

Record of the WS-1: Roundtable 1

<p>THK Blended Finance Platform</p>	<p>The THK Blended Finance community was established in 2018 on the side-lines of the World Bank Annual Meeting in Bali to respond to the need for a united multilateral framework for advancing blended finance. The THK Roadmap on Blended Finance, launched in 2018, produced a set of common values to underpin blended finance operations, and later the THK response to the Covid-19 crisis. In 2021, the THK began a new chapter with the establishment of the THK Blended Finance Platform.</p> <p>THK is a unique platform for international dialogue on blended finance that convenes a variety of stakeholders from all over the world. The vision of the Platform is to become a policy interface between global actors in blended finance ensuring the development of innovative blended finance solutions produced by actors in the global blended finance ecosystem. The THK Platform aims to integrate the existing blended finance work of its members into three work streams and actively engage with international fora such as G20 and G7.</p> <p>→ For more information on the THK, visit The THK Website.</p>
<p>THK Blended Finance Platform – Workstreams</p>	<p>The THK Blended Finance Platform is conducting its work along three work streams:</p> <ul style="list-style-type: none"> - Work stream 1, ‘Transparency and Impact’; - Work stream 2, ‘Blended Finance Strategies in Developing Countries’; - Work stream 3, ‘Climate, Natural Capital and Biodiversity’.
<p>About this Brief</p>	<p>The first Transparency and Impact Roundtable took place on Thursday 3rd of June 2021. The Roundtable sought to identify the key areas in which transparency and impact intersect: Principally, issues concerning donors, development finance institutions (DFIs), multilateral development banks (MDBs) and asset managers’ reliance on commercial confidentiality and the barrier this poses to understanding the full extent of the financial and development impact achieved by private finance interventions. More generally, the session also explored the sheer complexity of the impact management and measurement ecosystem due to a lack of harmonisation, which acts as a fundamental obstacle to transparent DFI practices.</p> <p>This brief elaborates on the key issues and takeaways raised with reference to select case studies and proposes a set of recommendations for donors and DFIs moving forward (however, the recommendations extend more broadly to all actors engaging in development finance).</p>

Key Issues Raised

The Problem

Commercial confidentiality is a tool that donors, DFIs, MDBs and asset managers (referred to as providers of development finance) claim to use to regulate and protect their own companies and markets' competitive advantage. Commercial confidentiality can range from non-disclosure agreements (NDAs) to stricter rules.

The **disclosure of information on development impact** is often perceived by providers of development finance as an extension of financial disclosure and, therefore, **treated as highly sensitive and potentially compromising**, where this is likely not the case. Indeed, often providers of development finance claim that disclosing information on development impact would expose projects and investees to a loss of competitive advantage.

The **negative externalities** of such protection, especially for organisations with a developmental and market building mandate, need to be fully understood.

One such negative externality is the obstacle it presents to impact reporting, where commercial confidentiality may even become a convenient excuse for development finance actors to **neglect their reporting duties**.

In other cases, providers of development finance might refuse to provide this data **because the data does not exist**. Effective impact reporting requires the availability of granular data on a financial entity's operations insofar as they relate to the impact achieved, which might not be available as they are not properly collected and stored.

The Obstacles

The reasons for this lack of data on impact are multiple.

First, **many providers of development finance are simply not having a conversation with their investees about impact measuring tools, disclosures, metrics and data**, and how they can work together to collect this data.

Second, the sheer complexity and **lack of standardization** in the impact measurement and management ecosystem is a challenge. It might be complicated in some cases to define the most appropriate KPIs to track, despite the increasing harmonisation of impact measurement standards.

Third, **accessing the data required through legal exemptions** is a costly and time-consuming route for DFIs seeking to understand the real impact of their investees. For instance, there may be up to 30 side letters per fund a DFI invests in, incurring long contractual processes.

Key Takeaways

1. **Providers of development finance must undergo a mindset change regarding the need for transparency.** Transparency does not necessarily entail the loss of competitive advantage. On the contrary, transparency can actively support development finance interventions to become more impactful by replicating approaches that have successfully been adopted in the past and can help extending existing markets and creating new ones.

2. **Investors are eager to show that they take impact seriously:** large investment funds, asset managers and pension funds are looking for a supply of products with credible impact measurement and reporting, creating the momentum required for more transparency. Development finance actors have an opportunity to take the lead on impact measurement and transparent reporting.
3. **Shareholders ought to be leading the initiative for standardization in disclosure practices.** Donors that sit on DFIs' boards are often the same shareholders that sit on various multilaterals' boards, so they should be raising questions about how they govern DFIs', IFIs' and MDB's main mandates (developmental impact, market building etc.) without such information.
4. **DFIs are trailblazers.** Without in-depth, historical performance data, private capital will not follow them into these markets.
5. Policymakers and advocates for greater transparency should not underestimate the importance of legal arrangements: **contract processes should be a key area of focus.** Making reporting a legal requirement and requiring investees' consent for data disclosure as a condition for funding could also be a potential solution to the incentive problem.
6. Moving forward, providers of development finance need to come to terms with the reality that some clients may be initially lost due to transparency requirements.
7. **DFIs can move ahead on transparency even before impact standards harmonization:** whilst the harmonization of impact standards is desirable, it is not a necessary condition for practising greater transparency. The lack of standards should not deter development finance actors from being transparent about their practices and the results they achieve. Greater transparency can in turn support efforts to harmonise by shedding light on which aspects of impact measurement and management we should be targeting.
8. **Corporates can also be the ones leading and self-regulating:** the Taskforce on Climate-Related Financial Disclosures (TCFD, below) is a key example of this.

Case studies showcasing good practices in transparency

Global Innovation Fund (GIF):

The Global Innovation Fund (GIF) is a non-profit, impact investment fund headquartered in London and with offices in Washington, D.C. and Nairobi. In alignment with the Publish What You Fund's DFI initiative, GIF discloses all the [investments in their portfolio](#) on their website (including investment objectives, financing instruments, funding disbursed and expected impact), alongside [published summaries](#) of projected impact (ex-ante) and retrospective self-evaluation reports (ex-post).

The Task Force on Climate-related Financial Disclosures, TCFD:

Established by the Financial Stability Board in 2015, the TCFD represents a private-sector-led initiative to lead the way on transparency. The TCFD is quickly gaining traction as an influential regulatory instrument and, although disclosure remains on a voluntary basis for the time being, it is increasingly likely that it will become mandatory from 2022.

Whilst its objective is to address the dearth of information regarding risks to financial stability posed by climate change, rather than to capture environmental development impact, the four pillars of its final report (link) – governance, strategy, risk management and metrics & targets – are highly transferable for achieving greater transparency in how DFIs measure, manage and disclose their impact.

→ For more information on TCFD visit their [website](#)

Recommendations for donors and DFIs:

DFIs should:

1. Prioritise discussions about impact data disclosure from the outset of investee relationships.
2. As a matter of urgency, reformulate contracts and non-disclosure agreements to provide a facility for sharing investee impact data for all future investments.
3. Do not wait for impact measurement harmonization efforts to mature before disclosing the impact data currently collected from investees.
4. Ensure that both impact experts and legal teams work together to find solutions for public disclosure of investment-level impact data.

Donors should:

1. Ensure to formulate an explicit policy that recognizes the importance of transparency in development finance interventions and strives for maximum transparency in such interventions;
2. Act as active owners of the DFIs, and push for more transparency on the development impact results of blended finance operations

KEY RESOURCES FOR FURTHER READING ON COMMERCIAL CONFIDENTIALITY, IMPACT AND TRANSPARENCY

- Publish What You Fund’s DFI Transparency Initiative can be found [here](#)
- The Eighteen East Capital research referenced by Thomas Venon is [here](#)
- The interview with GIF’s Ginny Reyes Llamzon, including examples of the KIPs they collect and publish from investees, can be found [here](#)
- “Mythbusting confidentiality in public contracting”, by the Open Contracting Partnership, can be found [here](#)
- “The Principles on Commercial Transparency in Public Contracts”, by the Center for Global Development, can be found [here](#)

- The International Aid Transparency Initiative (IATI) can be found [here](#)
- An Overview of THK Roadmap Working Group Outputs can be found [here](#)
- The work of THK Transparency Working Group can be found [here](#)
- Recording of the presentation of THK Transparency WG outputs can be found [here](#)
- OECD-UNDP Impact Standards for Financing Sustainable Development can be found [here](#)