BLENDED FINANCE

Bridging the Sustainable Development Finance Gap

Understanding the indispensable role of official development finance in funding the Sustainable Development Goals (SDGs), the international community has acknowledged the need for significant additional development finance – and accorded a prominent place to private sector participation. The vision underpinning the 2030 Agenda is broad and ambitious, calling for an equally broad and ambitious financing strategy.

Blended finance is 'the strategic use of public or private investment with a development objective, including concessional tools, to mobilise additional finance for SDG-aligned investments in developing countries'.

In this context, the role of blended finance in mobilising private finance for development results is gaining prominence. At the same time, the increasing emphasis on blended finance approaches evokes the need to increase the understanding and transparency of these flows.

Against this backdrop, the High Level Meeting of the OECD Development Assistance Committee (DAC) in February 2016 agreed to explore further the role of blended finance in delivering the SDGs and to develop 'an inclusive, targeted, results-oriented work programme' on blended finance.

THE OECD WORK PROGRAMME ON BLENDED FINANCE

The OECD-DAC work programme on blended finance will distil and promote best practice and develop guidance that will assist the development co-operation community in delivering development impact from emerging blended finance approaches.

Evidence based | **Best practices** | **Policy guidance**

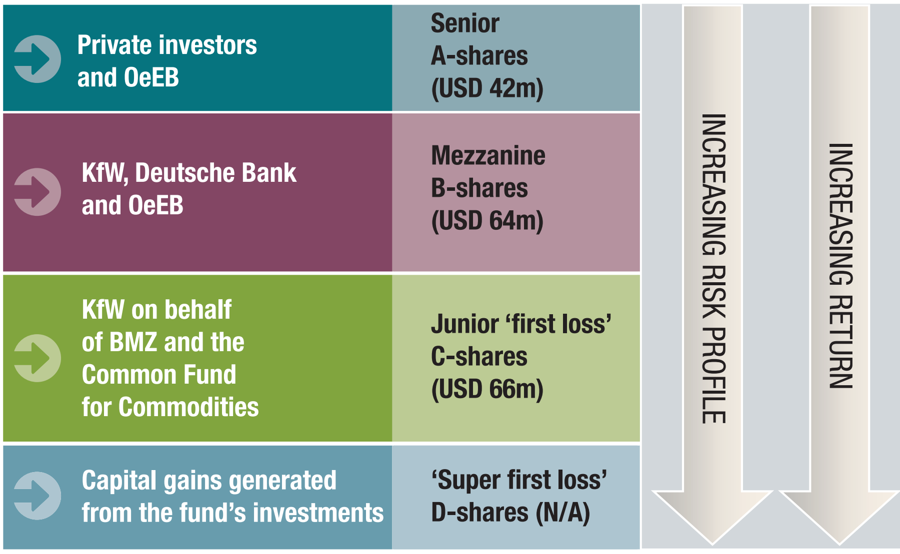
- **Evidence based:** Collate evidence and lessons learned on blended finance with a focus on targeting private finance and the use of blended finance across different regions.
- **Best practices:** Develop best practices for deploying blended finance in key economic systems and sectors, such as sustainable infrastructure, and to address specific issues such as climate change.
- **Policy guidance:** Deliver policy guidance and principles on the use of blended finance to deliver development impact.

Blended finance facilities – multifaceted approaches resulting in positive results for both investors and communities

An example of a blended finance facility using a 'cascade' approach is the Africa Agriculture and Trade Investment Fund (AATIF). The USD 172 million public-private structure debt fund is administered by Deutsche Bank and targets sustainable agriculture investments in Africa. The capital structure of the fund is made of several tranches of different size, risk-return profile and maturity as follows:

- The German Federal Ministry for Economic Cooperation and Development (BMZ) invests, through KfW, in the most junior tranche known as C-shares. The C-shares provide public 'first loss' capital which serves as a catalytic risk buffer to encourage private investment in more senior share classes.
- Deutsche Bank, the Austrian DFI OeEB, and KfW are investors in the mezzanine B-tranche.
- Private investors and the Austrian DFI OeEB invest in the senior A-shares.

A, B and C-shareholders are also potentially protected by a D-share layer, made of capital gains generated by the fund's equity investments, which provides 'super first loss' capital. AATIF's loan portfolio encompasses loans of different sizes (USD 0.25 to 30 million) and maturity (3 to 5 years). Furthermore, loans were extended to a diverse set of entities (e.g. sovereign and supranational entities with differing credit ratings). Building on AATIF's experience, Deutsche Bank announced the creation of the Universal Green Energy Access Program (UGEAP), a blended finance fund which aims to finance clean energy solutions in sub-Saharan Africa. UGEAP – administered by Deutsche Bank with GCF as anchor investor – has the ambition to reach USD 500 million.



Crishna Morgado, N. and B. Lasfargues (2017 forthcoming), "Box 5: Increasing the size of the pie for development: blended finance" in "Engaging the Private Sector for Green Growth and Climate Action: An overview of Development Co-operation efforts", OECD Development Co-operation Working Papers, OECD Publishing, Paris.

Under the work programme on blended finance in 2017 two major deliverables are ongoing:

Principles on Blended Finance

The development of Blended Finance Principles will assist governments to engage in this area and provide a framework on which they can base their activities. Crafted effectively and adopted in to action, Principles can contribute to drive the necessary best practices that underpin their effective use and are essential for a broader adoption of blended finance.

Forthcoming report: 'Exploring Blended Finance for Sustainable Development'

The work on developing principles will be complemented by a report to establish a common reference framework for Blended Finance. This report will cover key parameters, opportunities and challenges of blended finance, based on in-depth research. These include topics on the aspects of additional finance and mobilisation, ensuring where possible there is crowding-in verses crowding-out and the importance of focussing on development impact.

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