OECD DAC Blended Finance Principle 5: Monitor blended finance for transparency and results

Draft policy guidance note
Table of contents

Guidance Note on Principle 5                                           6
  1. Introduction                                                      7

2. Principle 5: Monitor blended finance for transparency and results  8
  2.1. 5A Agree on performance and results metrics from the start      8
  2.2. 5B Track financial flows, commercial performance, and development results 9
  2.3. 5C Dedicate appropriate resources for monitoring and evaluation 9
  2.4. 5D Ensure public transparency and accountability on blended finance operations 9

Detailed Background Guidance                                           11
  1. Implementation and accountability channels for blended finance    12

  2. Principle 5: Monitor blended finance for transparency and results 14
     2.1. 5A Agree on performance and results metrics from the start     14
     2.2. 5B Track financial flows, commercial performance, and development results 17
     2.3. 5C Dedicate appropriate resources for monitoring and evaluation 20
     2.4. 5D Ensure public transparency and accountability on blended finance operations 21

References                                                             23

FIGURES
Figure 1. Complex governance patterns affect monitoring and evaluation  12
Figure 2. Financial and development performance along the results chain 13
Background

In 2017, members of the Development Assistance Committee have officially adopted the OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs. Therein, Principle 5 relates to monitoring blended finance for transparency and results.

The OECD Development Co-operation Directorate is currently preparing further policy guidance to support the implementation of the Principles. This working document presents the draft Guidance Note on Principle 5 along with the Detailed Background Guidance for consultation purposes, as part of a broader process that will run until end of 2020.

Public Consultation

The goal of this consultation is to ensure that the Principles Guidance is a truly collaborative effort reflecting the experience of the broad development community, blended finance practitioners and all relevant stakeholders. This consultation represents a further opportunity for external partners to provide their inputs to the Guidance and complements a series of physical and virtual workshops organised to discuss how DAC Members can implement the Blended Finance Principles. The comments and feedback provided will be reflected in the final Guidance report.

For purposes of this consultation, comments and feedback from the development community and other relevant stakeholders are welcome on all aspects of the Guidance Note and Detailed Background Guidance, but particularly on the following:

- Improvements to the development system that would allow Principle 5 to be implemented more effectively;
- Suggestions on blended finance case studies or examples that could serve as good practice of the implementation of the Principles;
- Thoughts on the implications of covid-19 for the implementation of Principle 5 by donors;
- Suggestions in terms of material that could be useful for the implementation of the Principles and that could be referenced in this Guidance Note and Detailed Background Guidance.

Interested parties are invited to send their comments no later than Thursday 30 April, by e-mail to DCD.BlendedFinance@oecd.org, either directly in the email text or in Word format.

Please note that comments submitted in the name of a collective "grouping" or "coalition", or by any person submitting comments on behalf of another person or group of persons, should identify all enterprises or individuals who are members of that collective group, or the person(s) on whose behalf the commentator(s) are acting.
Guidance Note on Principle 5
1. **Introduction**

The OECD DAC Blended Finance Principles provide good practice in designing and implementing blended finance approaches. The five principles for blended finance each target a specific area of blended finance relevant to DAC members:

- **Principle 1:** Anchor blended finance use to a development rationale
- **Principle 2:** Design blended finance to increase the mobilisation of commercial finance
- **Principle 3:** Tailor blended finance to local context
- **Principle 4:** Focus on effective partnering for blended finance
- **Principle 5:** Monitor blended finance for transparency and results

2. The OECD is currently working on providing implementation guidance for DAC members in operationalising the Blended Finance Principles. The policy implications of Principle 5 have in part already been explored in a OECD Development Co-operation working paper on blended finance evaluation (Winckler Andersen et al., 2019[5]). The guidance will be published in its totality covering all Principles by the end of 2020.

3. The OECD DAC Blended Finance Principle 5 pertains to the monitoring of blended finance for transparency and results. It aims at ensuring all blended finance is appropriately used and sufficiently accountable as a tool for development co-operation. Attempting to reconcile the various different actors at play in blended finance, Principle 5 looks to monitor operations on the basis of clear result frameworks. This includes measuring, reporting on and communicating on financial flows, commercial returns and development results.
2. Principle 5: Monitor blended finance for transparency and results

2.1. 5A Agree on performance and results metrics from the start

4. Recent years have witnessed mushrooming of initiatives with the explicit objective of supporting public and private investors in achieving impact. The variety of instruments employed by Development Finance Institutions (DFIs) makes comparisons difficult to measure and compare their measurement of development impact (Lemma, 2015[4]). More generally, the existence of so many frameworks, standards and tools may be difficult for asset managers to navigate, especially if they do not have previous development co-operation experience. The OECD is currently undertaking a mapping exercise on impact measurement and management approaches for SDG related investments, which will bring some clarity in this space by the end of 2020.

5. Since inception, development and commercial actors taking part in blended finance operations should adopt a common monitoring and evaluation framework. Performance and result metrics should be applied to both direct engagement of donors in blended finance and to intermediated operations, while specific reporting arrangements may be tailored to context.

6. In order to ensure blended finance contributes to development co-operation, the first step for donors, both logically and chronologically, is to agree from the outset on expected development results and how they will be assessed. Establishing a common set of key performance indicators should be a priority in any investment, to ensure a transparent, harmonised and comparable set of results. In practice, this means all parties participating in blended finance operations—both developmental and commercial—should converge towards a common monitoring and evaluation framework.

7. Harmonisation becomes particularly important in the measurement of blended finance initiatives, compared to other development co-operation modalities, as these operations involve a variety of entities with more diverse legal settings: public administration, development and commercial banks, pension funds, insurance companies and local financial institutions. While public entities (governments, development agencies and banks) benefit from a long standing and well-established monitoring and evaluation culture, engrained in their domestic activities, private actors are less prepared to comply with the transparency standards required when using Official Development Finance. Added to divergent legal requirements, actors in blended finance transactions often face opposing incentives. For instance, development agencies and banks tend to have a broad, development orientated mandate, whereas bilateral DFIs focus on supporting domestic companies, creating financial markets, and generating a return on investment (ROI) for national governments. Agreement on performance metrics should adapt to the diverse corporate structures and incentives coexisting within the same framework. Agreement would also serve to mitigate
the side effects (namely false competition and duplication) of each actor attempting to claim their own additionality, by looking at the blended finance operation as a whole.¹

2.2. 5B Track financial flows, commercial performance, and development results

8. In order to assess the effectiveness and efficiency of blended finance operations, the financial and development performance of all parties should be assessed against predefined and agreed upon metrics. This encapsulates not only financial flows and commercial returns, but also results achieved against development objectives. Certainly, there is a need to prioritise development on a par with financial results.

9. Civil Society Organisations (CSOs) have long lamented the lack of transparency in blended finance operations. As outlined above, the transparency deficit owes in large part to the myriad legal and organisational obligations of actors involved in blended finance. For instance, DFIs are private law entities, and therefore not subject to the same stringent procurement regulation as DAC governments or development agencies. Some DFIs are also regulated as banking entities which affects their focus towards financial reporting. The current lack of oversight in blended finance initiatives exposes public sector funding to potential criticism in the event of corrupt or predatory practices.

2.3. 5C Dedicate appropriate resources for monitoring and evaluation

10. Adequate systems should be put in place to allow the monitoring and evaluation of the development interventions supported through blended finance. Donors should align on a common understanding of blended finance assessment methodologies to ensure consistency in data collection and reporting.

11. The third sub-principle stresses the need to dedicate appropriate resources for monitoring and evaluation of the development interventions supported through blended finance. Development co-operation has historically been at the forefront of both the definition and dissemination of monitoring and evaluation practice. The DAC Principles for the Evaluation of Development Assistance (1991), for example, set the most important requirements for the evaluation process.

2.4. 5D Ensure public transparency and accountability on blended finance operations

12. Information on the implementation and results of blended finance activities should be made publicly available and easily accessible to relevant stakeholders, reflecting transparency standards applied to other forms of development finance. Besides accountability, external communication on blended finance performance is instrumental in mobilising further commercial capital, by improving the availability of market information and the quality of risk assessment for the efficient pricing of investments.

13. This sub-principle calls for information on the implementation and results of blended finance activities to be publicly available and easily accessible to relevant stakeholders. The commitment of G7 members towards implementation of this particular principle is enshrined in the Charlevoix Commitment on Innovative Financing for Development.

14. International commitment to transparency is rooted in the Sustainable Development Goal (SDG) 16, which calls for a commitment to increase transparency and improve access to information. While

enshrined specifically in SDG16, transparency is a cross-cutting issue across all SDGs; a lack of it would undermine progress. Furthermore, DAC members are bound to the body of principles and norms they have agreed upon and that should be equally incorporated in their blended finance operations, as they form an integral part of development co-operation policy. These include for instance the OECD Guiding Principles on Managing for Sustainable Development Results, the Evaluation Criteria and Evaluation Quality Standards.
Detailed Background Guidance
When deploying blended finance, donors can use different channels to crowd in finance from commercial sources. The delegation of blended finance to specialised intermediaries carries implications for the availability and quality of information provided on development results. As illustrated in Figure 1, DAC members can channel their funds through several actors. These include NGO and philanthropic organizations, MDBs/DFIs, national development banks, government agencies and private sector intermediaries. These are each able to directly provide a financing instrument to the ultimate investee but can also make use of a third party financial intermediary for deploying financial resources. Alternatively, DAC members can also directly implement a project and provide a financing instrument thereby directly interacting with the ultimate investee. A donor may also set up a government facility replacing the distribution function of another financial intermediary or allocate financial resources to a private sector commercial financial intermediary directly without a step in between. The choice of channel depends on various factors, including the type and scale of development outcomes sought, the intermediary’s expertise and track record, the type of financial instrument deployed, as well as context-specific drivers (target sector, geography, stage in the project cycle etc.).

**Figure 1. Complex governance patterns affect monitoring and evaluation**

Source: (Winckler Andersen et al., 2019[3])
16. Typically, the maturity of monitoring and evaluation culture and practices will increase when moving upwards along the accountability lines represented in Figure 1. As the delivery chain grows longer, it becomes more difficult for a government to exercise its steering and control functions over its private sector arm(s). Moreover, the diversity of players involved brings along wide heterogeneity in their learning and accountability culture. Institutional and organisational factors will deeply influence monitoring and evaluation practice, including in terms of language, capacity, and degree of independence.

17. The Glossary adopted by the OECD DAC EvalNet (2002) has permeated through the practice of several financial intermediaries, but has not been universally implemented. The results chain is visualised below, where definitions are marginally adapted to the investment logic, rather than a generic development intervention. Many blended finance players do not subscribe to the definition of impact outlined by the OECD\(^2\), thereby conflating outputs and outcomes with impact.

Figure 2. Financial and development performance along the results chain

---

\(^2\) According to the revised evaluation criteria by the OECD/DAC Network on Development Evaluation, impact is defined as “the extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects”. [http://www.oecd.org/dac/evaluation/revised-evaluation-criteria-dec-2019.pdf](http://www.oecd.org/dac/evaluation/revised-evaluation-criteria-dec-2019.pdf)
2. Principle 5: Monitor blended finance for transparency and results

18. To ensure accountability on the appropriate use and value for money of development finance, blended finance operations should be monitored on the basis of clear results frameworks, measuring, reporting on and communicating on financial flows, commercial returns as well as development results.

19. To facilitate practical use for DAC members and other blended finance actors, the guidance is structured around the four sub-principles, as follows:

- Agree on performance and results metrics from the start;
- Track financial flows, commercial performance and development results;
- Dedicate appropriate resources for monitoring and evaluation;
- Ensure public transparency and accountability on blended finance operations.

20. Through this Principle, DAC members hence strive to establish the necessary governance and feedback loop that will ultimately enable policy learning and public accountability.

21. Achievement of the 2030 Agenda for Sustainable Development rests on three pillars: mobilisation, alignment and impact. Broadly, blended finance falls under the first of these, as it involves mobilising private and commercial finance towards developing countries. However, with a decade left to achieve these global commitments, international attention is increasingly turning towards the impact of investments like blended finance initiatives.

2.1. Agree on performance and results metrics from the start

2.1.1. Adopting a theory of change for the blended finance mechanism as a whole

22. Before entering a blended finance operation, all actors should clearly understand and articulate how the particular investment is expected to lead to outputs, outcomes, and eventually development impact. This should include the measurement of impacts before (ex ante) investments are carried out, throughout the duration of the investment (ongoing) and evaluating (ex post) the outcomes of completed investments (Lemma, 2015[4]). Currently, where ex ante impact estimations exist, financial intermediaries often fail to establish a clear theory of change that allows tracking of cause and effect between their investments and development objectives. Ideally, this would entail jointly identifying the causal links, mechanisms and assumptions at play.

23. Historically, DFIs have only tended to report and evaluate a relatively limited number of concrete development impacts. Typically, these can be categorised into the following: employment effects, government revenue impacts, consumer reach and environmental impact. Major institutions like AfDB, IFC, EIB and CDC tended to view employment creation as a priority objective and use it as a key indicator to measure development impact (Lemma, 2015[4]). Other important direct contributions include skills
development, environmental and social outcomes, the provision of valuable goods and services, and tax revenues in developing countries. However, there is now emerging evidence that DFIs can and should measure impact more broadly and across multiple dimensions, particularly on issues which pertain to the SDGs (cf. sub-principle 5D).

24. At present, the one modality in development finance which requires clear agreement on ex-ante development indicators linked to financial disbursement is pay-for-results mechanisms. Such mechanisms entail a process whereby the parties define the result up front, agree on the baseline, work out how confident the organisation is in delivering the result, and specify the expectation and payment in the contract (OECD, 2019[3]). For instance, the UK’s DFID uses “results-based” aid to improve the educational outcomes of young girls in Africa and Asia. The contractual element, which brings proportionality between verified results and release of funding, places so-called “impact bonds” at the extreme end of the scale in terms of prior agreement on performance metrics. They hence represent the ultimate example of how linkage between financial flows, expected outcomes and development objectives can be formalised.

25. Despite increasing uptake of ex-ante methodologies to estimate expected development results, by both DFIs and impact investors, there remains an acute lack of harmonisation and guidance on how to put these into practice. In 2013, 25 international financial institutions agreed to work towards harmonising their development result indicators to reduce variations in data and the reporting burden on clients, and to facilitate learning, through the Harmonized Indicators for Private Sector Operations (HIPSO) initiative. Another notable example is the Global Impact Investing Networking IRIS+ tool, which offers a catalogue of empirical metrics to monitor and measure impact. Despite these attempts, widespread agreement on performance metrics has become urgent and crucial to avoid fragmentation and potentially poor data quality.

26. Besides agreeing on what to measure (i.e. which indicators underlying which objectives), it is crucial for DAC members to also understand how to implement it, i.e. the data collection and assurance process to be put in place by their financial intermediaries. Asset managers have defined tailored approaches to assess and mitigate negative or enhance positive social and environmental impacts across their investments. These proprietary tools may range from pre-investment ESG screening to adaptive impact management throughout the investment cycle. The pursuit of system-level objectives, such as financial market creation or private sector development, may require certain amount of statistical modelling to inform investment allocation. However, the process of impact measurement and management should also embrace qualitative data, as a way to capture complementary information that cannot otherwise be measured and to better contextualise the interpretation of quantitative figures (cf. more on sub-principle 5D).

27. Adopting a theory of change, without prejudice to the possibility of running a counterfactual, which is often perceived as the golden standard to determine whether reported outcomes would have occurred without the investment, attempts to mitigate this challenge. This is further strengthened by a robust understanding among DAC members of how the observed outcomes occurred, as indicated above.

---

3 https://www.edfi.eu/about-dfis/impact/
4 https://indicators.ifipartnership.org/
5 https://iris.thegiin.org/metrics/
Box 1. Expected impact measurement tools by bilateral and multilateral DFI

The most visible tools in this space have been conceived by multilateral and bilateral DFIs. Introduced in 2018, the Anticipated Impact Measurement and Monitoring (AIMM) system enables IFC to rate the expected development impact before investment decisions. In particular, the estimation of economy-wide, indirect and induced effects relies on value added and employment multipliers developed by the IFC Modelling team. In the future, AIMM is expected to incorporate end-to-end results measurement for real-time monitoring and ex-post evaluation. The Transition Impact Monitoring System (TIMS) used at the EBRD links the objectives of individual investments with concrete and measurable benchmarks and specific timings.

The Private Infrastructure Development Group (PIDG) has established an internal management tool for tracking the expected qualitative and quantitative impact of all projects in the pipeline, as well as the activities (discussions, visits, baselines, evaluations) undertaken by the PIDG Development Impact team to support and verify this (PIDG, 2018[7]). This feeds a publicly available database (data.pidg.org) that provides development impact information on all of the projects having reached financial close and beyond.

The German DEG’s Development Effectiveness Rating system enables a mapping of the causal links from inputs to outputs and impacts. Another investment-screening tool, the CDC Development Impact Grid, scores investment based on two factors: the difficulty in investing in the proposed country and the propensity of investments in the relevant business sector to generate employment.

In parallel, considerable efforts by European DFIs to streamline their economic modelling of indirect impacts might lead to more uptake in the future. The Joint Impact Model launched by FMO, CDC Group and Proparco represents an important step towards aligning institutional approaches, while at the same time harmonising methodology, model and input data. Through input-output modelling, JIM estimates the expected indirect impacts on the local economy in terms of value added (salaries, taxes, profits), employment (job creation for women and for youth) and GHG emissions (CO2 emissions). The initiative is particularly praiseworthy as the concerned DFIs have decided to make the tool publicly available for a wider group of users. By using the same data sources, the tool also offers some cross-institution comparability to inform investment decisions.

28. Private asset managers, like BlueOrchard and Responsibility, may also define tailored to the blended finance funds and facilities under their management, to decide portfolio allocation and monitoring progress. Besides data gathering for reporting purposes, such tools may also serve as an information exchange platform with clients.

2.1.2. Reaching an initial agreement on reporting for development results

29. While these processes must, to some extent, be tailored to the corporate culture and specific investment priorities, fragmentation remains a problem for public authorities looking for comparability across financial intermediaries. At present, there is too much variation in the way that key concepts, such as additionality and impact are used, which renders comparison extremely difficult. Given the lack of common vocabulary among development finance actors, it is possible that while a managing organisation claims to measure impact, they are conflating it with outcome or even output (Basile, Bellesi and Singh, 2020[7]).

30. It is hence crucial that DAC members agree, at least on the policy level, on a common development impact framework. In as far as possible, this should be grounded on the already well-established commitments, building on the OECD DAC Glossary of Key Terms in Evaluation and Results Based
Management, the Guiding Principles on Managing for Sustainable Development Results (MfSDR), the Quality Standards for Development Evaluation and the freshly revised Evaluation Criteria. In an effort to promote a shared understanding of blended finance and evaluation concepts and terms, the OECD DAC’s Network on Development Evaluation (EvalNet), through its Working Group on Evaluating Blended Finance, is currently performing a systematic review of how definitions are used and the implications of these different understandings/definitions for programming and evaluation.

31. Without discussing the merits of different impact measurement and management approaches, it is important for DAC members to understand, from the start, what exactly they offer in terms of:

- nature of the development results tracked (financial, economic, ESG);
- level of the results (outputs, outcomes or impacts);
- data sources (modelling or observed) and stakeholders involved (direct clients, final beneficiaries, etc.)
- quality control and assurance process.

32. Further to this, evaluation plans should be clearly negotiated and agreed upon by financial intermediaries, including DFIs and asset managers. To facilitate collaboration, EvalNet members share their evaluation plans on a regular basis. While multilateral DFI are fully integrated to the Network activities, bilateral DFIs are rarely represented in this process. According to the OECD 2018 Survey, only a few blended finance facilities systematically conduct evaluations before replenishment and for over half of the surveyed funds, evaluation needs to be explicitly requested by their investors (Basile, Bellesi and Singh, 2020[7]). DAC members must specify, from the beginning, what are their expectations in terms of both monitoring and evaluation by delegated financial intermediaries.

2.1.3. Value for money considerations

33. When establishing indicators, DAC members should remain mindful of the burden this will imply. Cumbersome administrative demands might at least partially be mitigated by harmonisation efforts. The European Fund for Sustainable Development, for example, strives to provide a unique results-based framework, which will enable the aggregation of project, instrument and programme-level data. Another potential obstacle pertains to the aforementioned claims of commercial confidentiality. To some extent, this may be an unfounded argument, which public authorities should invalidate, as real trade secrets are not inscribed in contractual agreements or financial flows. The IATI standards, for instance, have made allowances for sensitive reporting situations including, inter alia, commercial information. For instance, there is the option for partners to exclude some or all details of an activity in order to protect those involved.

2.2. 5B Track financial flows, commercial performance, and development results

2.2.1. Ensuring more financial transparency, while avoiding the pitfalls

34. On tracking financial flows, in September 2018 DAC members agreed to defined methodologies for measuring the amounts mobilised from the private sector by official development finance interventions (OECD, 2018[4]). The agreement outlines the reporting arrangements for the following five instruments: guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies and credit lines. Recently, the UN Capital Development Fund publication on Blended Finance in Least

---


Developed Countries employed the data, thereby recognising it as the official proxy for blended finance within the UN system (UNCDF, 2018[5]). Still, DAC members need to ensure that these methods are embedded in all blended financial operations they support. Collectively, DAC members need to exert international pressure to ensure that financial intermediaries adhere to this common transparency standard, including by the private sector arm of multilateral and bilateral DFIs.

Box 2. TOSSD: a new international statistical standard for the SDGs

The international community is working to develop a new international statistical standard, Total Official Support for Sustainable Development (TOSSD), in order to track resources invested to achieve the Sustainable Development Goals (SDGs). TOSSD aims to incentivise broader external finance for development as a complement to developing countries’ own domestic resources.

Official OECD statistics on private finance mobilised will become an integral part of TOSSD, another major international effort to complement ODA by increasing transparency and monitoring important new trends that are shaping the international development finance landscape, including: i) the leveraging/catalytic effect of ODA, ii) the use of blended finance packages, and iii) the use of innovative risk mitigation instruments in development co-operation. A cross-border flow component will track resource flows and investments coming from a wide variety of bilateral and multilateral institutions, agencies, banks and investment facilities as well as certain civil society institutions.

The new framework will facilitate greater transparency about the full array of officially-supported bilateral, multilateral and South-South finance provided to finance sustainable development. It responds to new financing imperatives implicit in the 2030 Agenda – the importance of mobilising SDG-supportive investments by the private sector, and of marshalling more resources to provide global public goods, investments and services to promote the enabling conditions for sustainable development and to address global challenges.

Source: (OECD, 2017[8])

35. Research mandated by the Swedish EBA highlights that it remains difficult to get a precise picture of multilateral spending on Private Sector Instruments as the quality of reporting varies considerably among providers. The co-existence of these two entirely different approaches seriously weakens the comparability, and thus comparability of 2018 ODA statistics (Meeks, Gouett and Attridge, 2020[11]). The authors reiterate the need for organisations such as the OECD to spearhead better transparency and accountability practice across all blended finance actors.

36. Transparency also entails some risks, which should be properly acknowledged and mitigated. There is a possibility that any indication of failure in blended finance operations could lead to counterproductive consequences at both the micro and macro level. While recognising that there are legitimate needs to safeguard truly confidential business information, the presumption should be in favour of proactive disclosure, with any exemptions defined narrowly and justified on a case-by-case basis by reference to foreseeable harm to a legitimate, recognised interest (UN OHCHR, 2019[11]). The benefits from disclosure of sensitive information to the market as a whole may outweigh the costs to individual entities, but only if all entities are subject to the same requirements (IFRS, 2019[10]).

37. Over the long haul, the international development community must understand how blended finance initiatives can contribute to the achievement of the SDGs, and in what context. This can only happen if blended finance players collectively accept to more openly share both their successes and failures, which are inherent to the trial and error process of innovative financing mechanisms. Typically, DFIs and private investment managers have established corporate information and disclosure policies that
apply to the institutions themselves, in parallel to information disclosure requirements in their safeguards at the project level. These are hence two separate, and partially independent, levels where transparency can be sought. DAC members should thus strive to facilitate the emergence of a safe space for the exchange and stocktaking on lessons learnt (cf. sub-principle 5D).

38. Despite the recent call from the Blended Finance Taskforce report to leverage, or multiply, leverage ratios (BSDC, 2018[1]), such approach might trigger perverse incentives in the realm of development cooperation. Perhaps one of the most obvious consequences is the risk of increased bias towards middle-income countries (where it may be easier to attract private co-investors) as opposed least developed ones, where evidently there is most need.8 Similarly, the quest for financial leverage might push investment managers towards privileging larger companies, against start-ups or Small to Medium Enterprises (SMEs), which are typically perceived as more risky and have lower absorption capacity. These trends are already widely acknowledged in the literature (UNCDF, 2018[8]; Basile and Dutra, 2019[20]; Kenny et al., 2018[12]). DAC members must be aware that emphasising financial additionality (the ability to catalyse private investment that would not have occurred otherwise) may come at the expense of development additionality (the additional development results that would not have materialised without the investment).

2.2.2. Promoting better reporting on development results

39. The 2018 OECD Blended Finance Funds and Facilities Survey shows that, while impact indicators are widely adopted, in reality, too little development performance data is collected ex post or taking into account the voice of end beneficiaries. Direct investees are by far the most common source of development impact information: 81% of funds and 63% of facilities rely on declarations from their client companies or financial institutions (Basile, Bellesi and Singh, 2020[13]). Thus, most of the development results available on these pooled investment vehicles is too recent to pertain to actual impact, possibly biased by conflict of interest and lacking triangulation from multiple sources.

40. The Survey further underscores that many financial intermediaries assess and communicate on their impact rather loosely (Basile, Bellesi and Singh, 2020[13]). Many of the reported impact metrics pertain to purely operational concepts such as number of closed deals, leverage ratios, capital raised/unlocked/mobilised, and growth of investor wealth. Annual progress reports may generically refer to “lives impacted” without explaining what this means or how it was calculated. Another example of frequently used impact indicator is the number of training hours delivered, which doesn’t specify how many individuals benefited from them, what skills they actually acquired, nor their usefulness. Evidently, there is a need for better guidance and direction on the integration of qualitative reporting alongside metrics.

41. The DFI’s enhanced principles on blended concessional finance in private sector projects (DFI Working Group, 2018[5]) refer to promoting high standards (principle 5). In practice, with regards to evaluation, this means that DFIs/MDBs apply the same standards to projects involving blended concessional finance as to other operations. To promote consistency among MDBs, the Evaluation Cooperation Group (ECG) defined ‘Good-Practice Standards for the Evaluation of Private Sector Investment Operations’ in 2001 and revised it four times since (ECG, 2006[4]). European DFIs have recently made significant steps forward in enhancing their collective reporting on both direct and indirect development results.9

42. The discussion around the appropriate methodologies for blended finance evaluation is ongoing. This heterogeneity can, to some extent, be explained by differences in mandates and instruments of particular blended finance approaches. For instance, the most relevant methodology will depend on the

8 https://www.cgdev.org/blog/pitfalls-leverage-targets
9 https://www.edfi.eu/about-dfis/impact/
strategy of the blended finance investment. Specifically, whether it is intended to help create the market (i.e. system-level effects) or whether it has more specific development objectives, such as portfolio or project level affects. Data and resource availability, as well as time constraints, will have a bearing on the feasibility of particular methodologies (such as counterfactual approaches). In the light of this, a more detailed assessment should be undertaken of the relevance of individual evaluation methods for specific blended finance instruments and interventions.

43. Altogether, best practice involving the tracking of development performance should distinguish between sources of information, including their provenance and any potential associated bias. Added to this, it is important to reiterate the need for both qualitative and quantitative information, as diverse and complementary sources enable the emergence of more robust evidence base through triangulation. More integrity should be sought when analysing development results at various levels in the results chain: input, activities, outputs, outcomes and impacts. Robust methods of data collection and calculation are paramount to support this, although it is only realistically achievable if a common framework of understanding emerges; this will prevent confusion in terminology and allow for genuine comparison. DAC members should thus promote deontological ethics for the feeding, calculation and communication of development results among financial intermediaries entrusted with development finance.

2.3. 5C Dedicate appropriate resources for monitoring and evaluation

2.3.1. Empowering the internal capacity for learning and accountability

44. In comparison, most blended finance actors are lacking when it comes to monitoring and evaluation systems. For instance, resource constraint as a bottleneck when it comes to transparency in blended finance operations was identified in the Tri Hita Kirana (THK) Working Group paper (forthcoming). Similarly, the Global Impact Investing Network's found that 25% of impact investors did not have the resources to hire wholly dedicated Impact Management and Measurement (IMM) staff (GIIN, 2017[6]). Even more recently, over 50% of the surveyed impact investors indicated that the supply of professionals with IMM skills is insufficient (Mudaliar et al., 2019[7]). Most importantly, only a small proportion of their IMM capacity is supported through donor funding (16%).

45. Likewise, the OECD 2018 Blended Finance Funds and Facilities Survey most vehicles have identified a team or unit in charge of monitoring and evaluation as part of the line management structure (Basile, Bellesi and Singh, 2020[13]). However, this is not sufficient to respect the DAC Principles for Evaluation of Development Assistance (1991), which stipulate that the process should be impartial and independent in its function from the decision-making, delivery and management process. Impartiality contributes to the credibility of evaluation and the avoidance of bias in findings, analyses and conclusions. Independence provides legitimacy to evaluation and reduces the potential for conflict of interest. The requirement for impartiality and independence exists at all stages of the evaluation process, including the planning of the evaluation programme, the formulation of the terms of reference and the selection and approval of evaluation teams.

46. It is important to highlight that the allocation of development aid often comes with a provision to dedicate a percentage of the total budget to monitoring and evaluation. Similarly, it is recommended that DAC members should require a dedicate amount to be ring-fenced when making an investment for blending purposes. For instance, The Children’s Investment Fund Foundation, reserves 5% of the programme budget to assess results down to the beneficiary level.

47. Altogether, increased clarity would be beneficial on the respective roles of (ex-ante) impact assessment, Economic, Social and Government (ESG) due diligence, monitoring and (ex-post) evaluations. Each of these functions fulfils a different role, requires a different set of skills and it may be advisable to ensure some degree of separation in organisational chart. Nonetheless, for smaller financial players, they are often merged and overlapping with investment responsibilities. Here, DAC members can
foster linkages between key market enablers that are responsible for ESG certifications, IMM and evaluation in order to promote mutual understanding and cross-fertilization among these professions.

2.3.2. Promoting collaboration as integral to the partnership

48. Harmonisation could eventually lead to a cost reduction, both for asset managers and client investees. One example in this direction is the Mutual Reliance Initiative (MRI), agreed between EIB, AFD and KfW, allows the banks to use each other’s supervision and monitoring systems to reduce the administrative burden on partner countries.\(^\text{10}\) Similarly, blended finance partners can envisage to engage in joint and collaborative evaluations, that offer opportunities for mutual capacity development and learning between the partners, for building participation and ownership, for sharing the burden of work, for increasing the legitimacy of findings and for reducing the overall transaction cost for investors and investees alike (OECD, 2006[11]).

2.4. 5D Ensure public transparency and accountability on blended finance operations

2.4.1. Establishing the enabling conditions for transparency

49. Supporters of the Tri Hita Karana Roadmap have also acknowledged that better transparency and accountability will ensure that blended finance operations are brought in line with standards for development finance more generally. A mapping exercise performed on all initiatives related to blended finance, only 37 out of 132 are concerned with financial transparency or track financing streams relevant for blended finance.

50. Publish What You Fund’s 2018 Index notes that while 27 of the 45 donors surveyed provided information on general objectives, the publication numbers drop significantly for indicators that can be used for detailed monitoring of projects and holding donors accountable. Only 13 organisations were found to provide results information for pre-project appraisals. Only eight consistently publish reviews and evaluations.\(^\text{11}\)

51. Likewise, the 2018 OECD Blended Finance Funds and Facilities Survey emphasised that only one in four evaluation report is made publicly available (Basile, Bellesi and Singh, 2020[13]). The most common practice amongst Survey respondents is to share reports only with internal management or investors. While this is extremely useful to foster internal uptake of the evaluator’s conclusions, it does not contribute to augmenting public knowledge.

52. Reporting requirements and disclosure need to be clearly communicated and applied by stakeholders throughout the investment cycle. In the UK, contractual documents explain DFID’s transparency expectations. The accountable grant templates, for example, state that direct partners who receive funding from DFID will publish details of direct funding to International Aid Transparency Initiative (IATI) within 6 months of the start of the agreement.\(^\text{12}\)

53. In blended finance operations, the primary accountability is to the investors who have financially supported the project. However, to the extent that public development finance is involved, accountability to the taxpayer is also required. Convergence Finance, a network for blended finance that generates blended finance data, intelligence and deal flow, agrees that taxpayers deserve to know who their funds

---

\(^\text{11}\) https://www.publishwhatyoufund.org/the-index/2018/
are being spent, and emphasise the fact that concessional capital is finite; therefore, it must be used as efficiently as possible. Here, it bears remembering that public interest concerns not only the disbursement of official development aid, but also the use of non-concessional instrument; in as far as they are backed on public assets. Convergence also references the constituents of private organisations in this context: they argue that they have a right to know their resources are being used efficiently.  

54. Improving transparency can help build trust and strengthen the case for blended finance transactions, and reduce existing information asymmetries to encourage more private investment in developing countries. This, in turn, would have direct impact on risk assessments and expected transaction cost for prospective financiers. The availability and accuracy of data also plays an important role in ensuring a competitive playing field.

2.4.2. Enabling policy learning through the accumulation of evaluative evidence

55. Private asset managers often equate ‘impact reporting’ with evaluation despite difference between the two concepts. Many blended finance vehicles will integrate evaluation results as part of their external communication. This indirect and fragmented dissemination may however hamper the credibility of the overall evaluation, especially when the underlying report is not fully disclosed. Only one in four evaluation reports becomes public domain (Basile, Bellesi and Singh, 2020).

56. Blended finance is a relatively new approach in development co-operation and rapidly gaining attention among policy makers, in OECD and developing countries alike. Against this background, the production and dissemination of evaluative evidence is critical to understand the relevance and effectiveness of blended finance. Recognition of the importance of evaluative evidence in blended finance operations is becoming increasingly widespread. For instance, the Rapid Evidence Assessment recently mandated by UK’s Department of International Development underlines that better understanding of DFI investment will help inform policy decisions on the allocation and investment of ODA and other financial flows, suggesting a commitment to the compilation of evaluative evidence (Attridge et al., 2019). Besides reporting to external stakeholders, and informing social and commercial performance management, evaluation of DFI portfolios can help prioritise the right strategies going forward. (Winckler Andersen et al., 2019) go one step further, suggesting that “a systematic review of existing evidence with a focus on achieved results by various blended finance instruments would be an important contribution to the further discussions on the potential role and relevance of blended finance for the achievement of the SDGs.”

57. This will only be possible if all blended finance actors, both asset owners and management, progressively commit to building a public body of evidence, which implies not only performing more and more robust evaluations, but also sharing them more widely, to the benefit of all interested parties. DAC members should apply the same standard to evaluations of blended finance operations as they do for more traditional development co-operation modalities. In particular, DAC members should exert their influence on financial intermediaries by ensuring the same rigour in terms of evaluation standards and publication. Finally, DAC members should strive to better include evaluations performed by their bilateral DFI and private financial intermediaries in the OECD DAC resource centre (DEREC).

58. The EvalNet Working Group on Blended Finance Evaluation, co-ordinated by Denmark, Germany, Norway and the OECD Secretariat, is currently working to address some of these challenges. By end of 2020, this work aims to (1) establish a shared understanding of blended finance evaluation concepts and terms, (2) explore how to evaluate development additionality of development impact, and (3) seek to develop a shared understanding of evaluation of different blended finance instruments and complementary supports.

13 https://www.convergence.finance/news-and-events/news/7sFKqWx4m1yYbBIxvc2aFy/view
14 http://www.oecd.org/derec/
References


OECD DAC BLENDED FINANCE PRINCIPLE 5: MONITOR BLENDED FINANCE FOR TRANSPARENCY AND RESULTS © OECD 2020


UNCDF (2018), *Blended Finance in the Least Developed Countries*.