Society for International Development
Washington Chapter

FY 2019
ANNUAL REPORT

Development Finance Workgroup

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DEVELOPMENT FINANCE WORKGROUP

The SID-Washington (SID-W) Development Finance Workgroup is a group of individuals actively engaged in finance architecture and the monetary tools of development. With events ranging from the involvement of international lending to the relevance and strength of microfinance, this workgroup aims to inform and educate on any and all development issues that relate to finance.

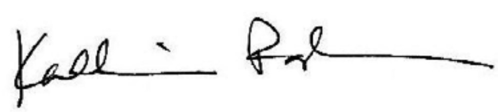
LETTER FROM SID-WASHINGTON

Dear Members of the Development Finance Workgroup,

We are happy to report that we had another exciting year! As we reflect on last year, the workgroup produced several great events, ranging from Blending is Trending - A Master Class in Blended Finance to Impact Bonds: What is it good for? Absolutely, … something?! We are currently working on events for FY2020, so stayed tuned for more information! We look forward to providing SID-Washington's spin on finance architecture and monetary tools of international development.

Thank you for your continued interest and support of the workgroups. We hope to see you at future SID-Washington events! If you have any questions, please feel free to send an email to events@sidw.org.

Best regards,



Katherine Raphaelson

Paul A. Sherman

Brigit Helms

Vice President,
Technical Services,
DAI

Brigit Helms has nearly 30 years of experience pioneering innovative approaches to financial inclusion and seeking enterprise and market-based solutions to poverty. She came to DAI after leading the Multilateral Investment Fund, an innovation lab of the Inter-American Development Bank making investments equaling $85 million a year. Prior to this, she was Chief of Party of the SPEED program in Mozambique, leading DAI's work to improve the business environment and competitiveness of the economy there. Brigit originally came to DAI from McKinsey & Company in Seattle. Drawing on her deep expertise in market-based solutions to global development problems, Brigit has supported and helped lead projects focused on expanding private sector involvement in extending financial services to poor households and small businesses that are underbanked.

Prior to joining McKinsey, Brigit was Chief Executive Officer of Unitus, a nonprofit with offices in Seattle, Bangalore, and Nairobi. Before that she spent four years with the International Finance Corporation in East Asia, as the Head of Advisory Services for Indonesia. Brigit was also a founding management team member of CGAP, the global center of excellence for financial inclusion.

Paula Garcia Tufro

Deputy Director of the Adrienne
Arsht Latin America Center,
Atlantic Council

Paula Garcia Tufro is an experienced professional with deep expertise in international development, trade and investment. From 2009 to 2017, she served in the United States Government under the Obama Administration as a member of the National Security Council (NSC), and in leadership roles at the Overseas Private Investment Corporation (OPIC) and the Department of Commerce. Ms. Tufro is deputy director in the Adrienne Arsht Latin America Center of the Atlantic Council. Most recently, Ms. Tufro served as Director for Development and Democracy at the NSC, where she advised senior White House officials on a broad range of U.S. foreign policy and global development policies and programs. In this role, she led coordination of policy positions and multilateral negotiations of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda, which set forth a new 15-year global development agenda. She has also led efforts to leverage critical partnerships, as well as U.S. development finance and risk mitigation tools, to catalyze private sector investment for sustainable development. She led strategy and implementation of the Power Africa initiative, and helped mobilize more than $54 billion in external commitments from more than 140 public and private sector partners to help advance the goal of doubling access to electricity in sub-Saharan Africa. Ms. Tufro also served as a member of the Group of Twenty (G-20) negotiating team and lead coordinator for the G-20 Development Working Group.

Prior to joining the NSC, Ms. Tufro was Deputy Chief of Staff at OPIC, the U.S. Government's development finance institution, where she worked to reduce risk and mobilize private capital in emerging markets to solve critical development challenges. In this role, she served as a trusted adviser to OPIC's President & CEO and a member of the executive leadership team, providing guidance on agency management, corporate strategy, operations, and policy matters during a period of significant growth. Ms. Tufro also served as Director of Advance at the Department of Commerce, where she led the planning and execution of domestic events and international summits, and helped advance U.S. Government trade and investment priorities. Prior to serving in the U.S. Government, she worked at Freedom House and Arnold & Porter LLC. She is currently a Senior Associate at the Center for Strategic and International Studies. Ms. Tufro holds a Master of Science in Foreign Service from Georgetown University's Edmund A. Walsh School of Foreign Service, with a concentration on International Development, and a Bachelor of Arts in International Affairs from James Madison University. She is a native English and Spanish speaker, and is proficient in French.

EVENT CALENDAR

Thursday, December 6, 2018
3:00PM-4:30PM | SID-Washington
Blending is Trending - A Master Class in Blended Finance

Wednesday, April 10, 2019
12:00PM-1:30PM | SID-Washington
Private Capital and Global Health

Thursday, June 6, 2019
3:00PM-4:30PM | SID-Washington
Impact Bonds: What is it good for? Absolutely, ... something?!

Blending is Trending - A Master Class in Blended Finance

Speakers: **Joan Larrea**, CEO, Convergence
Kruskaia Sierra-Escalante, Manager, Blended-Finance - New Business and Portfolio, IFC

Event Description: With a $2.5 trillion spending gap, meeting the SDGs will simply not materialize using traditional donor or government funding alone. The private sector must get involved. Increasingly, the international donor community is focusing on how to use concessional grant or technical assistance resources to crowd in more commercial sources of funding. Combining different "flavors" of capital in this way is often referred to as blended finance. This event, hosted by SID-Washington's Development Finance Workgroup, offers the opportunity to learn more about blended finance by answering the following questions: What is it? How does it work? What are some good examples? Where has it gone wrong? What are the risks? How can more players/organizations get involved?

Key Takeaways

1) Understanding Blended Finance
Joan Larrea (Convergence) and **Kruskaia Sierra-Escalante (IFC)** noted the role of blended finance is strategically using development finance and philanthropic funds to mobilize private capital flows to emerging/frontier markets, most crucially resulting in economic gains for investors and social gains for communities in the form of high positive externalities. Traditionally, blended finance has been a mix of public concessional money with public commercially minded money. Today, Joan said, "we're in a blended finance 2.0 moment...We're really getting down to the game of moving private money. And we have to because the private sector moves a trillion dollars every day." A good blended finance deal will contain three elements: i) concessional money with the purpose of pulling in private money ii) the deal somehow addresses at least one SDG in emerging markets iii) it is going to generate positive returns of the investor since this is not charity. Kruskaia noted the importance of imposing restrictions in order to maintain the discipline, as taxpayer funds are involved and DFI (Development Finance Institution) practitioners do not want to over-subsidize the private sector. Joan noted that data on 390 deals analyzed by Convergence shows 43% of all blended finance by transaction count is happening in Sub-Saharan Africa; in energy and non-energy infrastructure, and financial institutions.

2) Types of blended finance deals include, but are not limited to:

- One with soft, concessional money going in early, de-risking, and then raising more regular money when it hits the market.
- One in the capital stack, with a grant/non-interest earning debt; something in the structure itself.
- that results in one buying only the impact and not financial return.
- One giving a guarantee (or something sitting alongside the structure) that is de-risking it.
- One deploying technical assistance alongside of structure.
- One that is outcome/performance-based, where achievement of goals is net and not mutually exclusive.
- One that is incentive-based and directs investment toward a desired social outcome.

3) Blended finance is only one tool; there is still a need for collaboration
Kruskaia, noting her own experience in the DFI community, highlighted the importance of collaboration among various stakeholders involved in the development process. An institution like the World Bank provides assistance and advice on policy, regulatory framework, and governance issues, but it will not provide guarantees like the IFC does. There is now a realization that it is inefficient to continue without integrating these activities. One can lend as much blended finance to a project, but without the supporting regulatory framework and an enabling environment, the project won't succeed. A fundamental principle in blended finance is having a clear rationale for providing concessionality -- is this a public good? Is it creating positive externalities? Is it fixing a market failure? Is it affordable? Joan noted that at the end of the day, blended finance is just a patch. It is important, useful, and unique, but it is also just one tool among many. One must address capacity building, strengthening institutions, designing appropriate regulations, while leveraging blended finance to catalyze these long-term processes.

Private Capital and Global Health

Moderator: **Nitin Vaswani**, Manager, Social Investment and Alternative Finance, Pact Ventures

Speakers: **Ignacio Estévez**, Principal Associate, Banyan Global
Amy Lin, Acting Deputy Director and Market Access Team Lead, Center for Innovation and Impact (CII), USAID
Robin Young, Senior Principal Development Specialist, Finance and Development, DAI

Event Description: This session looked at the evolving role of private capital in global health. We heard about the new USAID Blended Finance Roadmap for Global Health and had a discussion that highlighted current examples of health financing, what we are learning, and what works.

This event was a joint event with the Health & Nutrition Workgroup.

Key Takeaways

1) Doing Things the Way We Are Today Will Not Get Us Where We Need to Be
Amy Lin (USAID) began the discussion with an introduction to the Center for Innovation and Impact (CII), which provides resources for organizations, stakeholders, and the public to learn about USAID's commitment to support health enterprises with financial services in twenty-five countries. Lin explained that the goal of the commitment is to evaluate and remove various financial challenges with blended finance and other monetary tools. USAID has worked to use the blended finance framework for the local health industry in partner countries. Blended finance has raised the visibility of local partners and bridged them with the private sector to build investment for sustainable projects. Lin added that there was a significant funding gap between conventional investment and blended finance, which was resolved through the mobilization of private capital to local businesses.

Using her experiences in the field, **Robin Young (DAI)** stated that current conventional investment in public health sector is not favorable to medicine advancement, medical equipment development, and the changing overall landscape of global health epidemics. **Ignacio Estévez (Banyan Global)** added by discussing his experience in assessing the differences in health sector investment in Tanzania and Ghana. He acknowledged that blended finance could improve this model by creating flexible finance structures.

2) Technology and Medical Advancement: Harnessing the Best of Both Sectors
Lin explained that the increased use of digital technology in artificial intelligence and financial service have helped manage global health problems. Digital tools have helped define health issues using data and effective spatial targets so that the project framework can prioritize which financing challenges to tackle. Further, analysts would be able to correctly apply accurate blended finance instruments, including digital marketing strategies and technical guidance.

3) Taking the Risk of Investing in Health Sector Means Trusting the Tangible Impact
Nitin Vaswani (Pact Ventures) discussed with the panelists the private capital perspective on taking risks when investing in the health business. Lin agreed with private capital's concern in achieving the optimum utility between profit and social impact. She stated that the private sector considered health industry investment as risky. However, if they maintain the status quo, the goal would not be achieved either. Blended finance has been a framework to boost the communal target with a long-term tangible impact for the society.

4) The Role of Local Government
Estévez mentioned that the support of local governments in partner countries is also the key to implementing blended finance tools. Governments can create a positive environment for the investment through policies, micro data, instruments, and platforms to work with the small businesses. Local governments would also support financial service to ease the business process such as restructuring the financing cycle when needed. Since businesses are driven by profit, Young and Lin agreed that implementing blended finance tools would not only be equipped with policies and framework but also transformative law designed to protect grants and contracts.

Impact Bonds: What is it good for? Absolutely, ... something?!

Moderator: **Elina Sarkisova**, Senior Manager, Impact Investing and Innovative Finance Team, Resonance

Speakers: **Marcie Cook**, Vice President, Social Enterprise, Population Services International (PSI)
Dr. Emily Gustaffson-Wright, Fellow, Global Economy and Development Program, Brookings Institution
Lily Han, CFA, Principal, Volta Capital
Dia Martin, Managing Director, Social Enterprise Finance, Overseas Private Investment Corporation (OPIC)
Stefanie Ridenour, Financial Sector Specialist, World Bank Group

Event Description: Increasingly, donors and developing country governments are looking for novel ways to mobilize additional resources for development and make better use of the resources that they have. Some would argue that impact bonds have drawn a
disproportionate share of the spotlight compared to the number and volume of resources actually deployed. While still relatively new and untested (of the 132 impact bonds contracted worldwide, just 10 have been in developing countries), some initial evidence is starting to emerge about where they tend to work best, what's working and what's not working, and what is needed to take them to scale.

This discussion features a diverse group of panelists representing donors, investors, service providers and intermediaries. They will reflect on their own experiences implementing impact bonds and engage in an honest discussion about whether impact bonds have delivered. Potential benefits include: mobilizing additional resources, crowding in private capital, improving social outcomes, incentivizing innovation, transferring risk and improving the efficiency of funding. Is this happening? If not, why not

Key Takeaways

1) Coordination and Collaboration
Dr. Emily Gustaffson-Wright (Brookings Institution) opened the discussion by clarifying what impact bonds are and giving us a brief overview of who is using them today. An impact bond is not a bond, as it involves impact investing, public private partnerships, and payment by results. Impact bonds involve three main actors – investors, service providers, and outcome funders. An investor provides up-front capital to a service provider to provide services, while an independent evaluator verifies if outcomes have been achieved. If they have been achieved, then the outcome funder repays the investor. Dr. Gustaffson-Wright's overview highlights the many moving players involved in an impact bond, and the need for effective collaboration and coordination. Stefanie Ridenour (World Bank Group) also discussed the multistakeholder nature of impact bonds, which requires effective collaboration. Ridenour is currently working on a development impact bond (DIB) in the West Bank and Gaza focused on youth employment and development. This project has four different investors all working towards alleviating unemployment, which requires detailed coordination and collaboration.

2) All About Balance
Lily Han (Volta Capital) discussed the idea that it's important to find an equitable balance for all parties, not just the people who bring the most funding to the table. Han called impact bonds, "a tool to facilitate a broader cultural shift", and having a balance of risk and return can also lead to impact bonds that are more focused on long term sustainability down the line. There also needs to be a balance of risk in order to be able to increase innovation and flexibility. Ridenour mentioned that it depends on the investors' appetite for risk. For some organizations, simply taking on an impact bond is a risk, and as each DIB is different, the amount of risk that accompanies it will be different as well. Therefore, finding the right balance for those involved can lead to outcomes promoting long term systems change.

3) Focus on Outcomes Innovation
In response to a question posed about whether impact bonds drive better performance, Marcie Cook (Population Services International) discussed the outcomes-based nature of impact bonds. Stakeholders get paid for delivering on performance, and if one structures the bond properly, compensation can

be provided for overperforming. This is unlike the traditional impact instrument - instead of having a conversation about purchasing a specific good, the conversation shifts to delivering a specific outcome and what will happen in the case of over-performance. It can be a challenge to measure these outcomes, but it is important to the effectiveness of an impact bond, as outcomes are so integral to its success. **Dia Martin (Overseas Private Investment Corporation)**, who is working with OPIC on a DIB in Cameroon for cataract surgeries, mentioned that by leveraging the DIB structure, a third party can be added while the service provider still holds accountability. This can mitigate risk and strengthen funders' position with a service provider. This can also make room for other types of funding to be introduced. Additionally, this is also beneficial for the outcome funder, and can allow them to try new things with the investor and service provider, potentially leading to innovation down the line.

4) Looking Forward

Looking forward, all speakers stated they were still interested in impact bonds. However, after having worked with impact bonds, some speakers noted that they will move forward with caution. For impact bonds to be successful and effective, stakeholders need to focus on the sustainability of these long-term bonds. Impact bonds are not necessarily the right answer to every development issue every time, and they vary for various situations, however they can serve as an effective tool for many communities in the right circumstances.

Dr. Gustaffson-Wright left us with five key questions about measuring the success of impact bonds to keep in mind going forward:

1. Is there a demand for impact bonds/outcome-based contracting?
2. Are impact bonds reaching the populations in need?
3. Are the contracts achieving outcomes?
4. Are impact bonds achieving something besides outcomes?
5. Are the deals efficient (i.e. cost benefit analysis)?

For more information, contact us at events@sidw.org.

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