

16-09-2020 | OFFENBURG SYMPOSIUM - INNOVATION LAB 3

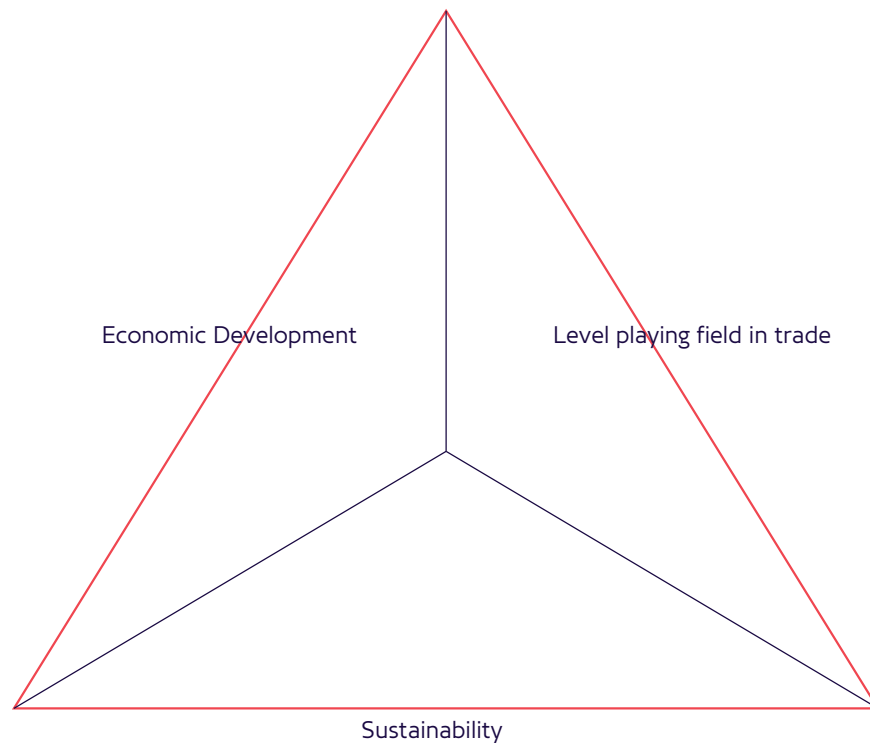
Achieving a Global Level Playing Field and Sustainable Economic Growth Simultaneously – the role of public finance



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3 OVERRIDING INTERNATIONAL POLICY GOALS OF PUBLIC FINANCE



Innovation Lab 3



- Observations/postulations
- Background/Analysis
- Exercise: exploring policy frameworks that accomodates the 3 policy goals

OBSERVATION 1

The three policy goals are linked but.....

- we deal with them separately (export finance, development finance, sustainable finance, blended finance, climate finance etc.)
- We count them differently
- We apply different standards and rules

.... And the risk is a disequilibrium between the policy goals where the objective of one goal impedes the others



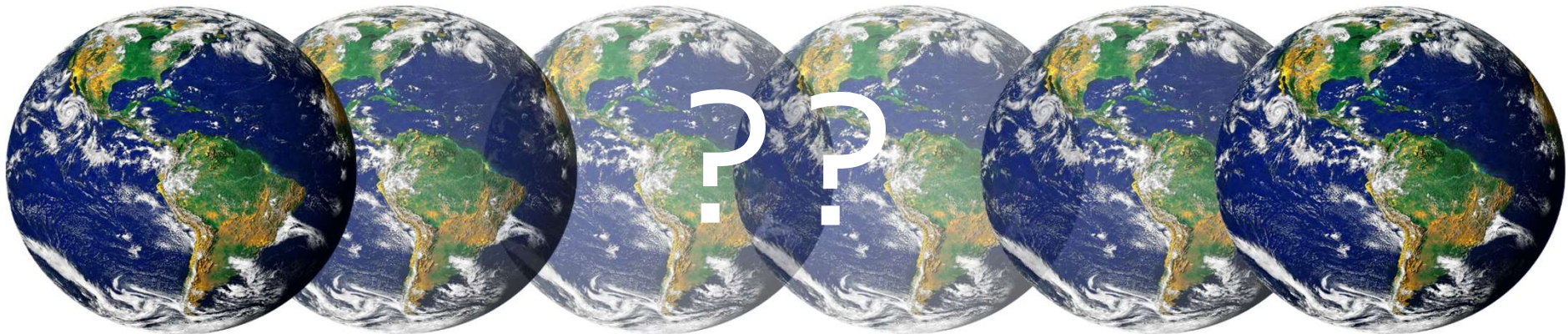
OBSERVATION 2



Export finance and development finance is converging...

Trade finance

Development finance



- Focus on good governance
- Focus on social and environmental standards
- Demands for SDG contribution

- Enormous SDG financing gap
- Focus on catalytic instruments
- Focus on mobilising private capital

OBSERVATION 3



Some believe that the purpose of financing is the determining factor i.e. only finance that has sustainability as a purpose can be sustainable.

Or only finance aimed at supporting trade can distort trade.

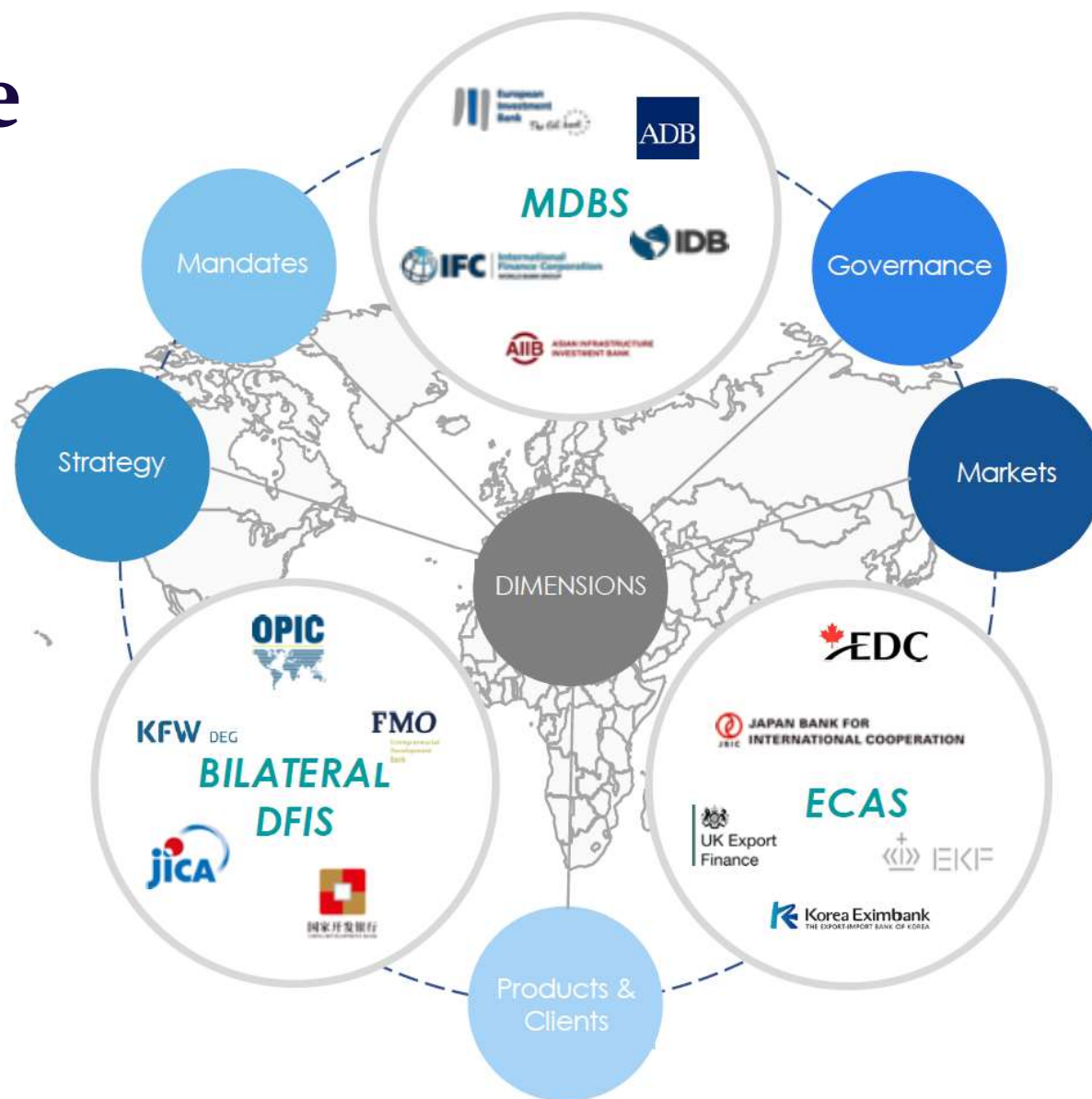


Understanding the observations

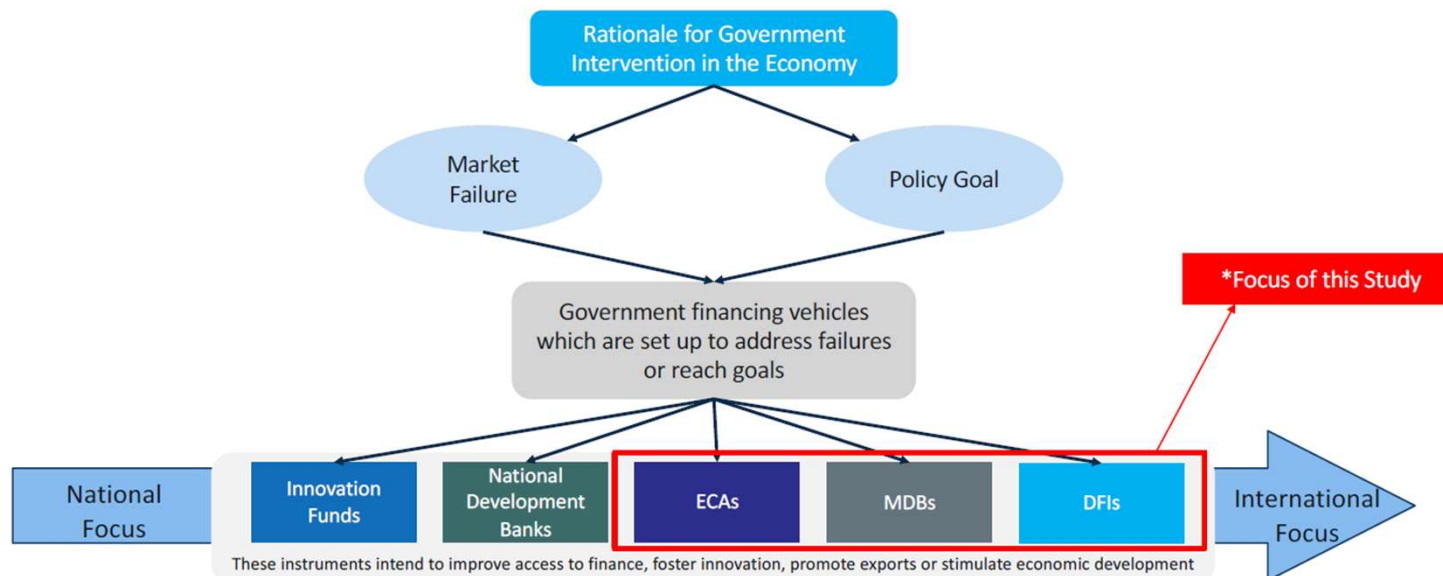
STUDY ON CONVERGENCE OF DEVELOPMENT FINANCE AND EXPORT FINANCE



November 2019



Theoretical background



Principles of interventions



DFIs

- Promote private sector development, e.g. as a contribution to better living conditions
- **Additionality**, i.e. enabling an investment that would otherwise not happen
- **Catalytic** or demonstration effects, e.g. only where the market can or doesn't do the same
- Promotion of sustainable economic development

MDBs

- Promote comprehensive human development focusing, e.g., on alleviation poverty
- **Additionality**, i.e. interventions beyond what is available in the market
- **Catalytic** or demonstration effects, e.g. first mover and initial risktaker in transactions
- Financially sound projects and pricing not below commercial markets

ECAs

- Foster exports helping to create and secure jobs in the national economy
- Often also **additionality** with a 'lender or insurer' of last resort approach
- **Catalytic** effects, in particular due to advance payments and insurance self-retention
- Sound risk underwriting and organisational financial viability

Overview



Dimensions	Bilateral DFIs	MDBs	ECAs
Mandate	Promote poverty reduction and inclusive growth through sustainable private sector development	Promote economic development and regional integration	Promote exports and national economies
Institutional Structure	Stand-alone financial institution	Stand-alone supranational financial institution	Diverse institutional structures
National Interest Considerations	Trend to increasingly target national companies within the assigned mandate	No national interest as by multilateral nature of institution; however certain procurement restrictions with regard to membership exist	Trend to reduce national content requirements and diversify into product areas that are not bound to a specific export transaction
Strategy	The Bilateral DFIs assessed had national interest as an integral part of their strategy	Improving development impact in member counties	Mostly focused on advancing the national economy and the respective country's trade and export performance
International Representation	International representation varies widely among bilateral DFIs	Strong regional representation, typically in every member country	International representation varies widely among ECAs, with a trend towards increasing international representations

Overview



Dimensions	Bilateral DFIs	MDBs	ECAs
Cooperation	Sometimes cooperate with MDBs in terms of co-financing. Occasionally seek out ECA insurance for transactions.	Sometimes cooperate with DFIs in terms of co-financing.	Sometimes are used by Bilateral DFIs for the purposes of providing insurance for their transactions.
Core Product (Private Sector Loans)	Focus area of bilateral European DFIs: various forms of private sector loans available.	Some have private sector arms; various forms of private sector loans available.	Core product by lending ECAs
Core Product (Insurance/Guarantees)	Guarantees as standard product offering. Some also offer political risk insurance and trade finance guarantees.	PCG/PRG Trade finance guarantees	Core product of non-lending ECAs
Geographies	Primarily focused on emerging markets, particularly Africa. Some also focus on geographies with regional or cultural proximity and/or historical ties.	Defined by membership. Focus on emerging markets, particularly Africa, as well as low-income and fragile/conflict-affected countries.	Interlinked with the respective country's national export structure
Sectors	infrastructure, manufacturing, services and agribusiness; renewable energies and energy efficiency now more of a strategic focus; local financial institutions.	Strong link with global commitments and policies; Strong support for infrastructure and energy; region-specific.	Reflect national export structure; ECAs, promote certain sectors and technologies of national strategic importance.

Overview



Dimensions	Bilateral DFIs	MDBs	ECAs
Oversight	National government is shareholder; Board governance structure with government representation.	Governments from Member and Non-Member countries are shareholders; Board governance structure with government representation.	National governments are shareholders; Various oversight mechanisms and levels of operational influence depending on the institutional structure; Most have Board governance structure; Government representation is common with some exceptions.
Environmental and Social Governance	Established systems, active knowledge sharing between European DFIs.	Established systems, thought leadership and capacity building offered.	Regulated system including structured transaction-based transparency and regular knowledge sharing between OECD ECAs including yearly learning event with MDBs.
Transparency	Trend towards increased transactional and operational transparency.	Comprehensive transparency on proposed and approved projects.	Established transparency mechanisms among OECD ECAs under the OECD Arrangement.

Conclusions



- › The study confirms a convergence between institutions and mandates
- › The study identifies a potential for using this convergence, for example through increased cooperation
- › The study makes clear that very different regulatory frameworks apply to instruments and institutions that are becoming increasingly similar.

How do we make sure that instruments and institutions become compatible and complementary and not competing?
How do we make sure that regulatory frameworks for one instrument does not impede the objectives of another?



Group Discussion

- How do we achieve a level playing field, sustainability and economic development simultaneously?
- Which political ambitions, trends and policy frameworks exist in each field?
- Do they impede each other, are they mutually exclusive, or can they work together? If so how?

Please use the chat function to request the floor during the interactive group discussion

Economic Development

What are the existing relevant policy
Frameworks, ambitions, global structures for public interventions?

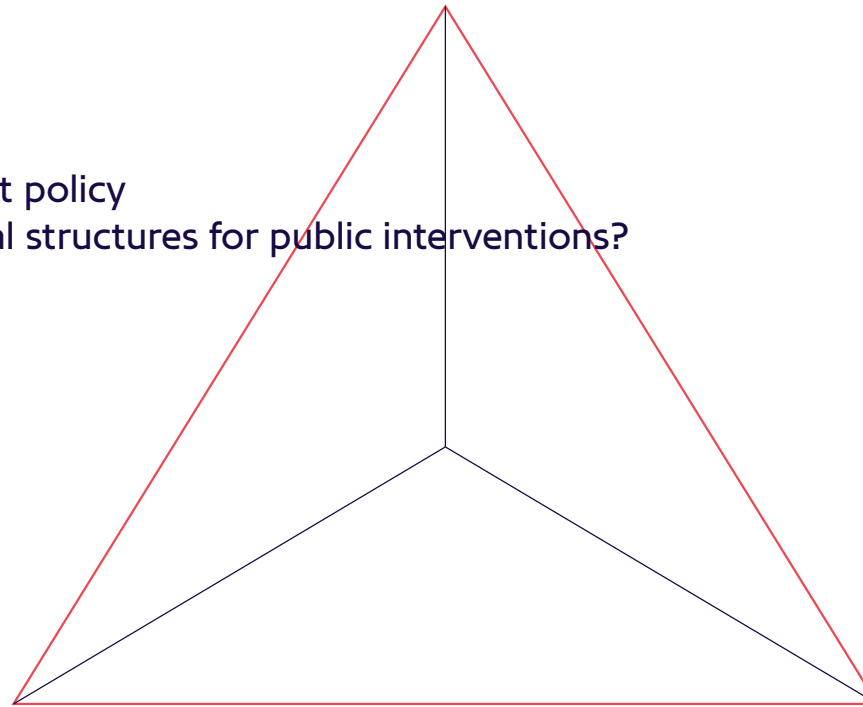
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Level playing field in trade



Existing relevant policy
frameworks, ambitions, global structures
for public interventions?

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Sustainability

What are the existing relevant policy
Frameworks, ambitions, global structures for public interventions?

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-
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Questions for discussion



1. Are the three goals mutually exclusive?
2. How do you ensure that governments don't compete with attractive financial packages? Are there any existing measures that should remain? Are any changes necessary?
3. To achieve a level playing field in the use of government financing what is the ideal structure? Do we have the ideal structure globally? China has one approach, OECD countries another?
4. Which is best at achieving the level playing field/economic development/sustainability?
5. What is the greatest challenge for a level playing field/increasing economic development/sustainability in the use of official finance?
6. Do any of your views change when you add the aim of promoting economic development and enhancing sustainability?