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PART III

Guest pieces



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GETTING THE PRICE RIGHT: USING BLENDED FINANCE TO ADDRESS RISKS

(Régis Marodon, Special Advisor, AFD)

Meeting the SDGs will require not only additional investments, but also shifting trillions of dollars that are already invested towards initiatives that support sustainable development. This requires the collective efforts of all stakeholders, both public and private. Blended finance is one of the many tools that the development finance community has at its disposal to help drive this shift.

Addressing perceived and real risks

One of the challenges in mobilizing private finance in LDCs is that perceived risks can be very high. This perception can be fuelled in part by lack of knowledge of these markets and the uncertainty of operating in them, but also by the difficulty of pricing risks accurately in the absence of sufficient market references, reporting systems on credit defaults, or independent assessments of credit risks, leaving investors and lenders to design their own set of criteria.

In particular, perceived political risks result in investors shunning projects that could otherwise be bankable, or requiring large risk premia, which in turn lead to high costs for the project sponsors and governments. Paradoxically, as the experience from the 2008 financial crisis shows, sophisticated financial systems can on occasion be very risky, even with all their safeguards. Nonetheless, because projects may find it more difficult to attract private financing in LDCs, there is a perception of high risk, even though we have very little actual evidence on the rate of defaults.

This is where blended finance can help. It can transfer risks from the private to the public sector, leveraging concessional finance to attract private-sector investors for whom the risk of being involved in a particular project would otherwise be too high for the expected returns. Providers can use different variations and combinations of tools to absorb the perceived or real risks. However, abiding by the 'minimum concessionality' principle—and avoiding undue gains potentially associated with blending while maintaining the right incentives—is a difficult balancing act, one made trickier when there are fewer price references in a market.

Crowding in the private sector

Capital markets on their own often misallocate resources towards investments and activities that undermine sustainable development. The investments may be

financially viable but fail to price in, for example, activities that deplete natural resources or generate inequalities.

But blending—including through grants—can be engineered to solve specific development issues in sectors where the opportunities for generating revenue may be less certain but where significantly more resources are required to achieve the SDGs. The following examples are currently being implemented by AFD in developing countries, but they could also be replicated in LDCs.

In the sectors of health and education, AFD is using blended finance in the Dominican Republic to mobilize private investors to support projects which give poor people access to a private clinic or enable students to attend private universities. In the sector of biodiversity, AFD is supporting the creation of so-called 'biocultural landscapes' in Mexico by providing public-sector loans at market conditions alongside technical assistance funded by grants. The objective is to develop rural territories in a way that maximizes their economic potential while protecting their biodiversity.

Ideally, blended finance projects should be designed to be scaled to crowd in local banks and investors by demonstrating the business case for a sector that is seen as financially weak. Lines of credit to local banks, dedicated for SME investors or mid-cap companies, when blended with grants, can provide entrepreneurs with non-banking services to access new technologies or social and environmental responsibility. AFD has adopted that kind of approach in the renewable energy and energy efficiency sector through its SUNREF scheme, which incentivizes local financial institutions to invest in green energy projects, including in a number of LDCs.

Blended finance has many potential benefits. Through demonstration effects, deals can establish a track record and help investors gain a better understanding of certain markets or sectors. Blended finance can also be used strategically to help address some of the challenges in the broader investment climate, including reforms to policies, laws and regulations. This aspect of blended finance is often overlooked, as development agencies prioritize project implementation.

For blending to mobilize commercial resources on a substantial scale in LDCs, however, its application will need to: be based on robust, simple and clear rules that make it easier for private actors to get involved; strengthen domestic financial players; and embed blended finance in a larger framework that avoids 'one-shot' operations but which sees blended finance also as an opportunity to support governments in undertaking necessary policy reforms that can attract long-term private finance.

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as country manager for East Africa, then Morocco, before being promoted to Deputy Director of the Middle East and North Africa region in 2002. Posted in Istanbul as Country Director for Turkey, then Mexico City, he was appointed Director for the Latin America Department in 2013, before joining the AFD's CEO office as Special Advisor.

FINANCING INFRASTRUCTURE IN BANGLADESH: WAYS FORWARD

(S.M. Formanul Islam, CEO, Bangladesh Infrastructure Finance Fund Limited)

Bangladesh's goal is to reach Upper MIC status and graduate from the LDC category in a few years. This represents an ambitious agenda for the country, one that requires consolidating and building on the progress made in past decades on economic growth and reducing extreme poverty. Achieving structural transformation also requires increasing productivity, improving infrastructure and energy, and managing urbanization.

In recent years, the Government of Bangladesh has invested heavily in basic infrastructure, including roads, highways and bridges, power and energy, and economic zones, including in rural areas. This has resulted in better services provided to the population. Typically, such projects requiring long-term financing have been funded through the government's own budget, grants from multilateral and bilateral development partners, and concessional loan facilities from international development banks.

The Bangladesh Infrastructure Finance Fund Limited (BIFFL) has played an important role in this context. It is a government-owned non-banking financial institution, operating since 2011. It was established under the Ministry of Finance to address the importance and urgency of investing in the country's infrastructure. BIFFL envisages attracting private investment from local as well as foreign investors and investing in companies that are implementing infrastructure projects in Bangladesh. BIFFL has been able to attract concessional capital from bilateral and multilateral donors and is planning to leverage its good track record to mobilize additional capital for its projects in the coming years.

BIFFL is committed to protecting the environment and contributing to economic and social development. Its

Five-Year Strategic Investment Plan includes investments into green and renewable projects, social infrastructure projects, and financing for women entrepreneurs. That plan sees BIFFL investing around \$1.6 billion by 2021, which will leverage investment in projects worth nearly \$8 billion. About \$720 million of the proposed investment amount would be financed from BIFFL's own sources, and the rest from the development agencies as loans; through the issuance of local foreign currency bonds; through public and private placement of shares; from investment by strategic partners; and by taking loans from the Government of Bangladesh.

Bangladesh's steady growth, financial stability, vibrant private sector and good rating provide a concrete opportunity to attract private capital, including foreign capital, and fill the estimated \$9 billion annual gap for developing and maintaining sustainable infrastructure in the country. By bringing in concessional capital, blended finance can provide additional opportunities to attract private investment to address the country's infrastructure demand and to provide investment opportunities to global investors. For example, blended instruments could be used to crowd in long-term debt; this would help increase the issuance of loans for infrastructure projects that usually require tenors of 20–30 years, as opposed to the short- and medium-term loans offered by commercial banks and non-banking financial institutions in Bangladesh. If blended transactions can provide loan guarantees to local banks, this could contribute to local market development. Blended finance instruments can also help address the issue of foreign currency risk through hedging tools. Indeed, there are no futures markets in Bangladesh, and dollar indexation is not allowed, creating risks due to inflation.

Financing infrastructure projects through the issuance of social bonds is another avenue that can be explored. Social bonds are primarily used for projects related to social welfare outcomes; these are more attuned to finance social infrastructure projects in Bangladesh. However, development impact bonds could also be explored to finance physical infrastructure projects.

There are already successful examples of mobilization of private capital in the context of infrastructure PPPs.

Building on those examples, and seizing the many opportunities offered in the blended finance space, requires in parallel important reforms in the regulatory and policy frameworks in Bangladesh, such as strengthening regulatory institutions and corporate governance, relaxing some administrative rules that make it easier to start a business, and improving initial public offering procedures so that investors have more options for exiting deals. Working to get deals done through blended transactions, using those lessons to inform policy reforms, and improving the enabling environment can together help attract more private finance into Bangladesh.

In short, concessional capital from bilateral and multilateral donors could continue to play a key role in helping Bangladesh to unlock private capital for infrastructure investments. Such support can help graduating LDCs such as Bangladesh to mobilize the resources they need to transform their economies and grow in ways that are inclusive and sustainable.

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PAVING THE WAY: CREATING A TRACK RECORD FOR MOBILIZING PRIVATE CAPITAL IN RISKY MARKETS

(Jonny Gill, Director, CDC)

Often when faced with the question of investing in an LDC, many investors will bow out, citing fears of market risks or the small size of investable opportunities. But it does not always have to be that way. CDC is the UK's DFI. Established in 1948 and owned by the UK government, CDC invests in the private sector in Africa and South Asia to create jobs and make a lasting difference to people's lives in some of the world's poorest places. CDC is the only DFI in the world that invests solely in Africa and South Asia—where 80 percent of the world's poorest people live, and where 85 percent of LDCs are located. Since 2012, we have been increasing our focus on the most challenging countries²⁰⁵ within our geographic remit, with our disbursements to such countries increasing from 23 percent in 2009–2011 to 53 percent between 2012 and 2016.

A crucial element of our development impact is attracting²⁰⁸ other investors into our markets, thereby mobilizing more capital to help progress towards the SDGs. Our experience has taught us that markedly different approaches to achieving this are required for different countries. In particular, commercial investors that have not previously invested in Africa and South Asia tend to be much more willing to consider investment opportunities in more developed markets (for example, South Africa) than to move straight to investing in an LDC. This is not to say that we consider that LDCs cannot or should not attract much more commercial capital; however, there are a number of very real barriers which lie behind this. In partnership with others, we are working to address some of them, while others (for example, strengthening legal systems) are more appropriately being tackled by other actors.

Two significant barriers are a lack of understanding of these markets among international investors and the small size of investment opportunities. We have developed a variety of mobilization tools which can help address these barriers, including product development (for example, managed accounts or permanent capital vehicles), co-investment

(with both other DFIs and private investors) and investment promotion (for example, speaking directly to other investors about investments we have made, to help them understand why we have invested and help answer questions that may be holding them back from investing). However, our most established approach is to help establish investment intermediaries (such as fund managers) in these markets. This then provides a route for international investors to delegate individual decisions on investments to experienced investment professionals who are based in these markets, and to allocate larger amounts of capital than would be possible via individual investments.

It is, however, a long and difficult process to establish such teams in LDCs that can gain the confidence of private investors. In particular, many investors will only consider investing with teams that have an established relevant track record—i.e. they have invested for a number of years as a team, with a similar strategy to the one they propose to execute going forward, and have been successful in doing so.

This journey can, therefore, take years, with the first step—raising an initial fund to begin building this track record—often being the hardest. This is where CDC, as an experienced investor with a developmental mandate, steps in. Since the early 2000s we have invested in many 'first-time teams' that have gone on to raise subsequent funds which have attracted greater amounts of commercial capital. While these funds are generally structured in a commercial manner, they often require support from development-focused investors such as CDC to raise their first funds.

One recent example is a \$15m commitment we made to the InFrontier Afghanistan Fund in 2016. Evidently a very difficult market to invest into, this is the only private equity fund focused on Afghanistan. We hope that this fund will be able to build a track record so that the team can raise future funds which can raise greater amounts of private capital, and also that it will provide a demonstration effect in showing investors that private investment in Afghanistan is possible and can be successful—both financially and developmentally.

A second example is a \$20m commitment that we made to Solon Capital Holdings, an investment company based in Sierra Leone. This is the first time CDC has invested in a permanent capital vehicle (a relatively novel structure in developing markets), as part of its commitment to find new ways to meet the different needs of African markets to create jobs and deliver long-term growth. The approach complements our well-established funds strategy. As its first institutional investor, CDC will support Solon's management team as it continues to fundraise. Again, our aims are to both help Solon attract more private capital, but also to demonstrate the potential of investing in Sierra Leone.

²⁰⁸ CDC measures the investment difficulty of countries and Indian states through an index based on five factors: (i) market size; (ii) income level; (iii) credit to the private sector; (iv) 'Doing Business' rankings; and (v) fragility.

In parallel to this, we are also working through other routes to increase the flow of private capital into the hardest markets. For example, through the direct investments that we make, we are aiming to help build successful, well-managed businesses which can demonstrate the quality of investable companies available to invest into in our target markets. During the time that we are invested in a company we actively work to build up relationships with other private-sector companies and investors that may be interested in purchasing our investment from us in time. This then provides us with a route to bring in private capital to replace us when the time comes for us to exit.

Jonny Gill is a director in CDC's corporate strategy team, where he focuses on key strategic projects and its relationship with the UK's Department for International Development (CDC's sole shareholder). He previously worked within CDC's investment team for six years, investing into funds in Africa, and also spent two years with Social Finance, a non-profit organization focused on providing advice and raising capital for social-sector organizations, where he primarily worked on social impact bonds and impact investments in the health sector.

BLENDED FINANCE IN CLEAN ENERGY: EXPERIENCES AND OPPORTUNITIES

*(Valerio Micale, Manager, and Bella Tonkonogy,
Associate Director, Climate Policy Initiative)*

According to a recent CPI study,²⁰⁹ finance for energy access is not on track to meet universal energy access goals. More than 1 billion people live without access to electricity, and many more live with inadequate electricity supply. Across the 20 'high-impact countries' we evaluated in the study,²¹⁰ only about \$6 billion, or just over one third, of the \$19.4 billion total electricity investment over 2013-2014 was estimated²¹¹ to result in new or improved access to electricity for residential users through investments along the electricity supply chain. This falls well below the \$45 billion needed annually to meet SDG 7 for universal electrification as estimated by Sustainably Energy for All.²¹²

Despite the great needs, private-sector investment for energy access is lacking. Among the same group of high-impact countries, approximately 70 percent of overall investment in energy access comes from the public sector, mostly from international public sources. Further, decentralized approaches to electricity, which are particularly relevant to remote rural populations, captured barely 1 percent of the overall funding, and will also need to increase substantially.²¹³

In this context, blended finance is key to address the risks faced by private investors and the needs of rural communities. Another study recently published by CPI²¹⁴ found that the greatest impact opportunities for blended finance in clean energy are in sub-Saharan Africa and South and East Asia. Within these regions, the study identified around \$18.8 billion in potential investment in four LDCs with potential high impact on energy access and climate change: Cambodia, Mozambique, Rwanda and Uganda.²¹⁵

²⁰⁹ Sustainable Energy for All (2017). 'Energizing Finance: Scaling and Refining Finance in Countries with Large Energy Access Gaps'. Washington, DC: Sustainable Energy for All. <https://www.seforall.org/content/energizing-finance-scaling-and-refining-finance-countries-large-energy-access-gaps-2017>.

²¹⁰ We looked at 20 high-impact countries in sub-Saharan Africa and Asia whose efforts are critical to meeting energy access objectives by 2030.

²¹¹ Investment needed to deliver first-year consumption of 500kWh per year in urban areas and 250kWh for rural households, rising to 750kWh per household per year within 20 years. The figure's scope is global; nevertheless, it remains the closest available proxy for comparing investment trends in the 20 high-impact countries with electricity investment needs.

²¹² SEforALL (2015). 'Scaling up Finance for Sustainable Energy Investments: Report of the SE4All Advisory Board's Finance Committee'. Washington, DC: SEforALL. <https://www.seforall.org/sites/default/files/SE4All-Advisory-Board-Finance-Committee-Report.pdf>.

²¹³ Sustainable Energy for All (2017). 'Energizing Finance: Scaling and Refining Finance in Countries with Large Energy Access Gaps'.

²¹⁴ Tonkonogy, B., J. Brown, V. Micale, X. Wang and A. Clark (2018). 'Blended Finance in Clean Energy: Experiences and Opportunities'. San Francisco, CA: Climate Policy Initiative. <https://climatepolicyinitiative.org/publication/blended-finance-clean-energy-experiences-opportunities/>.

²¹⁵ CPI selected countries that scored well in terms of being the most attractive for private-sector investment and reached at least 500MW in projected planned and targeted capacity for renewable energy sectors. We then ranked the 46 countries that met the abovementioned criteria by their energy access and climate change relevance scores, indicative of the marginal impact that each dollar invested in such countries in clean technologies would have in improving energy access and addressing climate change. Finally, we calculated the investment opportunity for the countries identified by applying regional or country-specific capital costs of technologies to the planned and targeted capacity in megawatts (MW).

Understanding context-specific risks is key to designing appropriate and effective blended finance initiatives. In these countries, off-taker, currency, policy, liquidity and scale risks are the most relevant barriers to private investment, while early-stage projects and clean energy companies face barriers in accessing financing. We identified political and commercial barriers in these high-impact LDCs using country-level macro-indicators which best represent and define such barriers.²¹⁶ More specifically:

- In Cambodia, administrative issues and ease of doing business can be a barrier for energy generation investments.²¹⁷ Although the government has set impressive targets to provide electricity access to the majority of the population by 2030, there are perceived risks given the lack of specific renewable development goals or policies put in place except for hydropower; there are also no feed-in-tariffs.²¹⁸
- In Mozambique, the enabling environment for on-grid generation is weakened by barriers to private-sector participation in power generation in the country.²¹⁹ Relatively low electricity prices and the risk of revenue volatility reduce investment attractiveness; this is heightened by the limited track record on standardized PPAs,²²⁰ as well as currency risks connected to inflation and depreciation against the US dollar,²²¹ which expose investors and project developers to devaluation.
- In Uganda, perceived risk in this space is related to a relatively short history of clean energy investment. Large-scale hydro—on which the country relies—is accompanied by significant resistance related to the social and economic impacts of constructing large dams, as well as the high cost of power and exposure to reduced generation due to low water levels.²²² As with other countries in the region, access to affordable capital, particularly debt, remains challenging.

²¹⁶ To identify key political and commercial barriers to private investment in each high-impact country which could be addressed by blended finance, CPI referred to individual or combined country-level indicators, assumed as proxies for specific risks in the region. Indicators include: country risk, ease of doing business, electricity prices, access to foreign investment, access to private investment, access to affordable credit, inflation stability, currency risk, loan repayment risk and supporting environment for climate-related investment. Indicator sources are: EIA international energy statistics, the World Bank database, the IMF World Economic Outlook Database, Climatescope, TE Trading Economics Credit Ratings, OECD Country Risk, OANDA and International Energy Agency Energy Prices and Taxes. For more information on the assessment, see Tonkonogy, Bella, Jessica Brown, Valerio Micale, Xueying Wang and Alex Clark (2018). 'Blended Finance in Clean Energy: Experiences and Opportunities', Annexes 1 and 2.

²¹⁷ GlobalEDGE (2017). 'Cambodia: Risk Assessment'. East Lansing, MI: Michigan State University. <https://globaleedge.msu.edu/countries/cambodia/risk/>.

²¹⁸ International Energy Agency (2017). 'Southeast Asia Energy Outlook 2017'. Paris: IEA. http://www.iea.org/publications/freepublications/publication/WEO2017SpecialReport_SoutheastAsiaEnergyOutlook.pdf.

²¹⁹ Climatescope (2016). 'Mozambique'. New York: Climatescope. <http://global-climatescope.org/en/country/mozambique/#/details>.

²²⁰ Ibid.

²²¹ OANDA (2017). <https://www.oanda.com/>.

²²² Frisari, Gianleo., and Valerio Micale (2015). 'Risk Mitigation Instruments for Renewable Energy in Developing Countries: A Case Study on Hydropower in Africa'. San Francisco, CA: Climate Policy Initiative. <https://climatepolicyinitiative.org/wp-content/uploads/2015/07/Risk-Mitigation-Instruments-for-Renewable-Energy-in-Developing-Countries-%E2%80%93-A-Case-Study-on-Hydropower-in-Africa.pdf>.

- In Rwanda, despite progress on the business climate and positive economic growth, the country is still perceived by some investors as risky, the availability and reliability of corporate financial information vary widely, and the regional security situation is perceived as fragile.²²³ Access to capital remains limited, with the limited availability of local currency capital being a contributing factor. No new investment has been recorded in clean energy since 2014,²²⁴ despite the country's strong enabling framework for both distributed and centralized energy.

Given steep declines in clean energy costs and persisting risks at the country level, blended finance initiatives need to shift from a focus on covering the 'viability' gap between clean energy and competing fossil fuel technologies, to a focus on targeted investment risks and barriers. This has important implications for which instruments to deploy looking forward—with risk-sharing instruments such as guarantees, insurance, and local currency hedging and financing playing a key role. For example:

- Only a few initiatives that CPI reviewed seem to target commercial risks, such as currency risk or off-taker risk, in their design. TCX's Long Term FX Risk Management²²⁵ initiative, which provides tools to address currency and interest rate risk for climate-relevant projects in developing countries, is one exception. The instrument has de-risked more than \$200 million in renewable energy and energy efficiency investments since 2014. For example, it facilitated local currency lending to a developer that is connecting 500 African homes per day to solar power. TCX is currently working to scale up this success through the development of the Common Risk Mitigation Mechanism.²²⁶
- Relatively few initiatives have reported a guarantee element in their design. An analysis of multilateral institutions indicated that guarantees represent approximately only 5 percent of their commitments²²⁷ but generate approximately 45 percent of their private-sector mobilization in all developing countries,²²⁸ and some 71 percent in LDCs, as this report notes. Furthermore, previous

²²³ GlobalEDGE (2017). 'Rwanda: Risk Assessment'. East Lansing, MI: Michigan State University. <https://globaleedge.msu.edu/countries/rwanda/risk/>.

²²⁴ Bloomberg NEF (2017). 'Installed Capacity'. New York: Bloomberg NEF.

²²⁵ Global Innovation Lab for Climate Finance (2017). 'Long-Term FX Risk Management'. San Francisco, CA: Global Innovation Lab for Climate Finance. <https://www.climatefinancelab.org/project/long-term-currency-swap/>.

²²⁶ Terrawatt (2018). 'Common Risk Mitigation Mechanism'. Paris: Terrawatt. <https://crmm.terrawatt.org/>.

²²⁷ Betru, Aron, and Christopher Lee (2017). 'Clearing a Path for Global Development Finance: Enabling Basel and Development Guarantees to Deliver on Sustainable Development Goals'. Santa Monica, CA: Milken Institute. <https://www.milkeninstitute.org/publications/view/878>.

²²⁸ Multilateral institutions consulted by the study include: African Development Bank, Asian Development Bank, Credit Guarantee and Investment Facility, Investment Fund for Developing Countries, European Bank for Reconstruction and Development, AFD, Proparco, KfW, International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, MIGA, including MIGA Trust Fund, FMO, Camoes Institute, Sociedade para o Financiamento do Desenvolvimento (SOFID), Garantco, Sida, OPIC and USAID (Benn, Julia, Cécile Sangaré and Tomáš Hos (2017). 'Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines).

CPI research²²⁹ found that, even among the already low-risk instrument offerings, only 10 percent of risk instruments focused on climate-related projects. Several administrative barriers prevent the wider use of guarantees as an instrument for private capital mobilization: DFIs typically record guarantees in the same way as loans for the purposes of risk capital allocation; in addition, guarantees are not officially regarded as development assistance (ODA), further lowering incentives to use them.

- Aggregating individual project and private company investments into liquid assets (e.g. through securitization) is critical to overcome investment hurdles, including liquidity risk, to access larger pools of capital, but there is little experience to date in emerging markets. In addition, for non-project-based financing, supporting risk mitigation instruments that allow energy generation companies, including distributed and off-grid generation companies as well as established utilities, to access capital markets for corporate financing will help to mainstream clean energy finance.
- Especially relevant to increasing energy access, there are large gaps in accessing early-stage risk financing for project preparation, distributed and off-grid generation companies and new technologies. This is true, for example, for project preparation during the earliest milestones of mid-to-large-scale projects (e.g. over 10MW). Some grant initiatives, notably the Africa Clean Energy Facility (ACEF), have focused on addressing gaps at this stage. However, to date, a financially sustainable solution has not been established. Several initiatives, including Climate Investor One's Development Fund²³⁰ and the Renewable Energy Scale-Up Facility,²³¹ seek to recoup at least some costs. For technologies involving high upfront commitment combined with significant resource risk, such as geothermal, where debt finance only steps in once 70 percent of the resource has been proven, early-stage financing is similarly difficult to obtain. In Africa, the Geothermal Risk Mitigation Facility programme plans to address this risk by co-financing surface studies and drilling. Finally, distributed and off-grid generation also faces scarcity of investment at the earliest stages—including equity and debt—particularly in countries with underdeveloped financial sectors. ACEF also sought to address this barrier through grants.

Ultimately, any new blended finance solutions for increasing energy access in LDCs need to be developed in specific contexts. An in-depth analysis of investor risks and barriers needs to be conducted for the geography under consideration, and the proposed solution tailored to address the most important risks, to mobilize local and international private investment in the near and long term.

Valerio Micale is a Manager in CPI's climate finance workstream, with a focus on green investment, risk analysis and financial modelling. His recent work includes the development of the methodology for the assessment of transformational impact of innovative financial instruments within the Global Innovation Lab for Climate Finance, and the evaluation of the effectiveness of policies and financial instruments in driving investment in low-carbon and climate-resilient projects. Prior to joining CPI, Valerio was a researcher at Bocconi University, where he worked on projects related to sustainability and corporate environmental accountability, and Risk Analyst at First Climate Zurich, where he was involved in risk management of carbon assets.

Bella Tonkonogy, an Associate Director in CPI's climate finance team, leads the analysis and development of innovative climate finance instruments for the Global Innovation Lab for Climate Finance. She also manages projects focused on understanding the effectiveness of innovative finance more broadly, including a recent project for the Blended Finance Taskforce on how blended finance can be more effectively deployed for clean energy. Bella previously served as a Policy Advisor in the US Treasury, overseeing the agency's energy and environment investments in emerging markets.

²²⁹ Micale, Valerio, Gianleo Frisari and Federico Mazza (2013). 'Mapping the World Bank Group Risk Mitigation Instruments for Climate Change'. San Francisco, CA: Climate Policy Initiative. <https://climatepolicyinitiative.org/wp-content/uploads/2013/09/World-Bank-Group-Risk-Mitigation-Instruments-for-Climate-Change-Brief1.pdf>.

²³⁰ Global Innovation Lab for Climate Finance (2017). 'Climate Investor One'. San Francisco, CA: Global Innovation Lab for Climate Finance. <https://www.climatefinancelab.org/project/fmo-climate-development-finance-facility/>.

²³¹ Global Innovation Lab for Climate Finance (2017). 'Instrument Analysis: Renewable Energy ScaleUp Facility'. San Francisco, CA: Global Innovation Lab for Climate Finance. <https://www.climatefinancelab.org/wp-content/uploads/2017/09/Global-Lab-Instrument-Analysis-RESF-1.pdf>.

GETTING BLENDED FINANCE TO WORK IN LDCs:

THE NEED FOR COORDINATED STRATEGIES

TO SUPPORT LONG-TERM PRIVATE-SECTOR DEVELOPMENT

(Cecilia Caio, Senior Analyst, Development Initiatives)

Blended finance can be an effective addition to the development financing toolbox and presents an important opportunity to expand the range of resources available to meet the SDGs. Through a variety of mechanisms, blending enables development partners to mobilize commercial capital into specific investment projects, thus contributing to the reduction of financing gaps in particular sectors and contexts.

The importance of building pipelines and supporting the underlying enabling environment for private-sector development

Blended finance is just one of a number of ways international public finance can engage with the private sector (see Figure 26). Supporting the enabling environment for private-sector development is another one, with a long history in aid policy discourse, going back to the 1986 Nairobi Enabling Environment Conference. It has been recognized as an important form of catalytic support for development in several international agreements, including the 2002 Monterrey Consensus, the 2011 Istanbul Programme of Action for the Least Developed Countries, and the 2015 Addis Ababa Action Agenda. However, recent momentum in the blended finance market is pushing donors to focus on more direct approaches to catalyse private-sector resources for development.

To date, MICs have been benefiting the most from this type of finance,²³² but there are increasing calls to scale up blending in less developed and more fragile contexts. This should not be taken lightly. In addition to potentially crowding out local investors,²³³ there is also a risk that unless considered alongside more systemic support to encourage long-term private investment and a thriving private sector more widely, blending could remain a short-term solution that bypasses the underlying causes of lagging private investment.²³⁴ This deserves particular consideration in LDCs, where the enabling environment for private investment (including safeguards for social and environmental risks) may be weaker, and where, therefore, the risk of blending only having a temporary, short-term impact, and benefiting only those directly involved in the deal, may be greater. The potential for broader and sustained market development and poverty reduction outcomes under such scenarios may, therefore, be limited.

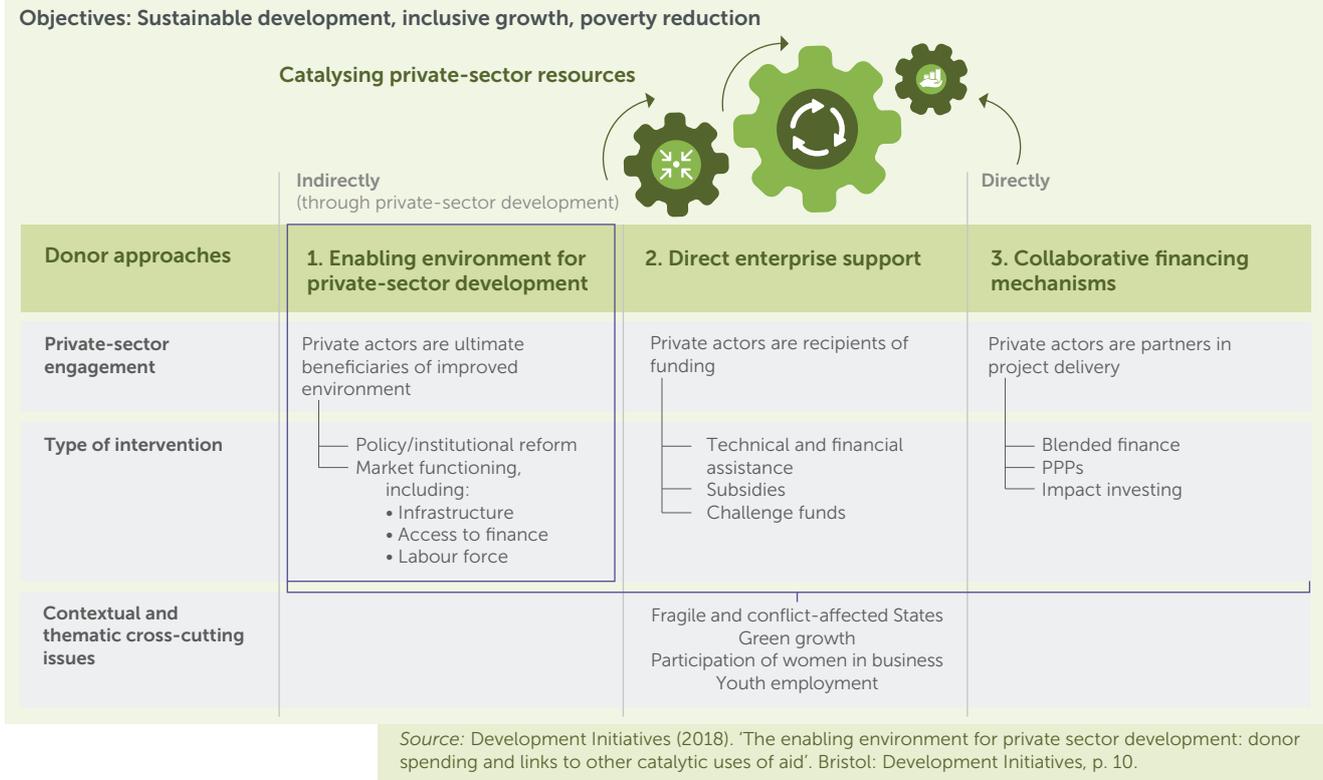
²³² Development Initiatives (2016c). 'Blended Finance: Understanding its potential for Agenda 2030'. Bristol: Development Initiatives. <http://devinit.org/post/blended-finance-understanding-its-potential/>; and, more recently, Organisation for Economic Co-operation and Development (2018b). 'Making Blended Finance Work for the Sustainable Development Goals'.

²³³ For example, see Development Initiatives (2018a). 'Will blended finance lead to private sector growth in developing countries?' Bristol: Development Initiatives. <http://devinit.org/post/will-blended-finance-lead-private-sector-growth-developing-countries/>.

²³⁴ Development Initiatives (2018b). 'The enabling environment for private sector development: donor spending and links to other catalytic uses of aid'. Bristol: Development Initiatives. <http://devinit.org/post/enabling-environment-private-sector-development/>.

FIGURE 26.

Supporting the enabling environment for private-sector development is an important form of catalytic aid to be considered alongside others, such as blended finance



While direct approaches such as blending may work in certain contexts, such as MICs, they may face increased hurdles to be as successful in less developed and more fragile situations, such as LDCs, where the supply of 'bankable' or commercially viable projects may be more limited and/or deal sizes may be too small relative to the transaction costs.²³⁵ Therefore, especially in LDCs, support aimed at expanding the 'pipeline' may be an important prerequisite, or at least a complementary measure, to scaling up investments in mechanisms that directly engage private actors as investing partners (such as blending).

Data show that there is an opportunity for donors to improve targeting of this more systemic type of support and to increase investments in LDCs. In 2015, \$9.9 billion of ODA was spent on strengthening the enabling environment for private-sector development. Most of the amount that was allocated to individual countries (\$6.4 billion) went to MICs that are not LDCs—which are also those most benefiting from blended finance investments.²³⁶

In addition to creating the conditions for expanding the supply of viable investment projects, interventions aimed at

strengthening the enabling environment for private-sector development tend by design to engage domestic stakeholders, including domestic governments, more than might be the case with approaches such as blending²³⁷—with positive implications for country ownership and alignment of development cooperation efforts with country needs. This means that they may benefit a wider range of actors, including but perhaps less limited to the large international investors with whom donors and international DFIs have tended to partner in blended finance deals to date.

The need for coordinated strategies

For blended finance to contribute to achieving the SDGs, its impact needs to go beyond individual deals and spread to more systemic improvements in the conditions necessary for both domestic and international private investment to flourish. This is echoed, to some extent, in initial guidance for donors and DFIs on how to do blending well. For example, the OECD DAC Blended Finance Principles call for blended finance investments to be tailored to the local context and to be used alongside efforts to promote a sound enabling environment

²³⁵ It should be noted that although the ultimate objective of blended finance is the achievement of the SDGs, deals must be commercially viable for private-sector participation (this is recognized in both the OECD DAC Blended Finance Principles and the DFI Working Group Enhanced Principles for Blended Concessional Finance).

²³⁶ Development Initiatives (2018b). 'The enabling environment for private sector development: donor spending and links to other catalytic uses of aid'.

²³⁷ Even though it is important for developing countries to be involved in decisions regarding how scarce concessional resources are deployed, there is a concern that this does not always happen and that blended transactions may weaken country ownership.

(Principle 3);²³⁸ the DFI Working Group Enhanced Principles highlight the importance of blending to reinforce local markets (Principle 4).²³⁹

It is crucial that, going forward, the link between blending and other donor interventions that are aimed at supporting long-term private-sector development is strengthened. Especially in LDCs, donors need to adopt coordinated, long-term strategies to mobilize private capital for development. Ongoing policy dialogue around blended finance, including the call by the Inter-Agency Task Force on Financing for Development to consider blended finance principles in relation to already existing commitments made in the Addis Agenda,²⁴⁰ presents an opportunity to promote such an approach, by revitalizing commitments aimed at strengthening the underlying conditions for private-sector development, alongside the drive to increase blending.

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HOW WOMEN AND MILLENNIALS,

BLENDED FINANCE AND THE SDGs CAN IMPACT LDCs

(John Morris, Co-Founder and Managing Partner, Good Capital Project)

“Good Capital Project (GCP) focuses on generating innovative and sustainable solutions that align capital markets with the human needs of tomorrow. Two of the most powerful agents of change influencing the future of capital markets are women and millennials.”

In this paper we explore the importance of attracting the attention of these investor bases and the role that both the SDGs and a blended finance structuring approach play in connecting these investor cohorts to the world's LDCs.

There are currently 47 LDCs; they represent more than 13 percent of the world's population but less than 1 percent of global trade in goods. Since the categorization of LDCs in 1971, there has been limited success in attracting private investment at scale in those markets, as they have been deemed too risky to explore. In the mid-2000s, major

banks were increasingly active in structuring products (mostly in commodities and extractives) in these markets, but pulled back after the financial crisis of 2008, and have been slow to return.

Today, developing markets are just returning to the levels of foreign investment equal to the 2007 level, but this time primarily fuelled by the growth of regional commercial banks that have the benefit of local expertise. Much of the funding coming from these regional banks is subsidized by guarantees coming from international development agencies and is not being followed by investment looking for market-rate returns. There is an unfortunate absence of long-term sustainable investors in these markets. We must attract a new investor base and provide advice frameworks and products that include the LDCs in the broader capital markets.

Women and millennials

Women and millennials are the key decision-makers of tomorrow's capital. Successful financial intermediaries and advisers are beginning to recognize their investment power and are designing products and advice frameworks to serve them. Today, millennials hold \$17 trillion in private wealth and will benefit from the largest intergenerational wealth transfer in history. Women are spearheading the world of impact investing, and are actively seeking investment tools that align with their social missions.

Countless surveys report that the preferences of both millennials and women differ from others when it comes to investing. They have a substantially higher commitment

²³⁸ Organisation for Economic Co-operation and Development Development Assistance Committee (2018). 'Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals'.

²³⁹ DFI Working Group on Blended Concessional Finance for Private Sector Projects (2017). 'Summary Report'.

²⁴⁰ United Nations Department of Economic and Social Affairs (2018). 'Financing for Development: Progress and Prospects, 2018', p. 88.

to socially responsible investments or impact investing. This is, therefore, a critical moment to influence change.

As a result, we need the innovative financial tools, research, products and advisers that allow investors to construct portfolios around their social and environmental goals. Additionally, they should have LDC opportunities available within their investment framework.

SDGs as an investment framework

We believe the 2030 Agenda is consistent with the ethos of this powerful new investor segment, and that the SDGs have enormous potential to be converted into an investment framework. The Business and Sustainable Development Commission estimates that incorporating the SDGs into growth strategies could increase forecast global GDP by about 10 percent by 2030.

By incorporating the SDGs into investment frameworks that advisers and financial intermediaries can use with clients, the private sector can help guide capital allocation for the construction of well-rounded and purpose-driven portfolios. These advice frameworks will enable financial professionals to target different investor bases with approaches consistent to their client demands.

The SDGs can also be used to measure the impact of investments on a system-wide level by setting specific targets and detailed indicators for each SDG. By increasing accountability, investors can further mitigate risk and accelerate scale through the standardization of impact. This solves one of the most common risks associated with impact investment: the difficulty in measuring and cross-comparing impact that arises from the misalignment of diverse definitions.

By laying out a clear and comprehensive menu of global goals, the SDGs allow investors to build a diverse portfolio around their investment choices. Institutional investors such as sovereign wealth funds, pension funds, endowments and large family offices are increasingly realigning their portfolios to reflect and overlay the SDGs as an objective within their investment policy statements.

The SDG investment framework can be leveraged to include LDC investment in the broader markets. For this inclusion to occur, there needs to be LDC product choices available, and this is where blended finance becomes important as an approach to product creation.

Blended finance

The growth of impact investing has allowed investors to combine their social purpose with their financial returns, bringing philanthropy and investment together. However, it is rare that large-scale investment banking activity embeds grants or concessional lending as part of the products they structure for distribution. Therefore, the majority of the options available to investors today are traditional investment products that do not connect to a social framework such as the SDGs or LDCs. Just as 'impact investment' has acted as a catalyst for the investor to achieve social and financial returns, 'blended finance' has the potential to be that catalyst for investment banking effort in product origination.

While blended finance enables financial intermediaries to embed social returns within financial structures, not enough attention is being paid to the LDCs. Recently, as this report highlights, only 7 percent of private finance mobilized by official development finance is in LDCs. To accelerate the flow of capital to the LDCs, a concerted effort by the private and public sectors is required to create LDC-inclusive products that redistribute risk and that build a pipeline of investable opportunities for private and institutional investors in these markets.

There are many different definitions of blended finance. At Good Capital Project we refer to 'SDG-Blended Finance' as combining both donor and market-based capital sources to achieve sustainability. This results in future funding from the traditional capital markets and establishes fiscal sustainability. By attracting investments seeking market-rate returns to supplement aid capital, SDG-Blended Finance can scale social progress.

Advisors are facing increasing demand for purpose-driven investments from their clients. Financial intermediaries, such as banks or money managers, can use SDG-Blended Finance to create LDC investment opportunities for a more socially minded consumer base. SDG-Blended Finance can provide advisers with more innovative products within the SDG framework.

Conclusion

The investment preferences and expectations of women and millennials are aligned with the SDGs. Providers of concessional finance and UN agencies should leverage this consumer demand to focus the attention of financial intermediaries, advisers and family offices on the opportunity presented by SDG investment frameworks and blended finance products. Towards that goal, we offer four points for consideration:

- Investor potential to drive capital to the LDCs is substantial. This is the time to act! Concessional providers need to develop an integrated action plan to tap into investor segments such as value-aligned women and millennials.
- The SDGs can provide an investment framework for investors and advisers to build and monitor their portfolios. Intermediaries need to champion this as an opportunity for the socially responsible investor by creating tools and including LDC-inclusive products. A task force is needed to better connect development agencies and concessional providers with financial intermediaries to this end.
- Blended finance can be used to design scalable LDC-focused products, allowing investment aligned with the SDGs. Development agencies and providers of concessional finance should coordinate their efforts and actively include long-term asset owners in the process.
- Global financial intermediaries need to focus more on the investment and social opportunities that the LDCs hold, building on the work UNCDF is already doing in this regard. UNCDF and concessional providers need an investment promotion campaign to highlight LDCs as an investment class in conjunction with frontier markets.

John Morris is the Managing Partner of Intentional Media, parent company of SOCAP, Conscious Company Media, Good Capital Project and other aligned brands. Previously, John co-founded Snowden Lane Advisors, a wealth management firm currently with \$3.5 billion in assets. He also co-founded Clearbrook Global Advisors, an institutional asset management advisory firm that

grew assets to over \$20 billion in assets under advice. Earlier, John spent 23 years at Merrill Lynch, 15 years working with clients in London and Dubai, then New York where he was Chairman of Latin America and Head of International Product and Marketing. He and his wife live in Princeton, New Jersey, and are thrilled about the newest edition to their family, a grandbaby.

POLICY CONSISTENCY, CAPABILITY TRAPS AND DEVELOPMENT FINANCE INSTITUTIONS: AN IMPORTANT NEXUS

(Aniket Shah, PhD candidate, University of Oxford)

Domestic development finance institutions (DFIs)—national institutions that are established to support national development initiatives, such as the BNDES of Brazil, the China Development Bank and the Uganda Development Bank—are important and sometimes overlooked parts of the development finance architecture. To be most effective in delivering on their mandate, they require consistency in the public policy within which they operate. In some cases, however, domestic DFIs are unable to build the internal capacities, legitimacy and track records of success that are needed to be successful due to policy regimes which change approaches towards economic management.

This observation would imply that DFIs, particularly at the national and subnational levels, should not just be implementing agencies of public systems, but that they should also be in the business of proactively forming public policy and ensuring its consistency over a long period of time. The optimal linkages and interactions between domestic DFIs and broader public policy are underexplored areas of development finance and the political economy more generally. Getting these linkages right is particularly important for domestic DFIs to attract additional sources of public, private and concessional finance from both domestic and international sources of capital, including pension funds, sovereign wealth funds and insurance companies.

The consistency of public policy refers to the general harmony, agreement or coherence of a policy framework. Public policy consistency can be analysed in one of three ways: the consistency and synchronization of various

government policies—for example, fiscal, monetary, social and development policies—at one period of time; the consistency of public policy versus public opinion; or the consistency of one particular set of public policies over an extended period of time. Each of these approaches towards understanding public policy consistency has its own set of metrics and frameworks of analysis from a policy analysis perspective. Given that domestic DFIs are in the business of long-term financing, I believe that there is particular importance in ensuring that the third approach—the consistency of one particular set of public policies over an extended period of time—is a particularly valuable perspective from which to approach this topic.

The concept of consistency of public policy over time has its foundation in the theory around rational expectations and optimal policy design of economic policy. This field of study, housed mainly in the economics literature, focuses on the implications of the changing preferences of economic agents over time. A core concept within this framework is that actors in an economy base their decisions on their expectations of the policy environment in the future. If individuals or businesses are uncertain about government policy, it will impact major capital and entrepreneurial decisions, due to increased variability in potential outcomes. One significant implication of this field of study has been the perceived benefits of protecting public policymaking, including economic management, from short-term policy pressures and variations in approach and ideology. The notion of a ‘commitment mechanism’ has had significant resonance in monetary policy, whereby central banks operate, to varying degrees, independently of political administrations. The concept of credibility of public policy is central to this theory. It has led certain scholars to argue that unalterable policy rules may be needed to ensure the optimal long-term welfare of citizens.

During the past four decades, we have experienced significant shifts in dominant ideologies around development policy in developing countries, particularly for the African continent. No shift in thinking is starker than the Washington Consensus ideology that fundamentally altered the relationship between the relative power of the State

and markets in various countries in Africa. Although a full examination of the impacts of structural adjustment policies is beyond the scope of this article, it is fair to say that the 1980s and 1990s witnessed a significant reorientation in many African economies away from State-driven development and towards a more market-driven approach. This transition led many LDCs, including Uganda, Tanzania and others, to precipitously shut down and/or privatize many State-owned enterprises. For the development finance architecture in Africa, this meant a de-prioritization of DFIs within domestic financial ecosystems.

As the policy regime and approach shifted, many of the dozens of DFIs across Africa lost much of their human capital. This has led to negative feedback loops, whereby many national DFIs do not have the human capital and internal capabilities to prove their success within their broader financial systems, and, as a result, they are unable to attract the necessary financial resources and credibility to build the human capacity and internal capabilities to be successful institutions. This is an unfortunate state of affairs, as well-functioning and well-respected national DFIs could be a significant source of support for long-term projects that are unable to attract commercial capital on their own.

DFIs have the ability to leverage all forms of capital—public and private, domestic and international. Domestic public resources from national governments, which provide the initial equity to form the institution and provide a capital base, most often capitalize domestic DFIs. From this initial source of capital, domestic DFIs can attract intermediate capital from domestic public resources, in the form of outlays from national budgets. DFIs can also attract intermediate capital from domestic private sources, by issuing bonds that are purchased by local banks, pension funds and insurance companies. Domestic DFIs often receive capital from international public sources of financing, including multilateral development banks, international DFIs, and development agencies of aid-providing countries. Finally, domestic DFIs can also attract intermediate private capital if international investors purchase their bonds, as is the case with large DFIs, or if they provide co-financing opportunities for specialized investment firms, including private equity firms and venture capital firms. By blending these different forms of capital, well-functioning national DFIs can provide capital at below market rate to industries and projects in LDCs that are capially starved but unable to get financing from purely private sources of capital. Therein lie the importance and process of national DFIs for LDCs: their ability to attract and combine different sources of capital is particularly important for these riskier markets that need creative development finance structures to support long-term economic growth.

The dynamics between DFIs and public policy consistency leads me to three broad observations.

- First, DFIs must be made independent and insulated from short- and medium-term oscillations in government policies. This is not a simple dynamic, given that DFIs are generally owned by the government and receive much of their financial support and credibility by their association with the government. The DFI community can learn a lot from the history, evolution and structures of central bank relationships with federal government.
- Second, major changes in public policy should be undertaken only after an assessment is made on the impacts they would have on underlying institutions in an economy. Changes in public policy often focus on short-term perceived benefits of one approach versus another, but very rarely are assessments made on how a major policy shift can impact the health, capacity and potential of the organizations and institutions within a setting.
- Third, capacity-building programmes and approaches at the institution level should focus on ensuring broad stability in policy outside the institution itself. Capacity-building programmes for DFIs should focus on how they can play a clearer and more strategic role in ensuring that broader public policies are conducive to the work on which they are focused.

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EFFICIENT FUEL FOR EARLY-STAGE IMPACT PIONEERS

(Bjoern Struwer, CEO, and
Christina Moehle, Advisor, Roots of Impact)

Pioneering models for impact

When Stewart Craine founded Village Infrastructure Angels²⁴¹ in 2012, he had more than 15 years of experience in rural electrification projects. Having worked in solar since 2005, he knew how difficult it can be to provide safe, affordable and renewable energy to the poorest households. A related challenge was to attract the financial resources to achieve real impact at scale. The market for low-cost solar-powered lamps was in its infancy then, making Stewart a pioneer in what today has become a huge market and a highly sought-after impact investment sector.

With Village Infrastructure Angels, Stewart decided to embark on an ambitious journey: pushing the boundaries in the solar home market in Honduras, a country with one of the lowest electrification rates in the Americas. Piloting the model in the Gracias a Dios region, which is characterized by one of the highest levels of poverty in Latin America, made this step even more demanding. Village Infrastructure Angels introduced some innovative features, such as solar-powered agro-processing, an explicit focus on women's empowerment, pay-as-you-go technology and the possibility for clients to pay with products and goods.

From the investors' standpoint, however, too much innovation is not necessarily a plus. The majority of private capital providers today are rather risk-averse and prefer more established geographies and business/impact models.²⁴² While donors and development agencies are increasingly keen to make the most effective use of their budgets, getting the private sector involved remains challenging. What investors generally want to achieve is an efficient risk–return ratio for their monies. In other words: if they perceive “the risks to be too high or their expected returns to be too low, then they will invest elsewhere”.²⁴³

A working paper by the Center for Global Development on catalytic instruments²⁴⁴ concludes: “If a public-sector actor, such as a government or donor, wishes to encourage commercial investment in an activity perceived by the private sector to be below the risk–return frontier, then the policymaker either has to find a way to increase the expected returns, or reduce the risk, or some combination of the two.”

Therefore, for pioneer models such as Village Infrastructure Angels, de-risking alone usually will not do the trick. The financial return potential has to be improved to successfully crowd in investment. After Village Infrastructure Angels was able to secure investment to benefit poor communities in Honduras, roll-out will begin later this year.

Attracting investors: the novel way

In our view, the factors that enable investors to operate in the delicate area between grant-type returns and market-rate returns are:²⁴⁵

- monetizing the value that social enterprises create for society, straightforwardly, in a single contract, without the need for a complicated structure;
- convincing development actors and philanthropic funders that they have much larger leverage and additionality with their monies when they pay premiums for verified positive impact and thus attract private capital; and
- selecting suitable social entrepreneurs and carefully designing the payment mechanisms that are related to outcomes.

This line of thought led to the creation of Social Impact Incentives (SIINC)²⁴⁶—a novel way to incentivize impact and mobilize private investment. SIINC acts as a funding instrument that rewards market-based social enterprises with premium payments for achieving social impact. These additional revenues are paid directly to the enterprise, enabling them to improve profitability and attract the investors they want to help them scale. SIINC effectively leverages public or philanthropic funds to catalyze private investment in underserved markets with high potential for social impact.

²⁴¹ See <http://www.villageinfrastructure.org/>.

²⁴² See the latest Impact Investor Survey 2018 by the Global Impact Investing Network regarding impact investor preferences and allocations: <https://thegiin.org/research/publication/annualsurvey2018>.

²⁴³ Barder, Owen, and Theodore Talbot (2015). ‘Guarantees, Subsidies, or Paying for Success? Choosing the Right Instrument to Catalyze Private Investment in Developing Countries’. CGD Working Paper 402. Washington, DC: Center for Global Development. <https://www.cgdev.org/sites/default/files/CGD-Working-Paper-402-Barder-Talbot-Supporting-Private-Sector.pdf>.

²⁴⁴ Ibid.

²⁴⁵ Our thinking draws on Etzel, Michael (2015). ‘Philanthropy’s New Frontier—Impact Investing’, Stanford Social Innovation Review, 9 November. https://ssir.org/articles/entry/philanthropys_new_frontierimpact_investing.

²⁴⁶ See <http://www.roots-of-impact.org/wp-content/uploads/2017/05/Social-Impact-Incentives-SIINC-White-Paper-2016.pdf>.

In essence, SIINC resembles a social/development impact bond, but there are fundamental differences. SIINC is an entrepreneurial adaptation with appropriate attributes: (1) rapid and straightforward structuring (only one contract required); (2) payments are made directly to impact-generating enterprises; while investor(s) and investment instrument(s) are not predefined. Thus, SIINC translates the major principles of outcomes-based funding from the world of governments and non-profits to the world of markets and businesses. This important twist can be an efficient channel for entrepreneurial creativity and innovative solutions for impact in LDCs. Figure 27²⁴⁷ illustrates how SIINC works.

Implementation in LDCs

The pilot programme for SIINC started in 2016 as a public-private development partnership in the Latin America and the Caribbean region between the SIINC co-creators Roots of Impact and the Swiss Agency for Development and Cooperation (SDC)—which also supported Village Infrastructure Angels. Based on initial successes, SIINC will now expand its reach. Currently, negotiations are under way to structure a SIINC transaction for another pioneering social enterprise, Sustainable Organic Integrated Livelihoods (SOIL). This enterprise aims to promote dignity, health and sustainable livelihoods in Haiti through the transformation of waste into resources. SOIL currently generates two lines of revenue: (i) toilet rental to low-income households; and (ii) selling fertilizers produced from the waste. This is a promising test case to demonstrate that the mechanism can be as powerful in LDCs as elsewhere in attracting private capital for high-impact social enterprises.

The Haitian social enterprise is in a similar situation as Village Infrastructure Angels was more than a year ago: SOIL would like to attract investment to scale its operations and is convinced that through economies of scale and public service contracts it will achieve profitability. It is quite aware that the perceived risk for investors is very high, but it wishes to establish itself as a market-based enterprise. Therefore, the team decided to employ the SIINC model, and entered into negotiations with both multilateral outcome payers and impact investors.

For SOIL, a set of relevant outcome metrics—such as the amount of waste sustainably treated—is currently being developed between the enterprise and the outcome funder (donor). The local sanitation department is engaged in this process but does not have to make any commitments at this stage. In a next step, the outcome funder will agree to pay SOIL for the positive impact that the enterprise generates. These premium payments will be triggered by reported outcomes and supplement the projected earnings from its revenue-generating activities. This, in turn, greatly improves the enterprise's financial projections and will empower it to secure the necessary investment to scale.

One may ask what will happen after the 'exit', when impact-related payments have come to an end. The plan is that, based on the track record and greatly reduced costs established through the SIINC intervention, the local sanitation department will be enabled to continue paying SOIL to offer sanitation solutions. In this case, the enterprise will no longer need donations, and will be able to service the investment and grow sustainably.

A bottom-up approach to blended finance

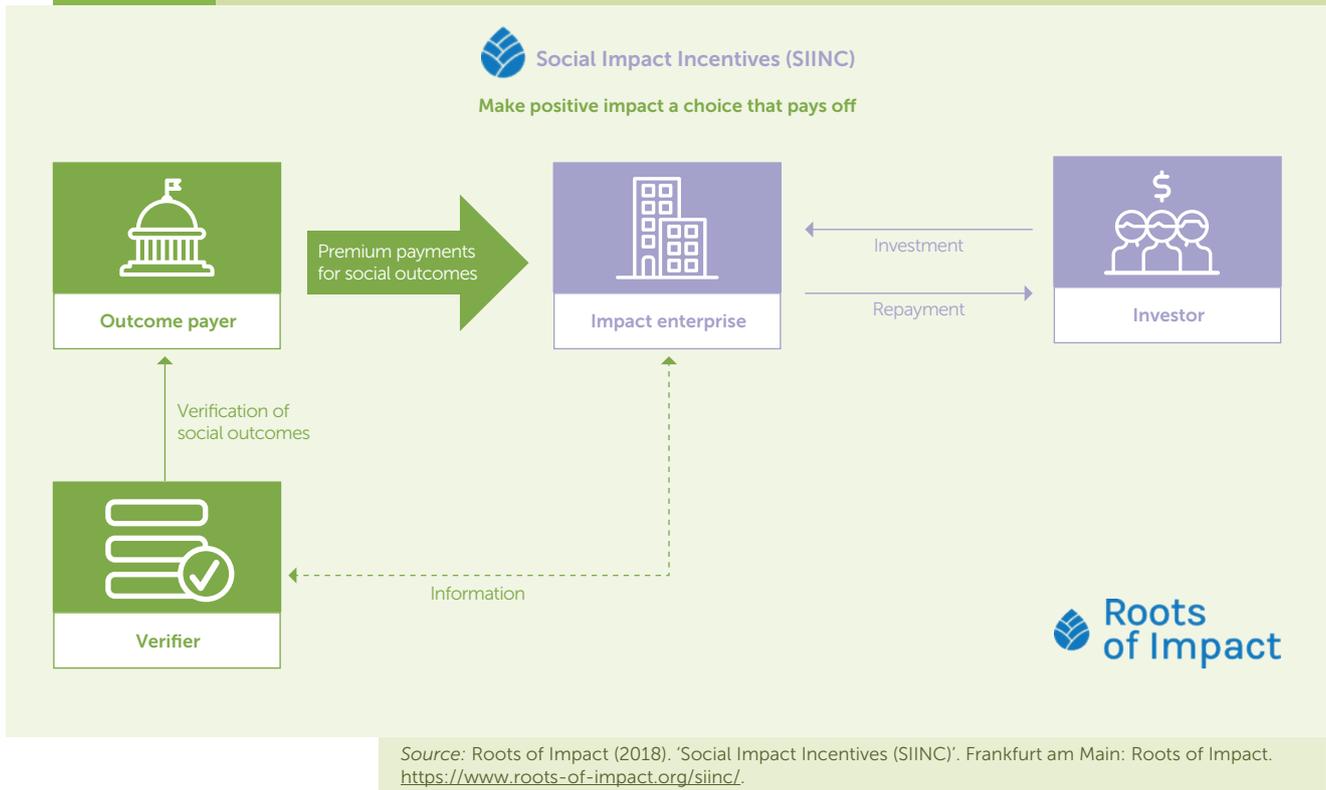
As the examples show, empowering high-impact enterprises with a bottom-up approach to blended finance is a promising path. Customized solutions and sufficient investment are both critical to expand the reach of basic goods and services in LDCs. Whether it is the public sector or private households that are paying, they must be able to afford these services. Getting social enterprises to the point where economies of scale or public-sector contracts lead to sustainable business models can be achieved through outcome payments. Only one precondition prevails: the social enterprise has to produce valuable outcomes that will be verified by an independent party. As compared to facing the financial 'valley of death', this should be a much better option—for all stakeholders.

Bjoern Struwer is the CEO and Founder of Roots of Impact, an impact finance advisory firm working with public funders, philanthropists and impact investors globally to finance private-sector innovations and enterprises with strong potential for positive impact. After leaving the traditional finance sector, he dedicated his work to designing and implementing effective solutions for financing social impact at scale. With his team at Roots of Impact he developed pioneering solutions and platforms such as Social Impact Incentives (SIINC) and the Social Finance Academy. Bjoern is Senior Fellow at the Center for Sustainable Finance and Private Wealth at the University of Zurich and mentor at the Harvard Kennedy School's Impact Investment for the Next Generation Program.

Christina Moehrle is an adviser at Roots of Impact. After many years in the finance sector, most recently as a partner/investor relations manager in the venture capital industry, supporting the evolution of the social finance ecosystem has become her passion and profession. She mainly focuses on developing learning material and trainings for the Social Finance Academy to empower social entrepreneurs, donor organizations and impact investors to find a common 'language'. As a freelance communications expert, writer and journalist, she also works with several other European pioneers in the field. Christina is a member of the German journalists association DFJV.

²⁴⁷ Here the outcome payer is a development agency or philanthropic organization, while the verification is completed by an external auditor.

FIGURE 27. The main functionality of SIINC



THE POWER OF GUARANTEES IN MOBILIZING PRIVATE FINANCE

(Malena Rosman, Deputy Head, Loans and
Guarantees Unit, Sida)

Guarantees offer important ways of mobilizing private capital for development purposes and play an important role in development cooperation. Guarantee portfolios can complement grant portfolios and attract additional private funding for new ways of creating impact, and they can encourage innovative ways of private-sector engagement for global poverty reduction.

With a guarantee, providers such as Sida can share the credit risk with a financial institution by, for example, covering half of the defaults in a loan portfolio. The guarantees enable and incentivize the financial institutions to lend money to an identified target group—for example, farmers or entrepreneurs. The guarantees relieve part of the credit risk and capital needed, lower collateral requirements and may extend loan tenors and/or interest rates so that they can be made more attractive for underserved groups. More than half of the guarantees in the Sida portfolio are given to local banks for lending in local currency to MSMEs in diverse sectors, including agriculture, health and renewable energy.

Improving agricultural productivity is a priority for LDCs. Farmers in LDCs face a number of significant hurdles, including access to markets and to finance. Agriculture remains a key economic activity in Africa, employing about 55 percent of the population, yet only approximately 1 percent of bank lending goes to the agricultural sector.²⁴⁸

Banks often find it too risky to offer loans to farmers, so they focus on larger corporate and government clients. Without access to credit, farmers cannot start or grow their businesses. Women are often particularly disadvantaged. It is not just farmers of course; entrepreneurs and SMEs in a range of sectors from health to media also require additional access to finance and yet often find it impossible to borrow money.

Guarantees provide increased security for banks, enabling them to lend to borrowers that typically have limited experience in the formal financial sector and little business management training. This means businesses grow and jobs are created, and it also helps build banks' experience in lending to these types of enterprises. The individual entrepreneurs are able to build a credit history, which means that banks will be readier to lend money to them in the future.

To support a sustainable change in banks' behaviour, technical assistance can be provided to increase their awareness of new target groups or methods for assessing new types of businesses. Sida aims to use guarantees alongside other instruments in larger programmes. Guarantees are likely not sufficient to create a systemic change by themselves, but they can play an important role when combined with grant funding to help improve the enabling environment, education, training etc.

One recent example is Sida's guarantee to Private Agriculture Sector Support (PASS) in Tanzania, which supports farmers with insufficient collateral to obtain bank loans. The potential borrowers provide their business plans to PASS, and viable projects that are not yet considered 'bankable' can be supported by a fixed deposit with partner banks. After two years, the deposit is replaced by an indemnity fund, guaranteeing a portion of the loan. Sida's re-guarantee of \$20 million increases PASS's capacity to provide guarantees to local banks and is estimated to provide additional access to loans of \$60 million to local farmers to improve their businesses. The provision of guarantees is expected to contribute to a reduction of the financial risks of cooperating commercial banks of providing increased inputs to investments in agricultural operations.

In addition, the business development services of PASS are expected to contribute to the target group's increased commercial competitiveness and viability, leading to increased and sustainable incomes for underserved businesses, households and individuals. Women may be provided with a higher guarantee coverage on their loans, thus providing a higher risk reduction and an incentive to lend to women.

PASS's strategic plans are to design and implement specific products and programmes targeting what are also Sida priorities: specific groups at risk of being left behind, notably women and youth, as well as sectors which need more support, such as renewable energy and water efficiency projects that tackle environmental and climate change challenges.

Another example is a guarantee Sida and USAID issued to Enat Bank to increase lending to SMEs owned or managed by women in Ethiopia. Low access to credit is a major development challenge in Ethiopia. Small enterprises are disadvantaged owing to their shorter credit history, fewer collateral assets and often informal structure. Women-owned SMEs are particularly disadvantaged, since women less frequently own land, property or other types of assets that can be used as collateral. Enat is a niche bank focusing on lending to SMEs owned or managed by women. It was founded in 2013 by women and for women, and is still majority-owned by women. The borrowers that the guarantee targets typically have limited experience in the formal financial sector and little business management training.

In case of defaulting loans, Sida and USAID will cover 50 percent of the loss for the bank. The remaining risk stays with the bank to promote the use of sound credit decision-making and sustainable business models. Thus, the Sida/USAID guarantee is leveraging twice the guaranteed amount in private capital. The bank is also charged a fee for the benefit of the guarantee. The aim is to create a sustainable change in risk perception and not create negative market distortions. If Enat Bank succeeds in making financial services to women profitable, other financial institutions in the Ethiopian banking market may follow.

Guarantees can also be used to support large-scale projects and innovation. For example, by sharing the risk, Sida has encouraged investors to invest in sustainable infrastructure in challenging markets. Sida has also used a guarantee to increase access to affordable contraceptive implants in developing countries. By guaranteeing sales volumes, new products could be introduced at an affordable price and create a demonstration effect for others.

Grants remain the most suitable way of providing assistance in many cases, but there is great potential for expanding the use of guarantees to overcome challenges with access to finance, strengthen local financial systems and engage private capital. Guarantees are cost-efficient alternatives to grants, and there can be a lower risk of negative market distortion.

In conclusion, guarantees have the direct effect of enhancing credit to underserved groups so that they can develop their business, create jobs, increase incomes and find a way out of poverty. The long-term objective of guarantees is to help develop the market and bring perceived risks closer to actual risks, including by helping financial institutions build up competence in an area they have previously neglected.

²⁴⁸ The Global Findex database, the world's most comprehensive database on financial inclusion, provides in-depth data on how individuals save, borrow, make payments and manage risks.

BOX 17. What is a Sida guarantee, and how does it work?²⁴⁹

A guarantee is similar to an insurance policy that, for a fee, promises to provide financial compensation in the instance of an event that results in harm or loss. A guarantee reduces the risks for the lending party to lend to risky projects. If the borrower does not manage to repay its loan to the bank, Sida pays under the guarantee a part of the default to the lender instead of the borrower. The entire guaranteed amount is never meant to be paid out.

Risk is shared with others to unlock financing and investments that promote growth and create jobs in Sida's partner countries. Sida does not accrue any expenses as long as the guaranteed investments continue to perform and repay their loans.

A guarantee by Sida is a Swedish sovereign guarantee, backed by an unlimited credit with the National Debt Office, which gives it an AAA rating. Sida charges a risk-based fee for the guarantee to cover the expected loss. The expected loss amount is paid to Sweden's guarantee service account. The funds from the service account are used for the payments in case of defaults. No other Sida resources for grants are used for the repayment of defaults. Given its credit rating, Sida's cooperation partners have high confidence in the repayment ability in case of defaults.

The use of Sida guarantees is regulated in a government ordinance and is limited to debt financing. Within those limitations, the structure of the guarantee can vary. In most cases, Sida shares the loss, side by side, with the counterpart, but a guarantee can also be applied as a first or second loss layer in a fund structure.

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Development, engaging major investors and pension funds around Agenda 2030. Previously, Malena worked in corporate finance functions and business development in the multinational IT group Tieto in Europe and South East Asia, and with labour-market policy and EU relations within the Confederation of Swedish Enterprise.

NATIONAL DEVELOPMENT BANKS:

THE VIEW FROM KAMPALA

(Patricia Ojangole, Managing Director, Uganda Development Bank)

Ranked 162nd out of 189 countries on UNDP's Human Development Index, Uganda's development aspirations are enshrined in Vision 2040. It provides a development path for the country to become a competitive Upper MIC in the next 20 years. It also has five-year national development plans, the second of which is currently being implemented. Priorities in the national development plan include agriculture, infrastructure, tourism, minerals, oil and gas, and human capital development.

The Uganda Development Bank Limited is the only domestic DFI in Uganda. It is expected to play a key role in mobilizing public and private resources, and in coordinating the flow of resources to development projects aligned with national priorities and the SDGs.

The Bank is 100 percent government owned, and funded by its shareholder equity and concessional loans from bilateral and multilateral DFIs. With its instruments—loans, equities and guarantees—it can provide concessional finance such as low-cost investment capital and longer tenor of capital to SMEs, and attract the private sector to new market segments that are perceived as too risky. It also provides equity and venture capital to start-ups, thereby increasing their chances of accessing private capital.

²⁵⁰ Sida (2018). 'Guarantees: Unlocking capital for development efforts'. Stockholm: Sida. <https://www.sida.se/English/publications/160271/guarantees/>.

To the extent that the Bank has engaged with blended transactions using international donor funds, it has mainly been in the area of agriculture finance. Developing the agricultural sector, after all, is essential to reduce poverty and create jobs, yet it is a sector that receives insufficient private-sector credit, as it is perceived as too risky. In this case, concessional resources provided by donors have helped to de-risk the sector, making it attractive for private investors.

For instance, blending grant funds from the Kuwait Fund for Food Security with the Bank's own concessional capital has resulted in affordable financing for smallholder farmers and consequently in support to agribusiness development. To give one example of its role in a blended transaction, the Bank has provided financing to development projects that other entities have helped make bankable. For example, the Bank provided a loan of some \$1.7 million to a coffee processing factory in central Uganda that UNCDF supported with technical assistance and a seed grant. The Bank is a beneficiary of the Agricultural Credit Facility, a government line of credit extended to support agribusinesses, and was able to utilize those resources for this project, in line with national priorities.

While the Bank is expected to play a key role in mobilizing resourcing and coordinating the flow of resources to development projects, it faces a number of challenges to engage more in blended finance transactions. These include the need to scale up its financial assets and skills related to project finance and preparation. The Bank is working to address these challenges, such as by setting up a project preparation unit to support the government and the private sector to prepare bankable proposals.

Beyond Uganda, national development banks in LDCs in Africa are well positioned to occupy an important space in the development finance architecture: helping attract private finance and mobilize resources in a way that is sensitive to local needs and aspirations by bringing together government, donors and the private sector.

This role becomes important in the context of discussions around ownership. For example, some concessional finance providers require that some project components or contractors originate from their countries, limiting the participation of the local private sector in projects. In compliance with local laws, the Uganda Development Bank Limited engages domestic firms in projects, helping to develop local markets.

As donor governments increasingly engage in blending, national development banks such as the Uganda Development Bank Limited provide an excellent way forward for bringing relevant stakeholders around the table and for mobilizing private finance in ways that are aligned with national development priorities. With the right support, resources and capacities, such banks can deliver important results for their countries.

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TARGETING BLENDED FINANCE TO HELP THE POOREST 20 PERCENT

(Jorge Moreira da Silva, Director of the Development
Co-operation Directorate, OECD)

The 2030 Agenda funding shortfall resulted in a sharpened focus on the potential of the private sector and the role of other development actors—including ODA providers and MDBs—to mobilize new private investments. Three years after the Addis Ababa Action Agenda on financing for development was agreed, new private actors populate the development finance landscape, offering an opportunity to use well-targeted blended finance to play a more strategic role. More than an opportunity, we have a moral imperative to realize the full potential of all development finance to help countries most in need achieve sustainable development, especially as many of them face unique, evolving crises related to conflict and climate threats.

given concerns over absorptive capacity, risk, low returns and sustainability. As a result, guarantees are a growing and important part of the development finance landscape, standing out as the instrument that has mobilized the most blended finance, particularly in LDCs and in Africa.

Development cooperation must help steer private finance to where it is most needed. At present, the private finance mobilized by ODA, much like FDI, is going where national GNI per capita is higher. At the same time, the 2030 Agenda calls for a commitment to ‘leave no one behind’, but business as usual with blended finance will bypass the world’s poorest people. To address this, the OECD is investigating the factors of risk and dimensions of fragility that may influence the mobilization of additional private finance, in collaboration with the International Network on Conflict and Fragility.

To remain credible, we need to fortify the mobilization imperative with evidence on development results. In other words, while we should continue to focus on ‘turning billions into trillions’, we should put even more focus on targeting the trillions to the billions of people who remain in poverty. Maintaining a critical approach, developing an international blended finance data- and evidence base, engaging in analyses and standard setting, and ensuring blended finance is effectively targeted and applied in LDCs will be the key ingredients for the success story of the effective use of ODA in private finance mobilization.

Our central guiding question should be: how can private finance be strategically targeted where it is needed most? We must avoid a system where ODA targets LDCs while private finance is applied to less-challenging contexts. There is no time to lose in working together to tackle this challenge: we need to double the pace of poverty reduction—from 48 to 96 people per minute—to eliminate poverty by 2030.

Since 2016, Jorge Moreira da Silva has been the Director of the Development Co-operation Directorate (DCD) at the OECD, where he plays a key role in positioning the OECD’s work on development cooperation and in support of the SDGs. From 2013 to 2015, he was Portugal’s Minister of Environment, Energy and Spatial Planning. Prior to that, Jorge held several senior positions in government in Portugal and was a Member of the Portuguese Parliament and of the European Parliament. Since 2011, he has also been a Visiting Professor at Lisbon University.

When effectively applied, blended finance can help fill significant gaps in development finance. The OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals provide guidance for ensuring effective provider engagement in blended finance.²⁵⁰ The policy principles strive to ensure that blended finance: (i) maximizes development outcomes; (ii) mobilizes additional commercial finance; (iii) is in line with local development objectives; (iv) strengthens partnerships between developmental and commercial actors; and (v) delivers value for money.

However, incentivizing new financial flows challenges the ability to maintain the integrity of development finance.

The OECD’s work demonstrates that, while blended finance has significant potential to contribute to the 2030 Agenda—making otherwise unviable projects possible in the most challenging country contexts—we must better understand how it can best be targeted to countries and sectors most in need. OECD analysis captured in this report found that only a small share of finance that has been mobilized from the private sector by development finance providers has been in LDCs. Only 7 percent of the \$81.1 billion in blended finance operations by private investors went to LDCs—i.e. \$5.5 billion over four years.

Why is there a blended finance gap in LDCs? These countries face severe structural obstacles to sustainable development which increase the perception of risk. Indeed, many stakeholders are wary of investing in LDCs,

²⁵⁰ See <http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf>.

THE EU'S EXTERNAL INVESTMENT PLAN:

ATTRACTING MORE INVESTMENT TO THE WORLD'S LDCs

(Marjeta Jager, Deputy Director-General of the European Commission's Directorate-General for International Cooperation and Development)

The world's LDCs are a top priority for the EU's international cooperation and development agenda. Our approach to engaging with LDCs is multifaceted, combining aid, trade, policy dialogue and investment. In 2016, LDCs received EUR16.6 billion in ODA from the EU and its Member States. In 2017 the EU adopted the European Consensus on Development. This targets our development aid "where the need is greatest and where it can have most impact, especially in LDCs and in situations of fragility and conflict".

In trade, LDCs enjoy duty- and quota-free access to the EU market through either Economic Partnership Agreements with the EU or our Everything but Arms trade scheme. They also benefit from substantial aid for trade. And we support partnerships such as the Enhanced Integrated Framework, which helps LDCs use trade as an engine for growth. We also engage in policy dialogue with LDCs through, for example, the Global Climate Change Alliance.

The EIP's three central innovations:

- An integrated, three-pillar approach that will help improve the investment climate and business environment in partner countries
- A single entry point and one-stop shop for submitting proposals for financing investments
- A flexible new guarantee to mitigate investment risks in difficult environments

The EIP also puts in place technical assistance to help in particular with the preparation of projects (see Figure 28). And it establishes regular, formal dialogue with business and governments in partner countries—activities in which EU Delegations are closely involved.

Much of its funding will go to fragile and conflict-affected countries, landlocked countries and LDCs. Of course, funding for the EIP complements traditional development assistance—but in no way takes away from it.

It is especially well suited to LDCs for at least three reasons:

Overcoming investors' perceived risk

First, it addresses what is known as perceived risk—the risk that investors fear they may be taking when considering whether to enter a particular market. Perceived risk is a major barrier that LDCs face when seeking to attract investment. Guarantees give comfort to private investors and encourage them to go where they otherwise would not.

That is why the innovative EFSD Guarantee will allow us to go into higher-risk environments such as LDCs and de-risk our operations. It will support investments that can address market failures and set into motion market development. And by doing so it will allow us to carry out sustainable and inclusive development projects which otherwise may not be possible or would be significantly smaller.

The Guarantee could also be heavily discounted for investments in LDCs, since this is a pre-condition for private-sector funds to flow to LDCs, where they will have significant development impact.

Indeed, the entities entrusted to manage EU funds, which we had asked to develop investment pipelines covering LDCs, can create financial instruments designed for or adapted to difficult markets. Financial investors can use the Guarantee to strike a balance between more or less risky investments in diversified portfolios.

Investing in the SDGs: The challenge of our times

Public aid and free trade assist sustainable development, but can only do so up to a point. There is still a huge investment gap to cover if we are to achieve the SDGs, which 193 countries signed up to in 2015. To bridge that gap, we need responsible partners from the private sector to join forces with public actors in funding development.

LDCs face particular challenges in attracting investment. These include higher risks for investors, fewer potential entities or partners with which to operate, weak local capacity, a difficult operating environment for businesses, and a lack of bankable projects.

The EU's response: The External Investment Plan

That is why we are now deploying our biggest investment programme ever—the External Investment Plan (EIP)—which covers 18 LDCs in Africa. By leveraging public and private funds, the EU budget contribution of EUR4.1 billion could unlock up to EUR44 billion in sustainable investment by 2020. For the first time we put together a European Fund for Sustainable Development (EFSD) Guarantee of EUR1.5 billion.

The European Commission aims to sign guarantee agreements with entrusted entities in the second or third quarters of 2018. And in these we may stipulate a minimum share of the EFSD Guarantee that must support investment in LDCs. Of course, such guarantee products are complex, and they must—and will—be designed carefully.

Crowding in investment without distorting markets

Second, the EIP aims to crowd in private investment in a way that does not distort the market—something that is more likely to happen in LDCs. When we screen investment proposals, one of the main criteria we consider is whether the investment would happen without EU support. If this is clearly not the case, then the investment is unlikely to distort the market.

The EIP has three main aims:

- Contribute to the UN's SDGs
- Help to generate jobs and growth
- Unblock bottlenecks to private investment by addressing actual and perceived risks

Supporting women, young people and small businesses

Third, the EIP is a powerful tool to achieve the EU's broader development goals. Through it, we can support more local entrepreneurs and small businesses, which are vital for creating jobs and expanding economies. And we can focus in particular on women and young people, giving them a hand up so they can join the labour market or set up their own businesses.

For example, one of the Guarantee's five focus areas ('windows') is financing for MSMEs, which our partner financial institutions and local banks will support. Another one is agriculture and agribusiness. Here the EIP could back the development of value chains and help diversify agricultural production. It could strengthen local skills and promote environmentally and socially sustainable farms and agri-enterprises, including smallholders, cooperatives and agricultural MSMEs.

A promising start in LDCs

In 2017 we agreed to invest around EUR900 million in sub-Saharan Africa as part of the EIP blended finance operations. This will help leverage a total investment of around EUR5.6 billion in 30 major projects. Over 80 percent of this investment will go to transport, energy and agriculture projects in 18 LDCs in sub-Saharan Africa.

The EIP is leveraging investment in 18 LDCs in sub-Saharan Africa:

- | | |
|-----------------|--------------|
| • Benin | • Malawi |
| • Burkina Faso | • Mali |
| • Burundi | • Mozambique |
| • Chad | • Niger |
| • DRC | • Rwanda |
| • Guinea | • Senegal |
| • Guinea-Bissau | • Togo |
| • Liberia | • Uganda |
| • Madagascar | • Zambia |

Our proposal screening process includes extensive discussions with staff in EU Delegations in partner countries and with teams in headquarters in Brussels. This ensures that projects are aligned with national priorities. To promote national ownership, EU Delegations also closely coordinate with financial institutions and national governments in partner countries.

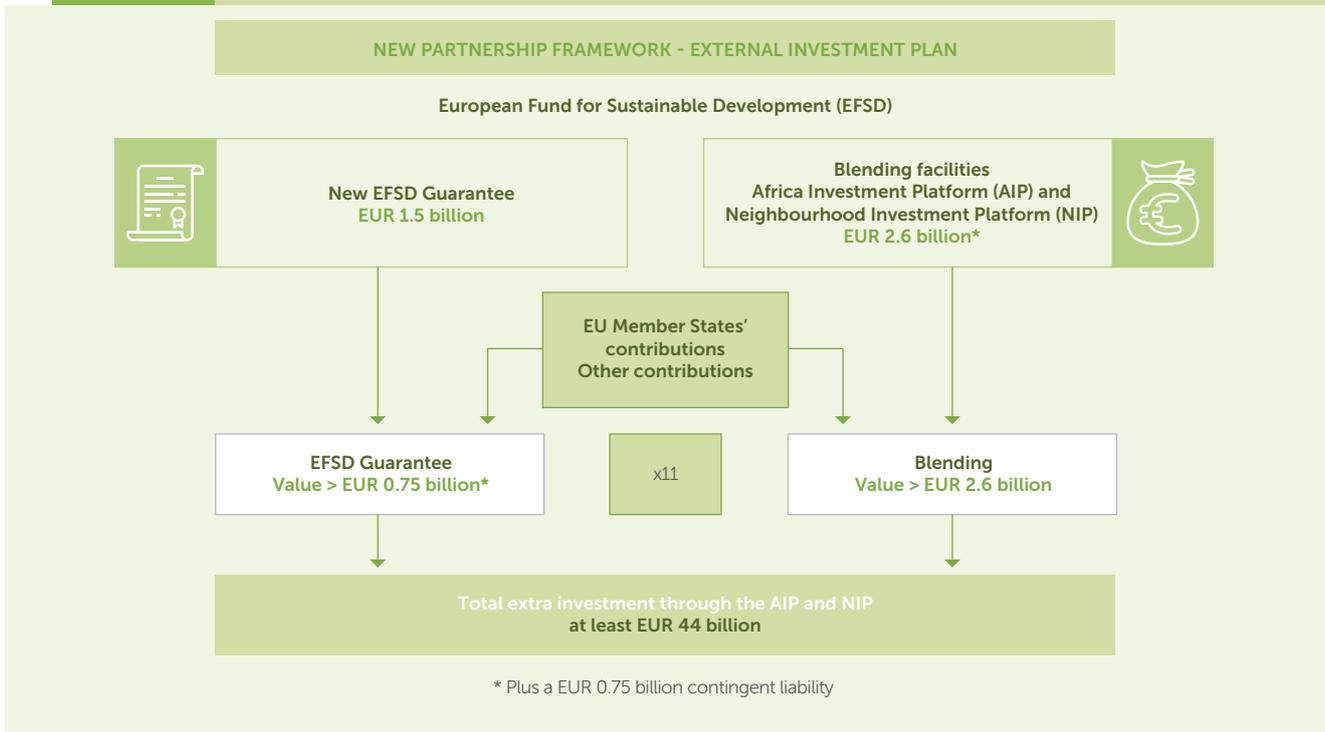
We have good reason to be optimistic about the Guarantee component too. The response to the Commission's call for the Guarantee was exceptionally strong. Twelve international finance institutions and other entrusted entities submitted 48 proposed investment programmes for the EFSD Guarantee under the 5 investment windows. The combined value of the proposed investment programmes is EUR3.6 billion. With EUR1.5 billion currently available in the Guarantee, we will carefully select from these.

A good number of proposed investment programmes include activities in LDCs, even if not all of them will result in Guarantee agreements at this stage due to the limited budget capacity.

One example of a project taking an innovative approach is Climate Investor One. This is an investment fund managed by the Netherlands Development Finance Company, FMO. It aims to deliver sustainable energy at affordable prices in emerging markets. The fund supports energy projects from beginning to end, addressing market failures and inefficiencies at every step. The EU contributed EUR30 million in the form of risk capital and reimbursable technical assistance. The EFSD Guarantee will help expand projects such as this.

If EU Member States and other donors and investors were to match our ambition and top up funds for the EIP, we could double the investment leveraged to EUR88 billion by 2020.

The next step will be to apply the experience gained with the EIP to projects globally. By doing so, we can pave the way for even more sustainable investment that could accelerate LDCs' development—and help take a major step towards achieving the SDGs.

FIGURE 28. New partnership framework, the External Investment Plan

Marjeta Jager is currently Deputy Director General for the Directorate-General for International Cooperation and Development (DG DEVCO). Ms. Jager has been working in the European Commission since 2005, starting as Director for Security in DG Energy and Transport and later as Director for international energy and transport files and coordination, as well as being Head of Cabinet of the Transport Commissioner.

Before joining the Commission, Ms. Jager worked for more than a decade at the Ministry of Foreign Affairs on Slovenia's accession to the EU. She was also Slovenia's first Coreper I Ambassador to the EU.