

ReDesigning Development Finance Initiative

A joint initiative of the World Economic Forum and the OECD-DAC

Blending Capital, Catalyzing Change

March 2015

The Challenge

Global development challenges have significant resource implications. Developing countries face an estimated \$2.5 trillion annual investment shortfall in key sustainable development sectors (Source: UNCTAD). While official development assistance has played an instrumental role in poverty reduction, and in fact is at record highs, it is an increasingly smaller percentage of total resources flowing to developing countries. To deliver on an ambitious sustainable development agenda we must mobilize all forms of international and domestic capital.

At the same time, as returns in developed markets face prolonged downward pressure, investors and financial institutions are seeking new sources of growth and diversification in their asset allocation. Emerging and frontier markets are reshaping the world economy, offering substantial, dynamic growth and returns less impacted by prevailing developed world challenges. However, out of roughly \$275 trillion in global capital markets, only \$1.7 trillion flows annually to these high-potential markets due to risks, both real and perceived, and market inefficiencies. (Source: IMF, Development Initiatives).

A Solution: Blended Finance

Blended Finance - the strategic use of public and philanthropic financial instruments to mobilize private capital to support development - offers an innovative approach to mitigating risk and managing returns, with the potential to unlock vast capital flows to developing countries and move the needle on generating sustainable social and economic growth and development.

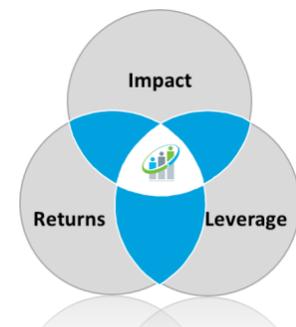
Blended Finance enables the private sector to realize risk-adjusted returns while exploring new markets, diversifying their portfolio and deploying capital at scale in fast-growing sectors across emerging and frontier markets.

By using official and other development funds to unlock private capital flows, development funders will catalyze new resources and actors, while deploying each dollar more strategically, and accelerating social and economic progress in developing countries.

All Blended Finance investments require three elements:

1) **Impact:** investments that deliver transformative social and economic impact in emerging and frontier markets. 2) **Returns:** risk-adjusted

returns in line with market expectations that meet business goals and fiduciary duties. 3) **Leverage:** systematic and strategic use of ODA and other development funds to mobilize private capital at scale.



The three elements of Blended Finance

Blended Finance refers to a wide array of structures and tools depending on the profile of the market opportunity, sector, geography, and stakeholders' assets and capabilities. Blended Finance investments range from an alignment of interests at one end of the spectrum (e.g. a technical assistance sidecar or a project preparation facility) to pari passu co-investment at the other (e.g. a DFI investment in a private equity fund).

Other structures include full and partial credit guarantees, junior and

mezzanine financing, insurance and local currency hedging. Innovative structures are also emerging where public investors attract private capital by offering incentives or contingent payment in exchange for upfront investment in new products and services (e.g. development impact bonds or challenge funds).

Scaling Blended Finance

Over the past year Blended Finance has gone from a promising concept to a recognized best practice that will accelerate inclusive growth and development, as affirmed during the Blended Finance Marketplace held during the World Economic Forum 2015 Annual Meeting in Davos.

Blended Finance is at a critical juncture, to achieve scale at an ecosystem level, several challenges must be overcome:

- **Education & Awareness:** Rather than creating entirely new blended structures, the market would benefit from an understanding of the potential for Blended Finance to meet return and impact goals, through evidence and analytics on the results of existing models
- **Common Language:** Lack of a common lexicon and understanding between development and private funders slows down processes and raises transaction costs
- **Institutional Readiness:** To change the way they deploy funds, development funders require a clear mandate and strategy for engaging the private sector along with internal assets and capabilities
- **Standardized Deals & Opportunities:** To commit capital, institutional investors need standardized, scalable structures and products and a pipeline of bankable projects
- **Platform to Connect:** Without clear champions, and one platform that brings together public and private

investors, Blended Finance will remain fragmented and duplicative

The Initiative

Through this multi-year, multi-stakeholder model of global public-private cooperation, the **ReDesigning Development Finance Initiative** (RDFI), the World Economic Forum and the OECD-DAC are institutionally committed to mainstreaming Blended Finance as an approach to finance and investment in emerging and frontier markets. The RDFI mandate is to ensure the promise of Blended Finance is fulfilled by influencing international policy, raising awareness, creating enabling assets and capabilities and broadening the community of stakeholders, ultimately transforming the way mainstream, institutional capital flows to developing countries.

The RDFI brings together development and philanthropic actors with diversified financial institutions and intermediaries, institutional investors, and corporations. To address the barriers identified and facilitate the scale-up of Blended Finance, the RDFI is producing the following deliverables:

Knowledge Products: *Building understanding and articulating the business case*

- Primers for development funders and private capital providers
- Catalogue of existing models and actors
- Evidence & analytics to support the business case and illustrate impact

Tools: *Promoting institutional readiness, partnerships and standards*

- Organizational 'How-To Guide' for development funders
- Global Finance Exchange platform
- **Network and Interaction:** *Fostering a connected community of stakeholders*
- Blended Finance Network with on-line collaboration space
- Organized events (e.g. Marketplace)

Calendar of Key Events

8 -9 April 2015, FfD Business and Civil Society Hearings
New York, USA

17 – 19 April 2015, Spring Meetings of the World Bank Group and IMF
Washington, D.C., USA

3 – 5 June 2015, World Economic Forum on Africa
Cape Town, South Africa

13 – 16 July 2015, 3rd International Conference on Financing for Development
Addis Ababa, Ethiopia

21 – 23 Sept 2015, General Assembly Summit to adopt the Post-2015 Development Agenda
New York, USA

30 Nov – 11 Dec 2015, Climate Change Conference - COP21
Paris, France

20 – 23 Jan 2016, World Economic Forum Annual Meeting
Davos, Switzerland

RDFI Steering Committee

Hon. Christian Paradis (Chair), Canadian Minister for International Cooperation and La Francophonie,
Julie Sunderland, (Vice-Chair), Bill & Melinda Gates Foundation

Dale Mathias, Partners Forum for Private Capital

Charlotte Petri Gornitzka, SIDA

Tom Speechley, The Abraaj Group

Gavin Wilson, IFC Asset Management Corporation

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Blended Finance: Monthly Update

March 2015 Edition

2015: A Historic Opportunity to Accelerate Social and Economic Impact

2015 is a defining opportunity for the international community to design a new framework for sustainable development. At a series of summits, we expect critical decisions to be made related to disaster risk reduction (March, Sendai), **financing for development (July, Addis Ababa)**, sustainable development (September, New York) and climate change (December, Paris). These offer once-in-a-generation opportunities to embed a coherent sustainable development agenda into the post-2015 global governance architecture.

The Third United Nations Conference on Financing for Development (FfD) is mandated “to review the progress in the implementation of the Monterrey Consensus and the Doha Declaration, reinvigorate and strengthen the financing for development process, identify obstacles encountered for the achievements of the goals therein and actions to overcome these constraints, as well as support the implementation of the Post-2015 Development Agenda.”

Within this context a number of key Events and Sessions will be organized to inform the intergovernmental and political processes to ensure this opportunity to transform the model for cooperation and advance social and economic progress is not lost.

Davos Blended Finance Marketplace

Friday 23 January 2015

At the World Economic Forum’s Annual Meeting, the RDFI organized a ‘Blended Finance Marketplace’. In order to ground the conversation in concrete action and opportunities, this highly interactive session was anchored in a discussion of sizeable, scalable Blended Finance structures, with the potential to individually mobilize private capital in the range of \$1 billion to \$10 billion to emerging and frontier markets. The current, high-impact ideas and opportunities discussed during the Marketplace spanned sectors - agriculture, clean energy, health, infrastructure, local capital markets, and women-owned SMEs – and illustrated the strategic use of development and philanthropic resources to mobilize private capital at scale, delivering both risk-adjusted returns and economic progress.

The session was conducted as a panel followed by floor remarks and sector-based breakout groups. Key discussion areas included: **(1)** successful practices to both capture risk-adjusted returns and drive long-term economic impact in emerging and frontier markets, **(2)** current, high-impact ideas and opportunities with potential for replication across sectors and actors, accelerating adaptation and action to mainstream Blended Finance and mobilize increased private capital flows to emerging and frontier markets.



Outcomes: **(1)** Global leaders recognized the need for blending to scale up finance and investment in emerging markets and confirmed Blended Finance as a future direction of their core business rather than a niche unit; **(2)** New partnerships were formed and interest expressed in using the highly scalable models presented to bring in new partners and broaden the Blended Finance platform; **(3)** Significant momentum and high energy generated around the historic opportunity afforded by 2015 to advance development finance; **(4)** Announcement of a \$10 billion Infrastructure Investment Partnership between USAID, SIDA, Citi, SMBC and Capitol Peak Asset Management to fund and fast-track critical infrastructure projects; and **(5)** the World Economic Forum received a clear mandate to continue playing a catalytic role to help ensure that the promise of Blended Finance is fulfilled.

Moderator: **Caroline Anstey**, Group Managing Director, Global Head UBS and Society, UBS

Panellists: **Bob Diamond**, Founder and Chief Executive Officer, Atlas Merchant Capital; **Berry Marttin**, Member of the Executive Board, Rabobank Group; **Purna Saggurti**, Chairman, Global Corporate and Investment Banking, Bank of America Merrill Lynch; **Tom Speechley**, Partner and CEO of North America, The Abraaj Group

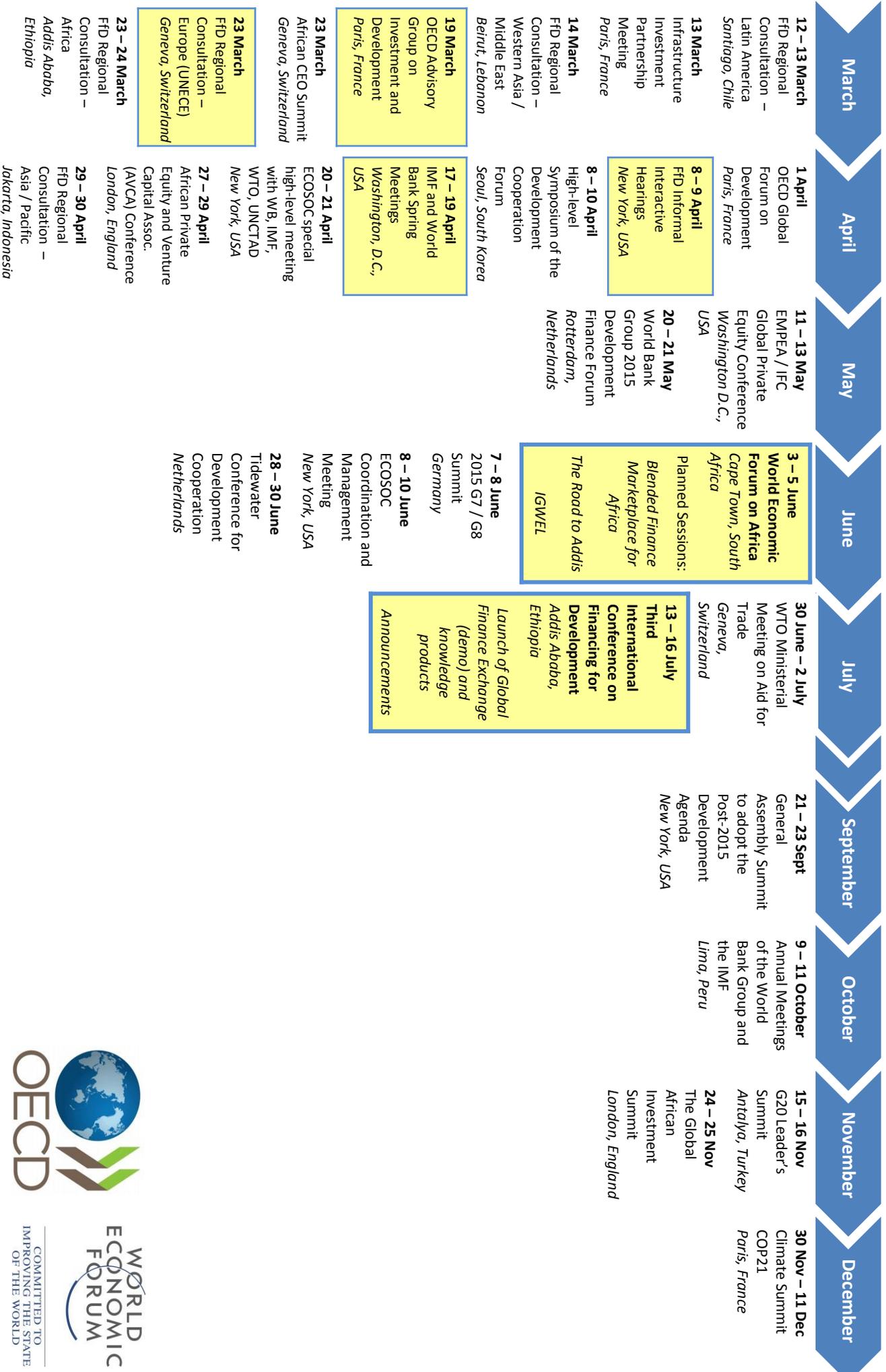
Floor Remarks: **Gordon Brown**, Member of Parliament, Prime Minister of the United Kingdom (2007-2010); **Christian Paradis**, Minister of International Development and Minister for La Francophonie of Canada

Discussion Leaders: **Gary Cohen**, Executive Vice-President, Becton, Dickinson and Company; **Torben Moger Pedersen**, Chief Executive Officer, PensionDanmark; **Charlotte Petri-Gornitzka**, Director-General, Swedish International Development and Cooperation Agency; **Pradeep Prabhala**, Senior Manager, Monitor Deloitte; **Ivan Vatchkov**, Chief

Executive Officer and Chief Investment Officer, Algebris Investments Asia; **Gavin Wilson**, Chief Executive Officer, IFC Asset Management Company



Accelerating and Scaling Blended Finance 2015 Key Events for Development Finance



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