DOCUMENT SUMMARY

DCED
Donor Committee for Enterprise Development

Donor Engagement in Innovative Finance: Opportunities and Obstacles

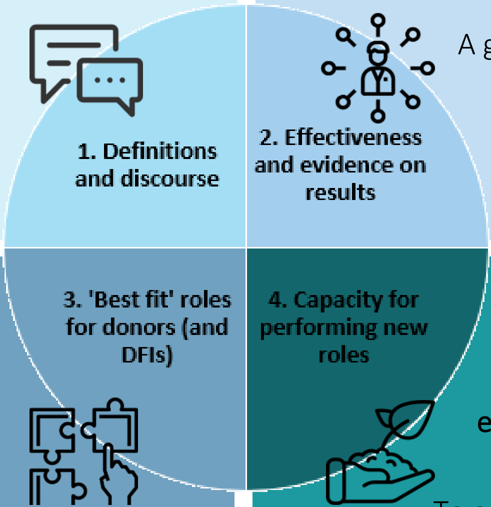
This summary is based on a 35-page DCED report explaining different concepts of innovative finance and reviewing opportunities and obstacles for donor engagement. For more resources, see the DCED knowledge page on private sector engagement.

Donor agencies agree that they need to mobilise private capital to achieve the Sustainable Development Goals (SDGs) through 'Innovative Finance'. This may include practices as diverse as '*Blended Finance*' (an approach for raising funds), which has mobilised more than USD 126 bn for development to date; '*Impact Investment*' (a way of deploying funds), with an estimated market size of USD 228 bn in 2018; and '*Results-Based Finance*' (a specific set of instruments to encourage the effective use of private finance or implementation capacity for SDG-relevant projects).

Four sets of key obstacles however prevent donors from effectively grasping the opportunity of innovative finance:

1. The growing importance of innovative finance in donor strategies and budgets has not yet been matched by a corresponding clarity and consistency of definitions. For example, there are different views on whose or what finance is being blended in Blended Finance and what qualifies as Impact Investment (see the Summary Graphic on p. 2).
To accelerate learning on effective practice, donors will need to develop a shared understanding and precise use of terminologies.

2. While positive data on leverage and investor perceptions is emerging, evidence on results is generally fragmented and generally scarce. The increase of aid funds for private investors may even lead to negative market distortion, if provided on the wrong terms and not matched by investable projects.
A growing amount of initiatives however support better results measurement for different innovative finance approaches and instruments.



3. Innovative finance has led to shift in responsibilities of both donors and development finance institutions (DFIs), and there is a need to understand what roles would be best played by donors.
For example, some donors now directly provide innovative finance and/or encourage their DFIs to mobilise more finance. Other donor roles could include research on the effectiveness of specific approaches and instruments; and building up the pipeline of investable projects through traditional private sector development work.

4. Despite their increased engagement in innovative finance, donor agencies tend to have limited expertise and experience in sharing and managing risk.
To address this, many donors have started to explore implications for staff recruitment, training and participation in knowledge exchange.

The paper concludes with options of future work by the DCED and others to address these obstacles; examples are introductory learning formats for donor staff or exchange with DFI networks on the most strategic division of responsibilities.

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SUMMARY GRAPHIC - LEVERAGING PRIVATE FINANCE: ILLUSTRATION OF KEY CONCEPTS AND CONTESTED ISSUES

Note: This graphic illustrates various definitions and contested issues around innovative finance concepts in a simplified way. It is not inclusive of all existing definitions.