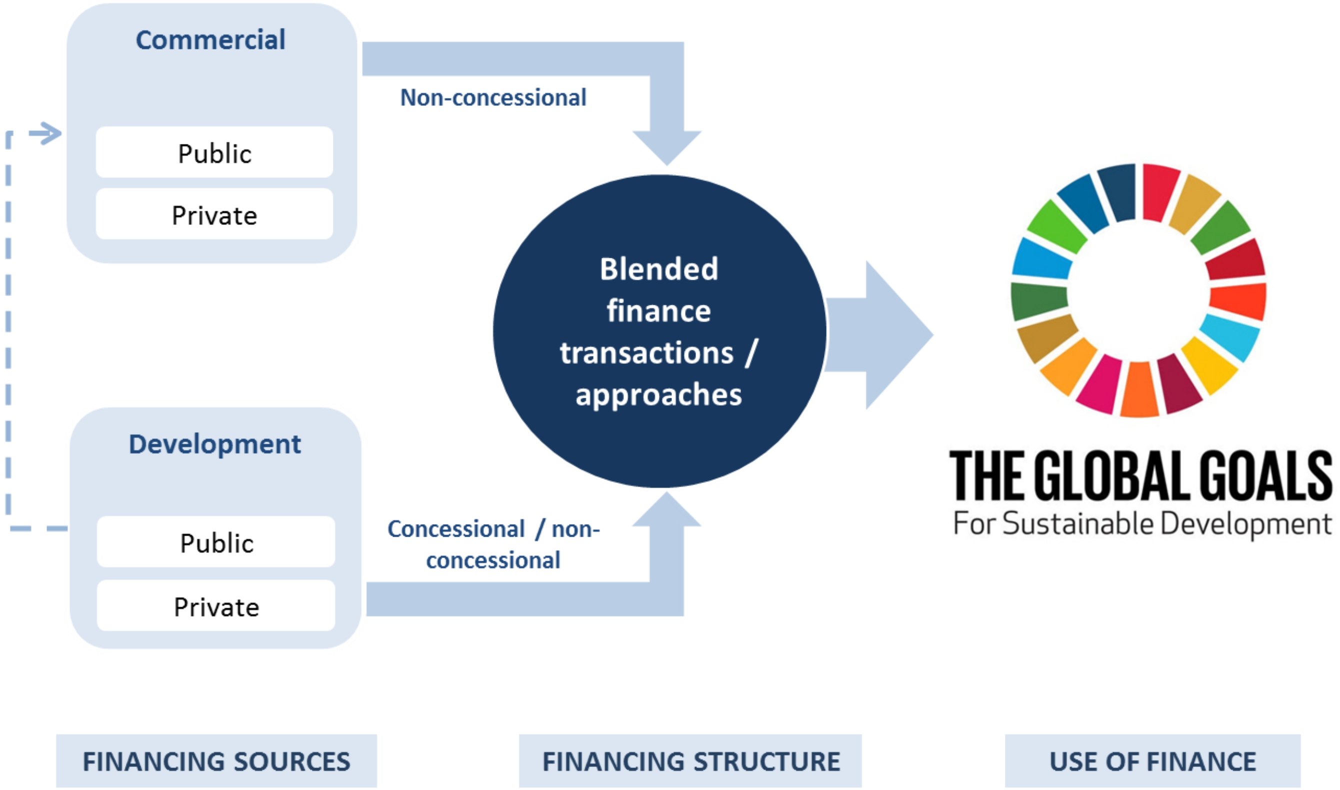


- European bilateral DFIs mobilised together almost 11% of the total, mainly through shares in CIVs (62%)

BLENDED FINANCE DEFINITION & PRINCIPLES

The Definition

Blended finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.



OECD Blended Finance Principles (2017)

PRINCIPLE 1 : ANCHOR BLENDED FINANCE USE TO A DEVELOPMENT RATIONALE

PRINCIPLE 2 : DESIGN BLENDED FINANCE TO INCREASE THE MOBILISATION OF COMMERCIAL FINANCE

PRINCIPLE 3 : TAILOR BLENDED FINANCE TO LOCAL CONTEXT

PRINCIPLE 4 : FOCUS ON EFFECTIVE PARTNERING FOR BLENDED FINANCE

PRINCIPLE 5 : MONITOR BLENDED FINANCE FOR TRANSPARENCY AND RESULTS

- The Principles will be complemented by a “Policy Guidance” note in 2018 in order to support ministries and agencies in applying these

Policy Insights (2018)

Blended finance has **potential to help bridge** the estimated USD 2.5 trillion per year **investment gap** for delivering the SDGs in developing countries

A critical first step to effective blended finance is a **common definition**

Donor governments and other development finance providers incr**easingly use blended finance** as an **innovative way** to mobilise capital

While interest in blending is increasing, the **evidence base** on blended finance is still quite **limited**

Development finance providers need to move towards **blended finance 2.0**

PARTNERSHIP MODELS & INSIGHTS

BETTER POLICIES FOR BETTER LIVES

Partnering with the Public Sector

Transaction-based Partnerships		Institutionalised Partnerships
Funds	Projects	SDIP Sustainable Development Investment Partnership

- Improving cooperation: Project proposals shared
- Increasing demand: Institutional Investors and Rating agencies get involved
- Increasing supply: More governments are engaging

Insights

Blended finance approaches need a stronger focus on mobilisation of **commercial resources**

Development finance providers bring **more than finance** to blended finance transactions

Balancing **scalability** and **individualisation** is key in blended finance

Transparency is crucial for fair competition in blended finance

The **private sector** should be involved in **developing blended finance products**

Effectively calibrating the **risk-return relationship** is critical to mobilising commercial investment; at times this requires concessional financing

Insights (I)

Blended finance approaches need a stronger focus on mobilisation of commercial resources

- Blended Finance puts mobilisation of additional commercial finance at centre stage
- Development finance providers should aim to mobilise additional commercial finance, in addition to their own investment, when possible rather than fully financing private sector operations
- Example: Rather than “public-public” blending, focus on private or commercial finance, as e.g. the European Commission’s External Investment Plan

Insights (II)

Development finance providers bring more than finance to blended finance transactions

- Blended finance aims at creating viable market opportunities for the private sector by adjusting the risk-return relationship in such a way that the private sector sees sustainable market opportunities and is willing to invest.
- The presence and endorsements by development finance providers can have a risk mitigating effect
- Example: Moody's viewed the involvement of MIGA and EBRD in Elazig hospital project in Turkey as "credit positive"

Insights (III)

Balancing scalability and individualisation is key in blended finance

- Institutional investors prefer standardised financial instruments, which enable investments at large scale
- Sector- and instrument-specific challenges prevent upscaling due to current limitations in the project pipelines or the limited number of credit-viable businesses
- Example: FMO's support for nutritious food production for children in Rwanda

Insights (IV)

Transparency is crucial for fair competition in blended finance

- Official development finance interventions must be transparent to ensure fair competition among private sector participants
- Transparency is particularly important when it comes to the provision of subsidies.
- Example: All private actors should have access to the same information of blending opportunities available.

Insights (V)

The private sector should be involved in developing blended finance products

- Blended finance transactions bring together partners with a policy mandate and those with commercial objectives
- Potential private sector partners need to see clear value
- Early involvement of the private sector in the joint development of blended finance solutions can engage these partners and ensure transparency
- Co-operation between private and public sector requires a cultural change
- Example: Consultation process between Australia’s DFAT and private sector in the development of the business partnership platform (BPP), which now serves as the interface enabling a direct relationship between the government and businesses

Insights (VI)

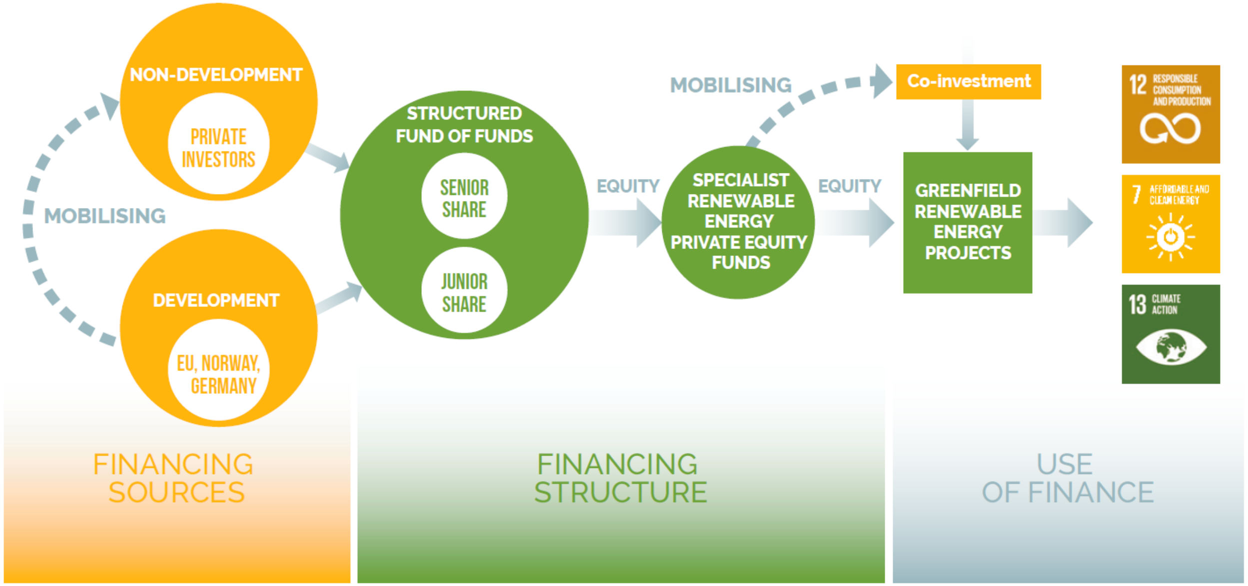
Effectively calibrating the risk-return relationship is critical to mobilising commercial investment; at times requires concessional financing

- While concessional finance is not a necessary condition for blended finance it may be required to unlock commercial finance and to deliver on intended outcomes
- Example: The European Commission stepped in as the financial close of the Lake Turkana Wind Power project was in doubt due to cost increases resulting from a long due diligence process and inadequate financing from debt providers not matching the changing demands.

ANNEX

Partnering with the Public Sector

Transaction-based Partnerships - Funds

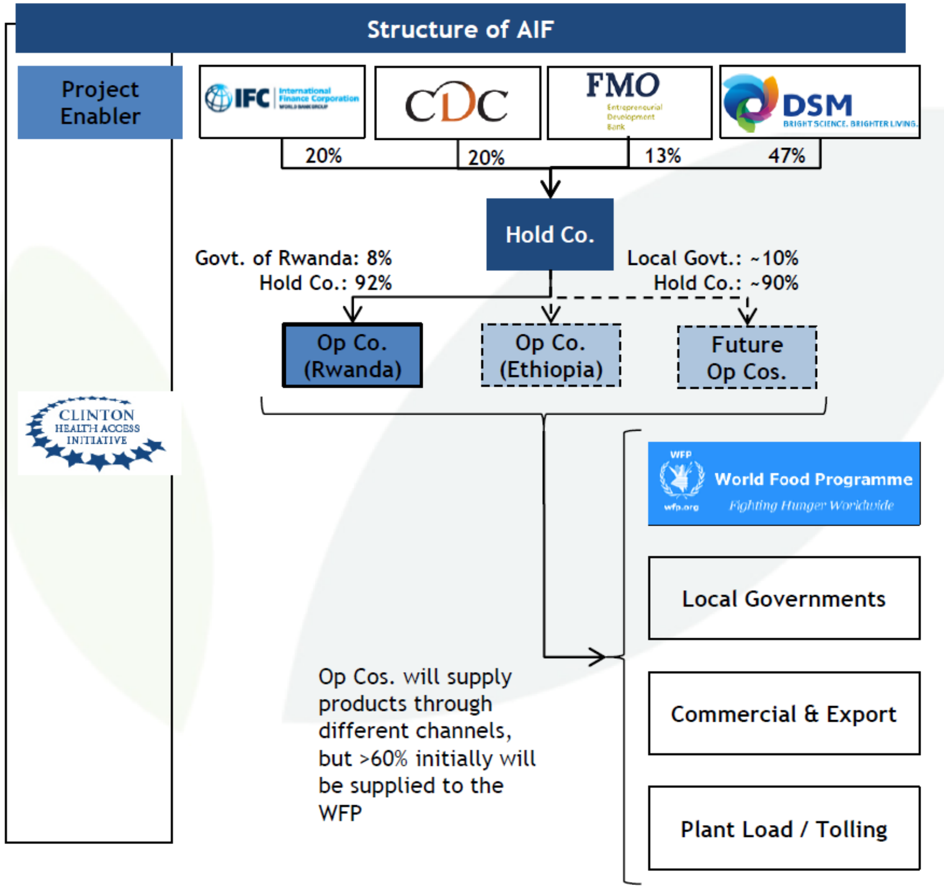


Source: OECD (forthcoming)

- The EIB-managed Global Energy Efficiency and Renewable Energy Fund (GEEREF) was initiated by the European Commission in 2006 and has EUR 222 million in assets under management.
- GEEREF has a blended structure where public seed funding from governments (EUR 112 million) has been used to attract an additional EUR 110 million from private sector investors.

Partnering with the Public Sector

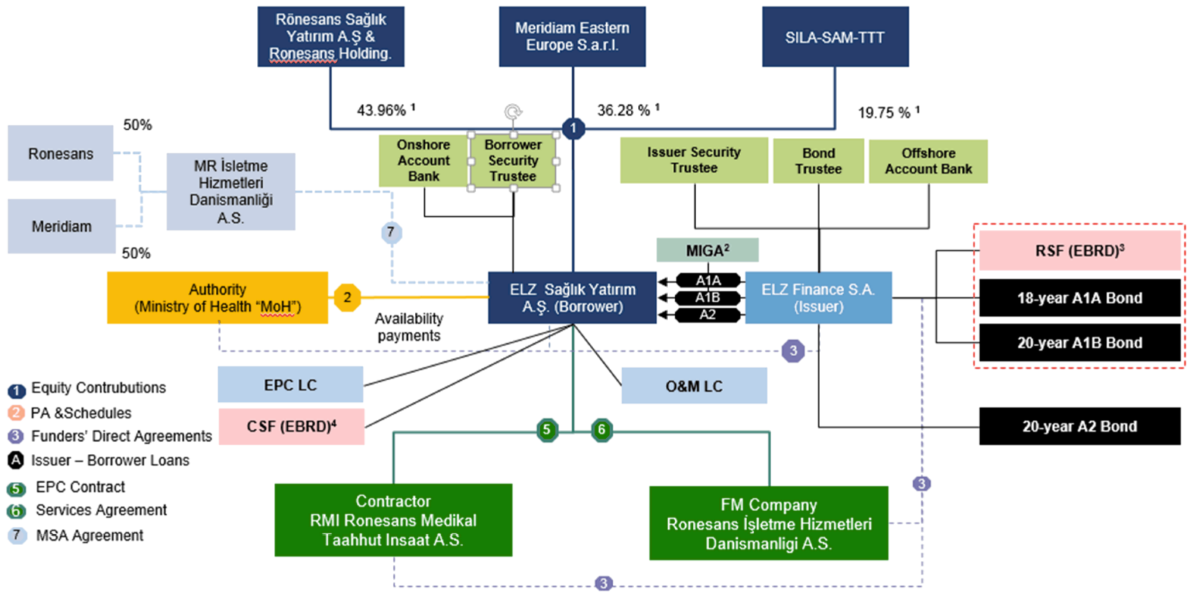
Transaction-based Partnerships – Joint Ventures



- To address malnutrition in East Africa, the Clinton Health Access Initiative set up African Improved Foods Holding (AIF) to produce high-quality food
- The company is a joint venture between public and private partners. The main equity sponsors are the private Dutch company DSM (47%) the IFC (20%), the CDC Group (20%) and the FMO (13%).
- In addition to FMO's equity stake of USD 4 million, it has outstanding debt with the holding of USD 4 million.
- Local ownership has been a central aspect in developing the corporate and financial structure.
- The government of Rwanda owns an 8% equity stake of the operating company in Rwanda, with the remainder is held by the AIF holding. The government also is a major contractor of the products, with the World Food Programme.

Partnering with the Public Sector

Transaction-based Partnerships – SPVs



- The Elazig project issued bonds with an investment grade rating (Baa2 by Moody's) two notches above Turkey's sovereign rating (Moody's, 2016).
- The financing comprised senior debt of EUR 288 million and equity of EUR 72 million, reflecting an 80:20 gearing ratio.
- The A1 bonds have the benefit of EBRD liquidity facilities and the MIGA political risk insurance guarantee. Bond investors include Mitsubishi UFJ Financial Group (Japan), Intesa Sanpaolo (Italy), Siemens Financial Services (Germany), Proparco (France), the Netherlands Development Finance Company (FMO), and the Industrial and Commercial Bank of China.

Partnering with the Public Sector

Institutionalised Partnerships – SDIP

SDIP Sustainable Development Investment Partnership