Improving Impact: Increasing Blended Finance to achieve the Sustainable Development Goals

By Blended Finance Innovators[1]
Discussion draft for release on October 1, 2016

"Honesty is more than not lying. It is truth telling, truth speaking, truth living, and truth loving."

- James E. Faust

The above quote from James E. Faust lies at the heart of the movement to go from Development Finance Institutions[2] to Blended Finance Institutions[3] or "from DFI to BFI" as a key contribution to the global effort to strengthen collective action from public, philanthropic and private sector investors to achieve the Sustainable Development Goals (SDGs). For it is absolute honesty that has led to leaders from public, philanthropic and private sectors to acknowledge their need for each other and their limited knowledge of each other's investment values, to redesign development finance and launch a new way to blend capital to promote sustainable development and inclusive growth.

Throughout the past eight decades of public sector-funded international development, demand for investments in developing countries has consistently outstripped the available supply, and yet global savings have always been sufficient. It is no different today. In 2016, by UN estimates, the SDGs will require incremental investment of $2.5 trillion per annum over the next 15 years (the SDG financing gap). OECD estimates total official development assistance (ODA) in 2015 at USD 132 billion[4]. ODA is critical to development, but significantly larger amounts of financing are required to narrow the SDG financing gap. And yet, the value of global capital markets is estimated at USD 218 trillion. The issues therefore appear to be (i) allocation of private sector investment and (ii) how public sector funds can be deployed to increase that allocation to developing countries.

The second fact is that satisfying the world's investment needs to achieve the SDGs is not going to happen with public sector (taxpayer) resources alone – nor should it. The goals

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[1] The Blended Finance Innovators include executives and experts from private equity, international organizations (like the OECD and World Economic Forum), market-building organizations (like Convergence), governments and not-for-profit organizations. Combined, we have hundreds of years of relevant experience, including design of capital structures and development of new investment instruments. Consistent with the philosophy of Blended Finance, dozens of us have chosen to pool our know-how in order to advance the field through collective action. The ideas in this piece belong to all of us and the world. In light of this, we have chosen "Blended Finance Innovators" for the authorship of this directional guide to action.
[2] The development finance institutions play a crucial role in providing credit in the form of higher risk loans, equity positions and risk guarantee instruments to private sector investments in developing countries. DFIs are often backed by states with developed economies. In Canada's case, the market sometimes considers the Canada Investment Fund for Africa as a time-limited DFI. Unlike other G7 countries, Canada does not have a permanent DFI.
3 Blended finance institutions play a similar role to DFIs, but with a greater emphasis on leveraging private capital for sustainable development.
[4] This figure generally excludes the contributions of the Development Finance Institutions. This omission is being addressed by the OECD with its ODA modernization initiative.

and targets belong to everyone and will stimulate action in areas of critical importance for humanity and the planet. Put another way, both the public sector (which invests in basic social services and other public goods and employs one out of every ten people) and the private sector (which creates wealth and nine of every ten jobs) must contribute, and to achieve development outcomes as per the SDGs, they will need to work together.

The preamble to the United Nations' *Transforming our world: the 2030 Agenda for Sustainable Development* – the new global development agenda – recognizes these undeniable facts. It therefore includes a global commitment to mobilize the means required to implement this Agenda through a revitalised Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, focussed in particular on the needs of the poorest and most vulnerable and with the participation of all countries, all stakeholders and all people. One question lingers -- how?

To reiterate, we have a whole-of-world set of SDGs for people, planet, prosperity, peace and partnerships. These goals could be translated into investment decisions at the global, national, firm-level or individual levels. As investors, we may all have good values. We may all search for good investments – with appropriate leverage, impact and returns.

We also know what's wrong with the picture in terms of demand and supply. Instead of asking that question over and over again, the Blended Finance community of practitioners have asked ourselves the logic and mechanisms – new and old – that could make the picture right. Moreover, we have worked and continue to work to translate the 17th SDG into pragmatic partnerships. Finally, we are working to make the hundreds of trillions (value of global capital markets) all SDG-friendly, instead of a narrow focus on generating a few more trillions for sustainable development. We however have just started on this journey. There is much to do and the following sections offer guideposts for further collective action on an alignment of shared interests, respect for the diversity of investment values and objectives, and partnerships across public, philanthropic and private sector actors.

1.0 A new investment operating system – new school of Blended Finance

To translate the desire for public-private cooperation for sustainable development into concrete results, the World Economic Forum and OECD launched the multi-year ReDesigning Development Finance Initiative (RDFI) in 2013. The RDFI, a public-private partnership, set out to understand where and why funding gaps exist and to explore innovative models to unlock more capital from the public, philanthropic and private sectors for sustainable development. The RDFI has three strategic objectives:

- Extend reach and effectiveness of public funds (including Official Development Assistance) through complementary deployment of philanthropy and impact investment;
- Expand private investment in developing countries through complementary deployment of risk mitigation and concessional finance tools by official and philanthropic institutions;
- Expand the pool of foreign and domestic capital available for economic development, including small and medium enterprises, agriculture, infrastructure and key public services

After two years of collaborative work and contributions from experts across the three sectors (public, philanthropic and private) based on a comprehensive project management plan (Figure 1), at the Third International Conference on Financing for Development in July 2015, the RDFI launched Blended Finance – called a new school of Blended Finance by Jay Collins of Citibank.[5] The development community has experimented with many forms of Blended Finance while pursuing the Millennium Development Goals, and after analysis, Blended Finance has demonstrated a good ability to mobilize new sources of development funding through the smart use of public capital. The new school builds upon the foundations of the best practices of the old school by working to develop successful and flexible models and strengthen partnerships across public, philanthropic and private sectors - to overcome the existing fragmentation of Blended Finance and to achieve the scale required to significantly close the SDG financing gap.

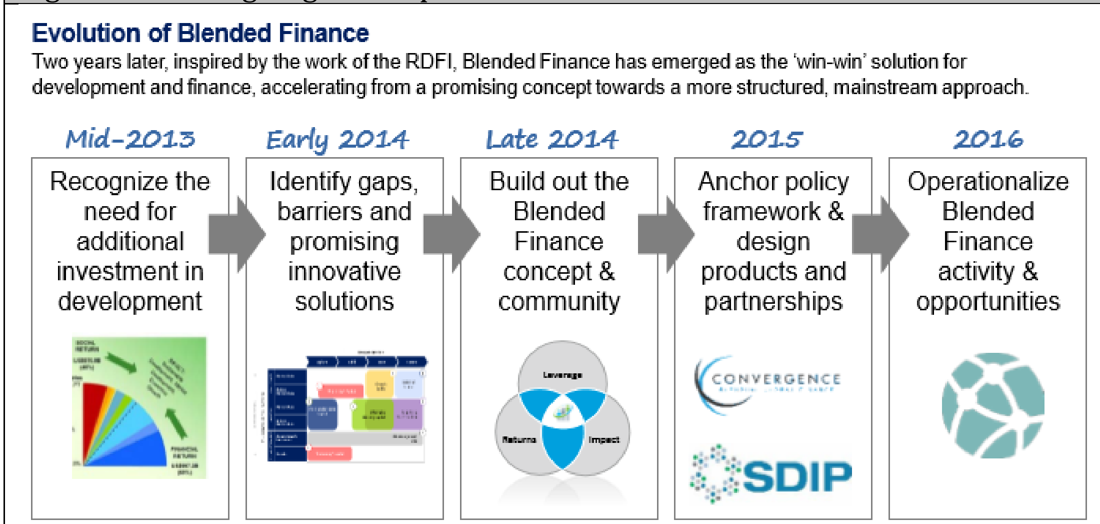
It is worth reiterating the message from Blended Finance innovators like Charlotte Petri-Gornitzka (former head of Sida) that Blended Finance is a complement to traditional ODA such as grants, and has proven to be effective in targeted development interventions. According to a Blended Finance pioneer with export credit and development finance backgrounds, assuming 20% of ODA was directed to Blended Finance (and 80% in

[5] Jay Collins, Vice Chair of Corporate and Investment Banking at Citi, made this comment at the Blended Finance Launch Event on the margins of the Third International Conference on Financing for Development. He likely made the reference to "new school" in recognition of the fact that it builds on previous efforts to blend capital from public and private sectors – especially by public sector-funded development finance institutions. The new school recognizes more explicitly (or systematically) the contributions of the philanthropic sector and a more strategic use of funds from development funders to achieve a new policy objective – leveraging private capital for sustainable development.

traditional grants), and an 8 times leverage factor, Blended Finance could attract around USD 210 billion more finance towards the SDGs – considerably more than the entire existing flow of ODA. This change in focus at scale would make a significant dent in the SDG financing gap, and in aggregate over the 15 years to 2030 would make an increasingly important role in delivering on the SDGs. The OECD has developed a new measurement to capture public sector contributions to Blended Finance – total official support for sustainable development.

The RDFI partners shared primers and how-to guides. We also announced two partnerships with the Sustainable Development Investment Partnership being a public-private investment group, and Convergence serving as the world's first deal sourcing platform that helps public and private investors find and connect with each other for Blended Finance investments in emerging and frontier markets.

Figure 1: ReDesigning Development Finance Initiative



Source: World Economic Forum, September 2015

Most importantly, we shared the following three key pillars that align the investment interests of both private capital and development funders from both public and philanthropic sectors.

- **Leverage:** *use of resources from public and philanthropic funders to attract private capital into sustainable development projects. To leverage capital, public and philanthropic funders often deploy capital not available in the private sector (with longer tenor, concessional terms, development results-linked incentives and implicit political risk insurance).*

- **Impact:** *projects that provide social, environmental and economic benefit for their communities. For public sector investors, impact investors, foundations and remittance* *senders, impact could be re-labelled "development return on investment" (or development ROI)*[6]*.*

- **Returns:** *commercially attractive financial returns for some, if not all, contributors to the capital structure. This relates to the differentiated financial returns to investment for the various contributors of capital. For development agencies, the returns could be negative 100 percent of invested capital (commonly known as a grant) so long as the development ROI were exceptional.*

The above principles of Blended Finance help correct for several challenges in public-private cooperation for sustainable development. They allow for more diversity of investment instruments, including grants and flexible capital (more details in the next section). They also expand the definition of return to be inclusive of both impact (development) and financial returns. More importantly, the concepts of subsidies and the public or private sectors correcting for the failures of the other sector become moot.

It is worth noting that the RDFI partners, in *redesigning development finance* and launching the above market-building tools, have effectively shared with public, philanthropic and private sector organizations the logic of moving from "development finance institutions" (organizations mandated to achieve impact or development outcomes without an emphasis on leverage nor partnerships across sectors) to "Blended Finance Institutions" (organizations embracing the investment and partnership principles of Blended Finance).

Charlotte Petri-Gornitzka (Sida) captured it well in her message to the world at the Third International Conference on Financing for Development. At the Blended Finance Launch Event, she stated that Blended Finance is about blending knowledge, finance, know-how, partnerships and networks from all partners to achieve the SDGs. These simple words have led to collective action decisions at the World Economic Forum (Davos), the OECD, the Emerging Markets Private Equity Association and other organizations/forums supportive of the 2030 Agenda for Sustainable Development.

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[6] For a good discussion on development rate of return, please refer to Crystalus' blog on this topic at http://crystalus.ca/wp-content/uploads/2015/02/Development-Rate-of-Return_2015.pdf. As the impact measurement field is being built out by academics (including those at Oxford), the OECD and others, organizations adopting Blended Finance are continuing to use their impact metrics such as the number of women-owned enterprises reached.

2.0 A new ecosystem of investment for sustainable development

The new logic of Blended Finance is complemented with the emergence of many more investors with a diversity of investment capital devoted to closing market gaps in social services, enterprise development and infrastructure. It also benefits from investors' search for alpha and different betas for both above average returns and diversification benefits. This has led to new investment instruments being created, new return calculations, and a new breed of Blended Finance Institutions.

First realization -- more investors with a diversity of investment capital

Blended Finance – a flexible way to look at multisector partnerships and capital – has three distinguishing characteristics.

1. It is inclusive of all partners and investors.
2. It focuses on pragmatic solutions to address market gaps to deliver social services, grow businesses, and support infrastructure development[7].
3. It entails co-creation or collaborative partnerships across the public, philanthropic and private sectors.

Relative to other mechanisms and approaches, inclusion, pragmatism and co-creation are unique and fundamental features of Blended Finance – that lead to superior solutions, impact and returns for sustainable development through the private sector and partnership models.

The new ecosystem, as captured in Figure 2 below, recognizes that for the public sector, the contributions of development agencies and export credit agencies as well as business development banks – in addition to that of non-concessional development finance institutions like the US Overseas Private Investment Corporation -- are important. Of note, the public sector offers both market-rate capital and concessional finance (including grants) – in addition to implicit political risk insurance[8].

For the philanthropic sector, both impact investing and remittances have often entailed trade-offs on returns for social impact and they are gaining importance in terms of volumes and they could lead to new solutions for the poorest and most vulnerable.

Finally, many private sector institutions recognize the importance of investing in emerging and frontier markets, which have the potential to grow substantially over the coming decades.

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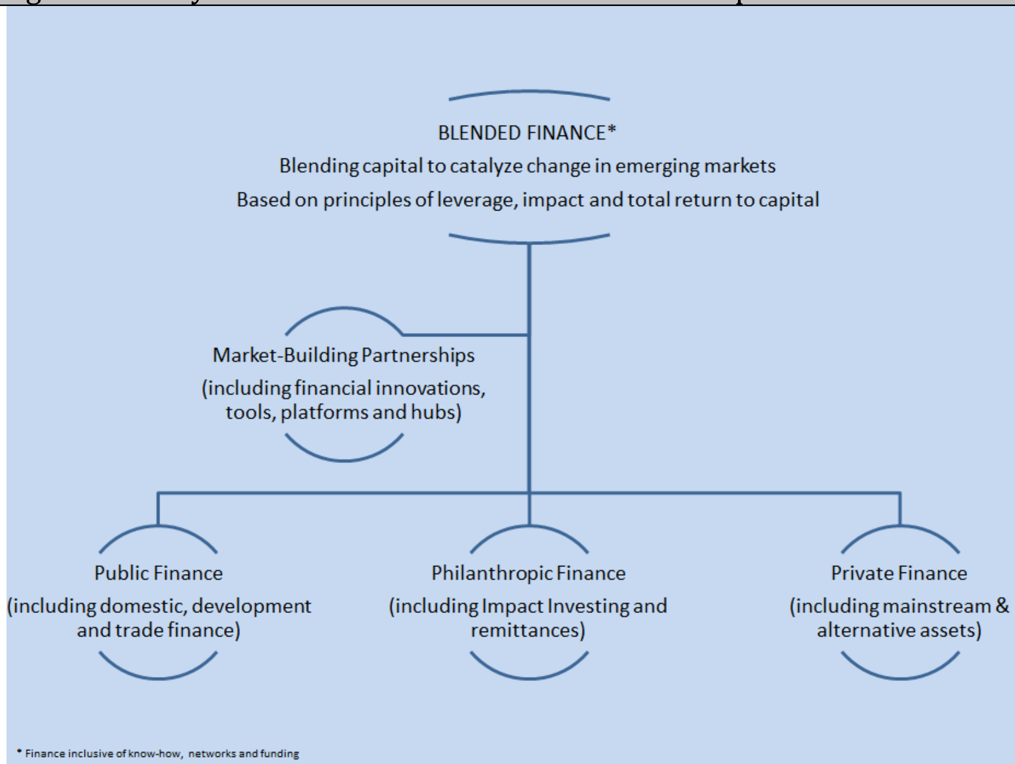
[7] It is possible to add a geographic constraint of "emerging and frontier markets" to the definition. The logic of Blended Finance is being considered for market gaps in markets like Canada.
[8] One stylized fact in infrastructure investment in frontier markets is the importance of investments by the multilateral development finance institutions (such as the International Finance Corporation) as an important de-risking signal for both safeguards and as protection against political risks.

Figure 2: Ecosystem of Finance for Sustainable Development



Blended Finance could be more than the respective interests of the public, philanthropic and private sectors. The combined interests and capital could lead to more than the sum of its parts -- that is above commercial returns on investment, expanded markets for businesses, innovation in development approaches and systemic changes that lead to greater scale and sustainability of development outcomes. Blended Finance is expected to increase leverage, impact and returns through partnerships across sectors and the blending of diverse capital – a potential win-win-win future. Through investment with care and intent one could see how Blended Finance goes beyond "public sector leveraging private capital for international development" and beyond "private sector getting a helping hand from the public sector". For market gaps, Blended Finance is an essential tool and all partners recognize that for it to be successful, there must be a credible exit for the public sector and philanthropists[9].

Second realization – "flexcap" and total return to capital for Blended Finance initiatives

Private capital, program-related investments of foundations and public sector organizations providing non-concessional, market-based financing and other forms of partnerships with businesses have contributed to sustainable development through the

[9] Convergence Blended Finance Incorporated and the OECD are developing case studies of Blended Finance initiatives in order to explore this important aspect of Blended Finance. Convergence, for instance, has documented the Sarona Frontier Market Fund 2.

private sector for decades. These facilities and organizations funded by philanthropists and governments often invest alongside private capital (often on a pari passu or equal footing basis) and crowd the latter in by virtue of being the first one to invest.

Market gaps however remain. And frontier market investment experts have called on foundations and public sector funders to offer financing on a subordinated basis and to do so without distorting the markets. This market opportunity has given rise to three new innovations in the finance for sustainable development space:

- **Flexcap**: Both public sector and philanthropic investors for sustainable development have at their disposal investment instruments that do not require a market rate of return, commensurate with risk. Instead, they require social or development impact as their return requirement. Moreover, by law or practice, these investors expense their contributions. This has given rise to *de facto* grants being used in capital structures in subordinated fashion as junior equity, flexible debt or other variants and de-risking activities. Instead of trying to brand every single application of grants being used in capital structures, several Blended Finance founders have grouped the various applications to date into a new investment instrument called "flexcap". Flexcap is a structured finance product with a social return requirement and an unlimited variety of features to provide loss protection against the entire spectrum of risks (political, F/X, operational and acts of God), endowment-type participation, results-linked kickers, and other possibilities to close market gaps.

  An important notation to the use of flexcap is its market-building investments in research and development and the development of local private equity. Several platforms such as Grand Challenges Canada and its sister organizations around the world offer grants to social entrepreneurs to develop new solutions (products and services) for the poorest and most vulnerable. If proven, these solutions attract both public and private capital for proof of concept and eventual market adoption.

  The potential uses of flexcap are now in the hands of financial engineers in the public, philanthropic and private sectors. Flexcap could be used in a Blended Finance private investment corporation as an endowment against which puts[10] could be written in order to enhance liquidity for private investors. This helps correct for the absence of secondary markets for private equity. Flexcap could also have embedded features that allow for reflows to back outcome funds in a development impact bond, to finance additional technical assistance, to anchor the next generation of funds, and to fund a catalytic investment fund to create new intermediation capacity for instance. These are just some considerations. The possibilities are in fact infinite.

[10] In other words, the private investment corporation could offer to private investors an option to sell their position back to the corporation thanks to the endowment portion of the capital structure.

- **Total return to capital**: As flexcap is considered better than equity, market players demand a better-than-equity return. While providers of flexcap are interested in higher returns to capital, their return calculus pivots in favour of non-financial returns given their public or philanthropic policy objectives. Unlike financial returns, to date, no tools exist to quantify the financial value of social returns such as the number of women-owned businesses served, the number of people employed in poor regions, and lives saved from immunization.

- **Blended Finance Initiatives:** Using flexcap and the logic of total return to capital, Canada (CIDA), Australia (AusAID) and the UK (DFID) deployed capital for the first loss layer of the ***MIGA Conflict Affected Fragile Economies Facility***, which offers political risk insurance for private investment in these challenging markets. With these layers, MIGA was able to fill the top layer with private capital.

  Another Blended Finance initiative is the ***Global Health Investment Fund***. A public-private Blended Finance partnership with the Bill & Melinda Gates Foundation, Swedish International Development Cooperation Agency, Grand Challenges Canada, and pharmaceutical companies such as Pfizer, this project is designed to provide financing for the development of drugs, vaccines, diagnostics and other interventions against diseases most prevalent in developing countries.

  For the New Partnership for Sustainable Impact Investing in Frontier Markets, the Canadian and US Governments are partnering with the Mennonite Economic Development Associates (MEDA) of Canada, Sarona Asset Management, and the MaRS Centre for Impact Investing on a 15-year ***Sarona Frontier Market Fund 2*** (with a technical assistance sidecar) that leverages private equity investment of up to $400 million to help as many as 250 of the most promising small and medium-sized enterprises in developing countries grow and create new jobs. The Canadian Government structured its participation in the Sarona fund to provide first loss, to forego the upside and to enable the fund manager to draw down its capital first among limited partners. The US Government offered a debt guarantee, enabling Sarona to access the markets to secure low-interest debt for re-investment through its Sarona Frontier Market Fund 2. The technical assistance sidecar allows for the responsible growth of companies, particularly as it relates to ESG (environmental, social and governance) standards.

  Canada, the World Economic Forum, Dalberg, Global Development Incubator, Ethiopia, Sweden, Senegal, the Netherlands, the US, Cordiant Capital, Sarona Asset Management, MasterCard, Citi, Black Rhino, Ford Foundation, Rockefeller Foundation and Gates Foundation pooled resources (know-how, networks, data, funding and publicity) to design, build and operate the ***Convergence Blended Finance Platform***, designed to bring together public, private and philanthropic investors for Blended Finance investments. It is facilitating the blending of these three sources of capital to reduce poverty and serve as a marketplace, knowledge broker and accelerator for innovative development finance models.

> In September 2016, after eight years of successful experimentation, the pioneering European Union announced its new External Investment Plan which includes a new Blended Finance program – the ***European Fund for Sustainable Development*** - to catalyze private sector investment to narrow the SDG financing gap.

Third realization - emergence of a new breed of "Blended Finance Institutions" (or 21st century DFIs)

Development funders include foundations, private investment clubs, donor agencies and governments, development finance institutions, development banks (emerging markets) and multilateral development banks and financial institutions. Their motivation could be simplified to development or social impact with below-market portfolio rate of return. Of note, the emphasis on leveraging private capital, know-how and networks and on strengthening impact through multi-sector collaboration sets these organizations apart from their predecessors which preferred investment without leverage nor partnership objectives.

Based on the work of the RDFI, the new development funders are motivated by a range of non-financial and qualitative objectives. Mandated to pursue social, environmental and economic development, often at the expense of financial returns, development funders tend to focus on the development return to capital, one that places a value on a range of non-financial and qualitative objectives. These include: achieving public policy goals; transferring knowledge and technology; overcoming market failures particularly for excluded populations; addressing pressing challenges; enabling new markets; and providing greater access to affordable capital.

As a consequence, development funders can engage in market-building transactions that are not normally commercially viable to ensure development outcomes are realized. In particular, they can provide origination support; facilitate the sharing of local expertise; deliver tailored financial instruments; support regulatory discussions; and open access to established networks and partners.

The traditional development finance institutions like the International Finance Corporation11 have evolved to strengthen their leverage and impact contributions. While DFIs have traditionally aimed to increase foreign direct investment, even in support of the local private sector, where BFIs have an opportunity to get more local capital into the equation. In line with this, the national and multilateral development finance institutions have played a very important role to date in the Blended Finance experiments. The OECD estimates in 2011-14 these institutions mobilised around USD 30 billion of incremental funds into development finance. Less than 10% of the DFIs' financing transactions involve co-financing to attract new investment. We should recognize that DFIs already go beyond

[11] The International Finance Corporation has a Blended Finance policy, unit and framework to blend concessional finance with non-concessional finance in order to provide appropriate support to the private sector. Its experience and perspectives have been useful in advancing the new school of Blended Finance.

calculating financial return. IFC requires the calculation of an economic return as well as a financial one, for every deal. The delta between the two comes from adding back tax revenue to the country, subtracting any negative externalities and zeroing out any profits attributed to artificial factors like gains from trade barriers. To achieve the SDGs, multilateral DFIs need to shift more of their resources to attracting co-investment through blending. The scorecards of the multilateral DFIs should include substantial weighting of attracting incremental investment through co-investment to the SDGs.

Much work however needs to be done for this class of investors (those desiring to be BFIs) to scale their investments to promote sustainable development through the private sector. Faced with capacity constraints (including insufficient tools and inadequate experience to guide investment decision-making), many are cautious regarding partnership with profit-oriented institutions. Their key sensitivities include:

- Participation of the development funder may be creating an artificially high return for a transaction that would be ordinarily funded by private actors;
- Public funding may crowd out private capital;
- Development funders may have limited influence and input on governance in the transaction;
- Environmental, social and governance performance of the transaction may create a reputational risk to the funder;
- Private actors may not see the intangible benefits of a development funder in their capital structure and are just looking to reduce transaction or origination costs; and
- Development outcomes may be less clear or reduced by limited knowledge of how to effectively structure deals and utilize the leverage of finance to achieve development returns.

3.0 Way forward

The ReDesigning Development Finance Initiative has effectively redesigned “development finance” into “Blended Finance” with three guiding principles of leverage, impact and returns. The landscape survey of Blended Finance funds and facilities, including some of the Blended Finance initiatives highlighted above, has shown the power of Blended Finance in pooling capital (financial and non-financial) from foundations, public investors and the private sector. The market-building tools generated and results highlighted by the Initiative have increased demand for scale. The Blended Finance community of practitioners around the world are working on a “reboot of development funding organizations” into Blended Finance Institutions. We are creating time-limited, purpose-driven public-private Blended Finance platforms. Finally, we have established global stewards for Blended Finance.

From DFIs to BFIs

At their February 2016 High-Level Meeting, members of the OECD Development Assistance Committee affirmed that smart and strategic use of official donor support to catalyse private capital, as well as other sources, is a growing priority for most DAC members’ development co-operation efforts. They noted that Blended Finance – the strategic use of official funds including concessional tools to mobilise additional capital flows (public and/or private) to emerging and frontier markets – is widely recognised as a powerful financing modality for countries to strengthen economies and deliver development outcomes. To ensure the realisation of the full potential of this approach, they agreed that there is need to ensure markets are not distorted and can effectively benefit from the available tools over the long term. They further agreed to develop in the course of 2016 an inclusive, targeted, results-oriented work programme on finance mobilised. The objective of this work will be to distil and promote best practice and develop guidance that could assist the development co-operation community in delivering development impact. Foundations – including Ford Foundation – have made similar commitments and are in the process of retooling to ensure zero-gap financing for sustainable development. Figure 3 attempts to capture the expected evolution of the development funding institutions (primarily development agencies and possibly Blended Finance organizations like the Multilateral Investment Fund of the Inter-American Development Bank Group) into Blended Finance Institutions which will deliver Blended Finance solutions at scale.

Figure 3	*Development Funding Institutions*[12]	*Blended Finance Institutions*
Mandate	Leave no one behind by delivering inclusive and clean growth, shared prosperity and a secure future for all	
Investment approach	Supply-driven and passive investment	Market gaps and active investment (if required)
Objectives	Development results or impact	Leverage, impact and appropriate financial returns
Investment instruments	Grants and market-based financing	Grants, concessional finance (including flexcap) and market-based financing
Innovation	Pilots (challenge funds and innovation grants)	Innovation platforms and ecosystems (like Grand Challenges Federation, Global Health Investment Fund (GHIF) partnership, Skoll Forum, and the International Development Innovations Alliance)
Partners	Governments, NGOs, citizens and some private sector	All partners
Delivery	Service delivery model	Partnership model
Return	Either financial returns (for regular DFIs and program-related investments) or development results (for development agencies)	Total return to capital, inclusive of both development and financial returns
People	Project management	Blended Finance Investment Officers
Ecosystem	N/A	Emphasis on market-building, catalytic initiatives to ensure an exit for development funders

This new BFI model would be applied with the following adjustments to existing business models amongst the three sectors:

Public sector development agencies (e.g., government ministries focused on international development): These organisations are the key – they must supply funding to attract private sector financing into development projects. These organisations would need to shift a meaningful percentage (let's say 20%) of their annual development assistance from grants to Blended Finance. These funds would then be used to provide guarantees, subordinated funding equity etc.. (under the umbrella of "flexcap") to capital structures to attract private sector investment, like the Blended Finance Initiatives described above.

[12] Development funding organizations are diverse. Some are involved in active investments. Moreover, while development agencies could follow the service delivery model (payment for eligible expenditures), normal DFIs invest and cut deals.

Public sector development finance institutions – multilateral (e.g., International Finance Corporation) and national (e.g., Dutch FMO): These organizations would continue to deploy their development finance expertise in very similar ways, but with three adjustments. First, they would arrange much higher transaction volumes towards closing the SDG financing gap. Second, a higher percentage of their financing transactions would be placed into Blended Finance Initiatives where the private sector participates. Third, a higher percentage of their financing transactions would be junior/subordinated positions to attract new private sector investment into senior positions. All three adjustments would be possible due to public sector allocation to Blended Finance. For example, the average risk profile of a senior debt portfolio of individual transactions might be the equivalent of Standard and Poor's "B+", but with public sector funds invested in a subordinate position, the senior investors could face an investment grade profile.

Private sector: This new model would be implemented fully aligned to private sector investors' existing investment decision criteria. Foreign direct investors and portfolio investors would invest deploying their existing investment criteria, with Blended Finance Initiatives designed to attract private sector investors on their regular terms. For example, institutional investors that require investment grade risks and returns would invest consistent with these criteria.

Philanthropic sector: The new model would be aligned to the philanthropic sector's existing decision criteria, but with a higher incidence of development projects supported jointly by the public and philanthropic sectors. The two sectors would collaborate to design Blended Finance Initiatives that would lever each other's resources, and attract private sector investment.

Developing countries: To attract private sector investment, governments need to initiate reforms to improve the business environment / investment climate as outlined in the World Bank Doing Business Report. These countries also have development agencies, sovereign wealth funds, foundations and the private sector. The adjustments suggested above therefore apply to institutions in both developed and developing countries.

Scaling multi-stakeholder public-private partnership platforms

Partners from public, philanthropic and private sectors have also chosen to establish single-purpose platforms in order to leverage capital from the three sectors to address market gaps. They have formed partnerships and alliances for infrastructure development and trade facilitation.

- The **Sustainable Development Investment Partnership** (SDIP) was launched at the Third International Conference on Financing for Development to mobilize $100 billion in private financing over five years for infrastructure projects in developing countries using development assistance to reduce risk. The founding members include Citi, Deutsche Bank, East Capital, Standard Chartered, Storebrand and Sumitomo Mitsui Banking Corporation; the governments of Canada, Denmark, the Netherlands, Norway, Sweden, USA and UK; the Bill & Melinda Gates Foundation, Danish Investment Fund for Developing Countries (IFU), MIGA (Multilateral Investment Guarantee Agency), Development Bank of South Africa, International Finance Corporation, PKA, Pension Danmark and the Senegal Sovereign Wealth Fund (FONSIS). The World Economic Forum and the OECD are providing institutional support.

The SDIP is considering the "green" angle on Blended Finance. Its pipeline includes numerous deals in renewable energy. More generally, Blended Finance has the potential to advance public-private cooperation for the global necessity to address climate change.

- Recognizing that neither governments nor the private sector can deliver on the full potential of the Trade Facilitation Agreement on their own, the World Economic Forum, the International Chamber of Commerce and the Center for International Private Enterprise together with the governments of Canada, Germany, Australia, the United Kingdom and the United States created the **Global Alliance for Trade Facilitation**. This unique public-private platform leverages business expertise, leadership and resources to support effective trade facilitation reforms measured by real-world business metrics. With the overarching aim of accelerating ambitious trade facilitation reforms, the core activities of the Alliance will include:

    - Building understanding of the benefits of trade facilitation within both the public and private sectors;
    - Establishing sustainable multi-stakeholder dialogues on trade facilitation;
    - Mobilizing public-private partnerships to drive change, engaging local businesses and associations;
    - Technical and financial assistance in support of capacity building;
    - Benchmarking and evaluation based on established business metrics.

Blended Finance investors also have the option to establish professionally run organizations dedicated to a single purpose.

- **Grand Challenges Canada**, funded by the Government of Canada, is dedicated to supporting Bold Ideas with Big Impact® in global health. It funds innovators in low- and middle-income countries and Canada. The bold ideas it supports integrate science and technology, social and business innovation – or Integrated Innovation®. It focuses on bringing successful innovation to scale, catalyzing sustainability and impact – through Blended Finance partnerships with foundations (such as Gates), angel investors and other investors.

- **Convergence**, sponsored by a global consortium of partners from all three sectors (governments from the North and South, foundations and the private sector), is connecting credible private, public and philanthropic investors with one another to co-invest in Blended Finance deals posted on the platform. It is using public and philanthropic funds to provide grants to private sector practitioners to design innovative finance products that would be otherwise too risky or complex to pursue. It is also easing the investment process for new and experienced investors through a range of practical tools and resources on how to structure Blended Finance transactions and streamline the investment process.

SDIP, Global Alliance, Grand Challenges Canada and Convergence are all platforms devoted to blending capital (both financial and non-financial) from public, private and philanthropic sources in order to achieve the SDGs. As independent platforms under professional management, they operate on business principles, are able to partner flexibly, and evolve as required. They represent a new way to enable collective action to address special global challenges.

In Stewards of Blended Finance we trust

All partners continue to advance the field of Blended Finance, creating new mechanisms, initiatives, approaches and partnerships to close market gaps and deliver results for the poorest and most vulnerable.

Leading foundations such as Gates, Rockefeller, Ford and Citi continue to support and promote Blended Finance initiatives such as Convergence. Leading consultancies such as Deloitte and Dalberg have Blended Finance services. Development agencies from Canada, The Netherlands, Sweden and the United States continue to strengthen their capacity to partner and to blend capital to catalyze change. Development finance institutions such as CDC, OPIC, IFC and Inter-American Investment Corporation pursue Blended Finance transactions.

Among the community of Blended Finance organizations, three stewards have emerged to operationalize Blended Finance activity and opportunity.

- The **World Economic Forum** has integrated the logic of Blended Finance into its public-private cooperation activities. Additionally, it has launched an exclusive online forum for practitioners to learn about Blended Finance and share best practices.

- One of the leaders of Blended Finance, Charlotte Petri-Gornitzka now chairs the **OECD Development Assistance Committee.** She will guide a work programme devoted to creating the norms, guidelines and initiatives to mobilize development funders to invest in public-private initiatives to combat climate change and to achieve the SDGs.

  Policy making is an important dimension in shaping the way forward and one that the OECD has a role in, for example, via peer learning on engaging the private sector in development co-operation. The OECD will prepare a more thorough assessment of policy issues promoting and restricting Blended Finance (in the global North and the global South). It will continue to look at measurement issues related to resource mobilization and through its work on "total official support for sustainable development" and on Blended Finance initiatives.

- **Convergence**, co-sponsored by the World Economic Forum and Canada and designed by Dalberg and the Global Development Incubator, has provided thought leadership on Blended Finance, created market-building tools, become a repository of Blended Finance knowledge and deals, and seeded the development of new Blended Finance mechanisms, including impact bonds and financing facilities.

  In the near term, Convergence is designed to reduce specific problems that practitioners face when trying to do Blended Finance deals. An underlying theme of those problems is knowledge and understanding. Training, both functional (how do you do these deals) and cultural (how to make sense out of what the other party in the deal is talking about) would go a long way to unleashing serious capital for the SDGs.

  The Convergence leadership aspires for the organization to be a market-maker on a meta-level. Whereas today they are charged with helping parties close individual deals, they could help the community aggregate sets of deals into pooled transactions. These structured operations could bring in both the large-scale institutional investors operating at the USD 100M check size and the retail investor operating at the USD 100 level, neither of whom has much ability today to reach across to a distant place and put her money to work. This is not a distant goal. All it needs is depth of supply, in other words, a serious ramp-up in blended deals coming to their doorstep.

As the World Economic Forum stated at the Third International Conference on Financing for Development, Blended Finance is bold, innovative and transformative. It puts people first. Many development funders have de facto become "Blended Finance Institutions". We have embraced new investment partners. We have created and used flexcap to advance Blended Finance initiatives with high expected development return to capital. We continue to move from DFI to BFI. We continue to pursue public-private Blended Finance platforms. We continue to support the work of the WEF, OECD and Convergence to scale up Blended Finance as a key way to mobilize capital to finance the 2030 Agenda for Sustainable Development. Since Blended Finance is about pragmatic solutions, Annex A includes a few bold ideas being discussed among Blended Finance pioneers.

ANNEX A: Illustrative Bold Ideas for Big Impact for Shared Prosperity		
Idea	***Actions***	***BFI Realization Plan***
Private Equity Forward	• Strengthen KYP platform • Address local currency risk • Increase liquidity	• Provide grants for platform development • Include F/X risk as eligible for loss protection in deployment of flexcap • Create a market-maker for PE or provide flexcap to a private investment corporation
iCanInvest	• Create rated investment products appropriate for institutional investors • Offer investment opportunities to moderate net-worth individuals (MNWI) • Encourage the development of publicly available bond and equity funds backed by investments in frontier markets	• Provide flexcap to enhance the creditworthiness of asset-backed securities or support impact investment overlays • Challenge the private sector to develop such opportunities by offering grants for development and flexcap financing for growth. • Offer grants and flexcap to fund managers to create solutions for retail investors interested in mutual funds
iCanLive	• Promote the development of new financial services platforms for the poorest and most vulnerable • Expand access to finance for entrepreneurs • Support new impact bonds and financing facilities for challenges facing the poorest and most vulnerable	• Issue an advance market commitment to provide grants and flexcap for savings, insurance and lending products as well as remittance services for the poorest • Scale up entrepreneur financial centres and other solutions such as RENEW and Développement international Desjardins • Continue to support Convergence's globally unique Design Funding Facility