



The Donor Committee for Enterprise Development

Private Sector Engagement Working Group (PSE WG) Meeting
with a special focus on Innovative Finance
hosted by UNIDO and ADA, Vienna, 11 June 2019
Minutes

19/07/2019

Participants:

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| 1. Gunter Schall, ADA (Co-Chair) | 15. Suzanne Krook, Sida |
| 2. Lars Stein, SDC (Co-Chair) | 16. Saki Ito, JICA |
| 3. Peter Beez, SDC | 17. Thomas Lammar, Luxembourg MFA |
| 4. Guido Beltrani, SDC | 18. Meredith Lee, MasterCard Foundation |
| 5. Marc Blanchette, Global Affairs Canada | 19. Jed Leonard, USAID |
| 6. Fulvio Capurso, DFID | 20. Fabrice Leysens, Belgium MFA |
| 7. Enrico Dal Farra, ADA | 21. Anne-Charlotte Malm, Sida |
| 8. Kayte Davidson, DFAT | 22. Serina Ng, DFID |
| 9. Arjan de Haan, IDRC | 23. Virpi Stucki, UNIDO |
| 10. Julie Delforce, DFAT | 24. Loes van Driel, Netherlands MFA |
| 11. Liliana de Sá, SECO | 25. Søren Andreasen, EDFI |
| 12. Laura Desmoulin, Finland MFA | 26. Björn Strüwer, Roots of Impact |
| 13. Linda Gabel, GIZ | 27. Melina Heinrich-Fernandes, DCED Secretariat |
| 14. Neil Gannon, Ireland DFA | |

Introduction and Agency Updates

Gunter Schall and Lars Stein welcomed participants to the meeting, which had two main objectives: Building on the [recent DCED paper](#), explore the topic of Innovative Finance through peer exchange and a 'mini crash course'; and prioritising activities in the PSE WG work plan.

In addition, members had the opportunity to learn more about synergies between PSE (specifically Public Private Development Partnerships) and Market Systems Development in a dedicated 'Member Clinic' on 12 June. At the beginning of the meeting, each participant gave an update on the latest development around PSE in their agency. Highlights are summarised in [Annex 1](#).

'Mini crash course' and peer exchange on Innovative Finance

Björn Strüwer of Roots of Impact ran the 'crash course', which focused on Innovative Finance concepts including blended finance, impact investment, and specific instruments such as on payment for results. He also shared reflections on when to use which instruments the different roles of donors, DFIs and private investors. The **full presentation** (which is not summarised here in detail) will be shared with participants alongside these Minutes.

In an initial round of comments, participants shared a range of **learning needs and interests in Innovative Finance**, including:

- **Project/ partner selection:** Due diligence in assessing blended finance proposals (mentioned three times)
- **Additionality and impact measurement:** Good impact measurement practices/ how to choose between the many different existing impact measurement standards for blended finance (mentioned three times); Assessing financial and development additionality
- **Sharing knowledge among donors:** How to get to a common language around Innovative Finance
- **Institutional implications:**
 - How can donor agencies manage financial returns
 - ODA eligibility of non-grant instruments
 - How can donors make the relationship with private partners work better
- **Effectiveness and success factors of Innovative Finance:**
 - What are the limits of Innovative Finance, what can it realistically achieve
 - Potential and realistic leverage of Innovative Finance in fragile contexts.
 - Scalability of small Innovative Finance programmes
 - When to use which instrument and how to respond more flexibly to specific challenges (rather than with just one tool)

In the first afternoon session, SDC, the Netherlands, DFID and Luxembourg shared information and reflections **how their agencies are involved in, and organised around, Innovative Finance**, followed by group discussion. The second afternoon session focused on the **strategic division of roles and responsibilities between donor agencies and DFIs in Innovative Finance**; it started with an interview of Soren Andreasen, General Manager of EDFI (the association of European DFIs), and Fulvio Capurso of DFID. Key insights from both sessions are summarised below:

There was agreement that the Innovative Finance landscape has fundamentally changed in the past 15 years. DFIs used to be often small, obscure institutions with their own way of working while most donor agencies did not have any PSD strategy. The 15 European DFIs have now increased their portfolio 4 times since 2005 and are re-thinking their role, as donor agencies are asking DFIs to play a greater role in mobilising additional finance as well as impact investments. New players, such as big foundations and large investors, have entered the impact investment market. Many donor agencies are themselves becoming active players in providing Innovative Finance directly to investors and impact enterprises, especially to target higher-risk environments or enterprises that are too small to justify engagement by DFIs or traditional investors.

While most agencies are keen to increase their involvement in Innovative Finance, they are still exploring the best configuration for doing so effectively. **Different organisational models** for donor engagement in Innovative Finance were presented, each of which have advantages and disadvantages:

- **'Outsourcing' Innovative Finance:** SDC aims to spin off a specialised team and vehicle with full ownership by SDC, the 'Swiss Social Finance Facility'. The Facility would provide innovative finance solutions to private investors and enterprises, as well as advisory services to SDC's operational units. More information on the design of the Facility will be shared with members with these Minutes. Other agencies such as the Luxembourg Ministry of Foreign Affairs work largely through existing financial institutions and specialised partner organisations.

This approach has advantages for organisations which have (1) a decentralised structure with different operational units in charge of programme design and (2) a staff rotation system. Both of these factors mean that in-house expertise and experience in Innovative Finance, which covers a broad range of instruments, is relatively limited. In addition, creating an external vehicle addresses the need for an entity that can hold investments beyond the end of projects, which can be problematic for traditional donor programmes. It is also a way to delegate risk, which senior management in donor agencies is often not willing to assume directly.

- **Internalising Innovative Finance:** Global Affairs Canada (GAC) has decided to fully ‘internalise’ Innovative Finance. GAC will be transformed into a ‘Blended Finance Institution’, which will require a significant shift in staff qualifications. This has been addressed by hiring about 40 new staff while downsizing some existing teams. A key reason in favour of this approach is to fully mainstream innovative finance strategies across the aid portfolio and in country investment plans. In parallel, Canada has also set up a new DFI (DFIC); GAC will therefore increasingly coordinate its work with the DFI.

DFID has dedicated teams at headquarters looking after specific Innovative Finance instruments that are managed in-house on the one hand, and collaboration with CDC on the other. DFID also has Private Sector Advisors in each thematic department and country office to provide guidance to staff.

The discussions however also revealed questions regarding the ability of donor agencies to act as direct providers of innovative finance. The scale of financial resources needed and necessary staff time and capacity to manage investments may be beyond the current capabilities of most donor agencies. In addition, slow procurement processes may put off the very private investors that donors wish to mobilise. There was also some debate as to whether policy making institutions are generally better placed to develop strategies and then delegate the implementation to other organisations that operate at arms-length. These seem to have been most successful in mobilising private finance for development.

- **Different hybrid or gradual solutions are possible.** In the Netherlands, Innovative Finance solutions have largely been provided through partner organisations, including FMO, IFIs and the Dutch Enterprise Agency (RVO), which manages programmes such as the Dutch Good Growth Fund. The Ministry of Foreign Affairs is however actively reviewing how Innovative Finance approaches could increasingly be adopted in-house, and how to build staff capacity for that. Following the 2015 Financing for Development Conference, the Ministry created a task force to inform the organisation about the existence and use of Innovative Finance instruments. A policy note was published in 2018, setting out the ambition to step up efforts in this field. The task force was transformed into a programme, which now provides advice on Innovative Finance solutions to all sectoral departments.

In addition, most agencies plan to rely on some degree of external advisory support and training in specific aspects of Innovative Finance, including by the Global Impact Investing Network (GIIN) or the blended finance platform Convergence.

In terms of **specific Innovative Finance strategies and instruments** in use, several donors have completed an initial phase of testing and learning. There is an increased use of new instruments such as development impact bonds. DFID, for example, has completed a number of Development Impact Bond pilots and is now looking to scale them up. In general, DFID deploys a range of different instrument with different return on capital expectations to cater to different development contexts and challenges.

Björn Strüwer highlighted that it will also be critical for **donors and DFIs to increasingly join forces – to go beyond the capabilities of donors, and beyond the mandate of DFIs**. One of many possible solutions is for donors to co-create solutions with DFIs and investors via structured funds. DFIs could also step up efforts to share knowledge on the local business environment from an investor perspective, to help focus donor efforts in facilitating enabling conditions and building the pipeline of investable projects. More generally, Bjoern Struewer concluded that Innovative Finance is a powerful approach for mobilising private investment towards the SDGs but could be implemented in a more effective way. Too often it was solely focused on deploying (the more the better) capital or generating financial leverage in a broadly defined development context as opposed to solving a concrete problem or achieving (and maximizing) specific outcomes.

As such, several participants agreed that donors' ambition to mobilise finance however also comes with **risks**. The inappropriate use of concessional finance risks undermining healthy market development. The rhetoric of 'billions to trillions' may push donors further to set up new blending facilities or maintain them indefinitely, rather than focusing on carefully selected investments with a demonstration effect for market-wide development. The proliferation of new instruments also needs to be managed through better coordination among donors.

Review of the Work Plan and Next Steps

Members agreed that all activities in the work plan continue to be relevant and to submit the work plan to the Annual Meeting in its current form.

There was no agreement yet as to whether the PSE WG should continue to work on Innovative Finance and if so, what to focus on. There was a divide between member representatives that are actively involved in expanding work through Innovative Finance and representatives of agencies where innovative finance is handled in separate departments or institutions. A possible way forward may be for interested members to form a sub-group or task team to address a specific shared question in innovative finance that is not currently addressed by other organisations. Specific possible activities mentioned by participants on sticky notes include the following:

- Possible involvement in ongoing discussions on impact management (e.g. Tri Hita Karana Roadmap)
- Finding a common understanding on principles, standards and modalities
- Developing an online Innovative Finance toolkit with practical examples
- Collaborating with other DCED working groups (e.g. Results Measurement WG) on Innovative Finance

There was no decision yet as to whether the DCED or other fora should work on the first three items, or what the specific focus of the fourth item should be.

Members also commented on existing work plan themes using sticky notes, to provide some nuance or articulate specific interests that could be considered in future work of the group; suggestions by existing thematic areas of the work plan included:

- **Promoting staff skills development and cultural change:**
 - This area of activity continued to be relevant, with participants highlighting the need to 'demonstrate the relevance of PSE to colleagues at HQ and the field'. Some members suggested that the target groups could be even broader, and that there was potential for the PSE WG to 'engage with NGOs on how to enhance PSE'.
 - It was suggested that the planned introductory video on PSE could be accompanied by 'briefing notes' to go into more detail, as well as a 'introduction to PSE terminology (Business 101)'.

- General comments also included that the DCED should continue to ‘document and publish lessons learnt’ and ‘develop a common understanding of PSE tools and principles’
- **Risk management, including minimising negative market distortion:**
 - In line with the work plan, members noted that it would be useful to ‘share practical experience and examples on how to mitigate the risk of negative market distortion’.
 - Others noted that peer ‘exchange on risk management practices’ more generally, or even ‘documenting good practices’ may also be useful.
 - Another suggestion was to develop ‘guidelines on demonstrating additionality’; indeed, the Secretariat work plan already includes plans to explore ways to update the [DCED’s existing additionality guidelines](#)
- **Effective engagement mechanisms (co-creation of solutions with the private sector)**
 - In the context of the existing work item to develop a short document on lessons learnt on co-creating solutions with the private sector, one member suggestion was to focus in particular to on ‘processes and tools relevant to the private sector’.

The Chairs and Secretariat will work together to identify and articulate possible further action items based on these comments, that have broad support among members of the WG and which the DCED is well placed to implement. For example, there was also an appetite for more discussions such as the informal 'Member Clinic' on Wednesday 12th June, where members of the PSE WG discussed synergies with the Market Systems Development Working Group.

Next meeting

The group will get together again by phone or in person in the autumn. Invitations to host the working group, either in the autumn or beginning of the new year are welcome. Such a meeting could include peer exchange on a theme proposed by the hosting agency or the WG members.

Annex 1:

Austria: Focuses on PSE in three areas: Dual vocational training and work-based learning; social entrepreneurship; and co-creating innovative business models (in collaboration with the national innovation support agency).

Belgium: Created new PSD teams in the Ministry of Foreign Affairs as well as implementing agency ENABEL. New legislation on financial instruments in 2018, but not yet operationalised. Launched Business Partnerships Facility and ‘Beyond Chocolate’, a new roundtable of Belgian companies to enhance the sustainability of cocoa production.

BMZ: Tripled the budget for cooperation with the private sector over the last 10 years (2009-2019). The budget for 2019 is 178 Mio. EUR. Apart from this budget, there is further budget available for the Special Initiative “Training and job creation” with 230 Mio EUR for 2019. The main target of this special initiative is to create 100,000 jobs by 2021 together with the private sector. Moreover, the BMZ restructured the DeveloPPP programme to open it up to local businesses, including start-ups (from 2020 onwards). In June 2019, BMZ launched a new Development Investment Fund in collaboration with KfW/DEG, including three components: AfricaConnect, which support European companies to invest in Africa: AfricaGrow, which provides growth capital to African SMES; and Business Network for Africa, which supports German companies in entering African growth markets.

Canada: Launched a new Development Finance Institution; has a special interest in non-grant instruments and gender-lens investing; has launched a collective public-private financing vehicle inviting unsolicited proposals from women's rights organisations; is setting up a new TA facility for pre-feasibility studies to build the pipeline of investable projects; is about to approve its new [Growth that works for Everyone](#) Policy.

DFAT: Released a new [Operational Framework on Private Sector Engagement in Australia's Aid Program](#).

DFID: Ongoing design of a new inclusive and responsible business programme. Works on a business case for outcome-based funding. Increased focus on mobilising finance and impact measurement.

Finland: Continued prioritization of private sector development by the new government. Published a report of its aggregate development results ([summary of the report](#)) in 2018. Information on the methodology can be shared with interested DCED members.

IDRC: Implements and seeks to expand research programme on new forms of finance for development, including on how to measure impact, and on how to integrate gender into Innovative Finance (in collaboration with Intellect and ANDE).

Ireland: Launched new Development Policy in 2019. Increased recognition of the need to enhance work through PSE and Market Systems Development.

JICA: No strategic changes with regard to its approach to PSE and PSD. Focuses on business linkages through FDI, business environment reform, and encouraging Japanese companies to contribute to the SDGs.

Luxembourg: Ongoing evaluation of the new phase of its Business Partnerships Facility. Organises the African Microfinance Week in Ouagadougou in October 2019. Works with the software company SAS on the telemedicine platform SatMed, which is now ready for scaling up.

Netherlands: Will launch a new Innovation Fund in July providing financial support to new investments of Dutch and local companies as well as innovation research. Also has a dedicated fund to support training and access to finance for young African entrepreneurs.

SECO: Ongoing public consultation on the draft of its new 4-year strategy, with two priorities: promoting innovative business models and mobilising capital, in particular through non-grant financing instruments. Finances a new AfDB programme called 'Boost Africa', focused on innovative young entrepreneurs, and climate-resilient urban growth.

Sida: Implements a survey on how the agency (in particular in the field) works with the private sector, including financial sector actors, to be published in August.

USAID: Works on operationalising its new [PSE policy](#), including through a [PSE Evidence & Learning plan](#). Already reviewed best practices in designing MoUs with the private sector. Just launched a new global partnership with PepsiCo to address food and water challenges sustainably by enhancing agricultural productivity.

SDC: Has the portfolio goal of increasing projects engaging the private sector from 3-4% to 6% by 2020. Sets up new Innovative Finance instrument to mobilise private finance. Focuses on professionalising its PSE work through staff capacity-building, including in collaboration with the University of St Gallen. Also works on replicating BMZ's Lab of Tomorrow.

UNIDO: Engages in UN-wide reform programme to harmonise due diligence systems for PSE.