# MAKING PRIVATE FINANCE WORK FOR THE SDGs

July 2022

OECD
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Please cite this paper OECD (2022), "Making Private Finance Work for the SDGs", OECD Development Co-operation Directorate, Paris.

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# Abstract

Donors' efforts to mobilise private finance through development finance institutions for the Sustainable Development Goals are off track. To deliver on their commitments, they must introduce systemic reforms that put sustainable development impact at the heart of all the activities of these institutions.

## Key messages

- The development community is struggling to mobilise private finance for the Sustainable Development Goals (SDGs), especially in sectors and geographies where funding is most needed.
- And yet, private investors seem increasingly keen to adopt environmental, social and governance criteria and are gradually aligning investments with the SDGs.
- But, for lack of consistent incentives, development finance institutions (DFIs) including multilateral development finance institutions (MDFIs) are failing to stimulate SDG-aligned private investment.
- Owners of DFIs and MDFIs need to implement significant reforms of their governance systems, to provide them with the right financial and political incentives.

# Foreword

This paper is part of a series of Development Co-operation Perspectives focusing on mobilising the private sector and policy options available to donors. It has been prepared as an input to the discussion on blended finance solutions in the OECD Development Assistance Committee Community of Practice on Private Finance for Sustainable Development (PF4SD).

This paper was written by Paul Horrocks (OECD). It was informed by a series of interviews with relevant stakeholders and benefitted from input, feedback or reviews by Haje Schütte, Wiebke Bartz-Zuccala, Priscilla Boiardi, Esme Stout, Jieun Kim, Cecile Sangare, Tomas Hos, Megan Kennedy-Chouane and Alejandro Guerrero-Ruiz. It was presented at an OECD PF4SD Live Talk held on 29 April 2021, which benefitted from interventions by Nadia Nikolova (Allianz Global Investors), Jean-Philippe de Schrevel (Bamboo Capital Partners); Weronika Garbacz (Ministry of Foreign Affairs of the Republic of Poland); Karin Lindblad (Sida); Alexander Dixon (MCC); Søren Andreasen (EDFI), Mohan Vivekanandan (DBSA). The paper's structure and content benefitted significantly from input and advice from Henri-Bernard Solignac-Lecomte (OECD).

# Mobilising private finance for the SDGs: a promise yet to be kept

In 2015, 193 countries agreed to the landmark Sustainable Development Goals (SDGs). The 17 Goals provide a roadmap to ending global poverty, building a life of dignity for all and leaving no one behind. These development challenges require ambitious financing at a scale that governments alone cannot deliver. The USD 3.7 trillion needed to close the SDG gap is a relatively small amount in relation to total global financial assets, which stand at USD 382 trillion, but large in relation to the capacity of official development assistance (ODA) – USD 178.9 billion issued in 2021 (OECD, 2020[1]; 2020[2]; 2021[3]). The private sector is thus expected to assume an unprecedented role in financing sustainable development.

Mobilising private finance has typically fallen to the private sector-focused multilateral development finance institutions (MDFIs) and development finance institutions (DFIs), which, alongside ODA providers, develop the projects, portfolios and ultimately the SDG markets to crowd in commercial capital. These institutions have recognisable structures, financial instruments and skills the private sector can easily collaborate with. Moreover, as they understand both risk and development, they are structured to engage on financial transactions with varying levels of risk and returns. Many MDFIs and DFIs have a credit rating which gives them enhanced funding raising and credit support, compared to the DFIs that receive their funding capacity directly from donors through capital injections. Moreover, a portfolio approach to investment ensures that project risks are effectively distributed across balance sheets.

Yet, the institutional architecture designed to help bridge the public-private gap and mobilise the private sector is not delivering on the expectations of policymakers (U.S. Department of the Treasury, 2022[4]). OECD data indicates initial figures in the region of USD 15.3 billion in 2012, increasing to USD 52 billion in 2020, against an annual SDG financing gap – before the COVID pandemic – of approximately USD 2.5 trillion (IMF, 2019[5]; OECD, n.d.[6]). Only USD 1.9 billion, or 1.2% of ODA, are directed towards development-oriented private sector instrument vehicles (OECD, 2020[7]; 2021[8]) or blended finance instruments. It should be emphasised, however, that not all SDGs can be addressed through the mobilisation of private finance.

Mobilisation levels are low overall in comparison to the challenge, and the countries and sectors most in need are receiving the smallest share of money mobilised. Mobilisation in low income countries (LICs) and least developed countries (LDCs) was only USD 4.7 billion or 12% of the total over 2018-19. By contrast, upper middle-income countries (UMICs) in the same period mobilised USD 19.5 billion, or 48% of the total. Similarly, social infrastructure and services mobilised USD 3.7 billion, or 8% of overall funding, compared with USD 32.3 billion, or 67% of the total, for economic infrastructure and services. LDCs/LICs and social sectors will thus typically require MDBs to extend sovereign loans along with ODA in grants and therefore blending is only part of the solution. Still, mobilisation of the private sector alongside traditional development finance can help attract more of the much-needed external capital (OECD and United Nations Capital Development Fund, 2020[9]) and support the development of local capital markets. The challenge for MDFIs and DFIs is whether balance sheets can be expanded to incorporate both greater risk in terms of the blended finance structures and instruments used, along with the overall size of portfolios.

Why is the development system failing to mobilise private actors to a significant extent, when they seem increasingly keen to apply environmental, social and governance (ESG) criteria and even align their investment with the SDGs? (OECD and UNDP, 2020[10]) Kenny, Morris and Ramachandran argue that MDFIs and DFIs are caught between two contradictory models: Although they are increasingly asked to support sustainable development in less profitable geographies and sectors, their traditional business model remains the financing of profitable activities. Aside from the sovereign focused MDFIs, mobilisation has been largely concentrated in richer developing countries and commercially-viable sectors (Kenny,

Morris and Ramachandran, 2020[11]). Specifically, the authors point out that in 2011, 26 percent of investments by the International Finance Corporation (IFC) were in International Development Association (IDA)[1] eligible countries, and the IFC delivered $600 hundred million in profits to IDA to be used to support lending. In 2019, 24 percent of IFC's investments were in IDA countries and the IFC was a net recipient of IDA funding. As a result, IFC do not dedicate enough of their resources to either. In order to leave this infertile middle-ground, the authors suggest they clearly choose one or the other approach.

In this paper, we argue for the former: in order to deliver on their promise to mobilise private finance for the SDGs, donors need to alter the political and financial incentives of DFIs and MDFIs accordingly, away from their traditional business model, and equip them with the governance systems to rise effectively to the global sustainable development challenge.

# Which factors are hindering effective private sector mobilisation?

## A common definition of blended finance would provide clarity

A consistent and internationally agreed definition would help development actors align the efforts to make blended finance work better for all countries and sectors. For example, the OECD and DFIs use different definitions, which reduces transparency, comparability and the ability to produce critical data on benchmarks[2].

- The DFI Working group places emphasis on the *concessional element of blended finance* – typically implying below market returns – allowing concessional funds to blend with the DFI's own financing and that of others.[3]
- Conversely, the OECD Development Assistance Committee (DAC) definition focuses on the *mandate of the organisation*, rather than on the sources of capital that encapsulate, amongst other factors, concessional and non-concessional pricing.

The OECD definition is wider as it includes all funds received through ODA but also the capital base of the organisation. By capturing this greater financial capacity, the definition aims to encourage further mobilisation efforts, along with greater development impact (OECD, 2021[12]) as blending can now take place along a wider number of projects and portfolio, providing a greater breadth of risk mitigation. Having agreement on the accounting system for blended finance instruments would also facilitate market development[4].

Should blended concessional finance remain compartmentalised into concessional and non-concessional, it is likely to always be considered a minor component of MDFIs and DFI activities, at least in comparison to mobilisation on commercial terms by MDFIs and DFIs. Based on the DFI working group definition, blended finance will be also remain niche for the donors that support these institutions. This may ultimately lead to underestimating the balance sheet capacity of MDFIs and DFIs to blend and therefore their ability to mobilise the private sector at greater volumes than is currently occurring.

## More transparency on risk, return and development impact is necessary for blended finance to become more effective

By contrast with the transparency and openness of ODA, the risk-return data of blended finance transactions remains hidden behind commercial clauses of confidentiality. Such "firewalls" impede the mobilisation of private finance for two main reasons:

- Firstly, lack of credible information or transparency dissuades new market participants, as the risks and opportunities of investing in frontier markets remain unclear. As a result, investing remains the preserve of a few participants who understand local market dynamics and have built up the necessary knowledge over years, such as Standard Chartered Bank in Sub-Saharan Africa.
- Secondly, this compounds the challenge of mobilising the private sector to invest in LDCs and social sectors. Despite donor government commitments to leave no one behind, these geographies and sectors typically have a history of only a limited number of transactions and therefore lack an evidence base.

For donors, MDFIs' and DFIs' greater knowledge on returns would help ensure that risks are covered, but profits not subsidised, a recurrent concern of civil society organisations. Similarly, greater transparency is needed on the measurement and management of impact, amid the confusion stemming from the multitude of initiatives, frameworks, and measurement methodologies.[5]

## DFIs' and MDFIs' incentives to mobilise private finance for sustainable development must be made more coherent with their mandates.

Ministries of foreign affairs and development finance providers have been tasked by the governments of high-income countries to help low and middle-income countries reach their SDGs. However, ministries of finance and treasuries, along with credit rating agencies, control the risk exposure and, critically, the incentives of MDFIs and DFIs to deliver on that mandate. As a result, these institutions often must generate both sustainable impact *and* a financial return, which is not always compatible. In such cases, returns are likely to take priority over impact. Seeking returns will affect the choice of sector or region, as well as where the blending sits in a structure and whether, for example, a first-loss exposure to equity is used or a guarantee of the senior debt. However, further policy research should be undertaken to substantiate this and understand the linkage between financial returns and impact, as large-scale private sector projects can also have significant impact in terms of jobs. There may for example be a preference by an MDFI or DFI to use credit lines over shares/equity, which are likely to require further capital buffers, thereby constraining balance sheets. Constrained balance sheets of course limit the number of transactions, the recycling of capital, and the size of MDFI or DFI portfolios. Meanwhile, projects with impact are likely to require longer term financing commitment to the project and increased balance sheet exposure to potential losses. For example, high-risk projects with high impact are likely to need more first loss support from MDFIs and DFIs in the capital structure.

As financial regulators of DFIs and MDFIs, ministries of finance/treasuries, along with credit rating agencies, essentially decide on whether a DFI can have a credit rating and issue debt, as well as the capacity to use instruments such as guarantees. Donors can recapitalise MDFIs and DFIs but ultimately balance sheets and capital risks are controlled by ministries of finance/treasuries. Currently the risk dial is focused largely on financial returns.

The picture is complex, however, as every DFI and MDFI has a different mandate and different capabilities. By way of illustration, the new United States International Development Finance Corporation (DFC), whose funding is based on budget appropriations, may take more risks than a DFI with a credit rating to protect, and invest more readily in LDCs and social sectors. A credit-rated DFI, by contrast, may be able to raise capital more effectively and cheaply, and then on-lend at a profit in high-risk developing countries. What is more, the picture is also a changing one, with some donors experimenting with new approaches. For example, the UK Mobilising Institutional Capital Through Listed Product Structures (MOBILIST) identifies listed product structure or platforms for the Foreign, Commonwealth and Development Office to invest in, and eventually bring to initial public offering. Having DFIs such as the US DFC delivering greater impact, and platforms such as MOBILIST to actively mobilise the private sector is critical to ensuring impact and scale.

### *Solving the mobilisation and impact conundrum: a ball in the court of MDB and DFI shareholders?*

The current approach to mobilising the private sector needs a stronger focus and leadership from all actors, including donors, MDFIs and DFIs. The first of the OECD DAC Blended Finance Principles, *Anchor blended finance use to a development rationale*, needs to be given more prominence as a goal by donors, MDFIs and DFIs. Particularly, as the data shows that blended finance is concentrated in UMICs and the

commercial sectors of the SDGs. Local capital mobilisation is also key and partner countries need to play a part in ensuring local financial actors are also mobilised.

## Towards a common language

A standard blended finance *definition* would (i) provide clarity to the private sector and other market participants, (ii) allow actors to collectively build the markets necessary for development and achievement of the SDGs and (iii) help address the criticism of opaqueness frequently levied at blended finance. The OECD definition of blended finance is wide and inclusive and aims to utilise the complete organisational set up and all the balance sheet of DFIs and MDFIs to mobilise the private sector. Donors, as owners of the definitional standards of ODA and of the OECD DAC definition of blended finance, should clarify their approach. As majority shareholders of DFIs and MDFIs, they should encourage them to adopt this broader definition in order to build a wide development finance base through which to mobilise the private sector.

In addition, the multilateral development community needs to come together around common *data* sources, such as Global Emerging Markets (GEMs) Risk Database Consortium, to make this vision a reality. The GEMs database, developed by DFIs and MDFIs, represents one of the few established and dependable data sources that provides reliable data on the risks of investing in developing countries, specifically on credit default rates. Despite being a public good, the database has not been released to the public in disaggregated form (Global Emerging Markets Risk Database Consortium, 2019[13]). The already established and published OECD Mobilisation data would complement GEMs, providing insights into the market and mobilisers, and sectors receiving private investment (OECD, n.d.[6]).

Such a common approach to data would facilitate the emergence of benchmarks and give market participants, including donors with no access to GEMs, further insights on the risk and return of markets. Greater financial transparency would strengthen donor capacity and deflect the risks of subsidising private sector profit. Greater granularity would allow for a better understanding on the different risk-return profiles of UMICs and LDCs, or between commercial and social sectors. Donors would then be able to accurately price the blending coverage needed to address risks. Until the data transparency issue is solved, pricing competition amongst DFIs and MDFIs for projects will continue, allowing the private sector to search out the most concessional blending on offer.

Beyond better measurement tools, the development system also needs more *evidence*. For over a decade, OECD data on mobilisation has been providing donors with clear evidence on instruments and sectors, but they are still missing a similar level of data for impact. The *Principles* (OECD DAC, 2018[14]) state that blended finance should be linked to a development rationale (Principle 1) and monitored for transparency and results (Principle 5). However, until 2021, no common standard existed to assess whether an organisation managing public finance for development had the right systems in place to manage and measure its impact. Therefore, in 2021, the DAC, with the UNDP, approved the Impact Standards for Financing Sustainable Development (OECD/UNDP, 2021[15]). This is a significant step in recognising the importance of managing and measuring the impact of investment on sustainable development, as well as deflecting "impact washing" and the associated loss of credibility among the blended finance industry. By approving the Standards, donors are demonstrating commitment to public accountability regarding the resources they channel through DFIs, MDFIs and blended finance funds and facilities.

## MDFIs' and DFIs' risk, return and development model needs to be addressed

European DFIs (EDFI) have a combined portfolio of committed investments of EUR 44 billion in 2021. Moreover, investments of EDFI members in 2021 stood at EUR 9.0 billion thanks to the effective use of DFIs' balance sheets (EDFI, 2021[16]). However, could more be done to reach greater scale, while targeting

greater development impact, in contexts where blended finance is suitable? A balanced portfolio of financially high-performing projects alongside those with higher risks and lower returns should ensure a robust financial performance for donors. Projects with lower financial returns can deliver greater development impact, particularly in social sectors. In this context, could DFIs and MDFIs do more individually and collectively to ensure scale and impact?

- Firstly, greater clarity on those DFIs that are making significant financial returns but at the same time not delivering sizeable pipelines of projects could be scrutinised. Portfolios could then be examined to determine whether further risk would allow for greater development impact, particularly in LDCs and social sectors.
- Secondly, although DFIs are independent, efforts could be made to organise them around those willing to take on greater risk exposure at the expense of scale, while those DFIs with a credit rating could focus on scale. These two approaches could also be combined across joint funds and facilities in order to help reduce and share risk, at the same time as creating both impact and scale.

As owners of these institutions, donors should provoke such a shift. They need to understand the risks that projects present to DFI and MDFI portfolios, and any attendant institutional exposure including credit risk. To achieve this, DFIs and MDFIs need to be more transparent with donors around what is commercial, and the feasibility of reorienting portfolios to address the most difficult-to-target SDGs, as well as the implications of such a strategy. In many instances, LDCs and social sectors will require direct sovereign lending, and therefore will not be suitable for blended finance solutions.

In their interaction with public development finance institutions, private actors are traditionally not interested in whether funds are accounted for as ODA or not. They are interested in the finance pricing and where they sit in the financial structure, but also critically in the knowledge and experience the organisation brings to the partnership. The intangible positive effects of having an MDFI in a project as credible independent brokers has been dubbed the “halo effect” by S&P (Pereira dos Santos, 2018[17]). Donors, MDFIs and DFIs are at the juncture between a significant volume of funds wishing to get exposure to ESG-compliant investment opportunities, and sizeable investment gaps in the SDGs in low and middle-income countries. Blended finance and the institutions that deliver it are uniquely placed to act in facilitating this financial shift.

## Addressing the incentives and governance of MDFIs and DFIs is critical

With a narrow definition of blended finance, and focusing on a small slice of their balance sheet, MDFIs and DFIs will continue to mobilise small amounts. As highlighted, a wider definition, encompassing concessional and non-concessional blending, could facilitate the mobilisation of larger amounts and along with this greater use of instruments such as guarantees (Garbacz, Vilalta and Moller, 2021[18]). However, this will also critically require a system-wide change of mindset, whereby structuring teams consider blended finance as an organisational approach, rather than one of many missions, within the remit of a single department or team.

MDFIs’ and DFIs’ operational framework must move at a faster pace from a focus on *risk, return*, to *risk, return and development impact*. Investing in developing countries is high risk and does not necessarily always equate to financial returns, but should have a significant development return. Typically investing in LDCs, or in social sectors such as education or health, involves high country risk, such as foreign exchange and political risk, but the impact is significant. Broadly speaking, where risk is high – e.g. investment in small and medium-sized enterprises or agriculture – the MDFI or DFI will typically need both greater financial support and concessionality embedded in the blended finance effort, at least while SDG markets are emerging. Moving into these sectors and economies is therefore likely to be at the expense of

profitability. This links back to the governance issue, and calls for systemic change, particularly in those MDFIs and DFIs that have to be profitable.

If DFIs and MDFIs are going to work effectively together in building SDG markets, they need a clear plan around the various stages of exit, from equity to debt, from a DFI willing to take more risk compared to another, to refinancing, and ultimately exit and full handover to the private sector.

# More options to accelerate the mobilisation of private finance for the SDGs

MDFIs' and DFIs' existing resources could be more effectively employed by increasing their balance sheet capacity through the issuance of more bond-like debt, and greater use of risk transfer mechanisms. This would increase their ability to use blended finance – thereby increasing the number of transactions – and to grow project pipelines delivering development. However, it also requires public and private actors to work together towards that goal.

## The climate agenda is creating momentum for using balance sheets more effectively

The political momentum created by governments and central banks around mobilising the private sector against climate change should expand sustainable investments in developing countries, where the needs are highest and challenges the most significant in terms of climate action.[6] Over the last years, innovators on capital markets have developed thematic financial instruments to accelerate progress towards the SDGs, which can be broadly defined as "sustainability-linked financial instruments". Green, Social and Sustainability and Sustainability-linked (GSSS) bonds, fixed-income instruments already in use by many DFIs and MDFIs, could be used more effectively (Dembele, Schwarz and Horrocks, 2021[19]):

- through issuance in OECD country capital markets, where the *greenium*[7] provides cheaper financing to the issuer, which could be then be on-lent into projects in riskier and higher returning developing country markets.
- and, critically, in local currency in developing country markets.

Some MDFIs and DFIs may be constrained on the levels of GSSS bond issuance by the need for equity injections or the risk of credit ratings being downgraded. However, greater issuance would help expand their balance sheets by allowing them to undertake more blended finance transactions, thereby helping to increase financial breadth and sector depth. The greenium benefit of GSSS bonds may provide greater capacity for MDFIs and DFIs to invest, including in social sectors. However, the greenium's implications for the expansion of balance sheets and credit ratings should be explored further while this pricing difference remains. Riccardo Settimo and Chris Humphrey have documented the ability of MDFIs to expand lending with little or no impact on credit ratings, while significantly increasing balance sheet capacity (Settimo, 2019[20]) (Humphrey, 2020[21]). Even without touching the politically charged question of credit ratings, donors, DFIs and MDFIs can work more efficiently together to deliver the GSSS bond market. For this to happen, donors need to provide DFIs and MDFIs with the necessary incentives.

On the demand side, there is considerable appetite for GSSS bonds, as investors are actively seeking out longer-term investments with strong ESG profiles. Recent examples of successful issuances include the two World Bank bonds in January and February 2021.[8]

In practice, the creation of local GSSS bond markets would provide new financial capacity to fund SDG-relevant projects. Typically, these projects are in local currency, matching revenues with local financing requirements. DFIs and MDFIs can, at the local level, use blended finance to increase the pipeline of projects that can be aggregated to issue as GSSS bonds. In regions such as Sub-Saharan Africa, where access to capital markets and impact reporting are limited, this would enable greater transparency and disclosure.

Greater co-operation amongst DFIs and MDFIs on bundling projects would help develop the necessary aggregation for issuance and diversification of GSSS bonds which are attractive for institutional portfolios. Co-operation, not competition, is therefore necessary to grow the market. GSSS bonds need to be considered as supporting all MDB or DFI activities, including investments in LDCs and social sectors. Capital provided by GSSS bond issuance should have the same goals as ODA: Leave no one behind, and encourage greater efforts by DFIs and MDFIs to move not only into climate but also social sectors which differentiates them from green bonds.

DFIs and MDFIs can also provide technical assistance to issuers, supporting developing countries to set up the robust frameworks to select and implement the green, social and sustainable projects that underpin the bond. This is a key requirement for issuers to obtain a GSSS label. As issuers of GSSS bonds, DFIs and MDFIs also act as role models and standard setters. IFC, for example, has issued several local-currency GSSS bonds in emerging markets. By sharing best practices in setting up eligibility criteria for the projects that underpin the bonds, as well as establishing allocation and impact reporting practices in these markets, DFIs and MDFIs can strengthen market discipline. This can help to shift investor focus to the region, and encourage other GSSS bond issuers to follow suit.

## Making greater use of risk transfer mechanisms

Aside from bonds, more can also be done at the balance sheet level of DFIs and MDFIs to transfer risks to the private sector or other donors willing to take the risk on board (OECD, 2021[22]). This could help bring in a range of new risk profiles, such as institutional and alternative asset managers. A notable example of a risk transferred through the securitisation of projects is the *Room-to-Run* transaction, the first-ever synthetic securitisation of an MDB’s private sector loans portfolio, which increased the balance sheet capacity of the African Development Bank (African Development Bank, 2018[23]). In the current financial environment, such transactions could allow capital-constrained MDFIs and DFIs to pass on project portfolio risks to the private sector. The G20 is supporting these efforts with the creation of an independent review of Multilateral Development Banks’ Capital Adequacy. (G20, 2021[24])

# Conclusion: Together, donors, DFIs and MDFIs can accelerate the shift to a better world

The scale and ambition of the 2030 Agenda demands a new shareholder governance model that explicitly prioritises the mobilisation of private finance. Donors need to take a more active role of working with DFIs and MDFIs to effectively enlarge the financial capacity of sustainable development finance. This requires that they explore together options, approaches and incentives to deliver the necessary scale and depth. MDFIs and DFIs need to see themselves more as mobilisers of capital, organisations that can judiciously, but more effectively, mobilise in key sectors for sustainable development and lower income countries. Donors must take the lead in shaping this understanding, including where and when it is effective to use blended finance.

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## Notes

[1] More information on borrowing countries at https://ida.worldbank.org/en/about/borrowing-countries

[2] The differences between the OECD DAC definition and the DFI Working Group are demonstrated in the data. Currently, OECD data indicates that bilateral DFIs have mobilised USD 12.3 billion in 2018-19. The DFI working group highlights in its 2020 report, DFIs financed projects with a total volume of more than USD 11.2 billion supported by blended concessional finance. Concessional funds committed to these projects via DFIs were approximately USD 1.6 billion. The total volume of private sector finance leveraged was approximately USD 3.0 billion, and DFI own-account investments in these projects were about USD 5.3 billion (Wang et al., 2020[26])The DFI Working Group has three categories, including DFI own-account resources: the goal of mobilisation should not be to mobilise own-account resources but the private sector.

[3] DFI Working Group definition: “Combining concessional finance from donors or third parties alongside DFIs normal own account finance/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilise private resources” (Wang et al., 2020[26]).

[4] Modernisation of the DAC statistical system (https://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm)

[5] Hence the OECD UNDP Impact Standards initiative, which aims to provide rigor to measuring and managing impact by DFIs and MDFIs at institutional level, (OECD/UNDP, 2021[15]).

[6] The United Nations Environment Programme (UNEP) estimates that for developing countries to merely adapt to the impacts of climate change the annual costs are USD 70 billion, and could increase to USD 140-300 billion per year up to 2030 (UNEP, 2021[25]). In the run-up to COP26, the DAC committed to align development co-operation with the goals of the Paris Agreement and to “… *use blended finance and risk mitigation instruments to stimulate more climate-related private sector investment. Attracting more private domestic and international finance for climate action requires enabling policy frameworks and investment climates. We will work with developing countries to help them increase sustainable investment opportunities and strengthen the requisite enabling conditions*”.

[7] Sometimes, a bond may be issued with a higher price, and thus have a lower yield compared to outstanding debt. The bond will price inside its own yield curve. This is known as a new issue concession; when present in a green bond, it is termed “greenium”.

[8] World Bank’s 10-year bond issue in February 2021 raised USD 3.5 billion from over 115 investors with a coupon of 1.250% p.a. Similarly, in January 2021, the World Bank issued its largest bond at the long end of the maturity spectrum – a EUR 2 billion, 40-year sustainable development bond with a coupon of 0.200% p.a., which received over 110 orders totalling more than EUR 3.6 billion.