Financing for Development

Workshop Report

June 27, 2016
Ottawa, Canada

Executive Summary

In June 2016, the Devonshire Initiative took up the topic of 'Financing for Development' in order to better understand the practical implications, and opportunities, for its NGO and mining company member organizations. The workshop included an interactive hands-on group exercise, intended to allow participants to collectively explore the implications of the new development finance agenda for their organizations, and to test out early opportunities for cross-sector collaboration.

Generating new financial resources for development, and improving the efficiency of those already available, will be critical in order to begin addressing the expected multi-trillion dollar annual cost to implement the Sustainable Development Goals. Discussions around international cooperation have moved beyond the focus on growing Official Development Assistance (ODA) toward greater interest in the catalytic role that ODA could play in mobilizing resources from other sources, both public and private. This theme has broadly been referred to as 'blended finance,' and has been of growing interest to both international development actors as well as private business and investors over the last number of years.

In its simplest form, blended finance is understood as the strategic use of public-sector development finance, together with philanthropic funds, to mobilize private capital flows to emerging markets, with a focus on financing development projects and/or private sector activities that have substantial development impacts. Much of the blended and development finance activity today happens through specialized development finance institutions (DFIs).

Irrespective the absence of a Canadian DFI, and the feeling by some that the Canadian development landscape was not as aligned to the 'blended finance' environment as with some of our peer countries, nevertheless a number of examples stood out of Canadian development institutions with a long track-record of engaging in this area. Indeed, the experience of some Canadian development actors and intermediaries speaks to an important role that NGOs can play in the development finance landscape: strengthening the demand side for blended finance. As well, many development NGOs have extensive experience operating in fragile contexts, locations which have traditionally proven challenging to attract or retain the interest of more risk-averse international investors.

The ‘blended finance’ agenda has received relatively low levels of attention from business in Canada; although the mining sector is no stranger to the development finance market. Many mining companies – of all sizes – have received financing at some point from the International Finance Corporation, the largest DFI to the extractive sector. An even larger number of companies are familiar with, and align their operations and policies to, the IFC’s Performance Standards. However, along with the opportunities, workshop participants noted a number of potential challenges faced by further engaging the private sector – including Canadian mining companies – in the evolving development finance agenda.

One point that recurred frequently throughout discussion was on the opportunity not only for scale, but also for *innovation* and for tackling some of the most *‘difficult’* development issues, that blended finance presents. As one participant noted, “blended finance can include not only many investors pooling money to different projects, but also different investors supporting different and specific parts of a project or initiative.” In this regard, blended finance may allow for multiple investors and actors to collaborate, from a variety of vantage points and interests, on common challenges.

Introduction

Since 2002, a series of successive international conferences on financing for sustainable development have taken place: in Monterey, Mexico (2002), Doha (2008), and most recently, in Addis Ababa (July, 2015). The Monterey Consensus and Doha Declaration established and advanced a spirit of partnership and a shared commitment to ensuring adequate resources were made available at the national and international levels in order to achieve the social, economic, and environmental objectives of the global development agenda.

As an immediate precursor to the unveiling of the Sustainable Development Goals in September 2015, the Addis Ababa conference (formally, the Third International Conference on Financing for Development) brought focused attention on, broadly, three themes:

1. Scaling up domestic public resources;
2. Role of domestic and international private business and finance; and,
3. Strengthening international cooperation and improving international policies.

Generating new financial resources for development, and improving the efficiency of those already available, will be critical in order to begin addressing the expected multi-trillion dollar annual cost to implement the SDGs. The second theme – the role of business and finance – is an important evolution in the development finance landscape, as it reflects significantly greater, and more complex, interest in addressing issues such access to finance for micro- and small- enterprise, improving domestic capital markets, growing foreign direct investment in emerging economies, addressing shortfalls in infrastructure finance, and promoting investment in clean technologies and renewable energies.

Likewise, discussions around international cooperation moved beyond the focus on growing Official Development Assistance (ODA), which was central to the Monterey and Doha conferences, toward greater interest in the catalytic role that ODA could play in mobilizing resources from other sources, both public and private. This theme has broadly been referred to as ‘blended finance,’ and has been of growing interest to both international development actors as well as private business and investors over the last number of years. The ReDesigning Development Finance Initiative, hosted by the World Economic Forum (WEF) and chaired until 2015 by Canada’s Minister of International Development, has been at the centre of that discussion, and a September 2015 paper by

WEF, the OECD, and Deloitte, reflect the culminating point of thinking around the blended finance agenda.

In June 2016, the Devonshire Initiative took up the topic of 'Financing for Development' in order to better understand the practical implications, and opportunities, for its NGO and mining company member organizations. In particular, a workshop organized by the DI responded to four questions that its members had expressed common interest in:

1. What are the mechanisms for blended finance? What is the Development Finance Institution (DFI)? Why do we have these now and what are they for?
2. What is the role for NGO actors with these 'new' mechanisms?
3. What's the relevancy of these instruments for the mining sector?
4. Are these instruments something that offer partnership / collaborative opportunities between mining companies and NGOs?

The workshop was organized around a series of keynote and plenary panel discussions, featuring experts drawn from the public, private, and non-profit sectors, all of who have been engaging with the Development and Blended Finance agendas. As well, the workshop included an interactive hands-on group exercise, intended to allow participants to collectively explore the implications of the new development finance agenda for their organizations, and to test out early opportunities for cross-sector collaboration.

What is blended finance?

In its simplest form, blended finance is understood as the strategic use of public-sector development finance, together with philanthropic funds, to mobilize private capital flows to emerging markets, with a focus on financing development projects and/or private sector activities that have substantial development impacts. Blended finance reflects a shift in the risk-return profile traditionally applied by development institutions, as well as enhancing opportunities for knowledge sharing, building local capacity, and advancing policy and regulatory reforms. By bringing public-sector development finance to the table, together with philanthropic funds, there can be a catalytic effect on private finance, as the former serve to increase capital leverage, improve the risk-adjusted returns that are central to most private investors decision-making, and also offer the promise of scaled-up development impacts owing to the volume of total finance being made available.

Alongside a range of financial instruments - grants, junior equity, flexible debt, market rate debt or equity, and guarantees – blended finance also involves a range of support mechanisms, including technical assistance, risk underwriting, and market incentives.

"DFIs are confronted with a volume of evidence that they do not invest in the least developed, most in-need countries. But, amid this scrutiny, should this be their role?"

Much of the blended and development finance activity today happens through specialized development finance institutions (DFIs). While Canada does not currently have its own DFI, a number of other OECD countries do; for example, the US (OPIC), Netherlands (FMO), Germany (KFW), South Africa (DBSA), and EU/EC (EDFI). Most DFIs are majority or wholly owned by their national governments, and source their capital from national or international development funds or government guarantees, with the objective of catalyzing additional funding from the private sector. Traditionally, DFIs have invested extensively in the financial, agriculture, industrial and infrastructure, and energy sectors.

Despite a growing number of institutions deploying ever-larger sums of capital through blended finance instruments, a number of challenges continue to persist in the development finance field:

- Low financial returns relative to the level of risk;
- Low- or inefficient capital markets;
- Knowledge and capability gaps;
- Weak incentives for either traditional development actors to move into blended finance, or for traditional investors to take on development investments;
- Challenging overall local and global investment climates;
- Concern about the accountability and transparency of development finance institutions;
- Challenge of measure results and demonstrating additionality (the increased development or financial results from this modality, compared to alternates or status quo); and,
- Tendency for many of the most substantial blended finance 'deals' to focus on middle-income countries.

"How can blended finance – involving global actors making decisions internationally – match up with local priorities?"

In Canada, interest in the development finance agenda has been growing quickly; as noted, the Canadian Minister for International Development sat as chair of the ReDesigning Development Finance initiative at WEF up to 2015. For Canada's international development and humanitarian assistance programs administered by Global Affairs Canada (GAC), the issues defining the development finance field today include:

- How can Canada engage philanthropic and private finance for emerging and growing economies?
- How can Canada demonstrate leadership and thing systematically in how we join together different financing instruments?
- What 'tools' and 'instruments' are needed to properly and adequately engage in blended finance?

Two standout examples of Canadian participation in blended finance include the Global Financing Facility (GFF) and Grand Challenges Canada (GCC). The GFF brings together contributions from various national donors and foundations, aligned around targets relating to infant and child mortality in 62 high burden countries. A centrepiece of the GFF is the attention on developing innovative financing opportunities, along with systems for global and national coordination, in order to tackle MNCH challenges at scale. An example of this innovative finance at GFF is an interim financing system managed by UNICEF, which provides responsive funding to epidemics, with repayment terms flexible to the realities of national budget cycles.

"Have we come to a consensus on how to measure development results from blended finance initiatives?"

Meanwhile, GCC is a Canadian NFP funded predominantly through Global Affairs Canada (along with support from various foundations). GCC focuses on supporting promising innovations with the potential for unique or scalable development results. GCC employs a range of financing options, along with careful attention to the impact and sustainability of the innovations it funds, in order to achieve its mandate of creating 'bold ideas with big impact in global health.' An example of such innovation is GCC's support to piloting and proving the enterprise *Legworks*, which has opened up the market to low-cost prosthetics, making available these life-changing medical solutions to a large segment of the global population who traditionally could not afford such treatments.

In blended finance, what is the role for (Canadian) NGOs?

"In blended finance, we often forget about host government – how can we build ownership and capacity locally for setting blended finance priorities and opportunities?"

Throughout the workshop, a substantial portion of the discussion was directed to examining the role that social sector organizations (e.g. NGOs) and intermediaries may offer in the evolving development finance field. Despite the absence of a Canadian DFI, and the feeling by some that the Canadian development landscape was not as aligned to the 'blended finance' environment as with some of our peer countries, nevertheless a number of examples stood out of Canadian development institutions with a long track-record of engaging in this area. MEDA, for example, has over 60 years' experience working on issues of private sector development and investment in local communities within emerging markets. Alongside significant support from the Government of Canada, MEDA has worked extensively with other bilateral donors (e.g. USAID), foundations, and multilateral institutions. Similarly, Purpose Capital is a unique Canadian institution – an impact investment advisory firm - that brings together practitioners with decades of experience in the social impact investment field, to both engage with investors interested in impact investing as well as supporting NGOs and entrepreneurs to evolve their organizational models in light of the changing investment climate.

The experience of some Canadian development actors and intermediaries speaks to an important role that NGOs can play in the development finance landscape: strengthening the demand side for blended finance. To date, much of the activity in the development finance field is characterized as being 'supply driven,' with a noted weakness in terms of viable investment opportunities – with the opportunity for substantial development impact – being identified and aligned with existing development finance investment structures. Furthermore, with growing awareness of the difficulties faced by investors seeking to engage in supporting development results by investing in emerging markets, there is an acknowledgement of the need for greater capacity building and support to local businesses, entrepreneurs, and local intermediaries. Development NGOs, particularly those with a long history of engaging in social and economic development at the grassroots level, are particularly well suited to identifying and supporting these capacity building requirements.

As well, many development NGOs have extensive experience operating in fragile contexts, locations which have traditionally proven challenging to attract or retain the interest of more risk-averse international investors. Indeed, it was noted during the workshop that many DFIs have largely avoided investing or operating in fragile states; yet where investments have been made in these more challenging circumstances, the results in many cases have been positive and very significant. While traditional and development investors often have at best a limited awareness of the realities, opportunities, and challenges that may exist for making blended finance investments in these environments, NGOs that have been operating within a humanitarian context over a long period of time will have developed a comprehensive understanding of the needs and potential of local businesses and entrepreneurs. In these environments, operating at smaller scales and with greater attention to testable and scalable 'pilot' investments, will be important to ensuring the flexibility and responsiveness needed in fragile contexts.

“For NGOs to be comfortable at the table with DFIs, we need to balance the tension between transparency and commercial confidentiality”

In recent years there has been growing attention on the importance of transparency and accountability from the landscape of development finance institutions, as well as more widely throughout the field of blended finance. Many DFIs have responded by issuing increasingly sophisticated annual reports, by making their investment decision-making processes more widely understood, and/or by undertaking efforts to strengthen the alignment between their institutional priorities and those of the wider development community (e.g. vis-à-vis the SDGs). At the same time, there is an important and increasingly accepted role for development NGOs and other intermediaries in promoting, ensuring, and strengthening the transparency, accountability, and align to local priorities, of the development finance movement. Most NGOs have a long history of engaging and empowering local communities and stakeholders in the needs identification, prioritization, and selection process, and the NGO community widely understands the imperative of transparency, accountability, and other key humanitarian principles (e.g. as well, independence). The development community has in recent years given greater attention to the need for results-based approaches to planning, managing, and measuring investments and programs. NGOs have been at the forefront of much of this, having applied, first-hand experience with measuring the impact of social and economic development initiatives at the community, sub-national, and national levels. This attention on, and competence around, results measurement, is an important contribution to be made by the NGO community to the development finance field.

“NGOs have a crucial role representing the voiceless and marginalized”

Throughout the workshop, participants frequently made note of the capacities, capabilities, and resources that development NGOs will need in order to more fully engage in the development finance environment. These most notably include:

- Improving capabilities and willingness to undertake more cross-sector collaboration, including working with businesses and investors to align opportunities and objectives;
- Additional use of testable and scalable ‘pilots’, with above-average resources dedicated to monitoring, evaluating, and learning/knowledge creation from these pilots; and,
- Greater engagement with new, innovative and disruptive technologies, such as social media, and more fully integrating these technologies into the centre of programming.

Does the ‘new’ development finance agenda have implications for the private sector?

“When we talk about the private sector, are we addressing the rise of corporate foundations?”

Despite being largely about attracting finance and investment to the development sector, the ‘blended finance’ agenda has received relatively low levels of attention from business in Canada. Commenting on this, one panelist noted that there needs to be an additional reframing of the sustainable development agenda, further away from the ‘corporate social responsibility’ language of the 1990s and 2000s. Instead, emerging markets – and the wide range of as-yet unmet social, economic, and environmental issues – should present themselves to the private sector as an opportunity for new activity. In this way, as the panelist noted, the Sustainable Development Goals act almost in the same way as a market research report, directing business toward the list of issues and opportunities, while also giving some indication of the scale and scope of the challenges to be met.

Such a commercial lens on the topics of sustainable development will resonate with anyone familiar with the Shared Value paradigm, which has received growing attention and interest since it was first described in a 2011 Harvard Business Review publication. In practical terms, some businesses in Canada are increasingly taking such a sophisticated and nuanced perspective; Développement international Desjardins (DID) is one such example. DID seeks to improve access to finance for individuals living in developing countries, and the business approaches this issue as a blend of being a social imperative and a market opportunity. In its work, DID already engaged with a number of DFIs directly, as well as co-investing with other DFIs.

What then of the mining sector? In Canada, few other industries have been as significantly engaged in the international development space as the mining sector; recent years have seen many leading examples from mining companies in a shift away from small and ad-hoc community investment projects, toward increasingly complex and sophisticated involvement in supporting local, regional and national development outcomes. Despite this, the mining industry at first glance appears an unlikely companion to the blended finance market, as was initially noted by a number of participants when asked to express their interest and objectives for the workshop.

In fact, the mining sector is no stranger to the development finance market. Many mining companies – of all sizes – have received financing at some point from the International Finance Corporation, the largest DFI to the extractive sector. An even larger number of companies are familiar with, and align their operations and policies to, the IFC's Performance Standards. Here in Canada, the Lundin Foundation (a part of the larger conglomerate of Lundin companies heavily invested in mining) has been known as one of the most innovative financiers of development innovations, often in blended finance arrangements with other public and private investors.

"We are observing CSR 2.0: mining companies going beyond local philanthropy toward programs more strategically connected to business and regional development"

Opportunities for mining companies to further engage with the evolving development finance landscape continue to emerge, and indeed are being explored, as was noted in the remarks of a number of participants at the workshop. Given current capital markets conditions for the mining sector, many companies are looking to non-traditional investors, including greater interest in the development finance community, as ways to raising capital for mining projects – many of which hold the potential to deliver significant economic benefit to host communities. In particular, for junior and mid-sized companies, there is a noted trend toward greater attention on the social impacts of their businesses, in order to potentially better engagement with development finance institutions and investors.

Certain stages in the lifecycle of mining operations are also receiving additional attention and interest from both companies as well as development institutions. In particular, a number of participants spoke about the potential to consider blended finance opportunities during mine reclamation, at a point when land, infrastructure, and, in some cases, workforce of the mine, are all being transitioned to post-mining activities. A challenge here will be the ability to align public and private investor interest with the early planning and decision-making that typically goes into mine closure planning. Another area of early interest raised during the workshop was around employing blended finance opportunities to address key social and environmental issues around artisanal mining.

Perhaps one of the most promising ways in which the mining sector and blended finance may come together is through the growing commitment by mining companies to increase local procurement. This interest in purchasing, as well as local content more broadly (which also includes employment considerations), represents one of the most substantial areas of social and economic contribution that mining can make to local communities and to host countries. Scaling local procurement initiatives requires not only the right policies and practices, but also an appropriate enabling environment including adequate local suppliers to participate; access to finance and capital are frequently cited as one of the largest impediments to making local procurement work at scale.

Finally, in terms of opportunities, a number of participants reiterated Canada's unique role in the world vis-à-vis our mining industry, and the extensive attention that has been given to promoting and ensuring responsible conduct by Canadian mining companies abroad. From this, it was questioned whether it would make sense for any new Canadian DFI to have an explicit focus, at least in part, on the mining sector internationally.

Along with the opportunities, workshop participants noted a number of potential challenges faced by further engaging the private sector – including Canadian mining companies – in the evolving development finance agenda. These concerns included:

- In general, a misalignment of timelines: Business, and investors frequently look for results that are demonstrable on quarterly or annual timelines. However, development finance initiatives need to take a much longer time horizon, often over a number of years. This requires patience (including patient capital).
- Likewise, financing entrepreneurs, businesses, and initiatives in emerging markets requires a level of persistence and a willingness to accept risk (including sometimes risk that is above market average). This is particularly noted in the less developed, or more fragile, states, which many investors and businesses tend to avoid.
- Realizing success in development finance requires as much attention on process as on outputs or outcomes. The nature and structure of the financial arrangements, the incentives and risk guarantees, and even the fundamental objectives of the deal, are all key considerations to be addressed through attention to process considerations.
- Likewise, however, outputs and outcomes are critical. For many businesses and investors, the attention to both social / development results as well as financial performance is a new domain and can be challenging.

Conclusion: What are the opportunities (and challenges) of cross-sector collaboration in the blended finance field?

A final area of focus throughout the Devonshire Initiative's workshop was on the opportunities and challenges for cross-sector collaboration, along with the potential implications this may have for Canada's growing interest in the development / blended finance agenda.

One point that recurred frequently throughout discussion was on the opportunity not only for scale, but also for *innovation* and for tackling some of the most *'difficult'* development issues, that blended finance presents. As one participant noted, "blended finance can include not only many investors pooling money to different projects, but also different investors supporting different and specific parts of a project or initiative." In this regard, blended finance may allow for multiple investors and actors to collaborate, from a variety of vantage points and interests, on common challenges.

“The next evolution in development finance will be targeting complex and wicked problems, such as climate change”

In Canada, there will be a number of imperatives to be addressed as we move forward on further engaging with the development finance agenda, and particularly with respect to the creation of any Canadian development finance institution. A few frequently noted considerations included:

- As a new arrival to a well-established field, a Canadian DFI will have the opportunity – and increased imperative – to “really drill down to the poverty reduction issues.” Many existing DFIs have been scrutinized for what is perceived to be a relatively small scale of poverty reduction / development results they create, compared to the sums they invest and expend. For the Canadian DFI, addressing this poverty reduction focus will include not only through the strategy, priority, processes, and results of the DFI, but also in the way that issues of reporting, transparency, and accountability are incorporated.

- Similar to the above, it will be important for the Canadian DFI to consider where best to focus its efforts and attention. One recent study of DFIs has found that many (including Canada’s current overseas investments) tend to focus on high- and middle- income countries. One participant noted that, from Canada “there is almost no investment in low income countries.” Similarly, with most DFIs investing middle income countries, the relative value-add of each new investment is potentially diminished, as DFIs begin to ‘compete’ with one another; important for Canada then will be to address whether, and how, we want to prioritize the focus on lower-income / more emergent economies.

- From the perspective of collaborative opportunities, it has been noted that many DFIs are encumbered with long approval timelines, lengthy processes for executing deals, and are dominated by large legal departments. Furthermore, some DFIs have been criticized for being unpredictable, changing priorities or policies frequently or unpredictably. In order to maximize the participation of Canadian business, investors, and NGOs, in collaboration with any new DFI, it will be important to address these concerns.

“Mining is geographically determined, and happens mostly at the local level – can blended finance keep up? Should we envision a Canadian DFI with a speciality in mining?”

Useful Resources

Workshop Presentations

Available at https://wiggio.com/?#tpl=folder_159917

Reports, Articles and Presentations

Commons Consultants. The Pitfalls of Innovative Private Sector Financing. Norfund, Oslo.
2015. http://www.norfund.no/getfile.php/137139/Documents/Homepage/Reports%20and%20presentations/External%20reports_flyers/Pitfalls%20of%20Innovative%20Private%20Sector%20Financing_Commons%20Consultants_final_150826.pdf

Eurodad A dangerous blend? The EU's 'agenda to blend' public development finance with private finance. European Network on Debt and Development, Brussels, 2013. http://eurodad.org/files/pdf/527b70ce2ab2d.pdf

KfW. Evaluation Criteria. Undated. https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Evaluations/Evaluation-criteria/

Littlefield, E., M. Strauss and Kimball. Creating a Future Impact Investing Strategy, *Stanford Social Innovation Review*, January 20, 2014 (Case of the Overseas Private Investment Corporation). http://ssir.org/articles/entry/creating_a_future_impact_investing_strategy

Norad. Evaluation of the Norwegian Investment Fund for Developing Countries, Norfund.

Norad Evaluation Department, Oslo. Report 1,
2015. http://www.norfund.no/getfile.php/136301/Documents/Homepage/Reports%20and%20presentations/Evaluation%20of%20the%20Norwegian%20Investment%20Fund%20for%20Developing%20Countries.pdf

Open Capital Advisors and the Global Impact Investing Network. The Landscape for Impact Investing in East Africa. OCA, GIIN and UKaid, New York and Nairobi, 2015. https://thegiin.org/knowledge/publication/the-landscape-for-impact-investing-in-eastafrica

Shamash, J. The Impact Programme Theory of Change (DFID/CDC), DFID, London, 2015. https://prezi.com/xeyg0u7hbcf4/the-dfid-impact-programme-theory-of-change/

UK Aid Network (UKAN). Leveraging Aid: A literature review on the additionality of using ODA to leverage private investments. UK Aid Network, London, 2015. http://www.ukan.org.uk/wordpress/wp-content/uploads/2015/03/UKAN-Leveraging-Aid-Literature-Review-03.15.pdf

Websites

Development Bank of Southern Africa www.dbsa.org

European Development Finance Institutions http://www.edfi.eu/

International Finance Corporation http://www.ifc.org/

Overseas Private Investment Corporation www.opic.gov

The Devonshire Initiative

The Devonshire Initiative (http://devonshireinitiative.org) is a forum for leading international development NGOs and mining companies to come together in response to the emerging social agenda surrounding mining and community development issues. We believe that the Canadian mining and NGO presence in emerging markets can be a force for positive change. The group came into being on March 5, 2007 at an initial workshop conducted in Toronto on cross-sector partnerships, which featured a case study of the Kimberley Process on Conflict Diamonds.

The ultimate objective of the Devonshire Initiative (DI) is improved social and community development outcomes wherever Canadian mining companies operate overseas. One avenue to that goal is through deeper collaboration between industry and on-the-ground development NGOs, leveraging the many decades of experience these organizations have in developing countries. However, these sectors have traditionally operated independently, both at head office and in-country, and there are very few points of contact currently in existence between them. The result is that companies are unable to harness the expertise of NGOs in development, while NGOs miss the opportunity to steer private sector development in a more socially sensitive and equitable direction. Before the DI, there was no iterative, long-term venue in Canada to build relationships, trust and partnerships between the private sector and development NGOs.

CONFIDENTIALITY

The workshop referenced in this report was conducted under the Chatham House Rule. Accordingly, this document in its entirety and any un-cited quotations, facts, or other sources, is to be considered privileged material. This document shall not be distributed in part or in whole to any person or organization not affiliated with the Devonshire Initiative or not present at the workshop without the express written consent of the Devonshire Initiative.

For additional information on the Chatham House Rule,
please refer to http://www.chathamhouse.org.uk/about/chathamhouserule/