Consultation on the Guidance Documents to the Blended Finance Principle no 1
Input from Act Church of Sweden and Eurodad.

For both of our organizations the consultation is a very important process. Once all related guidelines are finalized and adopted, compliance has to be followed up. Within the related consultations there was a mention to the OECD DAC peer reviews. This is important, but a specific process on the BF principles, including several countries, is also needed.

Introductory comment

Principle 1 is fundamentally about the **development rational for Blended Finance (BF).** *Why, when and for what should development partners use BF rather than any other instrument in their toolbox?*

This touches the strong concerns with BF that many NGOs raise – that a too strong enthusiasm for and emphasis on promoting BF and private investment will crowd out support for investments in sectors that cannot or should not be financed with private money but rather with public funds.

In fact, investments in public goods or goods and services with positive externalities (such as health and education) are often 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 – which very much relates to BF principle 3. 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.

It is, therefore, extremely important that providers of development finance do not push for privatization and blended finance, and that BF is driven by demand rather than supply. In short, this tool should not be used whenever possible, but when it has a comparative advantage to other tools in the toolbox.

Detailed comments

Para 1. In line with the argument above we suggest the following change:

The use of Blended Finance should be based on **clear development strategies and policies**, underpinned by an understanding of the role, including opportunities as well as risks, of the private sector in achieving development outcomes.

Para 5 on *theory of change linked to development objectives* and 28-32 policy recommendation *Set clear, mutually agreed objectives with a coherent narrative*. The guidelines on theory of change should be strengthened. Two observations that may be helpful in this regard, relating to Box 1:

- It is worrying that Box 1 shows very weak linkages, especially to the Busan principles.
- It is not enough to refer to SDG goals in theories of change. **Development objectives should be more specific,** mostly at target level. An example: Most BF refer to SDG 1 on ending poverty. But the SDG 1 target 1, which is one of the most relevant for private sector investments, talks about ending *extreme poverty*. This means that an investment that will increase income levels *in general*, and not specifically for people living in extreme poverty, may not be a means to reach this particular target.

Para 7 and others: We welcome that there are more references to the principles of development effectiveness in this document than in the other draft guidelines.

Para 8 *Link the objectives of blended finance to local policy priorities* and para 14 *Focus Blended Finance on sectors in which it can achieve maximum development impact*. We very much welcome the message that BF is **not equally suitable for all SDGs** – which is in fact a change in position, compared to the message in the OECD report *Making Blended Finance Work for the Sustainable Development Goals* from a few years back, where the message was that BF should be tried to promote all SDGs.

However, it is highly problematic that the public/private dimension in considerations for blended finance is not mentioned. We suggest additional wording in a new para 8 bis:

Although blended finance is typically and literally a mix of public and private finance, it is in essence a way of stimulating **private investments** in situations where perceived risks are preventing private investments from being realized. Hence, a key consideration that need to be made is whether private finance of a particular investment is appropriate. The general picture is that private finance is appropriate in productive sectors with a high development impact, such as agriculture and renewable energy, but that social sectors such as health and education is publicly financed. The balance between private and public finance varies between countries and over time, as it is political and made at national level. In these making political choices, implications of international norms such as human rights and the Agenda 2030 commitments to decrease inequality and leave no one behind (LNOB) should be considered. Providers of blended finance [have a responsibility to upheld human rights obligations and the Agenda 2030 commitments. In addition, providers must] respect national choices and refrain from promoting blended finance before other forms of finance.

Para 12. In this para, it is implicitly recognized that BF is more suitable in productive than in social sectors. We suggest that this is made more explicit.

Blended finance vehicles mostly pursue economic development objectives, followed by social and environmental ones. This reflects their ambition to foster private sector development and job creation, and the fact that blended finance is less appropriate for financing public services. However, the Survey also indicates that over a third of respondents did not formalise quantitative development targets, which may hinder the capacity of investors to capture their (intended and actual) contribution to the sustainable development objectives (Basile, Bellesi and Singh, 2020[11]).

Para 16 *Focus Blended Finance on sectors in which it can achieve maximum development impact*. We find it worrying that OECD foresees more private investments in the health sector. Rather, we need to **caution against the use of BF in sectors such as health**. In the current Covid-19 contexts we see health systems with a high degree of fragmentations performing badly - this is often the case in health systems with strong involvement of private sector, as documented by NGOs. For references: https://eurodad.org/health-PPP.

Para 18. We do not agree with the statement in this para. First, while we agree that blended finance can make great contributions in the agricultural sector (where SME have a lack of finance), we believe that the health sector should primarily be publicly financed. Second, in lower-income countries, support to development of general market institutions may be a more efficient use of scarce ODA to stimulate investments than blended finance – depending on context.

Para 19 on additionality. Going forward with this note, it would be important to further strengthened the definition of development additionality and include international agreed frameworks such as the Sustainable Development Goals, the Paris Agreements, etc., as part of the objectives of development impact.

Intro to section 1B. We suggest the following addition:

Development objectives and expected results should be defined before the deployment of blended finance, and before the choice is made to use blended finance rather than public finance for a particular investment. ~~They~~ The objectives should be mutually agreed and embraced by all parties, as a key basis for the deployment of blended finance. The overarching objective for the use of blended finance is the expansion of sustainable, market-based solutions for development financing needs.

Para 34. Very important observation!

Para 37 on *the development objectives and desired results should determine the selection of partners.* We very much welcome the statement that BF is a means to realize development objectives, rather than a goal in itself. It may be obvious, but is important to state explicitly.

Para 38 is very important as it talks about the need to consider whether the private sector is best placed to realize specific results. It is, however too short, and should be expanded with for example reference to LNOB and human rights obligations. Also, there should be a recognition that **the choice between private and public is political, and not a technical question of "theory of change**". Links to the principle of national ownership, of course. Alternatively, these additions could be included in a new para 8 bis (see comments above).

Para 40 to 45 on *building incentives*. The section could be strengthened by speaking towards the risks the public sector takes when going into public – private initiatives. Often the public sector pays the risks, while the private sectors takes the benefits. Better balance is needed.

In para 45, we very much welcome the inclusion of "beneficiaries" in the list of stakeholders that should be involved. It is in line with the Busan principle about participation. However, we recommend using references to "rights holders" instead of "beneficiaries".

Section 1C on *demonstrating commitment to high quality***.** We miss references to a number of important international norms and standards:

- UN guiding principles on Business and Human rights and requirements for Human Rights Due Diligence. The Global Compact is not enough.
- A number of multilateral environmental agreements, apart from the Paris agreement.
- Relevant ILO conventions
- Voluntary guidelines on the responsible governance of tenure of land, fisheries and forests in the context of national food security (especially important to avoid land use conflicts)

Para 48-52 on *the Environment, Social and Governance (ESG) standards*. We would like to stress the voluntary nature of ESG standards, and the fact that those are set individually by those institutions that decide to work towards that direction. Blended finance should fit into internationally agreed commitments (i.e. SDGs, Paris Agreements), which in addition can provide reference for monitoring frameworks. This document should be more ambitious than the ESG standards.

Para 56-59 on g*uaranteeing commitment to quality through transparency*. We very much welcome the section. It could, moreover, be strengthened by a call to monitoring the implementation of the Kampala Principles – the findings out of this monitoring could become an interesting source for donors willing to improve their BF initiatives, in general.

Final remarks

1. The document should also provide some direction in terms of "exit strategies" – monitoring and evaluation should provide the information to identify the right moment to leave a blended finance initiative, whether because it can be taken on by local / national stakeholders or because there is no demonstrated development impact.

2. Coming back to the initial question about when BF is a relevant tool and not, we would like to see a broader introduction to the guidance notes, 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 several elements of guidance to such a decision-making process. These parts will after the consultation hopefully be strengthened. 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?*
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? (elements in guidelines to principles 2, 3 and 4)*