BLENDED FINANCE is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries. It is widely perceived as a key development finance tool to help address challenges associated with scaling up commercial finance for the Sustainable Development Goals (SDGs) in their final decade. Responding to the need for a unified multilateral framework to advance blended finance outcomes, the THK Roadmap for Blended Finance was launched on the sidelines of the 2018 World Bank Annual Meeting in Bali, Indonesia. The value driven framework and guidance developed by the THK roadmap enables stakeholders to act coherently and reinforces their actions at the policy and operational levels.

SHARE VALUES TO ENSURE EFFECTIVE USE & SCALING UP OF BLENDED FINANCE

As the blended finance market grows larger, this shared value system provides guidance on the terms of reference to all blended finance actors, enables improved engagement with the private sector and can ultimately drive alignment and greater efficiency in the market.

GUIDANCE BASED ON THE SHARED VALUES

Capitalizing on the strength of a unified, multi-stakeholder approach, five action areas were identified to ensure effectiveness and efficiency in the use and scaling up of blended finance operations, and to help establish the appropriate environment for blended finance.

TERMS OF REFERENCE FOR TURNING THE ROADMAP INTO REALITY

- **SCALE**: Bring together stakeholders across the blended finance ecosystem to develop means and measures to scale the mobilisation of private finance for the SDGs.
- **IMPACT**: Apply a holistic approach to integrating the SDGs into blended finance models, and build a body of evidence that blended finance is an effective tool to achieve impact.
- **LEARNING**: Facilitate exchanges of knowledge and good practices on scaling, impact and innovation in blended finance that encourages implementation and systematic adoption.
- **INNOVATION**: Identify, share and nurture innovative blended finance approaches as well as other innovations that can be scaled through the use of blended finance.
THK Roadmap guidance & tools

Compiling insights and inputs from a broad range of blended finance actors, the THK working groups have developed guidance materials to advance blended finance in the five action areas.

INCLUSIVE MARKETS

Building Inclusive Markets Report
A report summarising best practices and case studies related to the enabling environment in developing countries; local capital markets; a mapping of inclusive market deliverables; and development of early-stage pipeline. Leveraging the aggregated intelligence of working group member organisations, it outlines how blended finance can be used as a tool to accelerate inclusive sustainable market development, including the local financial market.

MOBILISATION

THK Mobilisation Working Group Summary Report
A summary of the findings, activities and recommendations of the THK Mobilisation Working Group. The paper establishes key components and recommendations for blended finance to be more successful in mobilising private commercial finance towards the Sustainable Development Goals (SDGs) in developing countries and directs the reader to the best global resources developed collectively as well as by individual working group member organisations.

PRACTICE

Governance of Blended Finance Report
A report highlighting best practices for blended finance governance by donor agencies and development financiers at institutional and project levels.

What is Blended Finance?
Stocktaking of the state and role of blended finance, an inventory of blended finance instruments & risk mitigation approaches.

TRANSPARENCY

Promoting Transparency in Blended Finance Report
A report summarising the findings of a scoping survey, exploring current reporting practices and areas for improvement, and a compendium of transparency resources and case studies that highlight transparency in blended finance. The report provides a useful reference for all blended finance stakeholders to build a common understanding of where we are and what needs to be done to further improve blended finance.

IMPACT

Checklist for Assessing the Impact of Blended Finance on the Poor
A comprehensive checklist to assess the impact of blended finance on the poor (ex-ante and ex-post) and potential risks of blended finance investments on the poor, aligned with metrics from the IRIS+ database of the Global Impact Investing Network (GIIN).

Library of key blended finance publications.
The THK Practice Working Group have produced guidance and tools to ensure the agreed common narrative on blended finance is effectively turned into practice. By generating and sharing good practices, the working group hopes to inspire practitioners and stimulate the expert debate around the state of play in blended finance today.

**TOP 10 COMPONENTS OF BLENDED FINANCE GOOD PRACTICES**

1. Improve community understanding of when Blended Finance is a good development tool
2. Develop community agreement on good practices aligned to 5 OECD Principles
3. Practical tools available to the development community to support their activity in blended finance
4. Collaboration within development community
5. Alignment between development agencies, MDBs and DFIs
6. Clear and coordinated message and engagement with private investors
7. Agreement and engagement between government in developed and developing countries
8. Strong understanding of private investor investment criteria
9. Good practices to mobilise private investment
10. Availability of development funds for blended finance – clear identification and dissemination

**GOVERNANCE OF BLENDED FINANCE | REPORT HIGHLIGHTS**

**WHY GOOD GOVERNANCE?**
The OECD DAC Blended Finance Principles represent the gold standard among donors, MDBs, DFIs, philanthropies and the private sector. The primary reason for subscribing to the Principles is accountability, both towards the international community and vis-à-vis donors/shareholders. The report brings the Principles to life by showcasing institutional-level and project-level good governance frameworks deployed by various blended finance provider in a way that meets accepted quality standards and achieves impact.

**DONOR AGENCIES**
National governments that endorse the Principles ensure compliance by providing independent oversight and quality assurance. At the institutional level, the two prevailing models for good governance are the direct model and the delegated model. At the project level, donors’ appraisal and monitoring/evaluation mechanisms for blended finance projects differ from regular ODA projects by focusing on additionality, mobilisation/leverage and long-term financial sustainability.

**DEVELOPMENT FINANCERS**
Each development financier has a unique mandate that sets strategic direction for the use of blended finance to deliver the SDGs. In recent years, most MDBs and DFIs have integrated practices inherent in the OECD Principles into their existing blended finance governance frameworks and have also elaborated more specific DFI Enhanced Principles for Blended Finance. MDBs and DFIs took stock of progress in implementing these BF governance frameworks in 2019.

**CASE STUDIES**

- Direct institutional approach: JICA and Canada’s IAIP program
- Delegated institutional approach: European Commission
- Institutional approach: African Development Bank
- Project-level process: European Bank for Reconstruction and Development
- Project-level process: European Investment Bank

**WHAT IS BLENDED FINANCE? | RESEARCH NOTE**

An overview of blended finance — concepts, definitions, actors, instruments — and stocktaking of the current state and role of blended finance in scaling up private investments for development.

- The paper addresses the ambiguity and variety in the ways blended finance is defined by highlighting how different organizations and actors (donor organisations, the OECD, MDBs and DFIs) define it.
- Recent trends highlighted include a decline in the proportion of blended finance transactions targeting least developed countries (2010-2018) and only 2-4% of cross-border finance flowing to developing countries (2010-2016) associated with blended finance. These trends demonstrate the need to further mobilise additional resources from both private and public actors.
- An overview of blended finance actors covers International organizations and Donor Governments, Philanthropic foundations and NGOs, Private investors and commercial companies & Multilateral Development Banks and Development Finance Institutions.
- The report concludes with a comprehensive inventory of blended finance instruments, definitions and use for mitigating risk in blended finance transactions.
TOP 10 RECOMMENDATIONS FOR BLENDED FINANCE TO SIGNIFICANTLY INCREASE PRIVATE INVESTMENT MOBILISATION

1. Donors to allocate 2-3 times current levels of funding to blended finance
2. Donors should collaborate on blended finance, including co-funding blended finance vehicles
3. Donors to actively support traditional partners in extending partnerships with local, regional and global capital markets
4. Cluster solutions around standard approaches for scaling mobilisation, multiple approaches for bespoke development impact on smaller scale
5. More project level solutions required to make individual SDG projects bankable/investible to mobilise private investment
6. Create more funding and risk sharing to support local financial intermediaries to finance more SDG projects at local level
7. MDBs and DFIs should establish explicit, stretch targets for private investment mobilisation
8. Standardisation of blended finance approaches, offerings and documentation to crowd in private investment
9. Increase cooperation between donor/development communities and private finance communities to seek alignment of interests
10. Better usage/harmonisation of project preparation facilities/early stage engagements to create larger universe of investible/bankable projects

THE MOST EFFECTIVE APPROACHES FOR MOBILISATION

Based on a review of the Convergence Blended Finance Historical Database and the following reports - Mobilization of Private Finance by MDBs and DFIs 2018, DFI Working Group on Blended Concessional Finance for Private Sector Projects, the OECD Blended Finance Funds & Facilities, the OECD Global Outlook 2018, DFI Working Group on Blended Concessional Finance for Private Sector Projects, the OECD Blended Finance Funds & Facilities, the OECD Global Outlook 2018.
The state of play and findings presented in this paper are based on existing research, analysis of available databases, a survey of select blended finance stakeholders and an analysis of ‘best practice’ case studies in select institutions.

KEY ISSUES HIGHLIGHTED BY THIS RESEARCH:

1. Agreement that greater transparency in blended finance is needed but debate about how far to go and how to overcome potential risks.
2. Potential for improvement in all aspects of transparency without undermining competition in the process of delivering better information.
3. Project/activity level transparency remains particularly problematic due to legal limitations & market driven practices.
4. Impact data remains limited but is key to building an evidence base, understanding what works & supporting inter-institutional learning.
5. Need for improved input information on instruments, concessionality level, volume/rationale for use of concessional finance, volume of other development finance, additionality, private finance mobilised, investee type & host country sector of intervention.

TRANSPARENCY IN BLENDED FINANCE:

The availability, accessibility, comprehensiveness, comparability, clarity, granularity, traceability, reliability, timeliness and relevance of both ex-ante and ex-post information regarding the use of public and private capital in blended finance transactions.

IFC’s enhanced concessionality disclosure for improved governance

Undermining fiscal policy of sovereign governments

Small Loan Guarantee Program: value of transparency for scaling up effective use of blended finance

TRANSPARENCY STAKEHOLDERS

The multi-stakeholder nature of blended finance deals means that investments, especially blended concessional finance, require additional considerations with respect to transparency as compared to traditional donor-recipient aid transactions. The report lists all relevant blended finance stakeholders, the specific transparency attributes that they are looking for/ need and those which they are able to supply/ make available.

TRANSACTION/ACTIVITY-LEVEL DATA IS NOT ALWAYS AND FULLY AVAILABLE

This tends to be explained by legal obligations and market driven practices that limit the public disclosure of information. There is also tension between standardisation of concessional pricing, which considers the bespoke nature of each project and disclosing terms/conditions of an investment against being able to minimise concessionality on such investment.

CASE STUDIES

DFI Working Group data compilation for transparency of blended concessional finance for private sector

PIDG Results Monitoring Database: project level data on blended finance transactions in the infrastructure sector

DFI Working Group data compilation for transparency of blended concessional finance for private sector

PHOTO CREDIT : IFC

PHOTO CREDIT : IFC

PHOTO CREDIT : IFC

BENEFITS OF INCREASED TRANSPARENCY

Despite the challenges and complexities of increasing transparency in practice, there are clear benefits:

- Builds trust and improves learning within and across implementers; strengthens the case for more investment;
- Enables better understanding of risk and return expectations;
- Supports decision-making on the effectiveness of blending as a financing for development tool;
- Facilitates more effective engagement in the market by all relevant actors; and
- Minimises asymmetries of information where possible, thus encouraging a more competitive playing field.

TRANSPARENCY WORKING GROUP RECOMMENDATIONS:

- Strengthen dialogue and collaboration around needs and responsibilities of all blended finance actors
- Establish the respective roles and responsibilities of stakeholder groups
- Harmonise minimum reporting requirements for all stakeholders emphasising public availability of information
- Establish a common blended finance reporting standard that is fit-for-purpose & fit for all actors
- Enhance access to information on existing blended finance facilities and investments

A call for increased transparency is found in several international efforts and recognized in the development effectiveness agenda as a building block of accountability, better coordination and effective targeting and use of resources. Notably, in a THK survey conducted in June 2019, 90% of respondents supported the need for more transparency in blended finance.

Meghan Watkinson, Global Affairs Canada
Kruskaia Sierra-Escalante, IFC
Co-chairs, THK Transparency Working Group
Addressing the specificities of local and international markets, this report investigates opportunities to deepen and widen existing markets to reach underserved segments of the population and create an economy with more diversified services and new investment opportunities.

FOCUS AREA 1 | ENABLING ENVIRONMENT | PROMOTING A SOUND ENABLING ENVIRONMENT AND INVESTMENT

Legal & Regulatory impediments to Blended Finance. This focus area emphasises the importance of a regulatory environment conducive to stimulating sustainable market development, recognises key constraints and distills good practices and lessons learned regarding key regulatory reforms. Macro risks, weak regulatory environments, lack of market transparency, and illiquid investments pose barriers to bringing private investment to developing countries. Policy instruments such as reducing capital controls and streamlining company and collateral registration and ownership requirements may improve the enabling environment for blended finance transactions. Where government measures to regulate cross-border funds transfers have had a dampening effect on global investment flows, clarifying these rules to international banks would facilitate movement.

FOCUS AREA 2 | LOCAL CAPITAL MARKETS | ACCELERATING INCLUSIVE SUSTAINABLE MARKET DEVELOPMENT

Blended Finance as a Tool for the Deepening and Widening of Local Capital Markets. With the goal of expanding financing opportunities for borrowers, lenders, investors in mind, this focus area emphasises the need for inclusive sustainable development of local capital markets. Underdeveloped local capital markets and limited access to finance for banks, companies and segments of the population in developing countries remains a key challenge for unlocking new markets and facilitating new investments. Blended finance can support inclusive sustainable development of local capital markets by exploring the role of various stakeholders, including national and sub-regional DFIs and development banks in mobilising private sector investment by employing, replicating & scaling blended finance approaches.

FOCUS AREA 3 | MAPPING INCLUSIVE MARKET VEHICLES

Reviewing blended finance solutions for creating and deepening inclusive markets, this focus area defines inclusive market vehicles as those reaching underserved segments of the economy with limited or no access to markets or financing opportunities and where blended finance can be a tool for mobilising additional financing to create inclusive markets. Leveraging Convergence’s database, a high-level analysis of blended finance transactions aligned to inclusive markets financed and launched to date is presented. Convergence has identified approximately 500 blended finance transactions that have reached financial close across multiple sectors, regions, and development themes. There have been more than 1,100 unique organizations that have provided 3,700 financial commitments to these structures.

CASE STUDIES

Fintech Investment: Zoona Mobile Money System in Zambia
Corporate Sustainability Bond: Tropical Landscapes Finance Facility supporting green growth in Indonesia
Private Agricultural Sector Support Trust - financial sector deepening in Tanzania
GET FIT - Global Energy Transfer Feed-in-Tariff program in Uganda
Strengthening Market Structures Frontclear - building a repo market in Kenya
African Local Currency Bond (ALCB) Fund

FOCUS AREA 4 | EARLY STAGE PIPELINE

Blended Finance Targeting Early Stage Projects in Sub Saharan Africa. This section focuses on the lack of bankable projects in Sub Saharan Africa (SSA) and fosters connection between owners of early stage projects with the appropriate providers of development capital in order to successfully unlock SSA’s pipeline potential. Investors argue that private capital is not flowing to developing countries due to a lack of bankable or investment ready projects. Private capital tends to shy away from early stage investments due to the higher risk at this project stage. A recent survey by the Sustainable Development Investment Partnership (SDIP) and partners highlights an estimated $2.35 billion available in the coffins of 47 project preparation facilities and funds surveyed with approximately $800 million available exclusively for project development support in Africa. The SDIP Africa Hub objective is to create a sustainable flow of commercially attractive SDG projects that enable private capital to flow at the scale needed to address urgent development needs in the continent.

The THK Inclusive Markets group has explored instruments and approaches that help create, develop & deepen sustainable markets. To address the severe socio-economic consequences of the Covid pandemic, now is the time to deploy blended finance and other innovative mechanisms at scale to create new opportunities, amplify synergies and foster collaboration to achieve the SDGs.

Frode Neergaard, WEF
Co-chair of the THK Inclusive Markets Working Group
THK Checklist for assessing the impact of blended finance on the poor

Many blended finance providers have responded to the SDG objective of "reaching the furthest behind first" by prioritising investments with direct benefits for the poor or an indirect impact through contributions to market creation and/or changing the behaviour of market actors in ways that expand markets for the poor. While blended finance providers must find some way of measuring investment impacts on the poor, comprehensive measurement frameworks that include specific indicators for impact on the poor are costly and time-consuming to develop and implement. Many public and private providers lack credible and practical means to identify whether poor beneficiaries profit (or suffer losses) from proposed and selected investments resulting in poorly-informed project selection for those interested in targeting the poor, and weak ex-post impact measurement.

Responding to these challenges, the THK Impact Working Group designed the Checklist for assessing the impact of blended finance on the poor as an intentionally comprehensive tool that offers blended finance providers a way to assess impact on the poor for most kinds of transactions.

ASSESSING BENEFITS EX-ANTE AND MEASURING IMPACT EX-POST

The Checklist describes what needs to be assessed ex ante and measured ex post to assess impact in 7 key areas using the Global Impact Investing Network’s (GIIN) IRIS+ framework – an existing standardized metrics framework applied by a broad range of investors and stakeholders. To assess whether ex ante assumptions or predictions are supported by evidence, some form of credible ex post impact measurement is necessary for every blended finance investment.

ASSESSING RISKS: EX ANTE

Blended finance transactions involve a multitude of investors and actors, whose interests are not necessarily aligned. The underlying causal chains leading from the blended finance investment to reduced poverty are long and can imply a risk of incorrect assumptions or unintended effects on the poorest and most marginalized. Putting risk assessments at the forefront of investment decisions is critical to taking into account who is set to benefit from the investment and how to best mitigate adverse effects.

ASSESSING RISKS: EX ANTE (extract only, see full list)

<table>
<thead>
<tr>
<th>Categories</th>
<th>Assessing ANTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability</td>
<td>Is there a high risk that the investment is not financially sustainable?</td>
</tr>
<tr>
<td>Access to goods and services</td>
<td>Will the investment increase living expenses for the poor, including costs for food or housing?</td>
</tr>
<tr>
<td>Physical harm</td>
<td>Will the business model underlying the investment expose the poor to physical insecurity?</td>
</tr>
<tr>
<td>Equality</td>
<td>Is there a high risk that the investment will increase inequality among those impacted by the investment?</td>
</tr>
<tr>
<td>Climate change</td>
<td>Will the investment expose the poor to greater risk from climate change, such as increasing their dependence on products increasingly threatened by climate change?</td>
</tr>
<tr>
<td>Financial status</td>
<td>Will the investment increase vulnerability of the poor with regard to adverse income shocks that can be controlled?</td>
</tr>
<tr>
<td>Aid effectiveness</td>
<td>Will the investment conflict with, or undermine, the country’s poverty reduction strategy?</td>
</tr>
</tbody>
</table>

ASSESSING BENEFITS EX-ANTE AND MEASURING IMPACT EX-POST (extract only, see full checklist)

<table>
<thead>
<tr>
<th>Categories</th>
<th>Assessing benefits: ex-ante</th>
<th>Y/N</th>
<th>Measuring impact: ex-post</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access</td>
<td>Will the poor have access to benefits of the investment?</td>
<td>...</td>
<td>Characteristics of beneficiaries of the investment</td>
</tr>
<tr>
<td>Affordability</td>
<td>Will the investment increase the affordability of key goods/services that raise productivity or well-being?</td>
<td>Changes in the costs of products consumed by the poor that are provided by the investment</td>
<td></td>
</tr>
<tr>
<td>Income and wealth benefits</td>
<td>Will the investment add value to assets held by the poor?</td>
<td>Change in value of assets (e.g., land, livestock, financial assets) held</td>
<td></td>
</tr>
<tr>
<td>Basic need and vulnerability</td>
<td>Will the investment reduce food insecurity for the poor?</td>
<td>Food insecurity as measured by food consumption patterns for the poor</td>
<td></td>
</tr>
<tr>
<td>Empowerment and capacity building</td>
<td>Will the investment help formalize economic activity in which the poor participate?</td>
<td>Indicators of formalization of jobs for poor beneficiaries</td>
<td></td>
</tr>
<tr>
<td>Standards</td>
<td>Will the investment conform to international standards that protect poor consumers or producers?</td>
<td>Internationally recognized labor and social standards protecting poor producers or consumers</td>
<td></td>
</tr>
<tr>
<td>Market building and finance mobilization</td>
<td>Will the investment introduce a new product/service/asset previously unavailable to the poor?</td>
<td>Numbers of poor accessing new products, services, or assets</td>
<td></td>
</tr>
</tbody>
</table>
THE VALUE AND FUTURE OF THE THK ROADMAP FOR BLENDED FINANCE

THK Team, Organisation for Economic Cooperation and Development (OECD), Development Cooperation Directorate (DCD)

Established in Bali, Indonesia, in October 2018, the THK Roadmap for Blended Finance is a unique platform for international dialogue on blended finance. It brings together stakeholders from all over the world, including donor agencies, development finance institutions, multilateral development banks, civil society organisations, philanthropic foundations, private sector stakeholders, and impact investment communities. The Roadmap’s high number of participants is a testimony both to the interest in blended finance at the international level, and the need for an open forum where individuals from a broad range of institutions can meet and exchange views on blended finance.

This publication represents a significant milestone in the work of the THK Roadmap. It highlights key outcomes of the five working groups established under the THK umbrella in 2019, and provides easy access to THK products and deliverables for anyone interested in blended finance. The drafting of the publication was supported by Canada, and we would therefore like to thank Global Affairs Canada for making this important endeavour possible.

We would also like to thank Indonesia for their key role in establishing the THK and for their active involvement and continued support to the Roadmap. The OECD have assisted in the process, and we are very proud to have been facilitating the work of the THK Roadmap. The numerous meetings, workshops and events arranged and held over the last two years have brought together many diverse stakeholders and have constituted a robust frame for fruitful discussions as well as for the production of a whole range of deliverables on blended finance that are now available as public goods on the THK resource hub.

The THK Roadmap for blended finance is at a critical juncture, with the Covid-19 crisis having placed unprecedented challenges on the international Development Finance community. The economic and social recovery needs are massive, especially in developing countries and emerging economies.

Development finance – including blended finance as one important tool in the toolbox – will have to meet these challenges by playing an even more effective and influential role in recovering from the pandemic. Now, more than ever, is the time for international dialogue, coordination and collective action to ensure more and better use of blended finance.

The THK Roadmap is already serving this purpose, and it is hoped that the Roadmap can help to ensure that Blended Finance continues to deliver development outcomes in the years to come.

All relevant actors are invited to join the Roadmap, and to contribute within this shared value system and the respective guidance.

Contact us at: DCD.BlendedFinance@oecd.org