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Sida's Financing for Development programme

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Since early 2014, Sida is running a program consisting of a number of projects aimed at developing new and innovative forms of financing for development for greater leverage of resources to reduce poverty. The program will increase the capacity and competence of Sida to use financial instruments like guarantees and development loans and to mobilise resources through partnerships with a range of new actors from the private sector to institutional and philanthropic investors as well as the public sector.

What is Financing for Development?

The term Financing for development was launched by UN and the international community to catalyse resources beyond Official Development Assistance (ODA) for development purposes. ODA will remain very important, particularly for the least developed countries and fragile states, and Sweden is pushing for the target of the developed countries to be 0.7% of the gross national income. At present, only the Nordic countries, Luxembourg, UK and Holland have reached this level.

As part of the UN's new Sustainable Development Goals (SDGs) for 2030, financing for development has a more significant role than in the previous Millennium Development Goals. A UN Working Group on Sustainable Development Financing has calculated that around $ 4,500 billion would be required annually to finance the new SDGs, which is thirty times the present aid levels being contributed by the international aid community. It is therefore essential to identify other sources of financing.

The following are the main areas included in the financing for development concept which could contribute to increase development funding:

1. Raising domestic financial resources for development, emphasizing taxes and development of domestic capital markets.
2. Leveraging international resources of finance, foreign direct investment and other private financial flows.
3. Promoting trade by improved trade regimes.
4. Increasing technical cooperation.
5. Attending to systemic international issues such as the sustainability of trade, the financial market and financial systems.
6. Reduce illicit financial flows, capital flight and increase tax liabilities for international corporations in countries where they operate.

Sida is, on the assignment from the Swedish government, working on a four-year internal program on "Financing for Development". The focus of the program is to identify methods to catalyse international financial flows from the private sector, philanthropists and individuals (remittances), to increase the domestic revenue base through development of capital markets, pension and insurance schemes, broadening the tax base, etc. in the partner countries and increasing the efficiency in the use of aid resources (use of results-based approaches, funds, loans, guarantees, equity capital, etc.).

The programme started in 2014.

Training to become vehicle mechanics at Volvo Group's vocational training center in Addis Ababa, Ethiopia. Photograph: Sida.

Sida's Financing for Development projects

1. **Swedish Leadership for Sustainable Development (SLSD),** is a network consisting of over 20 well-known Swedish companies and three organisations which work together to demonstrate leadership in long term sustainability. The joint target is to combine business goals with development goals with the overall mission to reduce poverty and find long-term solutions to the development challenges faced today. The network was initiated and is coordinated by Sida, but builds on the initiative and drive of the companies and organisations involved. The areas of work are: Creation of jobs with decent conditions; reduction of negative environmental impacts; anti-corruption; Information and Communication Technology for development (ICT4D); and sustainable financing. The members share experiences, work for joint actions, and develop and carry out new projects and initiatives. In August 2015 a new declaration, based on some of the new SDGs, will be launched.

   Joint projects are started when development and business interests coincide. One example is a joint initiative highlighting anti-corruption issues to be included in the new Sustainable Development Goals. Other examples are: Partnership between some 20 textile companies, and the Stockholm International Water Institute, SIWI. The project Swedish Textile Water Initiative, STWI with the goal of reduced use of energy, chemicals and water; the Volvo Group vocational training initiative in several African countries, in partnership with Sida and UNIDO; H&M's cooperation with ILO and Sida on the decent work agenda, promoting a stronger social dialogue between parties in the labour market.

2. **Mobilizing institutional capital** is an initiative aiming at encouraging financial players such as pension funds and insurance companies to invest in sustainable infrastructure in Africa.

   The long-term objective is to promote growth by giving people access to good-quality infrastructure such as sustainable transport and energy systems.

   As part of this work, Sida, the Third Swedish AP-Fund and the private pension fund SPP/Storebrand have jointly produced a proposed model for promoting such investments. The proposal is being discussed with a number of the development banks (IFC, the European Investment Bank and the African Development Bank). The role of Sida and other donors could be to provide guarantees. Sida and the American aid agency, USAID are collaborating to inspire and encourage investments by international and private capital institutions in sustainable infrastructure in Africa, through the creation of the "platform" Sustainable Development Investment Partnership.
3. **The guarantee project.** Sida has a government guarantee instrument with a total frame of SEK 10 billion intended to reduce the risks for private banks lending to projects aiming to reducing poverty. The project aims at integrating tools and methodologies in regular Sida´s operational systems.
4. **Innovative, performance-based financing approaches** includes the development and inclusion in Sida's methodology of new approaches such as Output Based Aid. OBA is a methodology where grant funds are disbursed once results have been achieved, instead of initial disbursements for activities. The methodology gives the partners greater flexibility to choose implementation methods, and shifts the responsibility for outcomes and risk from the development agency to the partner.

   The project on performance-based initiatives will support streamlining systems in partner countries. The methodology is suitable for partnerships with various enablers such as the state, the private sector and civil society organisations. Using the practical experience gained from a number of pilot projects, Sida will produce a methodological framework to be use in the operations.
5. **The science, technology and innovation (STIP) partnership with USAID** has the long-term objective of using scientifically-tested products or models to solve development challenges. Several initiatives are underway including four Challenge Funds, where entrepreneurs, innovators and others can apply for funds and grants for innovative solutions. One example from the Securing Water for Food fund is the not-for-profit company Practical Action, which has developed a method for growing nutritious pumpkins on land in Bangladesh that was previously impossible to use for farming. Another example is Clean Irrigation Solution, a solar-powered pump that has been supported through the Powering Agriculture initiative to develop its environmentally-friendly technology which has the potential to reach 800 million farmers.

   Many of the solutions developed on a trial and error basis are to be scaled up so that they can benefit as many people as possible in areas where the need for development is greatest. Sida and USAID are working to engage more partners in this work, including several other bilateral donors.
6. **Power Africa** is a sustainable energy project initiated by USAID which aims at doubling the access to electricity in Sub-Saharan Africa in ten years, resulting in reduced poverty through increasing economic growth.

   Sida is focusing on sustainable energy solutions, encouraging investments in renewable energy such as solar, wind, geothermal and hydroelectric power and increased energy efficiency in partner countries. Power Africa also aims to mobilize new sources of capital for investment in sustainable energy in Africa, possibly through guarantee arrangements.
7. **Innovative financing.** Sida has undertaken an analysis identifying the gaps between current financial instruments and what is possible through innovative financial solutions. The main focus is on mapping Sida's current knowledge and capacity and identifying various forms of innovative financial solutions used in the market and the extent to which they are suitable to be used for aid purposes.
8. **EU blending.** EU is the world's largest donor for international development and an increasing proportion of the EU aid budget goes to 'blending', a combination of loans from development banks, private banks and other financing bodies, including donor grants. Blending is used mainly for the development of infrastructure, environmental projects and private sector development, particularly small and medium-sized enterprises.

   The grant element in blending is important for facilitating investment where the costs would otherwise be higher than is sustainable for both the borrowers and the beneficiaries. With this project, Sida aims to influence EU's blending mechanisms to focus more on environment, gender equality and social issues. The project should also result in greater leverage of Sida's contributions through increased coordination with EU blending and use of Sida's guarantee instrument.
9. **The project on Social security systems** aims at identifying methods and models to strengthen public and private social security systems to increase the portfolio of projects within this area.

   Collective solutions such as pensions and various types of insurances can help to increase social security and result in long-term reduction in poverty. Well functioning social security system is an important factor to encourage increased wish to pay taxes and will increase funds available for redistribution systems. Social security systems are also strongly linked to sustainable economic growth and the human rights agenda. Systems can also be designed to stimulate employment and entrepreneurship and to strengthen the social contract between the state and the individual.

Financing for Development – includes a broad collaboration with a range of different parties

Financing for Development has gradually started to be integrated into development work in the international arena, one of the reasons being that funds from private parties today represents aproximatelly 80 per cent of the total flow of resources to low and middle-income countries. Studies by IFCshow that it is the private sector that creates many of the new, sustainable job opportunities that are one of the most important factors in eradicating poverty. Despite the fact that there has been an overall increase in aid during the 2000's, it constitutes a decreasing percentage of the total flows to low and middle-income countries. In this context ODA can in addition to the other functions, be a catalytical tool that unlocks other funds available for sustainable development.

In addition to Sweden, several other countries, including Germany, Holland and the UK, undertake work on financing for development, as does the supranational organisation OECD DAC and a number of private and philanthropic players.

For more information, please visit www.sida.se/english.

Photography: Top from left: Sida; GAVI Alliance/Riccardo Gangale; GMB Akash; Sida. Centre from left: Andrew McConnell/ Panos; GAVI Alliance/Riccardo Gangale; GMB Akash. Bottom from left: Sida; UNFPA Lao PDR.
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THE SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Postal address: 105 25, Stockholm, Sweden
Location: 199 Valhallavägen, Stockholm, Sweden
Tel: +46 (0)8-698 50 00. Fax: +46 (0)8-20 88 64.
Email: sida@sida.se www.sida.se

Sida