

## **Act Church of Sweden input OECD Public Consultation on the Guidance Documents to the Blended Finance Principle no 3**

**June 30, 2020**

## Introductory remarks

The draft Guidance Notes and Detailed Background Guidances provide a lot of good advice and analysis on the design and implementation of blended finance. We would, however, like to see a broader introduction to the guidance notes, an introduction which situates blended finance within the toolbox of donors. In other words, whereas the Principles and Guidance have a lot to say on *how* blended finance should be designed and implemented, they give less guidance on a preceding question: whether blended finance is an appropriate instrument or not in different contexts. The Guidance Notes do include, though, several elements of guidance to such a decision-making process. We suggest that these elements are consolidated into an initial assessment of whether a blended finance instrument is appropriate or not, building on the following key questions:

### ***1. Should the desired investment be public or private?***

Often, investments in public goods or goods and services with positive externalities (such as health and education) are public investments. The choice between private and public finance, or a combination of the two, is a political one that should be made at national level. It is a political choice, but also intimately linked to international norms such as human rights and the Agenda 2030 commitments to decrease inequality and leave no one behind (LNOB). It will vary between countries and over time. Importantly, providers of development finance should not push for privatisation and blended finance. If developing countries decide to make public investments, development agencies shall strive to support their efforts in other ways than through blended finance (e.g. through ODA grants or technical assistance to increase domestic resource mobilization).

Guidance on whether public investment is appropriate/necessary or not could build on and expand the guidance of principle 1x on development rational and theory of change, 2.C on market failures, **3A.3. on understanding local circumstances**

This guidance should take into account the considerations above on decisions that should be taken at national level, on human rights, and on Agenda 2030/LNOB.

*For a further discussion on situations where blended finance is the appropriate choice, see the following blog and Discussion paper from Act Church of Sweden:*

[https://www.svenskakyrkan.se/filer/8333\\_SK19489\\_blended\\_finance\\_final.pdf](https://www.svenskakyrkan.se/filer/8333_SK19489_blended_finance_final.pdf)  
<https://blogg.svenskakyrkan.se/opinion/blended-finance-finding-its-place/>

### ***2. If the private option is chosen: Is blended finance, or broader measures to strengthen the local investment climate, the best tool in the specific context?***

As noted in the guidance note to principle 2C, “blended finance cannot compensate for missing underlying market fundamentals, which need to be in place to achieve long-term commercial sustainability” (para 25). Guidance on whether blended finance is appropriate or not could build on 2D on commercial sustainability, 3A on understanding of local circumstances, 3C on the use of Blended Finance alongside efforts to promote a sound enabling environment, and 4B on allocation of risks, and conclusions on principle 4.

## General comment

All aspects of Principle 3 are extremely important and critical for positive development impact af BF. However, we have a question around the format: This paper is analytical and descriptive, rather than prescriptive – in contrast: the guideline documents on Principles 1 and 5 include clear policy recommendations.

## References to the Global Partnership for development effectiveness

In **Box 2**, we would like to see references to GPDE principles and the Kampala principles.

For example:

*Individual projects should be based on agreed objectives that are linked to national development priorities and the 2030 Agenda. Partners should align their efforts with the priorities identified in the plans and policies of national and sub-national governments, as well as through inclusive consultation.* (Kampala Principles on Effective Private Sector Engagement in Development Co-Operation, 1c)

Partnerships for development can only succeed if they are led by developing countries, implementing approaches that are tailored to country-specific situations and needs. (Country ownership, Principles for effective development co-operation)

## Stakeholder consultation (or rather stakeholder *dialogue*)

Again, extremely important. It should be stressed that consultations need to be *meaningful*, which includes factors as inclusiveness and that consultations have to be carried out so early in the process that the views of people can influence strategic decisions. (Ref to **para 16**: the reference to timing could be strengthened, as is the point of inclusiveness – for instance, making sure that women are included and in a position to speak freely.)

The dialogues will have different character depending on sector and type of project, and the extent to which local communities will be impacted. Infrastructure and other projects that involve relocation and resettlement of people are always difficult and involve high risks – there has to be preparedness for complaints and remedy mechanisms if things go wrong, as is sometimes the case.

## Need for development of best practice

OECD could play a role in development of methodologies and best practice for consultation and dialogue processes. Such an effort should be linked to the recently initiative of the [UN Working Group on Business and Human Rights](https://www.un.org/en/development/desa/policy/2015/05/20150501_ungpsbhrnext10/announcement-ungpsnext10.pdf) to develop a vision and roadmap for implementing the Guiding Principles on Business and Human Rights more widely and more broadly.  
<https://www.ohchr.org/Documents/Issues/Business/UNGPsBHRnext10/Announcement-UNGPsnext10.pdf>

## Refer to FPIC (Local communities, Para 19-22)

There should be a reference to Free, Prior and Informed Consent (FPIC), which is a specific right that pertains to indigenous peoples and is recognised in the United Nations Declaration on the Rights of



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Indigenous Peoples (UNDRIP). It allows them to give or withhold consent to a project that may affect them or their territories. Once they have given their consent, they can withdraw it at any stage. Furthermore, FPIC enables them to negotiate the conditions under which the project will be designed, implemented, monitored and evaluated. This is also embedded within the universal right to self-determination.

[http://www.fao.org/indigenous-peoples/our-pillars/fpic/en/#:~:text=Free%2C%20Prior%20and%20Informed%20Consent%20\(FPIC\)%20is%20a%20specific,affect%20them%20or%20their%20territories](http://www.fao.org/indigenous-peoples/our-pillars/fpic/en/#:~:text=Free%2C%20Prior%20and%20Informed%20Consent%20(FPIC)%20is%20a%20specific,affect%20them%20or%20their%20territories)

### **Shrinking space for civil society (para 23-24)**

The analysis need to take into account the fact that the space for CSOs to work and voice concerns is increasingly restricted or closed in many low and middle income countries (“shrinking space”). In addition, there need to be some guidance for how development partners (donors, investors as well as companies) should act to protect the civil space. (Again, there are several international other processes where input can be found.)

### **Promoting country ownership**

In **para 27**, the principle of country ownership should be emphasized even more:

National ownership is ~~beneficial~~ critical to create a respectful and equal relationship in development co-operation.

### **Is Blended Finance the right tool in a specific context?**

In other consultations, Act CoS has stressed the importance of an explicit assessment of whether a particular investment in a certain context should be private och public, and if private, whether BF is an appropriate tool to stimulate investments. **Para 32-35** includes important aspects relating to this, that we think should be developed and linked to elements in the other guiding notes (see introductory comments).


Explicitly considering whether blending is likely to be appropriate in a particular case will have consequences for the practical guidance of blending in several ways. For instance, at present private finance is always the first choice in the World Bank “cascade approach” (**figure 1**) which includes a possibility test but does not consider appropriateness. This should be changed and the key question should be “IS IT APPROPRIATE THAT commercial financing...” rather than “CAN commercial financing be cost-effectively mobilized...”.

### **Need for representation (3A5), Engagement and capacity building with local financial institutions (3B1), Crowding in domestic finance (3B2)**

All important aspects. We encourage OECD to learn from institutions like Oikocredit and their experiences of channeling finance to SMEs and having local presence in many countries.

Oikocredit is a social impact investor and worldwide cooperative that has over four decades of experience in promoting sustainable development through investments. They focus their investments on financial inclusion, agriculture and renewable energy. At present they provide funding for 685



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partners (such as microfinance institutions and cooperatives) in 65 countries. Total assets: € 1,4 billion; development financing outstanding: € 1 billion.

<https://www.oikocredit.coop/en/>

Annual report: <file:///C:/Users/gunaxels/Downloads/Oikocredit%20Annual%20Report%202019.pdf>

## Local currency financing (3B3)

We couldn't agree more on how important this aspect is. In fact, Oikocredit and Church of Sweden both part of the initiative to create TCX – based on our experiences of how important the currency issue is in development financing.