Discussion paper

The role of blended finance in the 2030 Agenda

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Setting out an analytical approach

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Executive summary

The potential role of blended finance to contribute, alongside other resources, to the UN 2030 Agenda for Sustainable Development has gained increasing interest in international dialogue. However, despite a long history of such instruments and more recent global commitments, together with established partnerships and policies of some key donors, blended finance is not a well defined term at the international level, nor does it refer to one specific financing arrangement. The 'leveraging' of additional funding into development projects is being accomplished through the use of a wide variety of financial instruments, as well as other forms of cooperation between both public and private actors. There is little accessible data or evidence on common blended finance instruments in use, nor is there a common language to define and shape international dialogue. These gaps hamper informed and progressive policy dialogue. There are also critical data and evidence gaps that limit the ability of stakeholders of international agreements to monitor the progress and commitments of key actors delivering blended finance. Consequently, this undermines transparency and accountability and thwarts attempts to better understand the key role that blended finance could play in financing the 2030 Agenda.

Any proposal on the future role and use of blended finance as a tool for financing the 2030 Agenda needs to be grounded in data and evidence that responds to a set of key questions. These include technical questions – e.g. what instruments and actors are delivering blended finance, how, where, for whose benefit and with what outcome? – as well as quality/effectiveness questions concerning transparency, accountability and data availability; policy coherence; and country ownership. More and better information is needed in the public domain to ensure that blended finance is used where it is most appropriate and reaches its maximum potential in the 2030 Agenda. Furthermore, providers need to be recognised (and accountable) for their role in financing sustainable development through blended finance.

These data and information gaps are the focus of Development Initiatives (DI)'s research programme on blended finance. The objective of this discussion paper is to lay out DI's analytical framework on blended finance and its role in financing the 2030 Agenda. We welcome any feedback from all interested stakeholders on the approach, including our priority research questions and the data and information sources, which will be consulted in the course of our work.

DI's research programme on blended public-private finance

The objective of DI's new long-term research programme is to contribute to evidence-based policy dialogue. This is to ultimately ensure that blended finance mechanisms are used to their comparative advantage to deliver better development cooperation for people and support the achievement of the Sustainable Development Goals (SDGs) in line with effectiveness principles. The rationale underpinning this approach is that projects financed through blended mechanisms should, like other forms of development cooperation, be clear as to who is benefiting, and how, and have sustainable, positive development impacts, including for the poorest people. This discussion paper is the first product of this research programme. It will be followed by a policy briefing focusing on the quality and effectiveness of blended finance in late summer 2016 and our first data-driven report, which will be launched online in October 2016.

Introduction

While ambitious Sustainable Development Goals (SDGs) have been agreed by UN member states, there is a significant financing gap for developing countries aiming to meet these goals, with the size of the gap estimated at trillions of dollars annually.[1] This gap will not be filled by official development assistance (ODA) alone as this resource currently totals around US$130 billion per annum. Many of the least developed countries will also face severe challenges in mobilising enough domestic resources to meet these financing needs, even with international support. The 2030 Agenda is, therefore, an all resources agenda.

The private sector has an accepted role in the 'global partnership for development', both for its role in job and growth creation and, more recently, in the mobilisation of capital to fill gaps in development finance, particularly in the infrastructure and energy sectors. However, private investors do not always invest in the sectors or countries most in need, as they are restricted by a number of (debated) barriers to investment. Blended finance (in the development context) is a group of financing mechanisms that uses public sector funds (and, sometimes, philanthropic funds) to mobilise additional capital for the financing of development projects. This form of finance has received increasing attention from the international community in recent years as an 'innovative' way for traditional aid providers to mobilise investments. While this decade saw the first widespread recognition of blended finance by the international community in the 2030 Agenda, in fact, efforts to scale up these new public-private blended finance partnerships were already well underway. Increasingly, the trend is to move beyond simply blending loans and grants from public sources to increased public partnership with private investors.

Although blended finance may have a potentially significant role to play in the 2030 Agenda, it is not currently possible to accurately assess its true potential, or how it should be best used to support development and poverty reduction. There is still a difficulty in accessing basic information and data about blended finance, as well as limited evidence on the impacts of blended finance partnerships on people and development more broadly. Informed policy dialogue and decision-making related to blended finance in the 2030 Agenda context will depend on better and more transparent information. Additionally, there are recognised challenges with delivering, monitoring and managing blended finance, which institutions are working to address. But these debates may be too technical or closed for development cooperation stakeholders to participate in. For example, there is no common language for stakeholders (including differing definitions for the term blended finance existing within key donors and institutions – see annex A. Additionally, despite the fact that blended finance has been recognised explicitly as a tool for financing the 2030 Agenda, there is no monitoring mechanism that can collect comprehensive data and information on the efforts of various actors using this form of finance to achieve the SDGs.

Thus, for blended finance to be used appropriately in support of the 2030 Agenda, it is essential for it to become more transparent and accountable, and its impacts recognised within the SDG framework. DI's research programme attempts to address these gaps, setting out what we know about blended finance and what we still need to find out. The objective of this discussion paper is to set out DI's analytical framework on blended finance and its role in financing the 2030 Agenda, seeking feedback from all interested stakeholders on the approach. We intend to use feedback to shape our future analysis on blended public-private finance, with our first data report to be launched online in October 2016 and our research programme continuing in 2017 onwards. As well as requiring (commonly called for) evidence on complex issues, such as effectiveness, additionality and evaluating impacts, we also need comprehensive evidence and data on the following: how much finance there is, who gives it, where it goes and who benefits. That is, we need data that goes beyond qualitative, institution or instrument-specific reports and case studies, which are currently the only sources of information to aid in monitoring. In addition, the standardisation of terminology is necessary to enable more productive and participatory dialogue that helps blended finance reach its full potential.

Context: blended finance in the 2030 Agenda

Established idea, new audiences

Blended finance is a relatively new term, specific to international development cooperation. However, many of the instruments discussed in this paper (such as public guarantees, used to leverage non-concessional loans to promote investments in developing countries) are not entirely new, even in the context of international cooperation.

The practice of using public guarantees to de-risk, or otherwise incentivise, investment in public development has been used by governments in the domestic context for at least one hundred years,[2] so it was not unlikely that the approach would be applied once the practice of aid giving was established between countries.[3] Blended finance instruments were used by the USA's Economic Cooperation Administration during implementation of the Marshall Plan.[4] The actors involved in blended finance also took root around this time; for instance, the International Finance Corporation, the multilateral development finance institution (DFI) of the World Bank, was established in the mid-1950s. Furthermore, European countries have been directing aid to and through bilateral DFIs in order to encourage them to invest in developing countries, especially infrastructure sectors, since the late 1960s.[5]

However, most of this lending did not fit the concessionality criteria that would allow it to be reported as ODA, which made it subject to less scrutiny than aid.[6] Even for technical experts, aid through DFIs and support to private investment has been difficult to count and track, with a lack of standard reporting rules across institutions, and projects often subject to commercial privacy.

In the 1990s, the role of DFIs in aid began increasing as aid itself began to change its role. ODA flows declined significantly in this decade, while flows of private capital to developing countries rapidly increased. Donors turned increasing attention to the role of the private sector in development, and began to reconceptualise aid as a tool to stimulate private sector development,[7] as an indication of this equity investments became reportable as ODA in 1995. In 1998, due to the drastic decline in ODA, UN stakeholders noted the "need to explore and foster new approaches to the uses of ODA [...] including [...] the role that ODA can play as a catalyst for leveraging private investment in support of sustainable development".[8] In 2002, the Monterrey Consensus – the first UN Financing for Development (FFD) agreement – confirmed the importance of international assistance for 'leveraging aid' to the private sector:

> *There is the need for [...] appropriate institutions in source countries to increase their support for private foreign investment in infrastructure development and other priority areas [...] to provide export credits, co-financing, venture capital and other lending instruments, risk guarantees, **leveraging aid resources**, information on investment opportunities, business development services, forums to facilitate business contacts and cooperation between enterprises of developed and developing countries, as well as funding for feasibility studies.*[9]

In the 21st Century, as the Millennium Development Goals era drew to a close, there were a number of agreements and initiatives marking the rise of blended finance in traditional development policy dialogue, and the increasing importance of DFIs in development financing.[10] A few indicative examples include:

- **2006**: EU introduces and commits to scale up blended finance for development in its Multiannual Financial Framework 2007–2013 (now replaced by 2014–2020 version).
- **2007**: EU Africa Infrastructure Trust Fund launched.
- **2008**: Establishment of Blended Finance unit at International Finance Corporation (IFC) to consolidate existing activities.
- **2011**: EU Agenda for Change pledges to scale up existing successful blending operations. Meanwhile, a number of DFIs commit to the Busan Partnership Agreement on Aid Effectiveness and principles of development cooperation.
- **2012**: EU Platform for Blending in External Co-operation launched to coordinate efforts across all EU blending facilities.
- **2013**: Organisation for Economic Co-operation and Development (OECD) develops, and G20 leaders endorse, the High-level Principles on Long-Term Investment Financing by Institutional Investors.
- **2014**: G20 leaders establish Global Infrastructure Initiative to support public-private partnerships (PPPs). Launch of Redesigning Development Finance Initiative, a joint project between the OECD and World Economic Forum that promotes blended finance and calls for more partnerships with private investors.

Blended finance in FFD and the 2030 Agenda

The increased attention of blended finance by key donors and institutions was reflected in the UN negotiations for the post-2015 development agenda and the linked FFD negotiations. In 2014, the report of the UN Intergovernmental Committee on Sustainable Development Finance discussed blended finance as a key resource for development (though noting issues in the implementation, such as poorly designed blended finance partnerships leading to increased risks for the public sector).[11] Blended finance was promoted by the business sector steering committee in FFD,[12] as well as certain countries, including Canada, Australia, USA, and the EU bloc.[13] The G77 and China bloc was more cautious, noting the lack of evidence available about the impacts and benefits of blended finance for developing countries.[14] Civil society actors noted that blended finance had potential, but also risks, and pushed for greater accountability and safeguarding mechanisms, especially relating to PPPs.[15] The final Addis Ababa Action Agenda (AAAA) promoted a key role for blended finance in financing development (particularly for infrastructure), while calling for greater openness, transparency and knowledge sharing to enhance impacts:

> *An important use of international public finance, including ODA, is to catalyse additional resource mobilization from other sources, public and private [...]. (*Para 54)[16]

Within the 2030 Agenda, finalised and adopted a few months after the AAAA, PPPs (which often involve blended finance investments) are endorsed in the Means of Implementation Targets 17.16 and 17.17.[17] In 2015, the OECD and World Economic Forum also published its 'primer' on blended finance, calling it "a pillar for future development efforts".[18] Since the adoption of the 2030 Agenda, two platforms explicitly promoting the use of blended finance to achieve the SDGs (supported by donor governments, institutions, DFIs and private foundations) have been established: the Sustainable Development Investment Partnership[19] and Convergence (which has a restricted database of blended projects).[20] Both platforms aim to match investors with a 'pipeline' of blended finance opportunities; the Sustainable Development Investment Partnership, for example, promotes the use of ODA. In 2016, the EU committed to increase blended finance to deliver the SDGs, moving into areas beyond infrastructure, including social sectors.[21]

However, despite its increasing acceptance in the international policy dialogue, data and information on blended finance is still very limited.[22] The OECD Development Assistance Committee (DAC)'s initiative to establish new reporting mechanisms for non-ODA flows, the 'Total Official Support for Sustainable Development' measure (see annex B) aims to increase the availability of data on non-ODA flows, but may not produce the comprehensive information needed, at least for some years.

Defining blended finance: for measurement and analysis

To properly understand the role of blended finance, or to accurately measure its scale and impact, it is necessary to obtain clarity regarding what blended finance actually is, or what components are being considered. However, a number of definitions of blended finance have been used in recent years, making it a catch-all term for a number of different instruments and activities. Some of these definitions are broad in nature, implying that any arrangement where a project is funded with a mix of financial modalities is an example of blended finance. Some refer to a mix of official grants or other concessional inputs with non-concessional finance from public sources (public-public partnerships). And some definitions go further to include private or philanthropic actors, for example public-private or philanthropic/public-private partnerships (see annex A). However, the real impetus behind the use of blended finance in development stems from its perceived potential to mobilise significant additional capital from, for example, the private sector to fill some of the funding gaps associated with the adoption of the SDGs. Therefore, our research concentrates on those types of finance that utilise resources from existing development actors to leverage or 'crowd in' additional financial contributions. There are also lessons from public-public arrangements that may be useful to apply to more innovative arrangements, which may be used increasingly in the 2030 Agenda. Thus, we also consider these mechanisms.

To determine what is, and is not, being monitored and measured – and in turn assess potential impacts – a clear definition of blended finance is required. For the purposes of this paper, blended finance refers to a combination of resources, either from official public sources (governments and/or DFIs) or philanthropic actors with capital from other sources (either official public or private actors). When applied in the international development context the term also connotes that:

- there is an element of additionality – some or all of the extra flows would not have materialised without the public sector input
- the project or intervention funded through a blending mechanism has positive developmental impact – it produces social, economic or environmental benefits in a developing country.

In this definition, 'public sector' is broadly defined to encompass government agencies and DFIs owned, funded or controlled by them. These DFIs may be bilateral (i.e. created by the government of a single country) or multilateral (such as regional development banks or members of the World Bank group).

The public sector input may be in the form of capital flows – in the form of grants, loans or equity investments. It may also be in a form that mitigates the risk to private investors without there necessarily being any actual financial flow from the public sector – for example, guarantees – or in the form of in-kind contributions – such as technical assistance/capacity building. The public sector inputs are then combined with the additional non-concessional/private capital through platforms and other collaborative arrangements, such as PPPs and blending facilities, in order to be deployed to a specific project.

Defining the role for blended finance: what do we need to know?

Calls for an expanded role for blended finance in developing countries are growing. While a significant scaling-up of these instruments in the development context offers the opportunity to mobilise large amounts of capital, it also clearly presents a number of risks and issues. Decisions will need to be taken on how and when to deploy blended finance instruments alongside, or in place of, other forms of development finance.

In order to understand how to maximise the potential of blended finance, while minimising the associated risks and ensuring the most appropriate use of all forms of development finance, we need key data to answer key questions. Here, we set out the priority questions our research will address, followed by the range of information and data we could use to answer them. The issues are roughly divided into two categories: technical/economic (to be addressed through data and other empirical evidence, including case studies) and quality/effectiveness (which will build on the empirical research, and require consultation and qualitative/policy analysis).

We welcome feedback on whether these are the most appropriate questions to focus on, any omissions or amendments suggested by stakeholders, and comments on the information and data we intend to use to support our analysis.

Technical and economic questions

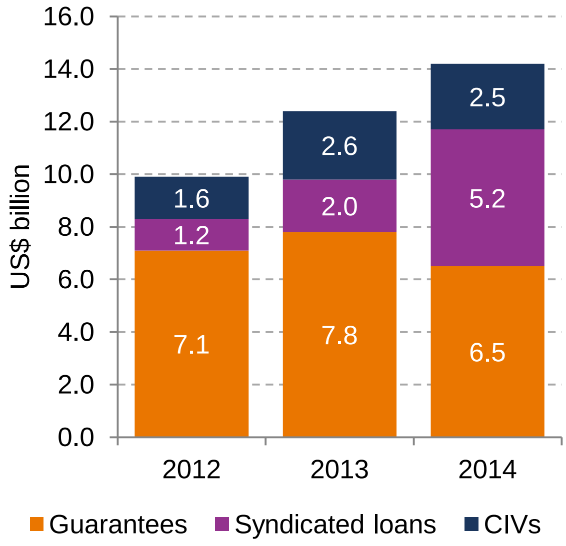
1. How much finance is currently being mobilised, and what is the potential volume?

To assess its future role we need to know the current landscape. At present, there is little easily accessible and comparable data on the use of blended finance in development, what it is being spent on and where. This is due to both the lack of common reporting standards for this type of development finance and transparency-related issues, arising from the nature of blended finance activities and the partners involved (e.g. commercial confidentiality). This makes the analysis of the current role and effectiveness of blended finance extremely difficult.

There have been attempts at estimating the scale of this type of development finance, especially in terms of the volumes of private funds mobilised by interventions of public sector actors and DFIs. However, caution must be exerted in generalising the findings, since coverage is partial both in terms of instruments and number and types of actors included.

The OECD's survey on 'Amounts mobilised from the private sector by official development finance interventions'[23] found that over US$36 billion was mobilised from the private sector between 2012 and 2014 – 59% through guarantees, 23% through syndicated loans and 13% through collective investment vehicles (CIVs). However, it provides no insight into the amount of public finance that was spent to mobilise such volumes of private funds.

Figure 1: Volumes mobilised from private sector by instrument



Source: OECD survey on amounts mobilised from private sector.

In addition to the OECD, the World Economic Forum under the Redesigning Development Finance Initiative[24] has sought to quantify blended finance volumes. This initiative – unlike the OECD survey on amounts mobilised – not only focuses on the amounts mobilised from the private sector, but provides a total figure for committed assets across a number of blended funds and facilities. This estimate amounts to US$25.4 billion.

As well as using data quality questions to estimate the current volume of finance mobilised through blending, there are also questions over blended finance's potential to make a significant difference to the funding gap that exists in relation to the SDGs. According to some estimates,[25] the funding gap for infrastructure alone may be as high as US$1.6 trillion per annum – although some of this gap is expected to be filled by domestic resources. Set against this, the existing estimates referred to above represent a relatively small figure when compared with the apparent funding gap.

2. What blended instruments are available, how do they operate and what is each used for?

The use of the single term blended finance can serve to obscure the fact that there are a variety of instruments that may be used to leverage or mobilise additional resources into development projects. Each instrument has characteristics that may make it more or less appropriate in a given project and in serving any given objective. Each instrument also has different potential impacts, risks and returns for all parties involved in the transaction.

Therefore, it is important to be clear about what these differing instruments are, as well as be able to disaggregate data on blended finance in order to assess the comparative advantage of each instrument and respective institutional set-up.

3. Who are the main actors involved in blended finance?

Blended finance activities involve a wide range of diverse actors – each with different priorities, expertise and scales of investable resources. Generally speaking, a public/official actor or a philanthropic actor is involved in providing an initial resource (whether monetary, in-kind or not transferred) with the aim of mobilising additional capital, including from private commercial actors. There is a significant diversity of actors within both the public and private sectors. It is important to explore how these actors work together, their preferences and incentives, and how the lack of a common language can be overcome. Furthermore, understanding their mechanisms for sharing knowledge, the different partnership arrangements and platforms present, and their different roles and responsibilities will underpin any attempt at assessing the current and potential use of blended finance in contributing to the achievement of the SDGs.

4. Where is blended finance spent, who is meant to (and who actually) benefits, and what differences are there in its use in different contexts (e.g. in least developed and low-income countries compared with middle-income states)?

Only 11% of the private finance identified by the OECD survey mentioned above went to least developed countries (LDCs)[26] and other low-income countries (LICs), compared with over 70% to middle-income countries. However, this is higher than the 6% of foreign direct investment that goes to LDCs and other LICs out of the total flowing to developing countries. Thus, while blended finance does primarily focus on middle-income countries, it may have a role in countries facing greater developmental need. In view of this, what can be done to attract more blended finance to poorer countries and under what circumstances is this desirable? Further, what kind of firms are most likely to benefit from this type of finance? Do the benefits accrue disproportionately to large enterprises, and is additional action required to focus benefits to SMEs?

International official actors have a key role to play in ensuring that development finance reaches those most in need – evidence on where blended finance is currently being spent, who benefits, which instruments are being most commonly used, where and why, will facilitate the identification of blended finance's comparative advantage as compared with other types of development finance, which will in turn aid to target it to its most effective use.

5. Which of the SDGs are most likely to benefit from blended finance? Could there be potential for blended finance to be better targeted against needs in the SDG era?

Evidence of the sectoral allocation of blended finance is crucial to be able to explore its comparative advantage in contributing to the achievement of the SDGs. Is it the case that this type of development finance is more appropriate for, or will gravitate towards, projects directly focused on business, industry and economic growth? In which case, how can blended finance be harnessed to generate the type of growth that more directly benefits those most in need? Does it also have a role to play in the achievement of SDG targets that require investment in social provision? Does this depend on the instrument being used, the specific context and institutional set-up, or a combination of both?

Given the ambition of the 2030 Agenda to 'leave no one behind', it is also important to explore what impact, if any, blended finance can have on SDG 1 (poverty eradication) specifically. What are the channels (direct or indirect) through which blended finance can impact on poverty? Empirical case study evidence can help to identify specific cases in which blended finance has had demonstrable impacts on poverty reduction, and can thus inform the potential role of this type of finance in relation to poverty reduction in the future.

Quality/effectiveness questions

6. How can data availability, transparency and (mutual) accountability be improved?

Transparency is a central pillar of effectiveness, driving better management of resources and assessment of outcomes. Substantive policy recommendations on improving accountability, openness and transparency of blended finance appear in the 'domestic and international private finance' section (para 48) of the AAAA, but it is not clear how these will be implemented. In 2016, the first report of the Inter-Agency Task Force (responsible for monitoring efforts in financing the SDGs and meeting commitments of the AAAA) noted that only qualitative information and case studies are available for monitoring progress on commitments relating to blended finance and PPPs.

There is a clear need to assess the potential for improving the transparency of blended finance arrangements and establish what mechanisms need to be put in place to achieve greater transparency and accountability. Building on the technical analysis of data availability and accessibility, we will analyse the policy context and develop policy recommendations to improve the transparency and accountability of blended finance, in light of its role in delivering the 2030 Agenda.

7. What effect might blended finance have on country ownership of development priorities?

Different institutions have different mechanisms for ensuring the inclusion of developing country governments and other stakeholders in decision-making. However, it is not clear that this happens consistently, or that blended finance projects are always related to the host country's development priorities. Additionally, representation of developing countries within DFI governance structures is currently minimal. If the recipients, beneficiaries or borrowers of blended finance activities are private entities, it is possible that this may not be a core consideration. We need more evidence on what is currently happening at country level, how blended finance projects relate to nationally identified development priorities and what standards are in place to encourage country ownership, and to promote discussion and understanding of best practice.

8. How can results monitoring, evaluation and impact be accomplished in the context of blended finance?

How are results frameworks developed within blended finance projects? Who is responsible for the success of projects? What factors or indicators are used to assess results, and who develops and agrees these? What are the legal and regulatory frameworks most likely to facilitate the successful and effective use of blended finance in development projects? Development partners may have to work with new partners (e.g. commercial banks or venture capital funds) – what capacity and skills are needed for development actors to get the most out of these new relationships? What are appropriate areas for mutual learning between stakeholders, which would help improve results of blended finance?

9. What are the key considerations to ensure that blended finance practices do not undermine development policy coherence?

Will the increased use of blended finance increase overall indebtedness to potentially unsustainable levels in some contexts? Will some types of blended finance expose certain economies, or sectors within those economies, to increased risk of capital flight? What are the time frames used to assess impacts of blended finance projects, and are they appropriate in length, considering potential economic risks such as capital flight and indebtedness?

10. Could other investment be crowded out by blended finance and are private sector funds truly 'additional'?

One potential criticism of blended finance refers to the inherent risk of this finance entering into competition with local investors, given its subsidised nature, thus crowding them out and potentially distorting local markets.

To address the question of potential crowding out of domestic investors, we need qualitative information on the circumstances in which blended finance arrangements, including subsidies or risk-reduction measures, result in unfair advantages to the actors involved in the blending, as compared with local sources of capital; the mechanisms in place at the design stage of blended finance projects that aim to minimise or avoid this risk; and the role that international official actors can play in ensuring that this risk is minimised or avoided.

A related question is that of additionality – it is not a straightforward matter to establish whether the private finance mobilised through any given blended finance agreement is indeed additional. Would the same level of private investment have occurred without the public sector input, or would there be only some, or indeed no, investment? Some commentators have pointed out that there is a possibility that private investors who would have invested anyway would still accept a subsidy or guarantee from the public sector and, in such cases, it is the private investor who could be said to be 'leveraging' the public institution rather than the other way round.[27]

Data and information on blended finance: needs and gaps

The table below provides an overview of assessed data and information needs for each of the issues highlighted in the section above in order to both understand the baselines and explore the potential of various instruments and actors according to their comparative advantage. The table also summarises our planned approach to contribute to filling the knowledge gaps as well as the identified sources of data and information – this is specifically in relation to the objectives of our research, which will in the first instance focus on the role and potential of international official actors in blending.

Table 1: Key data and information needs, planned approach and identified sources

Critical question	Data and other information required to answer the question	Planned approach and identified sources of data and information
Technical/economic issues		
1. **How much finance is currently being mobilised, and what is the potential volume?**	• For public and philanthropic actors, data on i) total volumes of finance spent in development projects, ii) volumes of finance spent in blending activities specifically, iii) volumes of finance mobilised from private sector • For private sector actors, data on total volumes contributed to blended finance activities (should be the same as item iii in bullet above)	• Estimate total volume of blended finance (i.e. items i and ii combined) and compare to SDGs funding gap • Focus on volumes of international official finance used to mobilise additional capital for development and compare with overall development spending Sources: Existing data in annual reports and other publicly available documents and databases, combined with additional data sourced directly from individual institutions (from now on referred to simply as ‘data’)
2. **What blended instruments are available, how do they operate and what is each used for?**	• Description of each blended finance instrument; the factors that differentiate them/their specific characteristics; different institutional set-ups needed for their effective use; the extent to which they are used in specific sectors • Data on blended finance disaggregated by instrument, recipient country and sector	• Assess whether each instrument is best suited for a specific context, sector and/or purpose Sources: Data combined with case studies illustrating the use of each type of instrument in different countries and/or sectors (from now on referred to simply as ‘case study evidence’)

Critical question	Data and other information required to answer the question	Planned approach and identified sources of data and information
3. **Who are the main actors involved in blended finance?**	• Description of actors involved in blending and the factors that differentiate them – e.g. their priorities, governance structures, scale of resources available, knowledge of local context • Overview of the different institutional set ups used to bring actors together for the implementation of blended finance projects – such as PPPs, blending facilities and other platforms or arrangements • Overview of the roles and responsibilities of each actor in these different set-ups	• Set out the overall actors landscape and explore specifically the role and potential of international official actors within it • Assess the comparative advantage of each actor based on priorities, responsibilities, and roles played in specific institutional set-ups – including, to the extent possible, an assessment of the role and potential of emerging development partners e.g. Middle East and North Africa countries and Brazil, Russia, India, China and South Africa (BRICS), based on differences in approach as compared with 'traditional' donor countries Sources: Existing literature on the different institutional set-ups used to deliver blended finance combined with case study evidence
4. **Where is blended finance spent, who is meant to (and who actually) benefits, and what differences are there in its use in different contexts (e.g. in least developed and low-income countries compared with middle-income states)?**	• Data on blended finance disaggregated by instrument, recipient country and sector • Information on partners involved in blended finance activities in different contexts • Qualitative evidence on legal and regulatory frameworks most likely to facilitate effective delivery of blended finance	• Assess what the factors are that make a specific instrument or institutional set-up better suited for use in a specific context as opposed to another Sources: Data combined with case study evidence
5. **Which of the SDGs are most likely to benefit from blended finance? Could there be potential for blended finance to be better targeted against needs in the SDG era?**	• Data on blended finance disaggregated by instrument, recipient country and sector • Information on the channels through which blended finance activities can impact the poor – e.g. job creation	• Analyse sectoral allocations of blended finance against the SDG framework in order to identify the potential of this type of finance with regard to different goals • Assess the potential role of blended finance in poverty reduction Sources: Data combined with case study evidence

Critical question	Data and other information required to answer the question	Planned approach and identified sources of data and information
Quality/effectiveness issues		
6. **How can data availability, transparency and (mutual) accountability be improved?**	• Types of data and information on blended finance that are available and accessible • Types of data and information on blended finance necessary to explore role and potential of blended finance in meeting the SDGs • Qualitative evidence on existing processes and practices to ensure transparency and accountability in blended finance set-ups	• Explore the data publication practices of international official actors including DFIs; explore the challenges specific to blended finance set-ups that hinder full transparency; and suggest ways to overcome them • Explore traceability issues • Assess the potential of the International Aid Transparency Initiative as a platform to improve the quality and availability of data on blended finance • Explore the processes in place by different actors to ensure accountability, including mutual accountability Source: Existing data sources, existing literature and case study evidence
7. **What effect might blended finance have on country ownership of development priorities?**	• Qualitative evidence on how developing countries are represented across different institutional set-ups used for blending • Qualitative evidence on the processes currently in place by different actors to ensure blended finance projects are aligned with nationally identified development priorities • Qualitative evidence on major challenges encountered by developing countries in blended finance set-ups	• Explore the processes in place for both representation of developing countries in the various institutional set-ups used to deliver blended finance, as well as for ensuring that nationally identified development priorities drive blended finance activities • Assess whether such processes are adapted in different contexts and what the implications are for the role and responsibilities of international official actors • Set out lessons learned on how to effectively ensure country ownership and alignment in blended finance projects Source: Existing literature and case study evidence

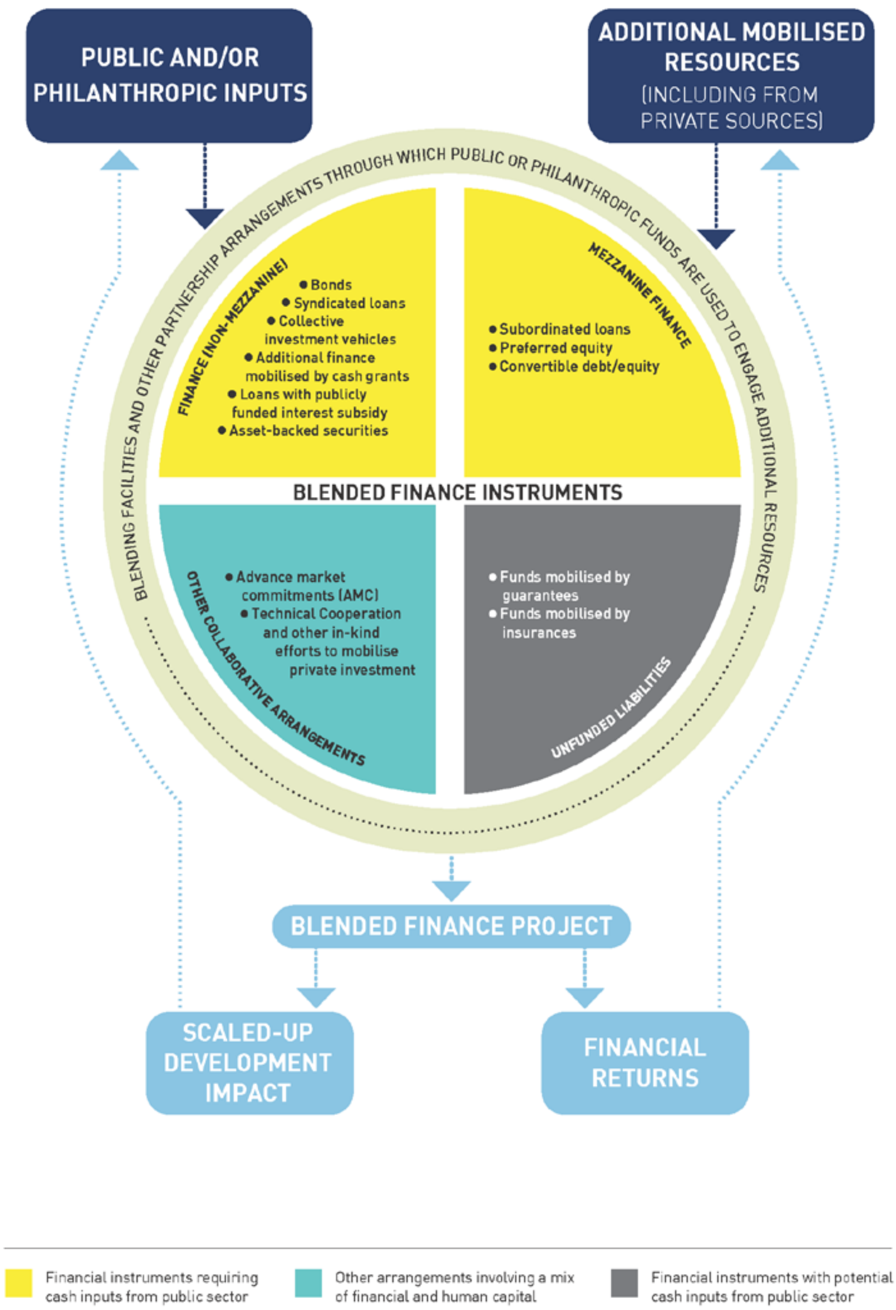
Critical question	Data and other information required to answer the question	Planned approach and identified sources of data and information
8. **How can results monitoring, evaluation and impact be accomplished in the context of blended finance?**	• Qualitative evidence on the processes and structures in place for monitoring blended finance activities against development outcome objectives, as well as existing impact evaluation frameworks	• Set out monitoring and impact evaluation frameworks currently in use • Explore different actors' responsibilities in designing results frameworks and evaluating the impact of blended finance activities on the ground • Assess what the priorities should be for international official actors Source: Existing literature and case study evidence
9. **What are the key considerations to keep into account to ensure that blended finance practices do not undermine development policy coherence?**	• Qualitative evidence on the impact of blended finance on macroeconomic fundamentals in developing countries, such as debt sustainability levels and the levels of exposure to global capital markets • Qualitative evidence on practices to ensure blended finance does not undermine any aspect of policy coherence for sustainable development	• Explore what the impacts of blended finance mechanisms could have on various aspects of developing countries' economies, including macroeconomic fundamentals such as debt sustainability and exposure to volatile global financial markets • Assess what the implications are of these on policy coherence for sustainable development Source: Existing literature and case study evidence
10. **Could other investment be crowded out by blended finance and are the private sector funds truly 'additional'?**	• Disaggregated data on recipients of blended finance – e.g. domestic or international • Data on leverage ratios • Qualitative evidence on mechanisms in place to ensure blended finance activities do not distort local markets	• Explore the extent to which blended finance targets domestic firms/actors as opposed to international ones • Explore whether a cut-off value exists in leverage ratios, beyond which it can be stated that a project shows no additionality, and how this differs in different contexts • Assess what best practices exist to avoid local market distortions or crowding out of local investors Sources: Data combined with case study evidence

What we know about blended finance

What instruments can be used to blend finance?

It is important to identify and understand the different means by which finance can be mobilised and not to treat blended finance as a single homogenous category. The common thread linking virtually all blended finance arrangements is the need to reduce, or compensate for, risk – a major barrier to bringing private capital flows into developing countries is the perceived additional risk to private investors inherent in investing in these markets. Since there are a number of ways to ameliorate the financial risks involved in such investments, there are a variety of instruments and arrangements that may be potentially used in blended finance.

Figure 2: A conceptualisation of blended finance in practice



To aid understanding of the broad characteristics of the various blended finance instruments, this paper groups these instruments into four broad categories: mezzanine finance, non-mezzanine finance, unfunded liabilities and other collaborative arrangements.

Subordinated, or **mezzanine finance**, arrangements can be in the form of debt, equity or a hybrid form (e.g. a debt that can be converted into equity). The key characteristic of such an arrangement is that one actor (e.g. a DFI or other public sector agency) agrees to only be repaid if the organisation that received the funds has first repaid other investors. Thus, a public sector body can accept the first loss arising from any default, which reduces the risk to private investors making them more likely to invest.

> *Example: In 2012, the Canadian ministry of foreign affairs, Global Affairs Canada (then called DFATD), collaborated with the Canadian investment management firm Sarona Asset Management to establish a 'frontier markets' fund. Global Affairs Canada's investment was in the form of a first-loss equity contribution of CAD 15 million, with features such as investment loss protection and subordinated return of capital. This combination of loss protection and return enhancement in the ministry's concessional equity investment was specifically designed to leverage additional private capital for development impact. The fund closed in late 2014 with CAD 185 million, including CAD 107 million from 117 private sector investors.*

Financial instruments that are not part of a mezzanine finance arrangement 'mobilise' additional funding without the private sector actor agreeing to bear the first loss in the event of a default. This may be achieved either by compensating the private investors for the increased risk (by direct subsidy or a higher rate of return) and/or via risk mitigation through spreading the financial risk among a number of investors. In the case of syndicated loans, a DFI may act as the principal 'lender of record', meaning any funds provided by other lenders are effectively lent 'through' the DFI. If the DFI has preferred creditor status (i.e. it will be paid back before other creditors in the event of the borrower becoming insolvent) then all members of the loan syndicate potentially benefit from this preferred creditor status.

> *Example: Under its syndicated lending programme, IFC acts as lender of record and administers loans, but sells participations to other lenders with whom it fully shares risks. Participants include international commercial banks, local and regional banks in emerging markets, funds, insurance companies and DFIs. For 'B loans' participants are mainly commercial banks. For parallel loans (another type of syndicated loan offered by IFC) participants are mainly other DFIs. The B loan structure allows participants to benefit from IFC's privileges and immunities, including preferred creditor status.*

Unfunded liabilities refer to arrangements where the public sector agency does not provide immediate funding, but instead enters into an agreement to repay the private investor some or all of the amount owed to them if the borrower should default.

> *Example: GuarantCo is an entity sponsored by the governments of Australia, the UK, Sweden, Switzerland and Netherlands through the Private Infrastructure Development Group and the Netherlands Development Finance Company. GuarantCo offers private investors partial credit guarantees, partial risk guarantees and political risk guarantees so that constraints in the supply of finance to infrastructure projects can be overcome and to help the development of local financial markets. As of December 2013,*

GuarantCo had catalysed US$3.3 billion in private capital – 77% of which has come from local commercial sources.

In addition to purely financial instruments, there are numerous **other forms of cooperation** where the inputs from both the public and private sector may be a combination of financial and non-financial transfers, which cannot be easily separated out. These include advance market commitments (AMCs) and technical cooperation (e.g. to conduct feasibility studies into projects with the potential of attracting private investors).

Example: In 2009, the governments of Italy, the UK, Canada, Russia and Norway, together with the Bill & Melinda Gates Foundation, established the Pneumococcal AMC. Under this agreement pharmaceutical manufacturers committed to providing vaccines to AMC-eligible countries at a maximum price of US$3.50 per dose of pneumococcalvaccine for at least 10 years. The donor funds were used to pay an additional US$3.50 per dose on the first 20% of vaccine doses procured from each manufacturer, thus guaranteeing a market price of US$7.00 to the manufacturers. This guaranteed income from the AMC incentivised vaccine manufacturers to make investments in their production capacity and develop a new product.

Table 2: Description of individual blended finance instruments

	Finance type	Description
Mezzanine finance	Subordinated loans	A loan that, in the event of default, will only be repaid after all senior obligations have been satisfied.
	Preferred equity	Equity that, in the event of default, will be repaid after all senior obligations have been satisfied and before paying common equity holders.
	Convertible debt/equity	A form of hybrid mezzanine finance denoting a loan that can, at some point in the future, be converted into shares in a company.
Non-mezzanine financial instruments	Loans with publicly funded interest subsidy	A payment to soften the terms of private export credits, or loans or credits by the banking sector.
	Syndicated loans	An arrangement whereby an official institution (e.g. a DFI) provides a parallel loan to one that is provided by a private investor.
	Shares in collective investment vehicles	Collective undertakings, through which investors pool funds for investment in financial or nonfinancial assets or both. These vehicles issue shares (if a corporate structure is used) or units (if a trust structure is used).
	Bonds	Fixed-interest debt instruments, issued by governments, public utilities, banks or companies, which are tradable in financial markets.
	Additional finance mobilised by cash grants	Grant funding for a proportion of a project's costs may improve the viability of the project and make it more attractive to investors.
	Asset-backed securities	Securities whose value and income payments are derived from and backed by a specific pool of underlying assets.
Unfunded liabilities	Funds mobilised by guarantees	Guarantees refer to risk-sharing agreements, under which the guarantor agrees to pay part or the entire amount due on a loan, equity or other instrument to the lender or investor in the event of non-payment by the borrower or loss of value in case of investment.

	Finance type	Description
	Funds mobilised by insurances	Insurances typically cover specific risks, such as political risk insurance.
Other	Advance market commitments	A binding contract, typically offered by a government or other financial entity, used to guarantee a viable market if a product such as a vaccine or other medicine is successfully developed.
	Technical Cooperation and other in-kind efforts to mobilise private investment	Technical cooperation is used, for example, to conduct a feasibility study to establish the investment potential of a project.

Who delivers blended finance?

It is important to set out the facts on the nature and priorities of the actors involved (as well as the ways in which they interact with each other) at both the design and implementation stages of blended finance activities. Such information can provide valuable insight into the different roles that each actor can or should play, their responsibilities and their respective comparative advantages in financing development. Our initial focus will be on the role of international public/official finance in blending, with the view of exploring that of other actors in future work (see annex C for a list of actors included and excluded from DI's initial analysis).

Blended finance activities involve a combination of diverse actors, including: domestic, international, official/public, philanthropic and private/commercial (both financial and non-financial, ranging in size from multinationals to micro, small, and medium-size enterprises). This often necessitates the set-up of specific platforms for building partnerships, such as the EU blending facilities or the online platforms mentioned in the 'Context' chapter. Their roles and responsibilities differ according to the instrument being used to deliver blended finance, since, as illustrated in the previous section, different instruments require different institutional set-ups. A clear classification of actors based on roles and responsibilities cannot, therefore, be set out. Moreover, these institutional set-ups are often quite complex, meaning that we cannot think of actors involved in blended finance in the traditional donor-recipient, North-South model of aid relations. Unlike funding provided solely through ODA, blended finance is provided by a combination of actors – including but not limited to government aid agencies or international foundations and NGOs – with a large role played by domestic governments in some instances and, of course, private funders more generally. At the receiving end, the users of blended finance can include developing country governments, similarly to traditional aid disbursements, but most commonly consist of private commercial actors. By nature and objective, blended finance requires a much greater role to be played by private capital (whether domestic or international), pointing to the need for official development partners to find ways of effectively working with new actors within new incentive and institutional set-ups.

Table 3: Different types of actors have different priorities

	Is poverty reduction part of their mission?	Is broader sustainable development part of their mission?	Is profitability part of their mission?	Is profitability the main aspect of their mission?
Government development agencies	X	X		
DFIs	In some cases[28]	X	X	
Foundations and other philanthropic actors	X	X		
Private sector actors[29]		In some cases (e.g. impact investors)		X

DFIs, both bilateral and multilateral, are key players in blended finance, precisely given the intermediary space that they occupy between public aid and private investment.[30] This gives them a unique positioning to potentially bridge the language, motive and operational divides between public and private actors.[31] They are, for the most part, controlled by governments[32] and exist to catalyse increased investment in developing countries in order to foster economic growth and development. While some (not all) mention poverty reduction specifically in their mission statements, DFIs operate differently to government development agencies in that they adhere to market rules and aim to remain financially viable. However, DFIs vary as to the profit targets they set and cannot be lumped together as a single actor. They have different governance structures, different return on investment (ROI) targets, different portfolio sizes, and different comparative advantages in terms of sectors, geographical locations and instruments. This means that the nature of DFIs can be substantially wide ranging, and so can their role and the scale of their involvement in blended finance activities.

In addition to the funding of DFIs, public/official actors[33] can also provide direct funding into blended finance projects through their bilateral development agencies, such as the UK's Department for International Development. To a lesser extent, philanthropic foundations and international NGOs/CSOs can also provide concessional inputs into blended finance activities. Both these actors have similar motivations[34] to participate in blending activities. These relate to the scaling up of the development impact of their projects by expanding the pool of available funding through attracting additional private capital.

An important point to note is the diversity of private capital being mobilised through blended finance activities, as well as the diversity of private sector actors that are usually on the receiving end of blended funding or can, in some instances, manage blended funds. First, they can be either domestic or international, which has implications on their ease of doing business in different contexts. Second, they range in size from multinational corporations or international commercial banks to domestic financial intermediaries or local venture capitalists, which may have implications on the scale of resources available to contribute to blended finance projects. In terms of the involvement in blended finance activities, each of these actors may have different priorities, needs and resources to contribute. It is crucial to differentiate among them in order to accurately assess how each can contribute to the SDGs through blended finance mechanisms. However this is beyond the scope of our initial analysis, which will instead focus on the role of international official finance.

In summary, blended finance projects rely on a range of diverse actors to find ways of aligning incentives and working together for effective delivery. In our upcoming work we will analyse the potential of international public actors by exploring their roles and responsibilities in different institutional set ups including PPPs; blending facilities, such as the EU-Africa Infrastructure Trust Fund or the Latin American Investment Facility; and other platforms or arrangements, depending on the instrument being used.

As new partners, including private sector actors, increasingly get involved in development cooperation, one of the responsibilities for official/public actors will be to ensure that the importance of implementing projects in line with development effectiveness principles is understood by all those involved and that the development of local markets is not distorted.

Conclusion

It is clear that very large quantities of additional financing will need to be directed towards poverty reduction and development in the broader sense if the SDGs are to be achieved, and it is right to consider the huge financial potential of the private sector in contributing to these efforts. However, there are many questions that need to be addressed in order to direct this potential to where it can be most effective, and to ensure that people and sectors less suited to this type of finance are not left behind. Any large-scale increase in the use of this finance will therefore present all actors with a variety of risks and challenges. These include gaining a better understanding of the contexts and sectors for which blended finance is best suited and ensuring that stakeholders can understand and monitor the impacts.

One key component to overcoming these challenges will be accurate and comprehensive data and information on the use and impact of current blended finance activities. There is, however, a large gap in the current provision of such data and information, and it is this gap that DI's research programme is directed towards. We hope that any feedback we receive will enhance our analytical approach and lead to greater availability of data, evidence and information for stakeholders of the international community, particularly through our report, which will be launched in October 2016. We therefore welcome comments and feedback on this discussion paper, if possible, by 31 July 2016.

Contacts:

- Rob Tew: Research and Analysis – rob.tew@devinit.org
- Cecilia Caio: Research and Analysis – cecilia.caio@devinit.org
- Cordelia Lonsdale: Policy and Engagement – cordelia.lonsdale@devinit.org

Annex A: Existing definitions of blended finance

Source	Definition	Notable characteristics
World Economic Forum/OECD Redesigning Development Finance Initiative (2015)	"Blended finance is an approach to development finance that employs the 'strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets' and is characterized by three characteristics: • Leverage: Use of development finance and philanthropic funds to attract private capital • Impact: Investments that drive social, environmental and economic progress • Returns: Returns for private investors in line with market expectations based on perceived risk."	• Blending is between development finance and private flows (i.e. between sources of funds) • Includes philanthropic funds as well as official public funds on the 'concessional' side • Includes characterisation of which markets or contexts blended finance is intended for (emerging and frontier markets) • Developmental objectives • Blended finance refers to the mechanisms, strategic approach and intended outcomes • Additionality/'leveraging'
International Finance Corporation (IFC)	"Blended finance refers to funds invested (e.g. loans, guarantees or equity) at concessional, or below market, rates alongside IFC's own funds to support investments in particular sectors where blending concessional funds may catalyze investments that wouldn't otherwise happen."	• Blending is between different types of finance, not necessarily from different sources • Context/institution specific • Additionality/'catalysing' • Blended finance refers to the mechanisms and intended outcomes (catalysing investments that otherwise would not happen)

Source	Definition	Notable characteristics
Romero, M.J. and Van Der Poel, J. (Eurodad, 2014)	"The term 'blending' refers to a mechanism that links a grant element, provided by ODA, with loans from publicly owned institutions or commercial lenders. [...] Historically, this mechanism has mostly been used to subsidise loans to the public sector in developing countries. [...]However, what is new in the current context is the great promotion of EU blending instruments to both support private sector projects and leverage private finance from different sources and the new narrative that is being developed around it."	• Recognises that 'blending' refers to mix of public-public as well as public-private, and that the latter is a newer activity • Specifies the use of ODA on the concessional side • Blended finance referred to as a mechanism • Additionality/leveraging sits outside the definition (intended outcome)
Behrens, A. and Núñez Ferrer, J. (CEPS, 2011)	Blending loans and grants: "grant and loan blending facilities, which link EU budget grants, member state grants and loans by international, regional and European bilateral financial institutions".	• Blending refers to different types of finance, not necessarily from different sources (i.e. loans all from official institutions, not private actors) • Context/institution specific (EU facilities)
Bilal, S. and Krätke, F. (ECDPM, 2013)	"Blended finance involves the combination of grant aid and other private or public sources of finance, such as loans, risk capital and/or equity. Grant aid (or grant equivalent) provided can take a number of forms, most commonly direct investment grants, interest rate subsidies and technical assistance. Such grant aid is intended to leverage additional non-grant financing, generally for infrastructure, energy or private sector development projects, to meet unmet investment needs."	• Blending refers to different types of finance and/or different sources • Refers to developmental objectives • Additionality/leveraging • Blended finance refers to the mechanisms and intended outcomes (meet unmet investment needs)

Source	Definition	Notable characteristics
Intergovernmental Committee of Experts on Sustainable Development Finance	"Policymakers have recently shown considerable interest in a class of development financing opportunities called ‘blended finance’ that pool public and private resources and expertise. Blended finance encompasses a large portfolio of potential instruments, including instruments provided by development finance institutions to leverage private finance (e.g., loans, equity investments, guarantees, etc.), as well as traditional public private partnerships [...] But it goes beyond these structures to encompass structured public-private funds and innovative ‘implementing partnerships’ between a wide range of stakeholders — including governments, civil society, philanthropic institutions, development banks and private for-profit institutions."	• Blending refers to different types of finance as well as different sources • Blended finance refers to the set of mechanisms/ instruments, the intended outcome (leveraging) and the partnership approaches/arrangements between stakeholders • Notes non-financial elements (expertise) • Additionality/leveraging
Addis Ababa Action Agenda	"Blended finance [...] combines concessional public finance with non-concessional private finance and expertise from the public and private sector."	• Notes non-financial elements (expertise) • Blending refers to the combination of different sources of finance/expertise – the non-concessional element comes from both public and private sector • Blended finance refers to the mechanisms only
Benn, J., et al. (OECD, 2016)	"Multilateral development banks apply the term [blended finance] to describe a financial mechanism which combines concessional and non-concessional components into a single transaction, with softer terms and conditions in order to meet project finance needs." "In the work of the World Economic Forum and the OECD, ‘blended finance’ is assimilated to pooled finance mechanisms aiming at mitigating risk and therefore unlocking private investment for projects with high development impact."	• Context/institution specific • Blending refers to different types of finance – no mention of private actors specifically on non-concessional side • Blended finance refers to the set of mechanisms/ instruments and intended outcome (meet project finance needs) • Blending refers to different sources of funds – role of private sector investment is recognised • Additionality/‘unlocking’ • Context/institution specific • Blended finance refers to the set of mechanisms/

Source	Definition	Notable characteristics
		instruments and intended outcome (mitigating risk and unlocking investment) • Development objectives
European Commission	"Blending is an instrument for achieving EU external policy objectives, complementary to other aid modalities and pursuing the relevant regional, national and overarching policy priorities. Blending is the combination of EU grants with loans or equity from public and private financiers."	• Blending refers to mix of public-public as well as public-private • Specifies the use of EU grants on the concessional side • Blended finance refers to the set of mechanisms/ instruments used for achieving policy objectives • Context/institution specific • Refers to developmental objectives (of EU)
Overseas Development Institute (2011)	"Blending as carried out by the EU facilities, mixes loans and grants. It entails a combination of market (or concessional) loans with grant (or grant equivalent) components which may be in various forms [...] It is the mechanism of achieving a blended package and the resulting 'associated financing' structure which includes funds from third parties (public, private and from the beneficiary) that distinguishes a loan blended with a grant, as provided by the facilities, from a concessional loan, as might be provided by DFIs outside the facilities. "	• Context/institution specific (EU facilities) • Blended finance is a 'package' of mechanisms which results in a financing structure

Source	Definition	Notable characteristics
UN Capital Development Fund: Interview with Deputy Executive Secretary (2016)	"'Blending' is basically combining grants, with non-grants instruments – which are loans and guarantees, basically. We try to create a space, or develop finance initiatives, or a combination of the two, where there is a need for technical assistance, and grants. Because at that stage, you're trying to incubate something. And on the horizon, to scale it. Once this initiative matures, with a 'proof of concept', it could be economic activities, no matter what the sponsors are, it has the capacity to move to the next stage."	• Blending refers to different types of funding, not necessarily different sources • Informal (from interview) • Blended finance refers to the set of mechanisms/ instruments • Context and institution specific • Notes non-financial elements involved (technical assistance) • Actors providing finance could be varied
Gavas , M. (2014)	"Flows combining market (or concessional) loans and other financial instruments with accompanying grant (or grant equivalent) components. The scope is to leverage additional non-concessional public and/or private resources with different financial terms and characteristics."	• Does not specify actors, only types of financial inputs • Blended finance refers to the set of mechanisms/ instruments, but the 'scope' or intention is attached to this definition • Context specific (infrastructure and low carbon development) • Additionality/leveraging
Carter, P. (ODI, 2015)	"'Blended finance', or the idea of using a small amount of aid to 'leverage' large amounts of private finance [..]."	• Blending refers to different sources of finance (aid and private finance) • Informal definition • Blended finance as an approach (which implies a range of financing mechanisms using ODA) • Additionality/leveraging (but report questions whether it can be evidenced)
Martin, M. (UN Development Cooperation Forum Policy Brief, 2016)	"The most useful definition for blended development cooperation (DC) is a narrow one which covers specific official instruments used directly to leverage private flows, rather than a broader imprecise one of 'transformative' ODA.	• Blending refers to different sources of finance: official and private. But private refers to both private DC and private commercial • Blended finance as a set of instruments/mechanisms • 'DC' refers to financing which has a developmental

Source	Definition	Notable characteristics
	It captures concessional public finance which aims to attract private DC or non-DC flows, including official grants, loans or equity contributions blended with private flows to co-finance programmes or projects; and guarantees or risk sharing/mitigation instruments."	objective; non-DC private flows are 'not primarily aiming at development' • Blended finance refers to the set of mechanisms/ instruments and the intended partnership arrangement (to co-finance programmes or projects)
Silborn, P. (Global Fund, Financing the United Nations Development System, 2016)	"In our context, blended finance is the alignment of grants with loans from development finance institutions and multi-laterals to release concessional financing for health, and support countries in establishing long-term funding models for increasing domestic resource mobilisation."	• Blended refers to a combination of different types of funding, not necessarily different sources of funds • Sector specific (health) • Link to domestic resource mobilisation

Annex B: Changes to the measurement of development cooperation – implications for measurement of blended finance instruments

The current focus on blended finance is reflected in the ongoing ODA modernisation process, and the associated development of the new total official support for sustainable development (TOSSD) measure of development finance, which aims to go 'beyond ODA'.

Within the ODA modernisation process, mandated by a decision at the 2014 OECD DAC High Level Meeting, the rules are being changed to include what the OECD refers to as private sector instruments (PSIs). These consist of blended finance instruments discussed in this paper, such as loans, guarantees, mezzanine finance and equity provided to enterprises in developing countries.[35] Such instruments are typically non-concessional, or at a low level of concessionality, and would not, under current rules, usually be counted as ODA (they would potentially appear as 'other official flows'). However, the DAC has stated that it wishes to remove disincentives in the use of these instruments in order to mobilise additional private sector finance – seen as crucial for the achievement of the SDGs.[36]

At the time of writing, the DAC Secretariat is developing proposals and aims to endorse a system for including PSIs in ODA at the DAC's Senior Level Meeting in October 2016. As discussions currently stand, it is envisaged that the donors' efforts to provide PSIs may count as ODA, so long as the agency offering the PSI is aiming to promote economic development and welfare within developing countries. Agencies would be assessed by the DAC via an institutional assessment framework, using indicators such as mandate and due diligence mechanisms of agencies, although the details are not yet available. Donors will be able to choose whether to count PSIs as ODA either i) when transferring funds to an agency which provides PSIs (the institutional approach) or ii) when a transaction is made between the agency providing the PSI and a partner country (the instrument-specific approach). Under the institutional approach, a proportion of the donor's funding to each agency that provides PSIs will be counted as ODA – this proportion will depend on the DAC's assessment of the amount of funding provided by each agency to development-related activities within ODA-eligible countries. Under the instrument-specific approach, a proportion of each transaction between a PSI-providing agency and a partner country will be counted as ODA – the proportion determined by the grant element associated with each transaction.

TOSSD, which contains and goes beyond ODA, will comprise two new proposed measures of development finance – the 'recipient perspective' measure and the 'provider perspective' measure. The recipient perspective would potentially include the total amount provided by donors to DFIs for use in PSIs (under the institutional approach) or the whole amount of funding, rather than just the grant element, reported under the instrument-specific approach. No decision has yet been taken as to whether the amounts mobilised from the private sector will be included in the provider measure (though the OECD is developing a methodology to facilitate the inclusion of mobilised finance in TOSSD, which has been put out for consultation alongside the TOSSD concept). However, latest guidance from the OECD suggests that private sector funds will definitely be included in the recipient measure of TOSSD.[37]

In terms of data collection, validation and publication/availability, there are potential challenges emerging with the TOSSD measure in relation to the monitoring of blended finance activities. All data appearing in the TOSSD measure would be provided voluntarily to national level 'data entities', who would then aggregate the data (with no stated mechanism for verifying information in the process with developing countries or other actors). Certain elements of TOSSD, such as provider assessments of 'resources mobilised', could be subjective or developed according to institutional methodologies not necessarily comparable across different providers. Finally, TOSSD information may be curated/aggregated and presented to the public, rather than released in original granular, project-level or disaggregated form, although there is mention of a TOSSD 'data standard' and project-level statistical identifiers in the documentation. It is therefore unclear whether TOSSD information will provide data and information on blended finance projects to the granularity required in order to achieve maximum transparency and accountability to stakeholders. However, the measure has not yet been finalised and consultations are ongoing.

Annex C: List of actors included and excluded from DI's initial analysis

Bilateral and multilateral DFIs

DFIs will be included in the overview of the landscape of blended finance actors, as well as in the quantitative aspect of the 2016 report, to the extent that the data will allow.

Bilateral DFIs

1. Development Bank of Austria (OEEB) – Austria
2. Belgian Investment Company for Developing Countries (BIO) – Belgium
3. Development Finance Initiative – Canada
4. Investment Fund for Developing Countries (IFU) – Denmark
5. Finnish Fund for Industrial Cooperation (FINNFUND) – Finland
6. PROPARCO – France
7. KfW DEG – Germany
8. SIMEST – Italy
9. Japan Bank for International Cooperation (JBIC) – Japan
10. The Netherlands Development Finance Company (FMO) – Netherlands
11. Norwegian Investment Fund for Developing Countries (NORFUND) – Norway
12. Sociedade para o Financiamento do Desenvolvimento (SOFID) – Portugal
13. Compania Espanola de Financiacion del Desarrollo (COFIDES) – Spain
14. SWEDFUND – Sweden
15. Swiss Investment Fund for Emerging Markets (SIFEM) – Switzerland
16. CDC – UK
17. Overseas Private Investment Corporation (OPIC) – US
18. Brazilian Development Bank (BNDES) – Brazil
19. Development Bank of Southern Africa (DBSA) – South Africa
20. China Development Bank – China
21. Abu Dhabi Fund for Development – United Arab Emirates
22. Kuwait Fund for Arab Economic Development – Kuwait
23. Saudi Fund for Development – Saudi Arabia

Multilateral DFIs

1. International Finance Corporation (IFC)
2. Multilateral Investment Guarantee Agency (MIGA)
3. International Bank for Reconstruction and Development (IBRD)
4. International Development Association (IDA)
5. International Fund for Agricultural Development (IFAD)
6. International Monetary Fund (IMF)
7. European Bank for Reconstruction and Development (EBRD)
8. European Investment Bank (EIB)
9. European Development Fund (EDF)
10. Council of Europe Development Bank (CEB)
11. Nordic Investment Bank (NIB)
12. Eurasian Development Bank
13. African Development Bank (AfDB)
14. East African Development Bank (EADB)
15. West African Development Bank (BOAD)
16. Asian Development Bank (ADB)
17. Inter-American Development Bank (IADB)
18. Caribbean Development Bank (CDB)
19. Central American Bank for Economic Integration (BCIE)
20. Development Bank of Latin America (CAF)
21. Islamic Development Bank (IsDB)

22. Arab Fund for Economic and Social Development (AFEDA)
23. Arab Bank for Economic Development in Africa (BADEA)
24. OPEC Fund for International Development (OFID)
25. Asian Infrastructure Investment Bank (AIIB)
26. New Development Bank BRICS (NDB)
27. Black Sea Trade and Development Bank (BSTDB)

Government development agencies

The actors listed below will be included in the overview of the landscape of blended finance actors, as well as in the quantitative aspect of the 2016 report, to the extent that the data will allow.

1. Government development agencies from 'traditional' donor countries (DAC members)
2. Government development agencies from 'emerging' donor countries, such as Middle Eastern development partners and Brazil, Russia, India and China – to the extent that the data allows in this initial analysis and to be expanded in future work

Private sector actors (domestic and international)

All these actors will be included in the overview of the landscape of blended finance actors but will not be covered on an individual basis in the quantitative aspect of the 2016 report, since the initial focus is on the role and potential of international official finance. However, data on amounts mobilised from the private sector as a whole will be included where available. Private sector actors include:

1. Financial firms, such as:
    a. Commercial banks
    b. Other financial intermediaries
    c. Asset management companies
    d. Private equity firms
    e. Venture capitalists
    f. Pension funds
    g. Insurance companies
    h. Family offices
    i. Individual investors
2. Non-financial firms, such as:
    a. Multinational corporations
    b. Micro, small and medium-sized enterprises

Philanthropic actors (domestic and international)

1. Foundations and NGOs/civil society organisations – these actors will be included in the overview of the landscape of blended finance actors but will not be covered in the quantitative aspect of the report, since the initial focus is on the role and potential of international official finance in blending

Relevant groups and blending facilities that will be included in upcoming analysis

1. Private Infrastructure Development Group
2. Climate Investment Funds
3. EU-Africa Infrastructure Trust Fund
4. EU's Investment Facilities, including the European Investment Bank's Impact Financing Envelope

Actors excluded from analysis

1. Export credit agencies/export-import banks – not included since their mandates are not development cooperation oriented; rather they tend to be very closely related to promoting their own country's international trade interest

[1] UNCTAD (2014). *World Investment Report.* Chapter IV, p176. Available at http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

[2] This point is often made anecdotally, but we welcome specific concrete examples of historical deployment of blended finance for development in the domestic and international contexts to add to our evidence base. See for example: discussion of use of sovereign guarantees for Irish land bonds to encourage private land ownership and development in 1891: Foley-Fisher, Nathan and McLaughlin, Eoin, (2014), *State dissolution, sovereign debt and default: Lessons from the UK and Ireland, 1920-1938*, No 14-06, QUCEH Working Paper Series, Queen's University Belfast, Queen's University Centre for Economic History. Available at: http://www.st-andrews.ac.uk/media/dept-of-geography-and-sustainable-development/pdf-s/DP%202015%2011%20Foley-Fisher%20&%20McLaughlin.pdf . See also use of 'blended finance' approaches in USA community development , discussed in Weiss,M. (2003), "Community Development", in OECD , Private Finance and Economic Development: City and Regional Investment, OECD Publishing, Paris. Available at: http://dx.doi.org/10.1787/9789264034860-4-en

[3] Eurodad notes that "Historically blended finance mainly subsidised loans to public sector in developing countries." See Romero, MJ. and Van de Poel, J. (2014) *Private finance for development finance unravelled: Assessing how development finance institutions work,* p11. Available at http://www.eurodad.org/files/pdf/53bebdc93dbc6.pdf

[4] Tarnoff, C. (1997) *The Marshall Plan: Design, Accomplishments, and Relevance to the Present; CRS Report for Congress* Congressional Research Service. Available at http://digital.library.unt.edu/ark:/67531/metadc816845/m1/1/

[5] Kragh, M.V., et al, 'Foreign aid and private sector development', in Tarp, F.(Ed. 2000) *Foreign aid and development: lessons learnt and directions for the future*. p319. See also evaluation of aid from donors to DFIs in 1990s by McKean (1990) *Development Finance Institutions: A discussion of donor experience* , A.I. D. Discussion paper no.31. Available at http://pdf.usaid.gov/pdf_docs/PNAAX240.PDF

[6] Where 'blended finance' instruments appear in DAC datasets, it may be recorded as 'other official flows'. The criteria for ODA has been based on the concessionality of the finance, whether it was provided by DFIs or a government development agency.

[7] See for example overview of changing donor approaches in relation to private investments in developing countries: Dollar and Pritchett (1998) Assessing aid - what works, what doesn't, and why (English). Available at http://documents.worldbank.org/curated/en/1998/11/438890/assessing-aid-works-doesnt Accessed July 12 2016

[8] Inter-Parliamentary Union (1998) *Declaration on declining official development assistance (ODA) and financial aid in general.* (162 Session.) Available at http://www.ipu.org/cnl-e/162-aid.htm

[9] UN (2002) Monterrey Concensus of the International Conference on Financing for Development. Available at http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf

[10] For a useful history of the rise of DFIs as development actors, see Romero & Van de Poel (Ibid)

[11] UN General Assembly (2014), *Report of the Intergovernmental Committee of Experts on Sustainable Development Finance.* Section E, pp35. Available at http://www.un.org/ga/search/view_doc.asp?symbol=A/69/315&Lang=E

[12] UN FFD Business Sector Steering Committee (2015) *Submission to the FFD Co-Facilitators for consideration in drafting the FFD Elements Paper*. Available at http://www.un.org/esa/ffd/wp-content/uploads/2015/01/BSC_Input_010715.pdf

[13] *Key elements of an EU position for the UN FFD thematic debate, 13/11/2014, Session on private finance and blended finance* Available at http://www.un.org/esa/ffd/wp-content/uploads/2014/11/2014-11-13-FFD-Thematic-brief-Private-and-Blended-Finance-Final.pdf

[14] *Group of 77 and China preliminary position for the intergovernmental negotiations on the Outcome of the Third International Conference on Financing for Development to be held in Addis Ababa, Ethiopia, 13-16 July 2015*. Available at http://www.un.org/esa/ffd/wp-content/uploads/2015/01/ep-comments-g77-Feb2015.pdf

[15] See for example: Joint CSO position paper (2015) *Delivering sustainable development: A principled approach to public-private finance* (2015). Available at http://policy-practice.oxfam.org.uk/publications/delivering-sustainable-development-a-principled-approach-to-publicprivate-finan-365739 ; *Statements by Civil Society to the Third International Conference on Financing for Development* (various, searchable) available at www.csoforffd.org (accessed July 10, 2016) ; *Beyond 2015, Implementing the Ambition: Beyond 2015 Recommendations for the post-2015 Means of Implementation and Financing for (Sustainable) Development*, Available at http://www.beyond2015.org/sites/default/files/Beyond%202015%20FfD%20paper%20FINAL_English.pdf

[16] Addis Ababa Action Agenda of the Third International Conference on Financing for Development (2015), para 54 http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

[17] Target 17.3 is broadly worded, calling on member states to 'mobilize additional financial resources for developing countries from multiple sources'. The Inter-Agency Task Force report on Financing for Development takes the position that this refers to all forms of finance in the AAAA, not just finance mobilised by ODA, since the indicators relating to this target refer to foreign direct investment, South-South cooperation, ODA and remittances. It is possible blended finance instruments could be included in the monitoring of this target within official development assistance reporting.

[18] OECD and World Economic Forum (2015*) Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders. Available at* http://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders_report_2015.pdf

[19] Available at http://www.sdiponline.org/ (accessed July 2016)

[20] Available at https://www.convergence.finance/ (accessed July 2016)

[21] *European Parliament resolution of 14 April 2016 on the private sector and development* (2014/2205(INI) , para 53. Available at http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fTEXT%2bTA%2bP8-TA-2016-0137%2b0%2bDOC%2bXML%2bV0%2f%2fEN&language=EN

[22] The 'development effectiveness' of blended finance, including the need for better data, transparency and accountability, will be explored more fully in a forthcoming policy briefing to be produced by Development Initiatives as part of this research agenda.

[23] OECD 2016, "Amounts mobilised from the private sector by official development finance interventions", , http://www.oecd-ilibrary.org/docserver/download/5jm3xh459n37.pdf?expires=1467191508&id=id&accname=guest&checksum=9496F3A166156D6AE414C940EA583267

[24] OECD and World Economic Forum (2015*) Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders.* (p. 24)

[25] e.g. "Investment, Infrastructure and Financing the Sustainable Development Goals", J. Zhan, UNCTAD 2015: https://www.wto.org/english/tratop_e/devel_e/a4t_e/wkshop_feb15_e/Session-I_James_Zhan_UNCTAD.pdf

[26] Note that least development countries (LDCs) include both low- and middle-income countries.

[27] For example Romero, MJ. (2013) *A dangerous blend? The EU's agenda to 'blend' public development finance with private finance*. Available at http://eurodad.org/files/pdf/1546054-a-dangerous-blend-the-eu-s-agenda-to-blend-public-development-finance-with-private-finance.pdf

[28] A more detailed overview of bilateral and multilateral DFIs' missions, as well as their governance structures, will be provided in our main report.

[29] Private sector actors are being considered as one entity in this table since the extent to which profitability features within their missions is similar for all.

[30] Dickinson T. (OECD), *Development Finance Institutions: Profitability Promoting Development.* Available at http://www.oecd.org/dev/41302068.pdf

[31] Eurodad has produced extensive research on the role, operations, challenges and risks of DFIs in development projects as well as factsheets for major bilateral DFIs - Jose Romero M, Van de Poel J. (2014), *Private finance for development unravelled*; Jose Romero M. (2014) *A private affair*

[32] All multilateral DFIs are 100% government owned, except for the Development Bank of Latin America, CAF, which is partly owned by commercial banks. Out of the 22 bilateral DFIs we've reviewed so far, the majority are 100% government owned, some have private participations and one (Austria's OEEB) is 100% privately owned.

[33] Note that some countries that feature in the OECD list of ODA recipients have their own bilateral DFIs and/or participate in multilateral DFIs thus we are not only referring to traditional DAC donors here - to the extent that the data will allow, we will seek to include DFIs of emerging economies in our analysis, specifically focusing on their international activities.

[34]OECD and World Economic Forum (2015*) Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders.* (p. 4)

[35] OECD (2014), Background paper: Including the cost of using private-sector instruments in ODA, December 2014: www.oecd.org/dac/DAC%20HLM%202014%20Background%20paper%20Including%20the%20cost%20of%20using%20private-sector%20instruments%20in%20ODA.pdf

[36] OECD (2016), DAC High Level Meeting Communiqué, February 2016.

[37] OECD (2016), TOSSD Compendium: www.oecd.org/dac/financing-sustainable-development/TOSSD%20Compendium2016.pdf