

LIVING IN INTERESTING TIMES

RISKS AND OPPORTUNITIES FOR DEVELOPMENT ASSISTANCE AGENCIES

By Patrick Brean, Managing Director, Crystalus Inc.

The world of development finance is changing in leaps and bounds.

Witness the growing presence of major foundations and super-NGOs; massive inflows and outflows of private capital into developing and frontier markets; innovative financial structures such as development impact bonds, multi-donor trust funds, and public-private investment funds. This unprecedented confluence of activity is striking in both pace and scope.

For development assistance agencies, these seismic shifts are rapidly changing the rules of international engagement, creating both risks and opportunities.



Can donor agencies adapt to remain relevant and even increase impacts? If so, how?

These important questions require careful consideration and thoughtful action.

Bigger and Fewer

Governments have agreed to eradicate extreme poverty by 2030. This, combined with other development objectives, comes at a cost of some \$4 trillion annually. With the current annual funding gap estimated at around \$2.5 trillion, everyone agrees that big, bold solutions are needed.

The good news is, these are underway. Recently, the Bill & Melinda Gates Foundation and the Islamic Development Bank announced a \$2.5 billion concessional loan fund for poverty alleviation. Larger still, the new Green Climate Fund has raised over \$10 billion from 38 countries to support

climate adaption and mitigation projects in developing markets.

Clearly, scale is a growing trend. But so is concentration.

Nowadays, fewer organizations carry out a greater share of development activities. In Canada, for example, *Development Initiatives* notes that only 2% of NGOs account for nearly 80% of all revenue raised by the sector for international development. It's a similar story in Ireland, where 4% of NGOs raise 75% of development revenues. Even in the US, around one-third of NGOs control nearly 60% of all revenues collected.

Financing for development is, in effect, adopting a wholesaling model.

If Your Only Tool is a Hammer...

International fora, such as the recent UN Third Conference on Financing for Development, helpfully underline shared principles among governments that the private sector is the primary engine for sustainable growth in poor countries, and that increased engagement with private and not-for-profit players is essential to mobilize the necessary financial and technical resources.

Unfortunately, the ability of donor agencies to deliver on these principles in a broad-based way remains elusive.

In our view, realizing such an ambitious development agenda requires quick and meaningful change in three areas:

1

First, adapt existing tools and approaches to fit better with growing trends and emerging players. Until recently, development agencies relied mainly on traditional grant models to promote poverty solutions, leaving more sophisticated financing techniques to development finance institutions and multilateral development banks. This no longer holds true – marshaling substantial capital and know-how requires creative, catalytic use of donor funding, often mixed with private and not-for-profit resources in multi-party investment vehicles.

In practical terms, this means expanding the financial toolkit in a sensible way, including greater use of instruments like concessional loans and guarantees. But it also means being flexible in deploying these tools to maximize engagement and impacts. Linear thinking and “square peg-square hole” orientations won't produce results.

Expanding the Financial Toolkit

Recent advances in blending traditional ODA with private capital in an innovative fashion include deploying instruments with characteristics which help transfer risk to the party(ies) best positioned to bear it. Thus the emergence of financial structuring techniques involving:

- First loss deficiency indemnities
- Partial guarantees
- Mezzanine tranches
- Patient capital
- Capital with lower return and/or exit expectations
- Capital tied to development performance.

2

Second, government donors must recognize that brave new approaches require sufficient internal capacity and expertise to manage risks, ensure value for money and optimize development results. Increased engagement with private and not-for-profit entities gives rise to greater fiduciary, reputational and operational risks – these must be dealt with in an organized, eyes-wide-open manner.

3

Third, agencies must accept that they won't get all of this right all of the time. Development work is imperfect, and this will be the case – only more so – as

governments partner increasingly with private players. Will there be bumps along the way? Absolutely. Will planned development outcomes always be achieved? Certainly not. But these are not reasons to avoid creative new ventures; rather, they underline the need for a longer-term game plan which produces more wins than losses, and re-incorporates lessons learned from each success and failure to improve results over time.

Among Western countries, the use of ODA loans is growing faster than grants, and now accounts for more than a quarter of all bilateral donor funding

How can Crystalus help you?

We deliver unparalleled expertise in new aid delivery mechanisms by helping clients seamlessly integrate development finance and structured finance approaches involving debt, equity and all approaches in between. We have advised on over \$4 billion in multilateral and public-private development finance initiatives around the world. And we have worked with all key players – government agencies, multilateral institutions, not-for-profits, and private fund managers – to advance development finance initiatives and ensure appropriate internal capacity and expertise.

Services include:

- Seamless integration of complexities between development finance and structured finance
- Opportunity identification and assessment
- Strategic positioning and messaging
- Due diligence and risk analysis
- Identifying and working with funders (public, not-for-profit and private)
- Knowledge transfer, tailored training, mentoring

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CRYSTALUS RECENT MANDATES

Governments & Multilaterals

CLIENT	LOCATION	ACHIEVEMENT
Government Agency	International	<i>Due diligence and risk advisory for a major multi-donor climate fund</i>
Government Agency	International	<i>Structuring and risk advisory for three emerging-market investment funds totaling \$500 million</i>
Government Agency	International	<i>Risk management and assessment tools & training</i>
Government Agency	Asia	<i>Export credit agency business strategy and financial modeling</i>
Multilateral Institution	Middle East	<i>Structuring and advisory for trust funds totalling \$1 billion</i>
Municipal Loan Fund	North America	<i>Outsourced credit due diligence</i>
Clean-Tech Fund	North America	<i>Risk management, credit risk advisory and training</i>
Export Finance Institution	Europe	<i>Outsourced credit due diligence</i>
Export Finance Institution	International	<i>Training courses in due diligence and credit analysis</i>
Export Credit Agency	North America	<i>Carbon finance products and risk assessment</i>
Government Agency	North America	<i>Restructuring of asset-backed securities investment portfolio</i>
Government Agency	North America	<i>Program risk analysis and governance structure assessment</i>
Multilateral Institution	Middle East	<i>Performance evaluation and restructuring plan</i>
Multilateral Institution	Middle East	<i>Risk management framework for private sector financing operations</i>

Private Sector

CLIENT SECTOR	LOCATION	ACHIEVEMENT
Foundation	International	<i>Donor engagement advisory for \$2.5 billion loan fund</i>
Investment Fund	International	<i>Fund structuring and capital raising</i>
Nanotechnology	North America	<i>Strategic & financial planning, capital raising</i>
Investment Fund	North America	<i>Investor engagement and business planning</i>
Foundation	Latin America	<i>Business plan, capital structure, financial modeling</i>
Waste Recovery	North America	<i>Business plan, financial modeling and funding strategy</i>
Renewable Energy (Solar)	North America	<i>Financial modeling and capital structure</i>
Major Banking Group	Asia	<i>Business plan and funding strategy for special-purpose subsidiary</i>
Emerging Market Fund	International	<i>Investor memorandum</i>
Renewable Energy (Biotech)	Caribbean & Latin America	<i>Business plan, financial modeling, capital raising</i>
Mobile Voice & Data	Africa	<i>Business plan, funding strategy</i>
Biomass Conversion	North America	<i>Business planning and strategy, financial modeling, capital raising</i>