

Finance United:
Impact Investors, Financial Service Providers and the SDGs
Conference co-hosted by OECD and Cerise+SPTF
30 September 2020
Session Notes

<u>Name of session</u>	The Role of Donors in Driving the Impact Measurement and Management Agenda and Standardization
<u>Time</u>	3:30 – 4:30 pm
<u>Moderator</u>	Lisa Hehenberger , Associate Professor, ESADE
<u>Speakers</u>	Lasse Moller , Chief Consultant in the Green Diplomacy and Climate Office, Ministry of Foreign Affairs of Denmark Christine Poursat , Deputy Head - Financial Systems, Agence Française de Développement (AFD) Paul Weber , Secrétaire de Légation, Ministry of Foreign and European Affairs, Luxembourg

NOTES FROM THE PRESENTATIONS AND DISCUSSION

Question 1: How is development finance structured in the donor countries? How are your practices aligned with the Impact Standards for Financing Sustainable Development (IS-FSD)?

Lasse Moller's response:

- There used to be direct engagement with investees. But we are trying to exit these engagements as the Ministry is not set-up to be a shareholder in a private fund. We are trying to transfer ownership and shares to DFIs. This means that we also hand over all tools (including standards) that we have developed.
- On our experience of standard implementation: Our journey started in 2017. Transformation happened at IFU that affected our thinking and work on impact. We have to report on impact of IFU. But we did not have systems to measure and manage impact. It was clear that we needed to change this. The OECD standards came out in 2021. We had already been working on something similar since 2020. Today, impact considerations are actively considered in the lifecycle of the investments. Our standards are still young and we need to mature in our work on them, but we are on a positive path.

Paul Weber's response:

- Financial inclusion is a way to introduce resilient development. Luxembourg is one of the leaders in microfinance as we have half of AMU in the country. We

want to create standards. Standards play a key role to help ensure we invest wisely. SPTF here has a big role. In short, for Luxembourg it is important to promote responsible finance and help investors achieve their SDG goals. We have a grant-based approach and are working closely with investors. We are still modeling the standards. Standards are critical as budgets being channeled into different directions and impact data can help refine the channels where the money should flow.

Christine Poursat's response:

- AFD is not an 'Agency', but a development bank. It is a hybrid donor. AFD has a subsidiary, Proparco, that is dedicated to private sector funding while AFD is supporting public entities.
- On Accountability - France a few years ago decided to increase its commitment in development. AFD almost doubled in size. This came with higher accountability requirements. A core objective is to work on climate change. Gender issues are also a priority and about half of our projects require gender related progress. We issued the first SDG bond 2 years ago and this has meant greater accountability.
- Historically, we were one of the first to invest in the microfinance sector. We understand that impact starts with the clients.
- As donors we tend to reflect on our own accountability, and we do not want to impose our definition of accountability on others.
- Strategically, we do consider how we move towards ensuring that our investees have more impact. Here, we understand that we cannot only rely on self-regulation; policymakers need to be on board. Therefore, we began supporting SPTF. We have seen the importance of the Universal Standards.

Question 1: What practical advice and lessons have you as donors learned?

Lasse Moller's response:

- The Ministry of Foreign Affairs has taken an active role. The IFU is better suited for development cooperation. We have a state ownership policy of the government. The state is obliged to take ownership of state-owned companies which means setting social and financial targets. We have an 'ownership document' - this is a minister's direction to the board of the company on its agenda. This document is being revised and we are discussing how to add the standards into the ownership document. We can use the impact standards as a tool for dialogue. The IS-FSD are comprehensive and can be overwhelming, but the key is that there is no need to implement all the standards at once. We can implement standards systematically.
- These standards allow us to ask critical questions on why entities cannot implement them – are systems not adequate? On the Ministry's side, we assess whether our human resources are adequate. This is also where the standards can help guide in asking the relevant questions.
- One challenge is to ensure that other ministries are on the same page. We need to remember that the IFU is an old institution and old habits die hard. If return on

investment was the focus for 50 years, then moving away from that measurement matrix is hard.

- Another lesson is that impact must begin with top management. Therefore, it has to be on the radar of the investment officer's due diligence and reporting.

Paul Weber's response:

Key lessons we learned:

- An important approach is to listen to other stakeholders. Promoting exchanges and promoting best practices is key. This enables all stakeholders to contribute their resources.
- A common understanding of the goal and timeline is needed
- Outcomes measurement: It is a complex and a challenging process. This is inherently connected to data availability and quality. These data impact management decisions. Funders and regulators can play a decisive role in the process to build capacity on outcomes measurement. This can be via technical assistance and funding.
- Luxembourg development corporation is providing labels to asset managers to highlight ESG credentials of their investment products.
- As a donor, we also support RIFF SEA - this enables co-finance of TA to improve SPM of local financial institutions. We are also working to build capacity with regulators. So, we also work with AFI to address inclusive finance topics.
- A critical lesson is that we need to promote change of mindset.

Christine Poursat's response:

- I started working on microfinance a few years ago, in Cambodia. Cambodia is a good example on the use of the standards and the challenges. Every donor wanted its own MFI example. But a few years ago, the difficulties started and everyone wanted to tackle the problem. There has been fantastic work with many actors to get in best practices like the Client Protection Standards, the Universal Standards for SEPM, along with assessment tools like the SPI-4, but the problems have not adequately subsided. This is because some do not play by the rules.
- Standards work if everyone plays by the rules. Some were not doing that. Cambodia Microfinance Association, the Association of Banks, and the National Bank of Cambodia are all trying to work together – the BFSI Code of Conduct reflects this as it incorporates many standards. We need regulators on board as they can help ensure all actors are aligned.
- A lesson that emerged during the pandemic is that in a crisis, all stakeholders in the financial services sector want to ensure minimum profitability and financial stability.
- In addition, donors are tempted to create new tools and this temptation must be resisted and better coordination between donors is needed. We need to value what we have.

Comment from Lisa Hehenberger: We need to ensure that funds go to those partners who need it to ensure that standards are implemented.