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Act Church of Sweden input OECD Public Consultation on the Guidance Documents to the Blended Finance Principles

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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The draft Guidance Notes and Detailed Background Guidances provide a lot of good advice and analysis on the design and implementation of blended finance. In particular, we appreciate the strong arguments favouring increased transparency, involvement of local partners, and the focus on efforts to avoid over-subsidisation and crowding out of private investments. We do see, however, a need to strengthen the references to Agenda 2030 and the principles of development effectiveness. A number of specific suggestions are given below to that effect.

In addition, we would 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 2.C on market failures, taking into account the considerations above on decisions that should be taken at national level, on human rights, and on Agenda 2030/LNOB. In addition, adjustments to the present text should be made (as suggested below on 2.C and para 84 and 106-110).

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://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, "blended finance cannot compensate for missing underlying market fundamentals, which need to be in place to achieve long-term commercial sustainability" (para 25, guidance to principle 2C). Guidance on whether blended finance is appropriate or not could build on 2D on commercial sustainability (para 24-26, 86-94 [but see also our suggested edits below]) and 4B on allocation of risks (para 32) and conclusions on principle 4 (para 78.1).

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Principle 2: Design blended finance to increase the mobilisation of commercial finance.

2 A: Additionality

The overall purpose of blended finance, as described in Principle 2, is to unlock commercial finance "to **optimise total** financing directed towards development outcomes". Further, Principle 2.A specifies that "to effectively **increase total financing** for development, blended finance needs to: 1) ensure additionality…". Hence, it is important to keep sight of the overall allocation of development finance, and make sure that efforts to mobilise private investments will not impact negatively on financing for investments in sectors that are less likely, or less appropriate, to finance privately, with or without blended finance incentives. In other words, just as important as it is not to crowd out private investments, ODA allocated for blended finance must not crowd out ODA for public investments in e.g. health, education or social protection.

Ideally, blended finance will generate new resources, and free up more ODA funds for social investments when productive investments are supported through loans or guarantees rather than grants. But it is nevertheless important to form an overall view of the best balance of investments – productive vs. social – to fulfil providers' human rights obligations and commitments under the SDGs before deciding whether to use blended finance, and then to make sure that there are no negative opportunity costs of reallocation of ODA grants from social investments.[1]

In a recent study an effort has been made to quantify the opportunity cost of blended finance, in terms of reduced allocation of ODA to social and humanitarian sectors. The authors recommend that ODA providers give "due consideration to the risks of allocating ODA to PSIs before the total ODA budget is known, and the benefits of making PSI allocation decisions after sectoral allocations have already been agreed". [2]

It should be noted that guarantees offered by the Swedish development agency Sida do not run the risk of crowding out grant aid, since they are backed by the Swedish government (National Debt Office) rather than by a guarantee fund based on ODA. Other donors should be encouraged to use a similar model.[3]

Suggested changes

6. The OECD DAC Blended Finance Principle 2a) outlines a two-fold understanding of additionality in blended finance:
a. Ensure additionality by deploying blended finance only for uses where commercial financing is not currently available for development outcomes, especially if it involves concessionality.
b. Have an explicit focus on opportunities to crowd in financing from commercial sources into transactions that deliver development impact.

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[1] UNCDF (2018), *Blended Finance in the Least Developed Countries*, p 1 (summary): "While blended approaches seek to increase overall financing for the SDGs, absent an increase in the overall level of aid, using more ODA for blending may result in a decrease in its use for such purposes as helping to fund basic infrastructure or social services in LDCs—sectors not usually suitable for blending."

[2] EBA Polly Meeks, Matthew Gouett and Samantha Attridge, Mobilising Development Finance: Implications for overall aid allocations, EBA Rapport 2020:01, Expertgruppen för biståndsanalys.

[3] Sida's guarantee Portfolio 2017. Fact sheet 2017-12-30; UNCDF (2018), *Blended Finance in the Least Developed Countries*, Box 17: "What is a Sida guarantee, and how does it work?"

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In addition, it is important to minimize the opportunity costs in terms of reallocation of ODA grants from e.g. social investments to blended finance. Blended finance must crowd out neither private investments, nor public investments that have a high development impact. Blended finance may not supplant grant-based aid and humanitarian relief in contexts where this kind of finance is needed, but – subject to optimising the overall balance of interventions to meet human rights obligations and development priorities – relieve public resources to be concentrated on interventions that address the poorest and most vulnerable.

2B. Leverage based on context

The emphasis on adapting instruments and mobilization targets to context is extremely important. Evidence shows that it has been very difficult to scale up blended finance in general, and even more so in sectors and geographical contexts where the sustainable development impact would be largest, such as LDC and LIC as well as MSMEs, cooperatives, small scale sustainable agricultural development and other labor intensive investments. The implications of this evidence is far-reaching. As has been suggested by ODI, if blended finance is to be scaled up in the sectors and contexts where positive impact on SDGs is most significant, blended finance providers will need to make *fundamental changes to their business models* and take on riskier projects.[4]

Suggested changes

10. In the design of a blended finance transaction, Principle 2B aims to ensure that each of the core concepts are applied in a context-specific way reflecting several underlying drivers. The design of blended finance transactions needs to be anchored in the transaction-specific development objective and context. Several context-specific factors influence the nature of additionality, concessionality, mobilisation and commercial sustainability in blended finance and need to be taken into account when designing a blended finance transaction. In fact, new business models of blended finance providers, with higher risks appetite (or lower rates of returns requirements) may be necessary in order to mobilise investments in prioritised sectors which contribute most to the SDG agenda. These context-specific drivers include:

2. C Market failures

Section 2.C should be developed to clarify the choice between public and private investments.

Suggested changes:

13. Blended finance is one tool that can help address market failures particular to emerging markets and developing economies by addressing the inefficient allocation of goods, services and financial resources by strategically bringing together public and commercial stakeholders. At the same time, blended finance cannot replace structural solutions to address market failures, such as improving policies and regulation which are required to build markets and ensure commercial sustainability (cf. Section 2.5). Nor may blended finance replace public investments in public goods or goods and services with positive externalities, when a political choice, taking into account human rights obligations and commitments under Agenda 2030, has been made to provide these through public investments. The choice between private and public finance, or a combination of the two, is political and will vary between countries and over time but is also intimately linked to international norms such as human rights and the Agenda 2030 commitments to decrease inequality and leave no one behind (LNOB). Providers of development finance should respect human rights-based political choices made at national or sub-national level.

15. ***Public goods****:* A public good is a service from which no consumer can be excluded ('non-exclusive') and where the consumption of the good by one person does not limit its consumption by another person ('non-rival'). Public goods cause a market failure because they are inadequately priced. For-profit firms cannot sell them profitably. Public goods are therefore not supplied or supplied in an insufficient quantity. An example for a public

[4] Samantha Attridge and Lars Engen (2019), *Blended finance in the poorest countries: the need for a better approach*, ODI.

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good is the provision of health or education services. Governments typically provide public goods to overcome the market failure. The choice between private and public finance, or a combination of the two, is political 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). The balance between private and public will vary between countries and over time. ~~However, if~~ To the extent that the private sector is solicited to help provide public goods, blended finance could be used to close the gap towards achieving a commercially viable price.

16. ***Externalities***: The consumption of a good or service that has an influence (positive or negative) on other humans without the market assigning a price to this benefit or cost is considered an externality. Governments can subsidise or promote production for positive externalities and tax or limit the production of negative externalities. Goods or services with positive externalities (such as infrastructure or social services) are often undersupplied by commercial markets. Market prices typically do not take into account additional benefits to third parties and are thus too low to meet requirements for commercial viability of private sector projects. Blended finance instruments can improve the commercial viability of such projects by e.g. lowering financing costs or provide top-up payments to improve the cash flow profile of a project to make it commercially viable or by providing risk mitigation instruments to increase the attractiveness of projects to private investors. However, the option to supply these goods and services through public investments should also be considered, taking into account human rights obligations and the Agenda 2030 commitments to decrease inequality and leave no one behind (LNOB).

19. ***Leave no one behind – affordability considerations for end-beneficiaries:*** In user-funded sectors such as infrastructure, cost-recovery price including for commercial financing terms may temporarily exclude participation by certain low-income and/or vulnerable groups in a way that may violate human rights obligations or counteract the Agenda 2030 commitment to leave no one behind (LNOB). Blending has been used to alleviate such affordability problems. However, blended finance cannot replace long-term sustainable solutions through structural reforms, the provision of public services, and national social protection floors[5]~~and targeted social safety nets~~. Nevertheless, there may be instances where affordability issues are temporary and blended finance is appropriate, e.g. in cases where temporary tariff support combined with policy reforms will over time create long-term market viability, or where technological changes are expected to eventually lower costs and make markets commercially sustainable.

2.D Commercial sustainability

In a world that is transforming to sustainable development, it is growing more evident that effective social and environmental policies are necessary pre-conditions which need to be in place to foster long-term commercial sustainability. In addition, it should be emphasized that policy reforms should not be imposed by development partners, but democratically agreed at national level and consistent with human rights obligations.

Suggested changes:

25. Creating markets and achieving commercial sustainability requires accompanying interventions beyond the level of the individual blended finance transaction. As a financial structuring approach, blended finance cannot compensate for missing underlying market fundamentals, which need to be in place to achieve long-term commercial sustainability. These include:

 A conducive investment climate at country level;

 Adequate sector policy and regulatory frameworks that enable and protect private investment and ensure social and environmental sustainability, as well as respect for human rights;

 Developing capital markets that provide viable exits for blended finance transactions and ensure sustainable future commercial financing without concessionality; and

[5] ILO Recommendation 202 on Social Protection Floors. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R202

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 Harmonized approaches by development partners to supporting policy reforms that are democratically agreed at national level and consistent with human rights obligations, and building markets to achieve long-term sustainability.

Detailed Background Guidance

84. **Blended finance and in particular blended concessional finance can play a role in overcoming market failures and crowd-in commercial investment in developing countries, when the option of public investment is not chosen.** Because market failures harm market development as well as the emergence of self-sufficient financial markets, blended finance can serve as a tool to overcome the very market failures the commercial investors are facing thus unlocking their financing potential. To find a balance between mobilising commercial investors and not crowding out commercial investment, efforts to minimise concessionality in the development finance element are indispensable. Concessionality may not even be needed in all cases. The use of concessionality should only be justified if it addresses market failures (and the option of public investment is not chosen), enables crowding in and avoids crowding out of commercial investors, without over-subsidization. While a quantitative approach to measuring concessionality has not yet been agreed upon, to work towards finding the minimum level of concessionality, donors should follow the following steps:

Para 86-91 on commercial sustainability (2D) should highlight the fact that the question of which policies are adequate to improve the investment climate is not uncontroversial. In addition, the potential risks associated with the fact that policy reforms are sometimes externally imposed should be recognized. See for example critiques of the World Bank Doing Business Report and Country Private Sector Diagnostic: https://eurodad.org/doing-business-report and https://eurodad.org/RepeatPrescription

109. In all of the above cases, blended finance can help provide incentives through concessional finance to overcome market failures through specific mechanisms and instruments, to the extent that public goods or goods and services with positive externalities are not provided through public investment. In most countries, in particular health and education tend to be provided through public investments, and human rights obligations must always guide the type of finance chosen. Table 2 provides an overview of the types of blended finance that can be provided in response to market failures:

110. Sources of information to identify the market failure are country and sector analyses, reference benchmarks such as the World Bank's doing business indicators, capital markets analyses, market testing/feedback regarding the specific transaction, benchmark transactions in the same/similar markets, and regular interaction with development partners, recipient governments as well as interactions with the private sector and CSOs, including at local level. The choice of managing market failures through blended finance or through public investment is a value based political choice that is influenced by international norms and obligations such as human rights and the Agenda 2030 commitments to decrease inequality and leave no one behind.[6]

[6] Key norms are for example The European Consensus On Development "Our World, Our Dignity, Our Future" (2017) and Agenda 2030, including e.g. the commitment to leave no one behind and SDG 10, Reduce inequality within and between countries.

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Principle 4 Effective partnering for blended finance

4A Mandate of parties

Suggested changes:

Para 5, final bullet point:

- Civil society organisations (CSOs), looking for market transparency ~~on~~ and development impact of blended finance, e.g. NGOs, trade unions, etc.

6. Each of these parties have their unique objectives and risk-return profiles that lead them to engage in certain sectors, geographies and financial instruments that need to be taken into account when designing blended finance solutions. Consultations for this work highlighted the need for increased support from DAC blended finance actors for blended finance in early stage project development and in high impact areas such as labour intensive investments in cooperatives, MSME and sustainable agricultural development, including in least developed countries (LDCs).

4B Risk allocation

We welcome in particular the emphasis on involvement of local partners, as expressed in para 8.5 (and corresponding, para 50). It should be noted that country ownership is one of the internationally agreed principles of development effectiveness.[7] Relating to this point, it should be noted that political and regulatory risks would be minimized if the government of the beneficiary country were involved from the onset, through a proper dialogue and agreement with the government in the context of bilateral development cooperation.

4C Scalability

In general, we appreciate the analysis and advice (in particular in the detailed background document) on how to scale up blended finance. In contrast, sometimes in discussions on blended finance, there are general complaints about the "lack of bankable projects" without proper consideration of the necessary preconditions that need to be in place.

We would like to emhasise that a strong emphasis on scalability has to be balanced with Principle 2B which is highlighting the need to adapt to context specific circumstances. In particular, it is important to scale up, rather than exclude, the kinds of relatively labour intensive and context specific blended finance interventions that might have the largest potential to reach marginalised groups and create impact in terms of sustainable development.

We suggest that the reference to the 'billions to trillions' agenda is deleted, since it has proven to be unrealistic and too ambitious.

10. Principle 4C refers to using Blended Finance to reach scale and is a sine qua non condition to meeting the SDG investment requirements ~~through implementing the 'billions to trillions' agenda~~ by unlocking private investment at unprecedented scale. The track record to date is mixed for the following reasons: (…)

Correspondingly:
Para 56 ...Often MDBs/DFIs are currently mainly evaluated based on their own account financing volume. They should also be evaluated based on how much private finance they helped mobilise in line with the Financing for Development ~~and 'Billions to Trillions'~~ agenda~~s~~. While MDBs/DFIs have started to jointly report on their

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[7] http://effectivecooperation.org/about/principles/

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mobilisation of private finance21, significant caveats around the data exist, such as potential double-counting. Furthermore…

The option of public investment, as an alternative way of managing market failures should be noted:

14. **The economic rationale for development additionality through blended finance arises from situations of market failure** requiring concessional public finance interventions to unlock commercial and private finance to deliver development impact, to the extent that public goods or goods and services with positive externalities are not provided through public investment. Box 1 provides examples of such market failure that blended finance can help address.

Box 1, p 13-14:

1. ***Externalities:*** Goods or services with positive externalities (such as infrastructure or social services) are often undersupplied by commercial markets. Market prices typically do not take into account additional benefits to third parties and are thus too low to meet requirements for commercial viability of private sector projects. When the alternative option of public investment to provide positive externalities is not chosen, taking into account human rights obligations and the Agenda 2030 commitments to decrease inequality and leave no one behind (LNOB), ~~B~~blended finance instruments can improve the commercial viability of such projects. It can do so by e.g. lowering financing costs or provide top-up payments to improve the cash flow profile of a project to make it commercially viable or by providing risk mitigation instruments to increase the attractiveness of projects to private investors.

4. ***Leave no one behind – affordability considerations for end-beneficiaries:*** In user-funded sectors such as infrastructure, cost-recovery price including for commercial financing terms may temporarily exclude participation by certain low-income and/or vulnerable groups in a way that may violate human rights obligations or counteract the Agenda 2030 commitment to leave no one behind (LNOB). Blending has been used to alleviate such affordability problems. However, blended finance cannot replace long-term sustainable solutions through structural reforms, the provision of public services, and national social protection floors[8]~~and targeted social safety nets~~. Nevertheless, there may be instances where affordability issues are temporary and blended finance is appropriate, e.g. in cases where temporary tariff support combined with policy reforms will over time create long-term market viability, or where technological changes are expected to eventually lower costs and make markets commercially sustainable.

76. **Knowledge sharing should equally be scaled up.** Given the relatively recent nature of blending for development finance, lessons learnt should be readily made available to all participants with the objective to (i) understand which approaches have worked well where and why and are suitable for replication, including from the perspective of development impact, including social, environmental and human rights impact; (ii) which approaches and structures did not work well, where and why and should thus not be replicated; and (iii) identifying enabling framework conditions for replication. Existing platforms such as Convergence can serve as anchor platform for such knowledge sharing, while the creation of additional open platform solutions could be considered where participants can share experience, have access to case studies and, if interested, can identify partners for co-developing blended finance solutions.

[8] ILO Recommendation 202 on Social Protection Floors.
https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R202

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Principle 5 Monitor for transparency and results

Guiding Note

We very much welcome the emphasis on increased transparency in blended finance transactions. The observation in **para 7** that "while public entities (governments, development agencies and banks) benefit from a long standing and well-established monitoring and evaluation culture, engrained in their domestic activities, private actors are less prepared to comply with the transparency standards required when using Official Development Finance" underlines the need for a fundamental change in business culture.

There are businesses that recognize the value of increased transparency, not only as a basic requirement in return for concessions or other kinds of public support, but as something that is genuinely beneficial. Through increased transparency, businesses open up for broader perspectives and understanding of their operations, and the risks and opportunities they may bring. However, many businesses still instinctively keep as much information as they can for themselves. The change in culture that the guiding note calls for will require a lot of dialogues and learning from good examples. Below, a number of changes are suggested to strengthen the emphasis on transparency and development effectiveness.

8. In order to assess the effectiveness and efficiency of blended finance operations, the financial and development performance of all parties should be assessed against predefined and agreed upon metrics. This encapsulates not only financial flows and commercial returns, but also results achieved against development objectives, which preferably should be anchored in human rights and SDG targets. Certainly, there is a need to prioritise development on a par with financial results.

9. Civil Society Organisations (CSOs) have long lamented the lack of transparency in blended finance operations. As outlined above, the transparency deficit owes in large part to the myriad legal and organisational obligations of actors involved in blended finance. For instance, DFIs are private law entities, and therefore not subject to the same stringent procurement regulation as DAC governments or development agencies. Some DFIs are also regulated as banking entities which affects their focus towards financial reporting. The current lack of oversight in blended finance initiatives exposes public sector funding to potential criticism in the event of corrupt or predatory practices. Moreover, lack of transparency runs counter to the development effectiveness principles and undermines the participation of local stakeholders as well as possibilities of holding responsible organisations accountable – both of which are important elements of these principles.

14. International commitment to transparency is rooted in the Principles for Effective Co-Operation, which emphasise that transparent practices form the basis for enhanced accountability.[9] International commitment to transparency is also rooted in the Sustainable Development Goal (SDG) 16, which calls for a commitment to increase transparency and improve access to information. While enshrined specifically in SDG16, transparency is a cross-cutting issue across all SDGs; a lack of it would undermine progress. Furthermore, DAC members are bound to the body of principles and norms they have agreed upon and that should be equally incorporated in their blended finance operations, as they form an integral part of development co-operation policy. These include for instance the OECD Guiding Principles on Managing for Sustainable Development Results, the Evaluation Criteria and Evaluation Quality Standards.

[9] "Transparency and accountability to each other: Mutual accountability and accountability to the intended beneficiaries of development co-operation, as well as to respective citizens, organisations, constituents and shareholders, is critical to delivering results. Transparent practices form the basis for enhanced accountability." http://effectivecooperation.org/about/principles/

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Detailed Background Guidance

5A Performance and results metrics

We specifically welcome an important observation which is made in para 33: "Another potential obstacle pertains to the aforementioned claims of commercial confidentiality. To some extent, this may be an unfounded argument, which public authorities should invalidate, as real trade secrets are not inscribed in contractual agreements or financial flows."

We also welcome the recognition in para 16-17 that the complex structures of blended finance makes it more difficult to hold actors to account.

Below, a number of changes are suggested in order to strengthen the emphasis on transparency and development effectiveness.

19. To facilitate practical use for DAC members and other blended finance actors, the guidance is structured around the four sub-principles, as follows:

- Agree on performance and results metrics from the start;
- Track financial flows, commercial performance and development results – including the questions of *who* is benefits/is affected by and *who* is assessing development results;
- Dedicate appropriate resources for monitoring and evaluation;
- Ensure public transparency and accountability on blended finance operations.

Para 22

The observation in the end of the paragraph is very important: "Currently, where ex ante impact estimations exist, financial intermediaries often fail to establish a clear theory of change that allows tracking of cause and effect between their investments and development objectives. Ideally, this would entail jointly identifying the causal links, mechanisms and assumptions at play." A reference should be given for further reading, for example: Development Initiatives (2019), *How blended finance reaches the poorest people: theory and practice.*

23. Historically, DFIs have only tended to report and evaluate a relatively limited number of concrete development impacts. Typically, these can be categorised into the following: employment effects, government revenue impacts, consumer reach and environmental impact. Major institutions like AfDB, IFC, EIB and CDC tended to view employment creation as a priority objective and use it as a key indicator to measure development impact (Lemma, 2015[4]). Other important direct contributions include skills development, environmental and social outcomes, the provision of valuable goods and services, and tax revenues in developing countries.[3] However, there is now emerging evidence that DFIs can and should measure impact more broadly and across multiple dimensions, particularly on issues which pertain to the SDGs and the Agenda 2030 commitment to leave no one behind (LNOB) (cf. sub-principle 5D).

26. Besides agreeing on what to measure (i.e. which indicators underlying which objectives), it is crucial for DAC members to also understand how to implement it, i.e. the data collection and assurance process to be put in place by their financial intermediaries. Asset managers have defined tailored approaches to assess and mitigate negative or enhance positive social and environmental impacts across their investments. These proprietary tools may range from pre-investment ESG screening to adaptive impact management throughout the investment cycle. The pursuit of system-level objectives, such as financial market creation or private sector development, may require certain amount of statistical modelling to inform investment allocation. However, the process of impact measurement and management should also embrace qualitative data, including data collected from intended beneficiaries, as a way to capture complementary information that cannot otherwise be measured and to better contextualise the interpretation of quantitative figures (cf. more on sub-principle 5D). In particular, the question of

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who makes the assessment, and whose voices will be listened to, has to be considered in the light of the commitments to enhance participation and accountability at the sub-national levels in order to "ensuring broad-based and democratic ownership of countries' development agendas".[10]

30. It is hence crucial that DAC members agree, at least on the policy level, on a common development impact framework. In as far as possible, this should be grounded on the already well-established commitments, building on the OECD DAC Glossary of Key Terms in Evaluation and Results Based Management, the Guiding Principles on Managing for Sustainable Development Results (MfSDR), the Quality Standards for Development Evaluation and the freshly revised Evaluation Criteria, and the Principles for Effective Co-Operation. In an effort to…

31. Without discussing the merits of different impact measurement and management approaches, it is important for DAC members to understand, from the start, what exactly they offer in terms of:

- nature of the development results tracked (financial, economic, ESG);
- level of the results (outputs, outcomes or impacts);
- data sources (modelling or observed) and stakeholders involved (direct clients, final beneficiaries, etc.) taking into account the need to identify stakeholders that may be indirectly impacted in a positive or negative way;
- quality control and assurance process.

5B Tracking flows, performance and results

Box 2 on TOSSD on page 18 is not accurate, and the reference is outdated (2017). A colleague from the CSO community, who follows the TOSSD negotiations closely, gives the following comment:

On a quick read, the box has a few inaccuracies based on later agreements by the TOSSD Task Force. While the intention is still to track mobilized private finance, the agreement is that the latter will be reported separately from TOSSD which remains as a measure of official cross border and global public goods flows where developing countries are the main beneficiaries. As stated in the box it will still include a wide range of official financial instruments in mobilizing this finance despite objections on the part of CSOs (such as loan and investment guarantees). But it will not include flows certain civil society organizations, only official agencies or development banks etc that are controlled effectively by government. There has never been a proposal that I have seen to include CSO own flows (excepting for official flows through CSOs which is already counted in ODA).

Another NGO colleague adds: *It's surprising that an official OECD document includes references to an out-of-date description of TOSSD. For a start, the TOSSD Reporting Directives reached a comprehensive draft point in June 2019 and data collection followed-up consequently (however partial it may be); TOSSD is way past the discussion stage that Box is still alluding to. The language is not really up to date. For instance, it refers to components and not to Pillars; CSOs are not reporting parties to TOSSD and the new metric will cover only public resources for / through CSOs. In a Blended Principles context, it may also useful to recall that publicly mobilized private resources can be submitted on condition that there is a direct causal link to an official intervention, which implies that, for a given activity, public money and private finance must be reported together, but distinctively (Item 23 Amount mobilized, TOSSD reporting Form).*

para 36
We suggest that the second sentence is deleted. The reason is that we believe it sends a disturbing

[10] Busan Partnership for Effective Development Co-Operation. Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November-1 December 2011, para 22.
http://www.oecd.org/dac/effectiveness/49650173.pdf

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signal. “Any indication of failure in blended finance operations” should be regarded as important information and should be used to improve the operation, mitigate any negative consequences or discontinue. Such indications should not be seen as PR problems for blended finance.

36. Transparency also entails some risks, which should be properly acknowledged and mitigated. ~~There is a possibility that any indication of failure in blended finance operations could lead to counterproductive consequences at both the micro and macro level~~. While recognising that there are legitimate needs to safeguard truly confidential business information, the presumption should be in favour of proactive disclosure, with any exemptions defined narrowly and justified on a case-by-case basis by reference to foreseeable harm to a legitimate, recognised interest (UN OHCHR, 2019[11]). The benefits from disclosure of sensitive information to the market as a whole may outweigh the costs to individual entities, but only if all entities are subject to the same requirements (IFRS, 2019[10]).

Para 38
We very much agree with the observations that calls to increase leverage ratios may trigger perverse incentives and that that emphasising financial additionality may come at the expense of development additionality.

Para 39
We support the statement that too little development performance data is collected ex post or taking into account the voice of end beneficiaries. We would also add that in the context of development cooperation, where human rights based approaches are common, the term “rights holders” would be used rather than “end beneficiaries”.

Para 46.
We support the recommendation that a dedicated amount of money should be ring-fenced for monitoring and evaluation when making an investment for blending purposes.

Para 47
In line with the UN Guiding Principles on Business and Human Rights[11], Human Rights Due Diligence should be required.

47. Altogether, increased clarity would be beneficial on the respective roles of (ex-ante) impact assessment, Economic, Social and Government (ESG) and Human Rights (HRDD[12]) due diligence, monitoring and (ex-post) evaluations. Each of these functions fulfils a different role, requires a different set of skills and it may be advisable to ensure some degree of separation in organisational chart. Nonetheless, for smaller financial players, they are often merged and overlapping with investment responsibilities. Here, DAC members can foster linkages between key market enablers that are responsible for ESG certifications, IMM and evaluation in order to promote mutual understanding and cross-fertilization among these professions.

Para 53
In development cooperation, accountability to the end beneficiaries (rights holders) is fundamental and may not be overlooked. As stated in the development effectiveness principles: “Mutual accountability and accountability to the intended beneficiaries of development co-operation, as well as to respective citizens, organisations, constituents and shareholders, is critical to delivering results.”

53. In blended finance operations, the primary accountability is to the investors who have financially supported the project. However, to the extent that public development finance is involved, accountability to the taxpayer is

[11] https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf
[12] https://www.business-humanrights.org/en/un-guiding-principles/implementation-tools-examples/implementation-by-companies/type-of-step-taken/human-rights-due-diligence

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also required, as well as accountability to the end beneficiaries (rights holders).[13] Convergence Finance, a network for blended finance that generates blended finance data, intelligence and deal flow, agrees that taxpayers deserve to know who their funds are being spent, and emphasise the fact that concessional capital is finite; therefore, it must be used as efficiently as possible. Here, it bears remembering that public interest concerns not only the disbursement of official development aid, but also the use of non-concessional instrument; in as far as they are backed on public assets. Convergence also references the constituents of private organisations in this context: they argue that they have a right to know their resources are being used efficiently.13

[13] The development effectiveness principle about transparency and accountability to each other: "Mutual accountability and accountability to the intended beneficiaries of development co-operation, as well as to respective citizens, organisations, constituents and shareholders, is critical to delivering results." http://effectivecooperation.org/about/principles/

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