Highlights

Side Event of the 2nd G20 Development Working Group Meeting

"Scale-up Blended Finance and Private Finance to Reach the Last Mile"

The Side Event of the 2nd G20 Development Working Group Meeting on "*Scale-up Blended Finance and Private Finance to Reach the Last Mile*" was held on May 23rd in Yogyakarta in a hybrid format. Moderated by Yanuar Nugroho, the Head of Expert Team in the Indonesian SDGs National Secretariat, the seminar provided country experiences and best practices from Indonesia (Faaris Pranawa, Director, PT Sarana Multi Infrastruktur) and Nigeria (Dr. Sarah Alade, Special Advisor to the President on Finance and Economy); as well as insights from experts from International Organizations/Partnerships, such as Haje Schutte (Senior Counselor & Head of Financing Sustainable Division, OECD), Tantowi Yahya (President of United in Diversity), Tim Strawson (SDG Finance Specialist, Finance Sector Hub, UNDP), Tristan Ace (Chief Product Officer, Asian Venture Philanthropy Network), and Syed Husain Quadri (Country Strategy and Market Integration Manager, IsDB).

The side event was conducted to a) Bring together relevant practitioners of Blended Finance–from developing countries' governments, International Organisations, MDBs, and private sectors–to share their insight, best practices, and expertise on blended finance policy and implementation, b) Gain deeper understanding on how blended finance can become a strategic approach for developing countries to mobilize more private investments for SDGs achievement; and c) Gain input and policy recommendations for the development of *G20 Principles to Scale-up Blended Finance in Developing Countries, LDCs, and SIDS*.

This document aims to highlight key takeaways of the side event based on the understanding of the Indonesian G20 Presidency.

KEY TAKEAWAYS

Keynote Speech

Ibu Vivi Yulaswati, the Head of Indonesian SDGs National Secretariat and the Senior Advisor to the Minister of National Development Planning for Social Affairs and Poverty Reduction, outlined two main challenges for blended finance: (1) the absence of feasible projects or programs (SDGs projects are often small) that are ready for financing; and (2) the lack of blended finance platforms or facilities that can capture, facilitate, or intermediate sources of funding from private sectors or others. Ibu Vivi further stressed that our next step should be to foster an enabling environment to attract private investment, focus on projects that appeal to investors, and mobilize more domestic investors and philanthropies.

Finding the nexus on the role and mandate between governments, local intermediaries, MDBs, and private sectors to collectively resolve SDG financing gap through a blended finance approach:

In reference to three key pillars in support of the Addis Ababa Action Agenda (AAAA), blended finance can be an approach to mobilize institutional, public, and private capital to development projects where needs are the greatest; align finance to the SDGs and; achieve SDG Impact at country-level, through country-led national finance plans.

A proper risk allocation is key to allow parties to join the project. In this sense, the role of financial Institutions is critical. Local intermediaries (National Development Banks and Development Financial Institutions/DFIs) are important to address market failure in development financing. DFIs tend to take bigger risks, undertake development functions and are informed of project development facilities. Particularly in developing countries to unlock climate financing, there are four key tools in place: 1) Upstream / policy advisory; 2) Technical assistance; 3) Financial instruments; 4) Syndication platforms.

An integrated and robust Medium-Term National Development Plan is crucial to bring together all levels of governments, private sectors, and development partners to finance development projects. In Nigeria, the National Development Plan estimated an investment need of NGN 348.1 billion which 14.3% of total investment will come from government expenditure and 85.7% will come from private sectors.

Through Integrated National Financing Framework (INFF), governments can identify the financing gap, development priorities, and types of investment needs in their country, which will help them develop a financing strategy and plan reform for SDG-aligned financing. So far, more than 80 countries are developing INFFs. Additionally, **through SDG Investment Opportunity Areas** more than 40 countries have identified SDGs related projects which have viability to receive funding. These projects have been aligned with the national development projects, with a vision to appeal to the investors. A third of the identified investment areas will require some form of blended and public-private instruments.

Finding the nexus requires reimagining the financial architecture that is currently driven by the global North. Therefore we need to enhance financing access to the communities in developing countries, as well as equipping them with sufficient knowledge.

Having a dedicated institution to align the available financing with SDG-linked projects in developing countries, LDCs, and SIDS could be a solution. The Global Blended Finance Alliance (BFA) aims to support the development of SDG-linked investment that will not only result in financial return but also in social and environmental impact. The BFA has six priority function areas, namely: (1) Policy; (2) Human Development; (3) Tech & Data; (4)

Finance and Funds; (5) Regional and Emerging Market; (6) Enterprise. The first three functions will involve capacity buildings, while the third to sixth function will be run in a commercial approach.

Best practices of blended finance at the policy and the field level:

In reference to the existing blended finance principles, experience in the field tells us that there are three dimensional gaps: 1) missing frameworks for developing countries, LDCs, and SIDS; 2) scaling blended finance in the social sector; 3) implementation and capacity in particular in LDCs and SIDS.

Fostering better coordination among stakeholders shall go hand in hand in policy and operational level. For instance, Indonesia has an Infrastructure Guarantee Fund in the policy level which serves as a guiding policy to provide guarantee and assist project preparation. PT Sarana Multi Infrastructure (PT SMI) from Indonesia brought forward the example of SDG Indonesia One, whereby it undertakes 4 main services: (1) SDG Development Facilities, (2) SDG De-risk Facilities, (3) SDG Financing Facilities, (4) SDG Equity Fund.

To build investors' confidence, Nigeria's Government has partnered with several Development Financial Institutions, Central Banks, and Rating Agencies to provide guarantees, reduce transaction cost and derisk perception to attract private investors. In Nigeria, there are The Bank of Industry (BOI) and Development Bank of Nigeria (DBN) which provide blended financing schemes in the form of Senior Eurobond and partial credit guarantees that benefitted MSMEs especially youth and women-led MSMEs.

To realize its commitment towards sustainability and SDGs, the IsDB applies a Sustainability Finance Framework (SFF) which aims to define the use of proceeds, project evaluation and selection method, management of proceeds, and impact reporting to facilitate transparency and accountability. These mechanisms will allow developing countries to attract more private and sustainable finances, for example through Green and Sustainability Sukuk.

Ideas on G20 Actions - Actionable policy recommendations and international cooperations:

Target blended finance to local contexts and employ blended finance to catalyze finance in the last mile
Several speakers highlighted that understanding the local domestic market is a key in scaling up blended finance and it is considered as a public policy job for governments to set the direction of financing to identify target sectors and priorities, and to engage local actors. From Indonesia's experience, <u>credible national implementing agencies</u> are required to gain international trust while connecting to local needs and context. In Nigeria, <u>stakeholder engagement in formulating and implementing the National Development Plan</u> is a way to link investment to local needs. The engagement involves consultation to every level of governments (from local to top-tier), community of investors, and Development Finance Institutions.

Support domestic financial systems and market development
From the experience in Nigeria, putting in a necessary reform to unlock the domestic financial market including by unlocking pension funds are beneficial to attract private investors from outside the country. The support from donors, multilateral agencies, and development partners in understanding the environment in developing countries and inviting private investors into the countries are also crucial. Furthermore, international rating agencies need to acquire knowledge from local rating agencies to understand local market, risk and perception. From Indonesia's experience, unlocking the domestic financial market requires a national credible institution for instance in the form of AAA rated company to increase credit quality of a bond issuer. In this case, PT SMI provides guarantee through credit enhancement facilities to make bond issuers in sustainability sectors obtain better ratings so they can access financing from the local capital market.

Additionally, capacity building is an important element, especially to enable government and local actors in structuring blended finance and its risk-sharing capacity. Capacity building could be channeled through existing programs in MDBs, DFI, and platforms like INFF Facility, and by leveraging on regional blocks. Good blended finance practices over time lessen the risk taken by the government and increase the risk taken by private sectors, so it will result in a commercial sustainability. From Nigeria's experience, when the ability of governments to guarantee is not sufficient, MDBs could come to the rescue by providing measures of guarantees (partial guarantee) for the big ticket items. Furthermore, there are many templates provided by MDBs on how to manage risk allocation and manage blended finance projects.

Aim for scale through systemic and transformational approaches
Reaching the scale in blended finance will require development cooperation actors to focus on scaling up existing practices rather than creating new ones. This also demands collaboration between MDBs, National Development Bank and commercial banks to the extent necessary. From Indonesia's experience, systemic approach comes when there is a combination of project preparation facility (for example through grant) and financing facility to link the project to finance. In Indonesia, project preparation facilities are relevant to help projects meet the investors' requirements and become bankable. Furthermore, the right level of coordination, informed competition, and trust among stakeholders in blended finance is needed.

Improve impact management and measurement, and promote transparency
As a growing number of countries are interested in developing impact measurement. It's quite important to stress on intentional management of impact. When private capital comes in with the support of public funds, it's useful as well to build their capacity. With regard to the reporting, it is crucial to describe the methodology of reporting mechanism including target items and estimation prior to the blended financing. Furthermore, from PT SMI's

experience, having standardized measurement and reporting tools could increase credibility and promote transparency. There are good examples from PT SMI's Green Bond and IsDB's Green and Sustainability Sukuk on transparent impact reports.