BRICS TECHNICAL REPORT ON INFRASTRUCTURE PROJECTS BLENDED FINANCE

BRICS 2024 RUSSIA

Adopted by the BRICS Task Force
on Public-Private Partnership and Infrastructure

Endorsed by the BRICS Finance Ministers

October 2024

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DISCLAIMER

This work is prepared by the BRICS Public-Private Partnership and Infrastructure Task Force and is intended to provide a general overview of blended finance and its implementation in the BRICS countries at the time of writing and is not intended to be an exhaustive study of the blended finance phenomenon in the BRICS countries and all possible and existing approaches and practices to blended finance in the BRICS countries.

The findings, interpretations and conclusions expressed in this work are for reference and information purposes only, voluntary, non-binding, non-prescriptive and do not necessarily reflect the views of all governmental and state entities at all levels of the Task Force member.

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Unless otherwise specified in the report, abbreviations and terms used in this work are understood in accordance with the United Nations Terminology Database[1]. Additionally, the World Bank Glossary (general), the World Bank PPP Online Reference: Glossary[2], the IMF Multilingual Terminology Database[3] and the OECD DAC Glossary of Key Terms and Concepts[4] may also be used.

[1] https://unterm.un.org/unterm2/en/
[2] https://ppp.worldbank.org/public-private-partnership/PPP_Online_Reference_Guide/Glossary#B
[3] https://www.imf.org/en/About/Terminology/IMF-Termbase
[4] https://web-archive.oecd.org/temp/2024-02-22/66749-dac-glossary.htm

ABBREVIATIONS

AED	The United Arab Emirates Dirham
BDA	Bilateral Development Agency
BDB	Bilateral Development Bank
BOT	Build-Operate-Transfer
BRL	The Brazilian Real
DBFOT	Design-Build-Finance-Operate-Transfer
DBOT	Design-Build-Operate-Transfer
DFI	Development Finance Institution
DIB	Development Impact Bonds
ECA	Export Credit Agency
ESG	Environmental, Social, Governance
EMDE	Emerging Markets and Developing Economies
GIIN	Global Impact Investing Network
IBFC	India Blended Finance Collaborative
IDFC	International Development Finance Club
ICM	BRICS Interbank Cooperation Mechanism
IFC	International Finance Corporation
IFI	International Financial Institution
IO	International Organisation
LDCs	Least Developed Countries
LIC	Low-Income Country
MDB	Multilateral Development Bank
MIGA	The Multilateral Investment Guarantee Agency
MSPs	Multi-Stakeholder Platforms
NDB	National Development Bank
NGO	Non-Governmental Organisation

ODA	Official Development Assistance
PPP	Public-Private Partnership
PPPITF/ Task Force	BRICS Public-Private Partnership and Infrastructure Task Force
RMB	The Chinese Renminbi
RUB	The Russian Rouble
SDGs	Sustainable Development Goals
SIDs	Small Island Developing States
SME	Small and Medium-Sized Enterprises
SPV	Special Purpose Vehicle
TA	Technical Assistance
THK	Tri Hita Karana Roadmap
UN	The United Nations
USD	The United States Dollar
WEF	World Economic Forum
ZAR	The South African Rand

EXECUTIVE SUMMARY

This report aims to provide an overview of the concept of blended finance and its use by BRICS countries to finance infrastructure projects. The report has been prepared on the basis of members' responses to a survey and case studies of infrastructure projects blended finance in various sectors, including social infrastructure, energy, transport, water and sanitation, as well as examples of multi-sectoral blended finance mechanisms. It is structured in four sections: definition of blended finance, actors in blended finance transactions, instruments and mechanisms, challenges and barriers to blended finance. Based on the analysis, the report draws key learnings.

In the light of infrastructure gap growth exacerbated by factors such as climate change, technological change and a general scarcity of infrastructure financing, blended finance could be an effective strategy to mobilise private capital for infrastructure financing, while also contributing to the achievement of the Sustainable Development Goals.

The concept of blended finance is known and applied in practice in the BRICS countries, albeit with varying degrees of sophistication. Public-private partnerships remain the most popular blended finance mechanism. At the same time, legal definition of blended finance is not a mandatory prerequisite for structuring blended finance transactions.

The BRICS countries demonstrate a diversity of practice in terms of the variety of actors involved in blended finance for infrastructure projects. In addition to national governments, multilateral development banks and development finance institutions, especially national development banks, play a key role in the development of blended finance. The report and Task Force members suggest that the use of dedicated blended finance advisers may be a useful practice.

Blended finance transactions are demanding in terms of effective coordination, which is important both at the country level and at the level of the sector, typical actors and participants in a given transaction. Differences in understanding blended finance regulation may be contributing to a lack of clear and consistent language in developing and promoting a common understanding and framework for blended finance. In this regard, multi-stakeholder platforms, both at the national and international level, have the potential to play an important role in the institutional development of blended finance. Within the BRICS framework, there is the format of the BRICS Interbank Cooperation Mechanism, which could provide a valuable opportunity for the exchange of blended finance experiences, practices and knowledge among development banks.

The BRICS countries use a variety of financial and non-financial blended finance instruments in the context of technical assistance, risk underwriting (capital preservation) and market incentives (results-driven financing/price guarantees). The use of debt and concessional capital seems to dominate in blended finance transactions for infrastructure projects. A variety of blended finance mechanisms are also used, such as funds, facilities and PPPs. The experience of the BRICS countries suggests that the most natural way to develop and scale up blended finance for infrastructure projects is through specialised funds and facilities. Technical assistance could be considered the main non-financial instrument of blended finance for infrastructure projects.

Innovative blended finance instruments, including social and development impact bonds, may help to effectively distribute the burden on existing infrastructure by creating new approaches to providing social services without the need to create new infrastructure facilities.

The report identifies four categories of challenges and barriers to blended finance: 1) policy and regulatory framework, 2) institutional and coordination framework, 3) knowledge and capacity, and 4) market environment. The regulatory, policy and market environment categories appear to be the most significant. The complex regulatory landscape is a major barrier to the implementation of blended finance, which is exacerbated by the lack of a standardised or common blended finance framework. There is also an uncertainty about the tax and accounting treatment of blended finance transactions. The regulatory complexity of structuring blended finance transactions adds significantly to the cost, and the lack of standardised models exacerbates this problem, making many initiatives economically unviable.

At the same time, the commercial interests of the private party often may dominate over the development objectives of the infrastructure project. The publication of a document on national blended finance approaches may help to expand the practice of blended finance.

The absence of an inventory (pipeline) of bankable projects, particularly infrastructure projects, and the lack of mechanisms for selecting promising infrastructure projects are significant institutional and market obstacles to scaling up blended finance. This is also aggravated by institutional barriers related to data gaps and transparency, including limited access to reliable and standardised data, inconsistent data collection and reporting methods, and limited availability of historical performance data on blended finance transactions.

The enabling environment for investment is a critical element in the potential to mobilise private finance for investment as well as an integrated approach to creating a blended finance ecosystem, which could facilitate a transition from a transaction-to-transaction approach. This is compounded by the need for sufficient transparency in blended finance transactions, awareness raising and capacity building as well as a lack of understanding of the risk transfer mechanism in blended finance transactions.

The most extensive set of challenges and barriers to the blended financing of infrastructure projects can be found in the area of the market environment. The main complication is the divergence in risk appetite between public and private parties, which manifests as a desire to prioritise projects with clear commercial benefits and smaller development effects. Furthermore, it is challenging to circumvent market distortion and adhere to the principle of minimum use of concessionality in blended finance projects with high development returns. In the context of infrastructure projects, the issue of financial market failure represents a significant challenge, as is the availability of long-term local-currency financing at adequate terms and conditions and availability of long-term hard currency financing within transferable and/or bearable cross-border risk levels. DFIs and MDBs predominantly denominate their debt instruments in hard currency and underutilise local currencies, especially in low-income countries, while having a limited appetite for equity investments and instruments such as guarantees.

The BRICS countries are well-positioned to advance the development and exchange of experiences related to regulatory frameworks for blended finance, including the potential harmonisation of their domestic blended finance legislation. Governments have a key role to play in creating an enabling policy environment, including targeted incentives (e.g. including tax breaks, loan guarantees, grants, project preparation and development grants), that encourages the private and philanthropic sectors to engage in blended finance.

Awareness may be raised through various training programmes, the publication of guidelines, and inclusion of blended finance as a topic in various regular forums, including those that bring together BRICS governments, development institutions, asset managers and private investors. The BRICS PPP and Infrastructure Task Force may also be a useful platform for the continued intergovernmental exchange of knowledge and practices on blended finance.

It would be beneficial to consider ways to capitalise on the shared capabilities and expertise of the BRICS countries and to strengthen the interaction between the BRICS DFIs, for example through the BRICS ICM, not only to share experiences, practices, knowledge and technical assistance, but also to find ways to jointly finance infrastructure projects that have a high potential for mutual benefit and development impact. Such interaction could also be strengthened through the involvement of the New Development Bank.

1. INTRODUCTION

The world is undergoing a fundamental transformation in a number of areas, and the actions that the international community takes now will have a direct impact on what the world of the future will look like.

One of the areas where there is a clear increase in demand is for quality infrastructure. The acceleration of urbanisation places greater demands on the organisation of urban space, while the development of infrastructure in agglomerations and rural areas, as well as interregional and cross-border infrastructure, remains equally important for the economic, social and sustainable development of countries.

The BRICS countries collectively represent almost half of the world's population, which is approximately 45 %. As emerging market and developing economies (EMDEs), they are among the most immediate and potential beneficiaries of accelerated infrastructure development.

Various experts estimate that the global infrastructure investment gap is about to reach USD 18.5 trillion by 2040[5]. Approximately 70 % of this amount will be needed in the EMDEs, of which at least a third will be needed in the BRICS countries.

This global infrastructure gap also includes the investments needed to meet the USD 290-500 billion predicted annual cost of climate adaptation[6], 90 % of which is related to infrastructure[7]. Infrastructure needs in Africa are estimated about 30 % higher than actual investments and this gap will reach over 40 % by 2040[8]. Similarly, Latin America and the Caribbean region is estimated to have an infrastructure gap of around 30 % and will approach 50 % by 2040.

Given the considerable investment required and the constraints on government spending in the current global economic climate, it is clear that the gap cannot be closed through government spending alone.

Fiscal space is limited in many EMDEs, and public finances have become increasingly vulnerable, as public debt of EMDEs has risen from 38 % of GDP in 2010 to 58 % of GDP in 2022[9]. Mobilising private capital for EMDEs through various policies, approaches and mechanisms, in particular PPPs, is therefore critical to support infrastructure development and ensure efficient resource allocation.

Just 10 % of global financial assets[10] are in EMDEs, despite these countries being home to over 86 % of the world's population[11]. This challenge is especially acute for weak EMDEs, where infrastructure investments often have capital requirements that exceed the total local capital supply.

It is therefore evident that access to private capital is of critical importance for the development of infrastructure in EMDEs. However, attracting investors, in particular foreign investors, to local markets has proven to be a significant challenge. The unfavourable risk-return profiles and the

[5] Closing the Infrastructure Gap: Mobilising Institutional Investment into Sustainable, Quality Infrastructure in Emerging Markets and Developing Economies (EMDEs), Swiss Re and GIF, 2021
[6] Arame Tall & Sarah Lynagh & Candela Blanco Vecchi & Pepukaye Bardouille & Felipe Montoya Pino & Elham Shabahat & Vladimir Stenek & Fiona Stewart & Samantha Power & Cindy Paladines & Philippe Neves & L, 2021. "Enabling Private Investment in Climate Adaptation and Resilience," World Bank Publications - Reports 35203, The World Bank Group
[7] Infrastructure for Climate Action, UNOPS, UNEP and the University of Oxford, 2021
[8] Global Infrastructure Outlook - a G20 Initiative
[9] Aligishiev, Zamid. (2023). Market Reforms and Public Debt Dynamics in Emerging Market and Developing Economies. Staff Discussion Notes. 2023. 1. 10.5089/9798400247101.006
[10] Financing Clean Energy Transitions in Emerging and Developing Economies, IEA, 2021
[11] World Economic Outlook (April 2024) - Population

limited bankable project pipeline act as deterrents to investment, while the high barriers to entry and the unfamiliarity with the wide range of operational, financial, and political risks in EMDEs serve to further dampen investor appetite. Private participation in infrastructure investments in EMDEs are volatile year on year and have decreased from USD 158 billion across 630 projects in 2012, to just USD 86 billion across 287 projects in 2023[12]. As a result, while private investment in infrastructure amounted to over USD 400 billion globally in 2022, less than 31 % allocated to projects in low- and middle-income countries[13].

Such estimates are of course tentative due to the taxonomic complexity of defining infrastructure and the different approaches to necessary investments approximation, but they do articulate one thing very certain: huge financing will be needed to keep pace of infrastructure development in line with accumulated demand, continued population growth and the need to address the impacts of climate change.

From a sustainable development perspective, infrastructure is central to achieving the SDGs, serving as the backbone of modern societies, facilitating economic activity, increasing connectivity and improving living standards. Infrastructure development contributes to five of the 17 SDGs (SDGs 3, 6, 7, 9 and 11), where all targets are linked to infrastructure development, while the remaining SDGs have at least half of their targets linked to infrastructure development. In addition, infrastructure also plays an important role in achieving the global climate goals of the Paris Agreement, as existing infrastructure accounts for 79 % of global greenhouse gas emissions and 88 % of all adaptation costs[14].

For the BRICS member countries, the issue of infrastructure development and investment has always been high on the agenda, as evidenced not only by the establishment of a dedicated BRICS Public-Private Partnership and Infrastructure Task Force in 2018, but also by the adoption of strategic documents, notably the BRICS Economic Partnership Strategy 2025, which reflects the importance of infrastructure for the economies and sustainable development of the BRICS countries.

For now, it may be recognised that accelerated infrastructure development in EDMEs solely funded by the state budget and without private sector involvement cannot be ensured. The issue lies not in the lack of sufficient private sector liquidity, but in how to unlock it and channel it into the infrastructure sector while safeguarding the interests of all parties.

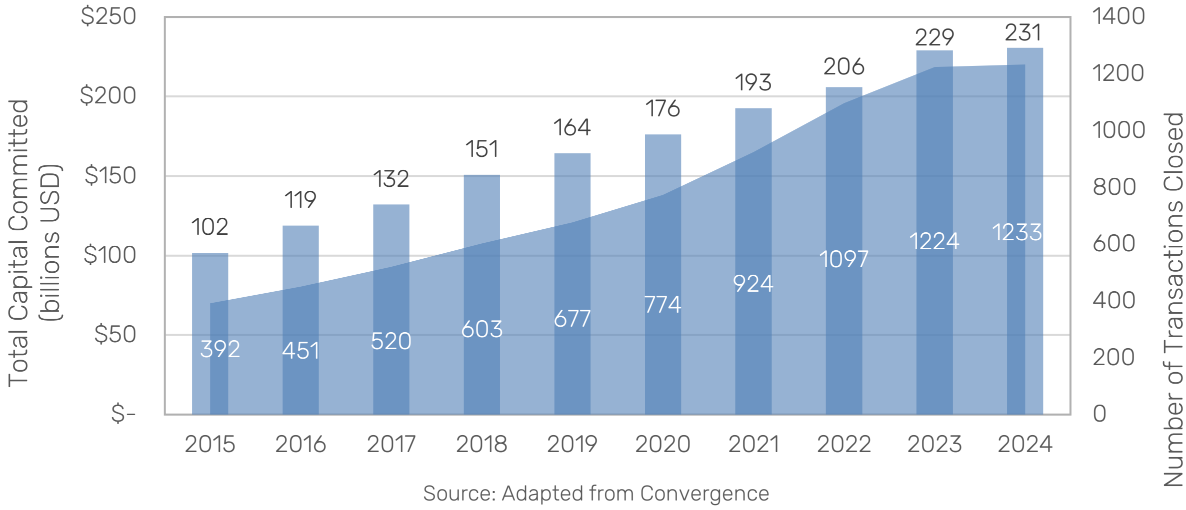
As previously stated, private investors frequently exhibit reluctance to invest in infrastructure projects, particularly in developing countries. This is largely due to the unfavourable risk-return ratio and the dearth of quality and quantity of bankable projects. In principle, the bankability of an infrastructure project encompasses everything from feasibility and profitability to risk assessment and other relevant characteristics that summarise the willingness of the investor to invest in the project.

Both government institutions and private sector entities are increasingly recognising the importance of collaboration to tackle the pressing financial needs associated with sustainable development and infrastructure projects. To this end, they are actively seeking innovative strategies to mobilise private capital to support these critical areas. The involvement of the multilateral development banks and other international development finance institutions is also not to be underestimated. One strategy that has shown a clear upward trend and holds great promise to deliver is blended finance.

The recent surge in blended finance initiatives reflects a growing consensus on its viability as a mechanism or a general approach for channelling large-scale private capital into sustainable development and infrastructure. The volume of blended finance transactions is growing steadily and the range of beneficiaries is widening, not only at the expense of developing country promoters, for whom the mechanism was largely designed and introduced.

[12] PPI Visualization Dashboard - The World Bank, https://ppi.worldbank.org/en/visualization
[13] Infrastructure Monitor 2023: Global Trends in Private Investment in Infrastructure
[14] Infrastructure for Climate Action, UNOPS, UNEP and the University of Oxford, 2021

Figure 1. Growth of Annual Blended Finance Activities



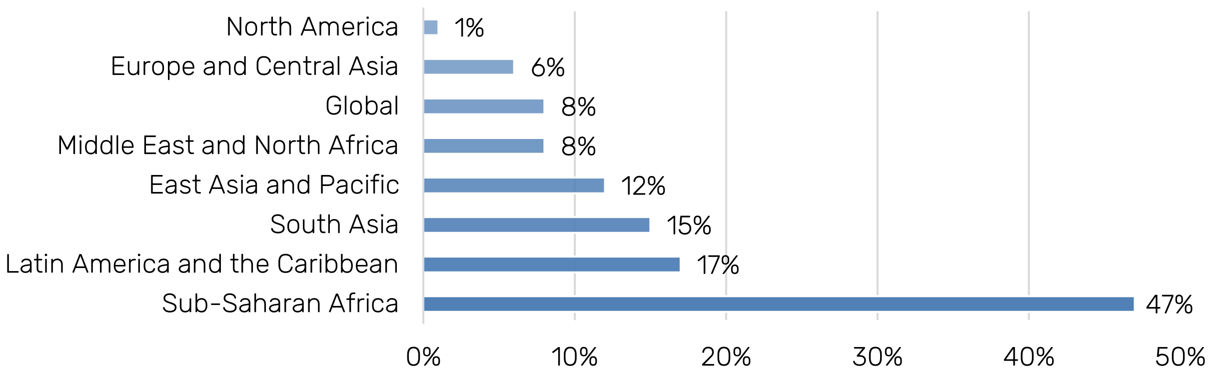
Source: Adapted from Convergence

Underlying the growing focus on blended finance is the obvious fact that there is a significant 'gap' between the financing needs for infrastructure, transition/climate projects and projects supporting the SDGs, and the growing financial capacity of national economies, including government and private sector resources, particularly in EMDEs. The lack of infrastructure in developing countries constrains their economic growth and development, and significant amounts of capital are needed to address this issue. Moreover, according to some studies, infrastructure tops the list of target sectors for blending[15].

From a regional perspective, Convergence notes that sub-Saharan Africa has been the most frequently targeted region in blended finance transactions. Meanwhile, Asia and Latin America are emerging as new blended finance frontiers[16].

Figure 2. Blended Finance Region Frequency

Proportion of blended finance transactions by target region(s)

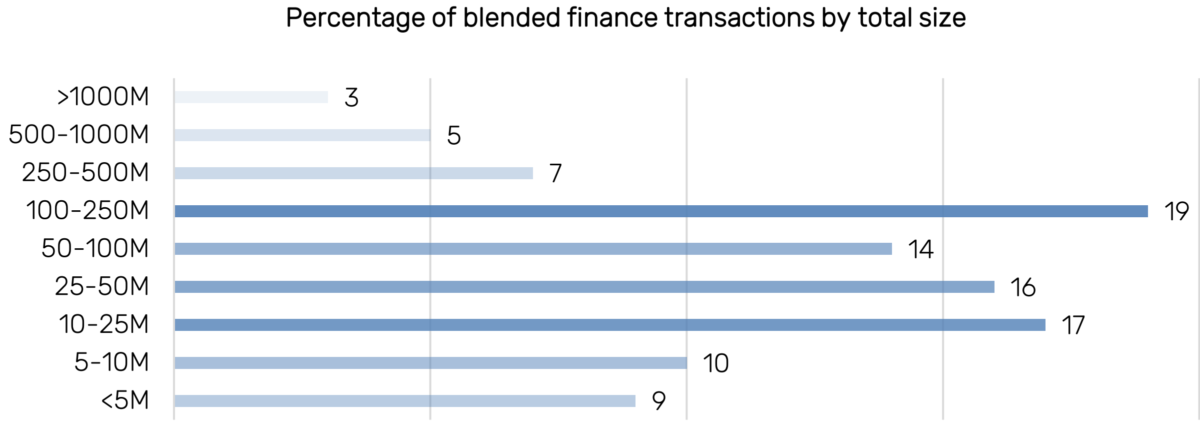


Source: Adapted from Convergence

Blended finance transactions range considerably in size, from a minimum of USD 110,000 to a maximum of USD 8 billion. The median blended finance transaction has been USD 64 million in total size (2010-2018)[17].

[15] Nancy Lee et al., "More Blended Finance? Not So Much: The Results of CGD's Survey on Aid Agencies and Blended Finance," Center for Global Development (Blog), March 18, 2022, https://www.cgdev.org/blog/more-blended-finance-not-so-much-results-cgds-survey-aid-agencies-and-blended-finance
[16] Convergence, Blended Finance, https://www.convergence.finance/blended-finance [accessed on 6 August 2024]
[17] Ibid

Figure 3. Blended Finance Deal Sizes



Source: Adapted form Convergence

However, despite its increasing popularity, there is a need for further work to refine the methodology of blended finance. At this stage, blended finance continues to be conceptualised in terms of its legal and regulatory content.

The high flexibility of the blended finance allows its content to be adapted to the respective roles of international and national financial institutions, non-profit organisations, private investors, government agencies and other involved entities, but the ultimate goal of such a multi-stakeholder partnership remains the same – achieving development impact.

Blended finance may encompass a variety of strategies, such as the provision of technical assistance through complimentary services and grants, risk mitigation and capital protection using loans subsidised by the government, guarantees, leasing, concessional financing, the formation of public-private partnerships, and the deployment of insurance and reinsurance solutions. Additionally, it can incorporate market incentives facilitated by offset contracts or other performance-based financing models. To enhance the efficiency of blended finance, specialised funds and facilities are frequently established. Funds (e.g., equity funds, debt funds, and funds-of-funds) have consistently accounted for the largest share of blended finance transactions, although there is more diversification across transaction types in recent years[18].

One investment approach that is commonly confused with blended finance is 'Public-Private Partnership', which in fact is a sub-set of blended finance[19]. In this regard, it would be incorrect to use term PPP and blended finance interchangeably. In some cases, blended finance can be used in the implementation of PPP projects to address weaknesses of the PPP model, in particular to offer collaborative benefits while rebalancing risks and mobilising private capital. There are other known interpretations of the PPP acronym in relation to blended finance, including the terms 'Philanthropic-Private Partnership' and 'Public, Philanthropic and Private'[20].

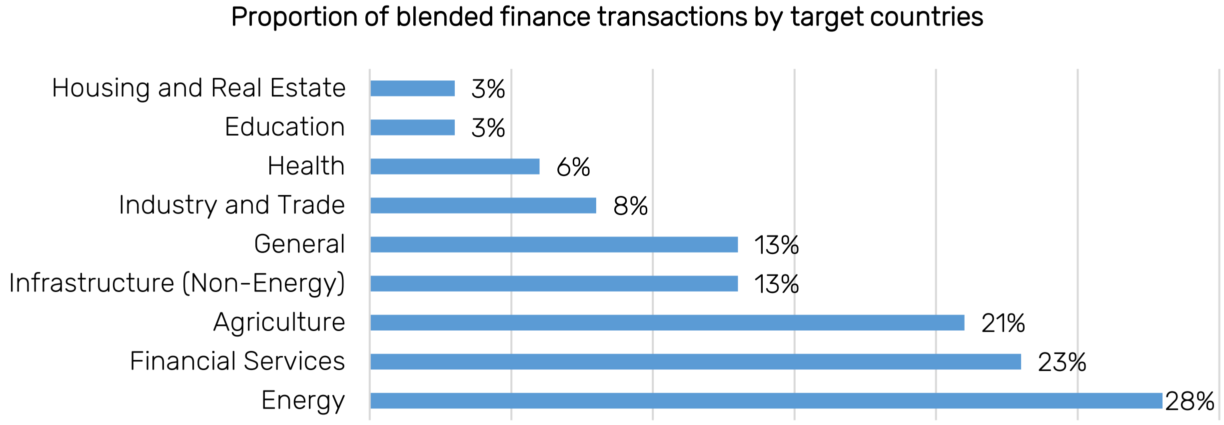
However, the interplay between blended finance and the public-private partnership model is an additional dimension. PPPs may leave little room for equity investments, and there are high costs associated with PPPs in many countries due to the high cost of PPP project preparation. Such preparation costs include the legal, financial, and technical costs incurred by both public and private sector actors in developing a PPP for commercial operation, and so include "transaction costs" associated with PPP procurement processes and contract negotiation[21]. The key factor of the various instruments and mechanisms used within the framework of the

[18] Ibid
[19] "Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders", World Economic Forum and the OECD, 2015
[20] Advancing Development Through Blended Finance, Finance in Motion, 2020
[21] The World Bank Research Observer, Volume 33, Issue 1, February 2018, https://doi.org/10.1093/wbro/lkx008, https://academic.oup.com/wbro/article/33/1/103/4951689 [accessed on 6 August 2024]

blended finance is to reduce the risks of infrastructure project implementation, which in turn increases the commercial attractiveness of the infrastructure project and the potential for its financing by private investors. In some cases, the delivery of an infrastructure project without the simultaneous financial participation of the state and business is not feasible in principle due to the scale, complexity, capital intensity and consequent high risk of the project.

The Independent Evaluation Group by the World Bank has found that blended finance has helped to implement high-risk projects that simultaneously have positive and measurable social and environmental impacts in areas of greatest need. These potentially transformative impacts include an increase in the number of quality jobs; better and cheaper essential products and services for consumers; the creation of a dynamic marketplace that fosters innovation and entrepreneurship; significant reductions in greenhouse gas emissions; and a financial return on these investments. Such outcomes are difficult to achieve with private finance alone, as they tend to involve risks that are too high for the private sector[22]. However, according to Convergence, in terms of sectors targeted in blended finance transactions, the energy sector was the most common, followed by financial services. Generalist structures targeting multiple segments have also been common[23].

Figure 4. Blended Finance Sector Frequency



Source: Adapted from Convergence

The figure above does not mention digital infrastructure separately, making it problematic to determine exactly how many blended finance transactions are related to digital infrastructure. Generally, there are various extensive studies on the topic of digital infrastructure finance, notably the G20 Compendium of Case Studies on Digital Infrastructure Finance: Issues, Practices and Innovations, prepared with the participation of the Asian Infrastructure Investment Bank and published in 2022. This study provides a view as to what the issues, practices and innovations are in digital infrastructure finance today and may be used as a resource for any government seeking ideas on how to facilitate the financing and development of cost-efficient and better-quality digital infrastructure, including using blended finance approach.

On top of that, despite the promise of the blended finance, there are nevertheless barriers and challenges to its practical implementation. For example, due to the complex nature of blended finance there is lack of institutional capacity, coordination and common understanding of project's outcome between actors in blending and governments; different legal and regulatory frameworks discourage and complicate the development of harmonised approaches; poor

[22] World Bank. 2020. The International Finance Corporation's Blended Finance Operations: Findings from a Cluster of Project Performance Assessment Reports. Independent Evaluation Group. Washington, DC: World Bank, https://ieg.worldbankgroup.org/blog/what-blended-finance-and-how-can-it-help-deliver-successful-high-impact-high-risk-projects
[23] Convergence, Blended Finance, https://www.convergence.finance/blended-finance [accessed on 6 August 2024]

project ownership and accountability; and there are various institutional constraints and continued exploration of blended finance definitions.

Recognising the importance and timeliness of the issue of blended finance for infrastructure projects, the member countries of the PPPITF, at the initiative of the Russian BRICS Presidency, supported the preparation of this technical report to contribute to the economic development of the BRICS countries by raising awareness, including among BRICS policymakers and regulators, and facilitating the exchange of BRICS blended finance practices in infrastructure projects. Blended finance has been a debated topic in many international economic forums and formats, including within the Task Force, and the South Africa has addressed some aspects of blended finance during its BRICS Presidency in 2023. It is worth noting that this study is the first PPPITF product under the expanded BRICS membership.

In this regard, the topic of blended finance is in line with the BRICS Finance Track and the mandate of the BRICS PPPITF, continues the efforts of previous Presidencies and is linked to the agendas of other international formats.

2. BLENDED FINANCE IN INFRASTRUCTURE PROJECTS AND BRICS PRACTICE

2.1. DEFINING BLENDED FINANCE

One of the important methodological difficulties arising with respect to new concepts of finance is the problem of their definition and blended finance is no exception.

Definitions are of critical importance in legal discourse, serving two fundamental functions: to prevent ambiguity in interpretation and to ensure the application of a law to a case.

Well-drafted definitions provide clarity, precision, consistency and uniformity, ensuring that the same rules and principles are applied and avoiding confusion and ambiguity. This creates a fair and predictable legal environment for all parties involved.

Indeed, lack of a standardised definition of blended finance is one of the frequent issues discussed by international experts[24]. The need to define the concept of blended finance may be driven by a number of objective and general considerations. These inter-alia include:

- **Policymaking and developing regulations.** Defining blended finance from a legal perspective is necessary to facilitate governments and regulators to create an enabling environment that encourages joint private, public and philanthropic investment in sustainable development projects. Without a clear definition and accompanying principles and criteria it is difficult to design policies and regulations that facilitate the use of blended finance, including support and incentive measures, risk allocation etc.
- **Communications.** A transparent, clear and consistent definition facilitates effective communication and engagement of blended finance stakeholders, including governments, DFIs, private investors, philanthropic capital and the non-profit sector. Having a common framework for all stakeholders also allows for better allocation of resources, identification of synergies and effective engagement strategies, and a more confident approach to blended finance impact assessment parameters.
- **Performance measurement and evaluation.** Having a definition allows for the development of transparent criteria and measurable metrics to evaluate the effectiveness of blended finance operations in terms of their development impact. Among other things, this will allow the identification of best and successful practices, as well as examples of failures, for further work on shortcomings. Measurability is essential for assessing the impact of blended finance transactions.
- **Transparency and accountability.** The definition, together with the criteria and metrics developed on its basis, enables a transparent and accountable environment for the flow of capital and progress towards development goals, and promotes responsibility and ethics in blended finance transactions. An environment of transparency and accountability is essential for all stakeholders to have confidence in the promise and credibility of a blended finance approach.

The definitions of blended finance may vary in practice, but they are largely complementary and share common attributes. At its core, blended finance aims to use public development finance to mobilise additional commercial capital, primarily from private sources, to help the international development community achieve sustainability goals. The novelty in blended finance is that it aligns investors and investment instruments for a common set of financial and

[24] Report of the Intergovernmental Group of Experts on Financing for Development on its third session, United Nations Conference on Trade and Development, Geneva, 4–6 November 2019

impact objectives in line with the guiding principles set by the SDG framework[25]. Convergence identifies 15 working definitions for blended finance[26].

Table 1. A Non-Exhaustive List of Blended Finance Definitions

Organisation	Definition of blended finance
United Nations (UN) Addis Ababa Action Agenda[27]	Combination of concessional public finance with non-concessional private finance and expertise from the public and private sector, special-purpose vehicles, non-recourse project financing, risk mitigation instruments and pooled funding structures
OECD Development Assistance Committee[28]	The strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries. *"Additional finance" refer primarily to commercial finance*
Development Finance Institutions Working Group on Blended Concessional Finance for Private Sector Projects[29]	Combining concessional finance from donors or third parties alongside DFIs' normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the SDGs, and mobilise private resources
WEF[30]	The strategic use of development finance and philanthropic funds to mobilise private capital flows to emerging and frontier markets
Convergence[31]	The use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realise the SDGs. Blended finance is a structuring approach, not an investment approach
Development initiatives[32]	The use of public or philanthropic funds to attract additional investments from private sector actors into development projects

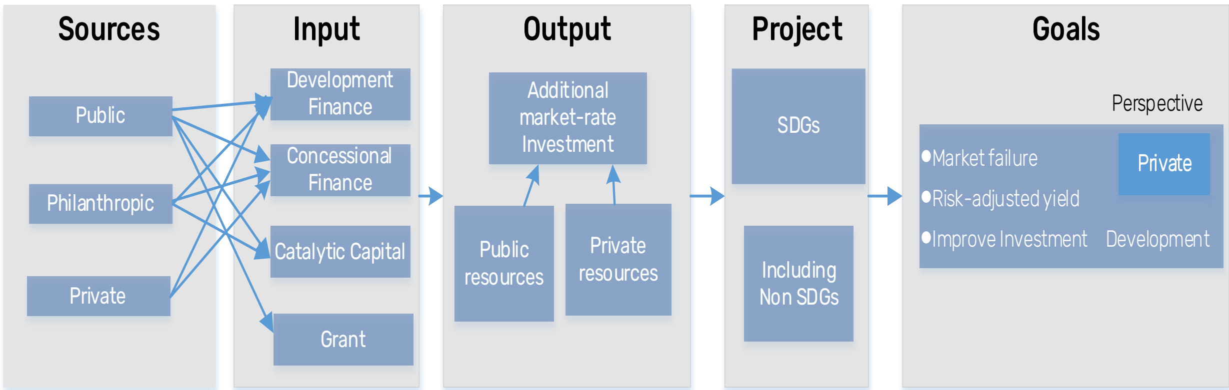
[25] Blended Finance: A Brief Overview, IDFC, 2019
[26] Spratt, S., Lawlor, E., and Coppens, V., "Core concepts in blended finance: Assessment of uses and implications for evaluation", OECD Development Co-operation Working Papers, No 90 OECD Publishing, Paris
[27] Addis Ababa Action Agenda of the Third International Conference on Financing for Development endorsed by the United Nations General Assembly in its resolution 69/313 of 27 July 2015
[28] OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264288768-en
[29] DFI Working Group on Blended Concessional Finance for Private Sector Projects: Summary Report, Oct 2017, http://dx.doi.org/10.18235/0000876
[30] Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders, WEF, 2015
[31] Convergence Blended Finance (2024). The State of Blended Finance 2024. Convergence Report
[32] Development Initiatives (2016), The role of blended finance in the 2030 Agenda Setting out an analytical approach

European Union[33]	The strategic use of a limited amount of grant resources to catalyse additional financing for development projects
GIIN[34]	A strategy that combines capital with different levels of risk in order to catalyse risk-adjusted market-rate-seeking financing into impact investments

It can be seen from the presented definitions that although having a similar message, they differ in accents and it is clear that the emphasis of each definition is based on the characteristics and focus of the organisation concerned. IFIs and MDBs in their practice tend to rely on the definition elaborated under the umbrella structure of the DFI Working Group on Blended Concessional Finance for Private Sector Projects.

The definitions of blended finance listed in Table 1 can be categorised based on input and output for a certain transactions. Where input is the resources used to generate activities or yield certain things (i.e. output)[35].

Figure 5. Blended Finance Funding Scheme



Source: Adapted from Convergence

Based on each organisation's definition of blended finance, the flow of blended finance can be drawn. As shown in Figure 5, it can be understood that sources of funding in blended finance come from public, philanthropic, and private funds. The money comes in several types of input. Public funds can be in the shape of development finance, concessional finance, catalytic capital, and grant[36].

Philanthropic funds can flow in the forms of **development finance, concessional finance, and catalytic capital**. In the meantime, private funds will contribute in the forms of development and concessional finances. All these inputs, no matter from public or private resources, are aiming for additional market-rate investments. As suspected, goals of these funds based on their definitions are also different. When the money comes from private resources, it has private sector perspectives, namely tackling market failure and gaining risk-adjust yields. However, when it is seen from a development perspective, blended finance operation is expected to improve investment as well[37].

[33] EIB, EU Blending facilities https://www.eib.org/en/products/mandates-partnerships/eu-blending-facilities/index [accessed 6 August 2024]
[34] Blended Finance Overview, Blended Finance Working Group, GIIN, https://thegiin.org/blended-finance-working-group/ [accessed 6 August 2024]
[35] Technium Social Sciences Journal Vol. 44, 15-27, June, 2023 ISSN: 2668-7798
[36] Ibid
[37] Ibid

For a more complete understanding of blended finance and, as will be discussed further in the report, and to ensure effective communication between the actors involved, the terminological apparatus, in particular the concepts of mobilisation, concessionality, additionality, catalytic and philanthropic capital, is also important. In this respect, it is useful to clarify these terms in the discussion on the definition of blended finance.

Concessionality or **concessional finance** is below market rate finance provided by major financial institutions, such as development banks and multilateral funds, to developing countries to accelerate development objectives[38]. The most common financial products used to deliver concessional finance come in the form of loans, grants and, to some extent, equity investments. How these products are delivered may remain flexible to the unique needs of each development challenge. For example, concessional finance can be applied as grants, funding technical assistance to prepare a region's policies for industry decarbonisation. Concessional finance can also come in the form of a first loss guarantee whereby a third party compensates lenders if the borrower defaults. Concessional finance could be a low interest loan financing an initiative such as health system improvement that needs to be paid back in 15 years instead of 5, or an equity investment into initiative such as vaccine development asking for less value in shares than the investment is actually worth.

The focus of concessional finance is not on a specific method or solution – It is about becoming a flexible and accessible tool to bridge the gap from the limited pools of philanthropic and public sector funding, to the much larger private sector funding opportunities that enable such projects to scale[39]. Blended finance is based on the principle of the minimum concessionality, which is central to reducing the risk of distorting markets. A Working group of the DFIs has been examining different methods of calculating the level of concessionality in their blended concessional finance transactions and has tested several different approaches. Their report includes a strengthened methodology for blended concessional finance, using more refined definitions, accounting methodology and reporting. These can be categorised into three main methodologies, as follows: 1) DFI estimated commercial price; 2) Estimated commercial price from a simplified risk framework; 3) Modelling revenues and expected losses[40]. Although blending often involves the use of concessional development finance, concessionality alone may not be a prerequisite for blending[41].

The term **mobilisation** in the context of blended finance is used to describe an action or process aimed at attracting and using capital from a variety of sources, primarily private capital, to finance development projects, including infrastructure projects, alongside primary investments that may be made by governments, MDBs or DFIs.

Mobilisation is a crucial priority amongst MDBs and DFIs in their efforts to address global development financing needs[42]. Blended finance helps to mobilise capital by, for example, mitigating or spreading risk and increasing the return on investment. The capital mobilisation effect makes more funds available for development projects, reduces dependence on a single source of finance and creates a more reliable project financing structure. This effect also makes it possible to raise funds for projects that could not otherwise be implemented due to lack of funds.

[38] What You Need to Know About Concessional Finance for Climate Action, 2021 https://www.worldbank.org/en/news/feature/2021/09/16/what-you-need-to-know-about-concessional-finance-for-climate-action [accessed on 6 August 2024]
[39] Ibid
[40] Dan Roberto Luo (EU Commission ECFIN), Tri Hita Karana Roadmap for Blended Finance Practices Working Group, Research Note, December 2019
[41] OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264288768-en
[42] EBRD, What is Mobilisation, https://www.ebrd.com/ebrd-and-mobilisation.html [accessed on 6 August 2024]

Additionality is defined as the achievement of an outcome that would not have happened without donor intervention[43]. It essentially asks the question: "Would this project ha happened without the involvement of donor support?". Additionality ensures that blended finance transactions are not simply displacing private capital or crowding out existing solutions, but are instead creating new and positive impacts that would not have occurred otherwise. In terms of type, additionality may be **financial** (e.g. provision of financing that would not be available on commercially viable terms from private investors alone), **commercial** (e.g. de-risking instruments incentivize private investors to participate in projects they might otherwise consider too risky or unattractive), **impactful** (e.g. social and environmental benefits generated by the project due to the involvement of blended finance), or **systemic** (e.g. long-term impact of blended finance transactions on the development of a particular sector or market).

Catalytic capital acts as the initial spark that ignites the process, attracting other forms of investment and propelling projects forward. Catalytic capital refers to financing provided by DFIs, philanthropic, public sector, or impact investors that accepts lower returns and/or higher risks compared to traditional investments. This capital is deployed strategically to de-risk infrastructure projects in developing countries, making them more attractive to private investors, support innovative approaches and technologies, including for sustainable infrastructure development, crowd-in additional capital from private and commercial sources. Essentially, catalytic triggers broader investment by bridging the gap between the social/environmental goals of infrastructure projects and the risk-return expectations of private investors.

Philanthropic capital refers to financial resources contributed by individuals, foundations, and charitable organisations with the primary purpose of generating positive social and environmental change. Unlike traditional investments, philanthropic capital seeks impact alongside, or even above, financial returns. Blended finance transactions often leverage philanthropic capital in strategic ways to support sustainable development by seed and grant funding, program-related investments and donor advised funds. Benefits of utilising philanthropic capital include the early stages support of infrastructure projects, before they are financially viable for private investors, ensuring that blended finance transactions focus on critical social and environmental needs in infrastructure and offering greater flexibility in terms of funding structures and risk tolerance, allowing for the exploration of innovative solutions within blended finance transactions.

The existence of disparate definitions gives rise to a divergence in the implementation of blended finance instruments or mechanisms, which in turn results in differing expectations regarding the impact to be achieved by the parties involved in the blended finance transaction. An understanding of these diversities in the definitions of blended finance used internationally can help to identify the most appropriate partner to approach at a given time to implement a specific project, given that there is no universal approach to blended financing.

However, in a blended finance project, it is sometimes better to partner with organisations focused on generating a non-profitable impact. In contrast, at other times, profit-oriented partners may be more suitable for the same project. For example, building solar power plants in rural areas is not commercially attractive but may be unavoidable, including for climate change mitigation purposes. Some projects are not attractive to the private sector, particularly due to very long-term investment returns, so the project initiator may initially turn to non-profit impact-oriented or less profit-oriented partners, which will prepare the project to move to the next stage, i.e. to the point where the private sector can not only better calculate its risks and returns, but also feel more confident about the viability of the project. In fact, it is the provision of technical assistance by the non-profit sector that can have a significant development impact. This is possible, considering the scalability of one blended finance project may enable

[43] Sharon Donofrio, Kristin Kelly-Jangraw, #MindTheGap: How Catalytic Funding Mobilized $1 Billion for Clean Energy, Gender Equality, and Resilient Agriculture, https://dai-global-developments.com/articles/mindthegap-series-how-catalytic-funding-mobilized-1-billion-for-clean-energy-gender-equality-and-resilient-agriculture/ [accessed on 6 August 2024]

multiple opportunities to multiple partners at different times[44]. Despite the differences, there is a broad consensus that the focus of the blended finance is to increase investment in projects contributing to sustainable development or the achievement of the SDGs. However, a definition alone is often insufficient to fully describe the substance of blended finance and, in such cases, attributes, characteristics, criteria and principles can help.

IDFC characterises blended finance by three main features[45]:

1) **Leverage:** The systematic and strategic use of development finance and philanthropic funds to mobilise and engage private capital at scale.
2) **Impact:** Investments that deliver measurable social, environmental and economic impact.
3) **Returns:** Market-based risk-adjusted returns for private investors that meets business goals and fiduciary duties.

This IDFC's description is consistent with the characteristics of blended finance transactions Convergent proposes, which are also of the three components[46]:

1) **The transaction contributes towards achieving the SDGs.** However, not every participant needs to have that development objective. Private investors in a blended finance structure may simply be seeking a market-rate financial return.
2) **Overall, the transaction expects to yield a positive financial return.** Different investors in a blended finance structure will have different return expectations, ranging from concessional to market-rate.
3) **The public and/or philanthropic parties are catalytic.** The participation from these parties improves the risk/return profile of the transaction in order to attract participation from the private sector.

A number of international organisations have set out to define the principles that blended finance transactions may meet. For example, DFI Working Group on Blended Concessional Finance for Private Sector Projects identified the following five core principles of blended finance[47]:

Table 2. DFI Working Group on Blended Concessional Finance for Private Sector Projects Principles of Blended Finance

PRINCIPLE 1. Additionality/rationale for using blended finance	DFI support of the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector
PRINCIPLE 2. Crowding-in and minimum concessionality	DFI support to the private sector should, to the extent possible, contribute to catalysing market development and the mobilisation of private sector resources
PRINCIPLE 3. Commercial sustainability	DFI support of the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must therefore be expected to contribute towards the commercial viability of their clients
PRINCIPLE 4. Reinforcing markets	DFI assistance to the private sector should be structured to effectively and efficiently address market failures and minimise the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants

[44] Ibid
[45] Blended Finance: A Brief Overview, IDFC, 2019
[46] Convergence, Blended Finance, https://www.convergence.finance/blended-finance [accessed on 6 August 2024]
[47] DFI Working Group on Blended Concessional Finance for Private Sector Projects: Joint Report March 2023, Update

PRINCIPLE 5. Promoting high standards	DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in the areas of Corporate Governance, Environmental Impact, Social Inclusion, Transparency, Integrity, and Disclosure

In turn, the OECD DAC also proposes the following five principles of blended finance, which have significant similarities with the principles listed above[48]:

Table 3. OECD DAC Principles of Blended Finance

PRINCIPLE 1. Anchor blended finance use to a development rationale	All development finance interventions, including blended finance activities, are based on the mandate of development finance providers' to support developing countries in achieving social, economic and environmentally sustainable development
PRINCIPLE 2. Design blended finance to increase the mobilisation of commercial finance	Development finance in blended finance should facilitate the unlocking of commercial finance to optimise total financing directed towards development outcomes
PRINCIPLE 3. Tailor blended finance to local context	Development finance should be deployed to ensure that Blended Finance supports local development needs, priorities and capacities, in a way that is consistent with, and where possible contributes to, local financial market development
PRINCIPLE 4. Focus on effective partnering for blended finance	Blended finance works if both development and financial objectives can be achieved, with appropriate allocation and sharing of risk between parties, whether commercial or developmental. Development finance should leverage the complementary motivation of commercial actors, while not compromising on the prevailing standards for development finance deployment
PRINCIPLE 5. Promoting high standards	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

Building on these principles, the G20 have recently adopted Principles to Scale up Blended Finance in Developing Countries, including Least Developed Countries and Small Island Developing States, developing and structuring in some detail the approaches that can help to implement blended finance for maximum impact.

[48] OECD (2018), OECD DAC Blended Finance Principles: For Unlocking Commercial Finance for the Sustainable Development Goals, OECD Publishing, Paris, https://doi.org/10.1787/dc66bd9c-en

Table 4. G20 Principles to Scale up Blended Finance[49]

PRINCIPLE 1. Target blended finance to local contexts and harness blended finance to catalyse finance in the last mile	Principle 1.A. Anchor blended finance structures and instruments to local development priorities, ensuring their alignment with local financing priorities. Principle 1.B. To simplify the implementation, governments should identify target sectors for blended finance in line with national priorities and needs and prioritise that blending solutions reach the last mile while considering project attributes and context. Principle 1.C. Enable and engage national and sub-national development and commercial banks to tailor blended finance to local contexts
PRINCIPLE 2. Support domestic financial systems and market development	Principle 2.A. Support sound local institutional, policy, and regulatory frameworks. Principle 2.B. Enable local actors to engage in blended finance transactions, including to mobilise themselves. Principle 2.C. Develop local capacities and create the ecosystem to go beyond a transaction-based approach
PRINCIPLE 3. Aim for scale through systemic and transformational approaches	Principle 3.A. Ensure that a pipeline of projects stands ready to attract blended finance. Principle 3.B. Facilitate portfolio and programmatic approaches to unlock private finance at scale. Principle 3.C. Promote multi-stakeholder coordination while respecting all parties' mandates
PRINCIPLE 4. Improve impact management and measurement, and promote transparency and mutual accountability	Principle 4.A. Establish performance and result metrics from the outset. Principle 4.B. Dedicate appropriate resources for monitoring, reporting, and evaluation, to track financial flows, commercial performance, and development results. Principle 4.C. Promote public transparency and mutual accountability on blended finance implementation and results

As the document containing G20 Principles to Scale up Blended Finance in Developing Countries, including Least Developed Countries and Small Island Developing States, 2023 aptly points out, the principles help governments to take an active role in scaling up blended finance transactions by building local capital markets, advancing local sustainable development priorities, and working closely together with private actors. For development cooperation providers, including multilateral development banks, the G20 Principles could catalyse support in developing countries, including LDCs and SIDs including in terms of financing, capacity building, and policy support[50]. It is important to note that all of the above principles are voluntary, non-mandatory and non-prescriptive.

[49] G20 Principles to Scale up Blended Finance in Developing Countries, including Least Developed Countries and Small Island Developing States, 2023
[50] Ibid

BRICS practice on defining blended finance

The analysis of the information provided by the PPPITF members shows that the legal enshrinement on the national level of the umbrella definition of blended finance is not a common practice in the BRICS countries. However, the instruments underlying the implementation of the blended finance approach have the necessary legal framework, such as subsidies, credits, insurance, grants, PPPs, guarantees, special project companies, etc.

It can be stated, that blended finance through the PPP lens is present in majority of BRICS countries. In particular, in **Iran** as of May 2024, a bill regarding public-private partnership has been drafted and is in the process of approval in the parliament.

At the same time, it can be noted that some countries are exploring the possibility of adopting a definition of blended finance at the national level, in particular **Brazil** plans to include blended finance definition in the Provisional Measure establishing the into the Eco Invest Brazil Program. The programmatic approach to blended finance appears to be one of the preferred approaches by the BRICS countries, as another example, **Egypt** launched in July, 2022 the Country Platform for NWFE (New financing for Water, Food, Energy) to mobilise funds and investments for green projects in these critical sectors, addressing both adaptation and mitigation availing technical assistance and catalysing private investment through innovative financing modalities, including blended finance, debt swaps, and guarantees.

While in other countries there are various methodological or analytical documents used at the national level that define blended finance, as in **India's** National Institution for Transforming India (NITI Aayog) published white paper 'Reimagining Healthcare in India through Blended Finance' which defines blended finance as "an approach towards financing where catalytic funding (e.g., grants and concessional capital) from public and philanthropic sources is utilised to mobilise additional private sector investment to realise social goals and outcomes. … The strategic use of concessional capital and private capital in projects where the perceived risks are too high for private players to participate alone. By combining concessional and commercial capital, blended finance can achieve acceptable risk/return profiles for different types of financing partners, including private capital"[51].

To some extent, regulations and guidelines aimed at implementing public-private partnerships and innovative financing mechanisms in various forms can be used as a palliative to define blended finance. So in **China** State Council in 2023 issued "Guiding Opinions on Standardising the Implementation of the New Mechanism for Public-Private-Partnership" which aims to deepen the reform of investment and financing systems, standardise the PPP model, encourage private investment, ensure project revenue covers costs, and foster infrastructure construction and operation.

At the same time, **South Africa** uses an internal definition of blended finance within the South African Ministry of Finance, while **the UAE** employs blended finance by providing concessional resources – such as funds, grants, or other financing structures – to ensure the commercial viability of projects. This approach enables the optimal use of available resources, ensuring projects are delivered efficiently, effectively, and with full transparency.

Russia also does not enshrine a legal definition of blended finance at the national level, but at the same time implements a number of initiatives practically demonstrating implementation of principles and blended finance usage to deliver infrastructure projects e.g., in the frameworks

[51] White Paper 'Reimagining Healthcare in India Through Blended Finance, 2022, https://www.niti.gov.in/sites/default/files/2023-03/AIM-Samridh-white-paper.pdf [accessed on 6 August 2024]

of the of the "Project Finance Factory" mechanism[52], social impact projects (Russian analogue of social impact bonds)[53], creation of a network of modern campuses[54] and others.

The data and information collected during the preparation of the report demonstrates that a legal definition at the national level may not be crucial for the effective implementation of the blended finance practice, and the programmatic approach to the use of the blended finance under which a concessional funds are deployed appears to be one of the preferred and effective ways chosen by the BRICS countries. Furthermore, the submissions also suggest that there may not be an accepted definition for blended finance. The most important aspect of blended finance seems to be that it can be customised to meet the local requirements.

The framing of a definition may be necessary to anchor blended finance use to a development rationale and ensure the functioning of targeted funds, facilities and other structures designed to implement blended finance approaches to fund sustainable projects, as the definition, among other things, will establish a mechanism for selecting projects and funding sources, establishing impact monitoring framework, as well as the control and quality of targeted spending.

In terms of international practices, PPPITF members are aware of various international instruments that provide principles, guidelines and other methodological tools to enable the implementation of blended finance.

The most frequently mentioned are the OECD Principles on blended finance and DFI Working Group on Blended Concessional Finance for Private Sector Projects principles on the use of blended concessional finance for private sector projects, G20 Principles to Scale up Blended Finance in Developing Countries, including Least Developed Countries and Small Island Developing States.

In addition, **Brazil's** regulatory authority for the capital market (Comissão de Valores Mobiliários) launched a Sustainable Finance Policy in 2023, outlining 17 initiatives, among which is the development of market guidance on blended finance. It may be noted that most countries have highlighted various PPP guidelines as instruments that facilitate the realisation of blended finance for infrastructure projects.
Further, some member countries have issued guidelines on the application of various instruments used in blended financing of infrastructure projects, for example, in **India**, grants are provided under the Viability Gap Funding Scheme to make economically desired but commercially unviable PPP infrastructure projects to make it commercially viable and crowding in private capital. Further IIPDF Scheme is available to the Project Sponsoring Authorities for PPP projects for the purpose of meeting the project development costs.

Also, the blended finance instruments such as credit enhancement, concessional debt, risk underwriting, etc. are embedded in the respective Acts of national DFIs such as National Bank for Financing Infrastructure and Development (NaBFID) Act, 2021, National Housing Bank Act, 1987, Scheme for Financing Viable Infrastructure Projects, 2006 - IIFCL (India Infrastructure Finance Company Limited), etc. Further, the Central bank i.e., Reserve Bank of India in 2015 has issued in 2015 guidelines on Partial Credit Enhancement (PCE) to Corporate Bonds by banks: To facilitate the financing of infrastructure projects through the bond market.

However, the key issue is the ability to implement blended finance transactions in practice, which can be analysed through the relevant case studies. To this end, PPPITF members have provided the following set of case studies of infrastructure projects blended finance.

[52] Decree of the Government of the Russian Federation No. 158 dated February 15,2018 "On the Project Finance Factory Program"
[53] Decree of the Government of the Russian Federation No. 1491 dated November 21, 2019 "On the organization of pilot testing of social impact projects by the constituencies of the Russian Federation in 2019-2024"
[54] Decree of the Government of the Russian Federation No. 1268 dated July 28, 2021 "On the implementation of a project to create an innovative educational environment (campuses) using mechanisms of public-private partnership and concession agreements within the framework of the federal project "Development of Infrastructure for Scientific Research and Training" of the national project "Science and Universities".

Table 5. List of Task Force Members' Case Studies

Sector	Project
Multisectoral	• BNDES Public Call for Blended Finance • Eco Invest Brazil • Goa Blended Finance Facility • Project Finance Factory • Nexus of Water, Food & Energy - NWFE Platform
Energy	• Cox's Bazar Wind Power Project in Bangladesh • Hebei Clean Heating Project • Guangdong Yuedian Yangjiang Shapa Offshore Wind Power Project • Lower Sesan 2 Hydro Power Project
Transport	• Isfahan-Ahvaz Two-Track and Electric Railway Project • Pune Metro Line III • Route 2020 Dubai Metro Extension Project • Vadodara Mumbai Expressway Package I
Social	• Accompanied Residence For People with Mental Impairments in Chelyabinsk Oblast • Lufhereng Mixed Housing Development Project (external bulk infrastructure to catalyse the top structures of the project) • Programme (Federal Project) to Create a Network of Modern Campuses • Sustainable Access to Markets and Resources for Innovative Delivery of Healthcare (SAMRIDH) • Zayed City Schools PPP Project
Water and sanitation	• Olifants Management Model Programme (OMMP): Phase 2B and 2B+ Project

The above case studies provided information on the practical application of blended finance in the BRICS countries, including the actors involved, the instruments and mechanisms used, and the challenges and barriers identified.

2.2. ACTORS OF BLENDED FINANCE TRANSACTIONS

As noted in the previous section, blended finance transactions are a complex structuring strategy that blends capital from different sources and involves stakeholders with different objectives for providing capital. This fact creates a critical element of coordination and interaction among the wide range of participants in a blended finance transaction.

The range of actors involved in blended finance covered in the technical report is non-exhaustive and include national and local governments, DFIs, commercial and national development banks, philanthropic investors, commercial actors, asset managers, institutional investors, private equity and venture capital funds, hedge funds, corporates, civil society organisations etc. The actors considered in the technical report are grouped into notional categories for ease of perception.

This collaboration between international, public, private, philanthropic and other actors is essential for designing and implementing impactful blended finance transactions that contribute to achieving the SDGs. Each actor in a blended finance transaction brings its own unique resources and expertise, so an understanding of the role, contribution and characteristics of the stakeholders in a blended finance transaction is necessary to gain a clearer understanding of which partners are best to approach for a particular project, as well as any particularities in the structuring and implementation of the transaction. Besides, before entering into a blended finance operation, all actors may clearly understand and articulate how the particular investment is expected to lead to outputs, outcomes and eventually development impact[55].

Table 6. A Non-Exhaustive List of Actors in Blended Finance Transactions

Group	Actor type
International Organisations	Multilateral Development Banks
Public Sector Actors	National, Subnational and Local Governments Development Finance Institutions Bilateral Development Agencies
Private Sector Actors	Pension Funds Insurance Companies Sovereign Wealth Funds Commercial and Investment Banks Private Equity Firms Asset Managers and Investment Funds Corporations and Businesses Impact Investors
Philanthropic and Other Organisations	Non-Governmental Organisations Social Enterprises Knowledge Institutions Providers of Technical Assistance and Consulting Services

The following table prepared by Initiative for Blended Finance at the University of Zurich lays out some key roles, which blended finance actors may have, taking into account that some of them might overlap with each other[56].

[55] OECD (2021) "The OECD DAC Blended Finance Guidance", OECD Development Co-operation Directorate, Paris.
[56] Report "Blended Finance: When to use which instrument? Phase 1: Clusters and decision-making factors", Taeun Kwon, Barry Panulo, Stephen McCallum, Kelvin Ivankovik, Zaakir Essa, Initiative for Blended Finance at the University of Zurich, 2022

Table 7. Key Roles Within a Blended Finance Transaction

Role	Project
Initiator	The initiator (or initiating consortium) is typically a mission-driven organisation looking for a way to finance solutions to create impact. It is the initiator (or the consortium) who chooses the instrument and impact sector
Donor	Donors commonly fund the design/structuring and development of the transaction in the initial phase. They provide the catalytic capital – for instance, as an outcome funder or a provider of de-risking capital – at a later stage. This role is usually played by a philanthropic organisation or development actor
Structurer	Structurers are knowledge partners that manage or assist in the implementation of the blended finance transaction. This role is usually played by financial intermediaries
Beneficiaries	Beneficiaries are recipients of the investments. In most transactions, the beneficiaries are end beneficiaries and the public sector, but in some cases, they can also refer to social enterprises and the private sector, such as corporations

Source: Initiative for Blended Finance at the University of Zurich

For initiators, assessing the organisation's own core competencies and gaps is an important step. Based on analysis, there are four key elements that a stakeholder can bring to the table: capital; structuring capabilities; sector and/or regional knowledge; and reputation and creditworthiness. For instance, when a donor organisation is initiating a transaction and lacks structuring expertise, it is common for such organisations to fund the design/structuring and development. However, regardless of who the initiator is, it is always crucial to have an anchor investor and partners with sector expertise and creditworthiness to play these critical roles in transactions[57]. On that basis, Initiative for Blended Finance at the University of Zurich structured in the following way the institutional setup and key elements for a blended finance transaction[58]:

Table 8. Institutional Setup and Key Elements

Institutional setup	Capital	Structuring	Knowledge	Creditworthiness
Intermediary	■□□	■■■	■■■	□□□
Philanthropic organisation	■■□	□□□	■■□	■□□
Impact investment spinoff	□□□	■■□	■■■	□□□
Development actor	■■■	■□□	■■□	■■■

Source: Initiative for Blended Finance at the University of Zurich

[57] Ibid
[58] Ibid

International Organisations

Multilateral Development Banks (MDBs). MDB is an international financial institution chartered by two or more countries for the purpose of providing financial and technical support to developing countries to help them strengthen economic management and reduce poverty.

MDBs consist of member nations from developed and developing countries[59]. MDBs provide loans and grants to member nations to fund projects that support social and economic development, such as the building of new roads or providing clean water to communities[60].

Based on their objectives for which they are established, MDBs play a critical role in the development of blended finance, often acting as the main orchestrator of blended finance transactions, including the provision of concessional capital, technical assistance, grants, guarantees and other financial instruments. MDBs act as catalysts for high-impact development projects in developing countries, which is in particular their statutory activity. They can identify promising infrastructure projects, facilitate their preparation and development, and work with project developers, governments and private sector partners to design blended financing structures. MDBs are among the most experienced actors in blended finance, and their reputation and extensive global reach help to increase private investor confidence in the prospects of projects, including infrastructure projects, in which MDBs invest in some way. MDBs often facilitate or act as a platform to bring together heterogeneous stakeholders such as national development banks, commercial banks, institutional investors and philanthropic foundations to lay the groundwork for designing blended finance transactions.

Established internal procedures for risk management and due diligence of projects before committing resources not only increases confidence in the project, but also helps to eliminate, mitigate or transfer risks to both the project and the blended finance transaction itself.

MDBs, among other IFIs and IOs, set standards for measuring and monitoring social and environmental impact standards, which helps to ensure that blended finance transactions meet the required objectives. In addition, their experience allows them to be serious partners in knowledge sharing and capacity building within the blended finance ecosystem. MDBs often work with national governments to create an enabling environment, including for scaling up blended finance transactions, harmonising regulations and standards, and reducing transaction costs associated with blended finance.

Public Sector Actors

National, Subnational and Local governments. National, subnational and local governments are the main drivers of infrastructure development and are interested in expanding their fiscal space, including through increased use of blended finance. Governments are the primary financial contributors to infrastructure projects financially, which, with the right approach to structuring the transaction, can attract the interest of private sector investment.

Through their ability to directly influence and create an enabling environment, governments are key players in the development of blended finance for infrastructure projects. For example, governments can create supportive policies and regulations, which may include measures such as providing tax incentives for investment in infrastructure projects, streamlining regulatory approval processes for blended finance transactions related to infrastructure projects, can offer additional risk mitigation or support measures, such as capital grants, guarantees, partial guarantees or currency hedging mechanisms, to incentivize private sector participation. In addition, government action to standardise reporting requirements and align different government regulations across sectors can reduce transaction costs and make blended finance more attractive to private investors.

[59] Dan Costin NIŢESCU, Valentin MURGU, 'Development banks – promoters of economic development?' Theoretical and Applied Economics, Volume XXIX (2022), No. 4(633), Winter, pp. 5-20
[60] Ibid

With an understanding of the most pressing infrastructure development challenges and needs, national, subnational and local governments are able to identify the highest priority projects that are not only strategic to achieving national development goals, but also suitable for blended finance structuring. In the next stage, governments can support project development not only financially, but also by providing project developers with the necessary data and expertise, and by securing the necessary permits and licenses for project implementation.

Together with MDBs and DFIs, governments can act as a platform to bring together and facilitate dialogue between different stakeholders such as DFIs, NGOs, private sector investors and other organisations.

National, subnational and local governments promote transparency and accountability within blended finance transactions, ensuring the responsible use of public funds, as well as contributing to capacity building programmes, knowledge sharing, dissemination of best practice guides, ensuring that blended finance transactions deliver the intended social and environmental impacts, facilitating community engagement and ensuring social inclusion in project design.

Governments usually blend with commercial actors indirectly, either through MDBs and other DFIs and intermediaries, or through funds or other mechanisms managed by third parties. On occasion, they do participate in blending directly with commercial actors but this is less common[61].

Development Finance Institutions. Public or state-owned financial institutions that provide financing for projects in developing countries with a developmental focus. DFIs play a critical role in blended finance[62] with a central and multifaceted involvement in blended finance transactions. They strategically deploy concessional capital alongside their own commercial financing or equity investments, attract private sector investors, mobilise resources for impactful projects that address global challenges and promote sustainable development as well as provide expertise across various stages of the transaction cycle.

DFIs act as a bridge between the public and private sectors and serve as providers of concessional capital offering financial instruments with below-market interest rates, grants, or guarantees to de-risk projects and make them more attractive to private investors. This "concessional capital" bridges the gap between the financial returns demanded by private investors and the risk-adjusted returns achievable by impactful projects.

DFIs use in blended finance such concessional financing instruments such as subordinated debt, first-loss guarantees and technical assistance grants. They incentivize private investors to participate in blended finance transactions that may not be commercially viable on their own. This "crowding-in" effect unlocks significant private capital for impactful projects. DFIs can aggregate extensive knowledge and experience in structuring complex blended finance transactions, which naturally leads to their ability to provide technical assistance in structuring blended finance transactions, as well as knowledge sharing, and capacity building programmes.

They work with various stakeholders, including project developers, private investors, and governments, to design innovative financing structures that meet the specific needs of the project while ensuring a balanced risk-return profile for all involved parties. DFIs have robust risk management frameworks and conduct thorough due diligence on projects before committing capital. This helps mitigate risks associated with blended finance transactions and protects public funds while attracting private sector participation. This is combined with DFIs inherent measuring and monitoring the social and environmental impact of blended finance transactions.

[61] Guide Blended Finance, Bowmans, 2023 (https://bowmanslaw.com/wp-content/uploads/2023/10/SA-Guide-Blended-Finance_2023-03.pdf)
[62] Ibid

All of above-mentioned position DFIs as important actors of blended finance market, which help to create a supportive ecosystem for blended finance transactions and encourages broader participation from private sector actors.

National Development Banks (NDBs)[63] can be mentioned as a specific type of DFIs deeply involved in the blended finance transactions. They offer similar to other DFIs financial instruments to structure blended finance transaction, like concessional loans, equity Investments, local currency financing. Unlike MDBs with a broader global mandate, NDBs prioritise investments that align with the specific development needs of their own countries. This targeted approach ensures that blended finance transactions contribute directly to achieving national development goals, such as infrastructure development, renewable energy adoption, or poverty alleviation. Additionally, NDBs are often well-established institutions with strong relationships with local businesses, government bodies, and NGOs. This allows them to foster long-term partnerships and facilitate collaboration between diverse stakeholders within blended finance transactions.

DFIs and the private sector arm of MDBs and NDBs are well-placed to facilitate the convergence of concessional/catalytic and commercially-oriented capital, which may enable them to structure deals that achieve both financial returns and development results. Given this expertise, they often act as the intermediary in blended finance transactions[64].

Bilateral Development Agencies. Government agencies that provide financial assistance to developing countries to promote economic and social development. Depending on development agencies' structure and authorities, in blended finance transactions BDAs can provide catalytical capital, guarantees, and technical assistance with a goal to help crowd in private investors. They also provide expertise, knowledge of local context, and in-country networks[65]. BDAs often provide grants for technical assistance and to de-risk projects to make them more attractive to private sector investors. Such grants can be directed to conduct feasibility studies to assess the financial and technical viability of potential infrastructure projects, for project preparation or development. It may be noted that the usual practice to deploy funds in form of grants has resulted in the fact that rarely BDAs possess sufficient investment expertise to structure a financing transaction[66]. BDAs can have a specific thematic focus, channelling their resources towards blended finance transactions that align with their core priorities. This could be areas like health, education or climate change mitigation and adaptation.

Private Sector Actors

There are various approaches to categorise private sector participants in blended finance, but for the purposes of the study it seems appropriate to use the approach proposed by Convergence, which divides institutional investors into two categories: asset owners and asset managers. The first category includes pension funds, insurance companies, sovereign wealth funds, commercial and investment banks, while the second category includes private equity firms and asset managers[67].

Pension Funds. Pension funds source capital from the pooled contributions of employers, unions, or other organisations. The pool of funds is invested on the contributors' behalf, and the earnings on the investments generate income to the contributor upon retirement. Pension funds often represent the largest institutional investors in many nations, and as a result, their investment activities often dominate the stock markets in which they are invested.

[63] For the sake of simplicity, national development banks are also understood to be public development banks
[64] USAID Blended Finance Starter Kit, USAID INVEST, 2020
[65] Ibid
[66] Ibid
[67] Convergence Blended Finance, "Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital Through Blended Finance," Jan. 2018, https://www.convergence.finance/resource/1hYbzLsUbAYmS4syyWuqm6/view

Pension funds are often able to allocate a small portion of their portfolios to alternative asset classes, though face significant risk and liquidity constraints[68].

Insurance Companies. Insurance companies collect premiums to protect policy holders from various types of risk. Premiums are invested to provide a source of future claims for policy holders and a profit for the insurer. Insurance companies are typically classified into life insurers and property/casualty ("non-life") insurers. In most countries, life and non-life insurers are subject to different investment regulation, because life insurance is long-term in nature, while non-life insurances usually cover a shorter period (e.g., one year)[69].

Sovereign Wealth Funds. Sovereign wealth funds are state-owned entities that are established from various sources, including from a countries' balance of payments surpluses, official foreign currency operations, proceeds of privatisations, fiscal surpluses, and/or income from resource/commodity exports. When investing, sovereign wealth funds tend to prefer returns over liquidity, and typically have a higher risk tolerance compared to other institutional investor segments, although each sovereign wealth fund has its own unique investment objectives[70].

Commercial and Investment Banks. Commercial banks mainly contribute to blended finance transactions by providing debt financing[71] , often acting as lead arrangers, distributors, or lenders they can leverage their expertise in financial structuring and risk management. While investment banks specialise in large and complex financial transactions, such as underwriting, acting as an intermediary between a securities issuer and the investing public, facilitating mergers and other corporate reorganisations, and acting as a broker and/or financial adviser for institutional clients. Investment banks may also deploy capital into transactions as an investor, although on a more limited basis than traditional asset owners[72]. Commercial and investment banks activities are highly regulated.

The preferred form of debt financing for commercial banks is senior debt. In addition, commercial banks can place debt instruments issued under the blended finance transaction with their investor base, which helps to broaden the project's investor base and facilitate the mobilisation of additional capital. They can provide working capital funding at various stages of the project as part of the project financing, thereby ensuring the smooth operation of the project and its cash flow.

Banks bring their expertise in financial structuring, including helping to combine various debt, equity and other innovative financial instruments to meet the project's financial needs and better manage project risks. The specific nature and strict regulation of banks leads them to develop sophisticated credit, due diligence and risk management frameworks to assess the viability of projects, including identifying their weaknesses and helping to understand which risks need to be mitigated or transferred in a blended finance transaction. At the same time, some banks have specialised knowledge of certain sectors (e.g. renewable energy, infrastructure), which enables them to identify promising projects for blended finance. It may be noted that the expertise of some banks specialising in financing projects in emerging markets is very valuable in structuring blended finance deals, as it enables them to navigate the regulatory, political and economic landscape.

Banks often work together in syndicated loans to spread the risk and ease the burden of financing large projects, particularly infrastructure projects, which by their nature are very capital intensive. By spreading the financial burden across a number of borrowers, syndicated loans facilitate the participation of a wider range of banks that bring their own perspectives, risks and expertise to the transaction, as well as a wider range of investors. Banks often work

[68] Ibid
[69] Ibid
[70] Ibid
[71] Guide Blended Finance, Bowmans, 2023 (https://bowmanslaw.com/wp-content/uploads/2023/10/SA-Guide-Blended-Finance_2023-03.pdf)
[72] Convergence Blended Finance, "Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital Through Blended Finance," Jan. 2018

with their natural allies, DFIs and MDBs, in blended finance, allowing them to benefit from the concessional capital, risk mitigation tools and technical assistance that DFIs and MDBs can provide.

Private Equity Firms. Investment management companies can provide equity financing for impactful businesses and projects within blended finance structures. The specific type of private equity firm will depend on the stage of development and risk profile of the investment (e.g., early-stage venture capital, growth equity, buyout funds). The involvement of private equity firms in blended finance is still evolving, but it can already be determined that their involvement can be expressed in co-investing alongside impact investors or development finance institutions in blended finance deals. Another example would be a launch of dedicated impact funds that target blended finance opportunities within specific sectors or geographies. Private equity firms bring extensive experience in evaluating and managing investments, particularly in high-growth companies. This expertise can be valuable in identifying and structuring commercially viable projects within the blended finance framework. Additionally, many private equity funds have investment horizons that can align well with the longer-term nature of some blended finance projects, particularly those targeting infrastructure or sustainable development initiatives, and exit investments through initial public offerings or sales to other companies or funds[73]. Similar to other actors, private equity firms participation in blended finance transactions can facilitate private investors participation in the project.

Asset Managers and Investment Funds. Asset managers and investment funds are important participants of structuring and managing blended finance transactions. Asset managers can act as sponsors, launching dedicated blended finance funds that pool capital from diverse investors. Some asset managers receive mandates from DFIs or philanthropic organisations to manage specific blended finance projects or facilities, also they are often hired by institutional investors like pension funds, and insurance companies, as well as high net worth individuals[74].

Asset managers, like other private capital actors, are involved in the identification of potential infrastructure projects, but primarily from the perspective of profitability and return on investment. However, with the current changes in the international regulatory landscape and the prioritisation of achieving the SDGs, social and environmental parameters are now also being considered when identifying investment opportunities. Balancing the profitability and sustainability profile of a project logically leads to the potential use of blended finance. Asset managers can be involved in designing the optimal blend of public, private and philanthropic capital required for the project, structuring the transaction to deliver targeted financial returns to each investor class while ensuring a sustainable flow of capital to the underlying project.

After closing the transaction, asset managers are involved in the investment management process, monitoring progress in terms of development impact, project objectives and financial returns. Asset managers regularly update investors on the progress of project implementation and ensure compliance with the terms of the blended finance transaction agreement and their fiduciary duties.

Corporations and Businesses. Participation of corporations and businesses as beneficiaries of blended finance transactions extends beyond simply receiving the capital. Their participation in such transactions may be in a form of project sponsors (identifying high-impact opportunities, providing feasibility assessments and deal structuring, collaborating with asset managers), impact partners (technology transfer, research and development, market access assistance, capacity building, offtake agreements to provide market certainty, risk mitigation and revenue security). Beyond direct participation corporation and businesses can advocate for blended finance and raising awareness of its potential or leverage blended finance to incentivize sustainable practices among their suppliers. Corporations and businesses in the infrastructure sector can use blended finance to support the development of sustainable

[73] Ibid
[74] Ibid

infrastructure projects (e.g., renewable energy grids, clean water distribution systems) and offer their expertise in design, construction, and maintenance.

Additionally, corporations and businesses have the potential to design blended finance structures that address specific sustainability challenges within the supply chain by establishing joint investment vehicles with suppliers to pool capital and invest in sustainable technologies or infrastructure upgrades, structuring financing arrangements where loan terms or interest rates are tied to the supplier's achievement of pre-defined sustainability performance metrics or developing risk-sharing mechanisms to encourage suppliers to adopt new sustainable practices, thereby mitigating potential financial risks associated with the transition.

Impact Investors. Impact investing is defined as the deployment of funds into investments that generate a measurable and beneficial social or environmental impact alongside a financial return on investment. An innovative way of boosting the private sector's contribution to sustainable development can be achieved with impact investing[75]. Impact investors provide patient capital, expertise in measuring achievable impact and a willingness to take calculated risks. These contributions, together with collaboration with other stakeholders, are helping to unlock the potential of blended finance as a powerful tool for sustainable development.

The patient capital provided by impact investors allows them to support projects with a longer-term focus, which may not generate immediate financial returns but address development challenges. Impact investors tend to have deep expertise in measuring and monitoring the social and environmental impact of projects, as the achievement of certain indicators is one of the investment conditions. By participating in blended finance deals, impact investors can contribute to the development of frameworks and methodologies for tracking progress towards the intended positive outcomes of blended finance deals. A focus on development impact and its measurement helps to ensure that the project and the blended finance deal achieve development impact. The involvement of impact investors in blended finance deals broadens the investor base and increases access to a larger pool of capital. Impact investors often work with other stakeholders such as DFIs, MDBs and development NGOs. This collaborative approach facilitates the development of innovative blended finance structures. Depending on the specific structure, investors can engage in blended finance deals in a variety of ways, including direct investments, impact funds designed for blended finance deals targeting specific impact areas (e.g. climate change, clean energy), and performance-based instruments.

Philanthropic and Other Organisations

Non-Governmental Organisations. The concept of non-governmental or non-profit organisations is a broad umbrella term that encompasses a wide variety of forms of social activity. In the context of blended finance, philanthropic foundations, which can also be interchangeably referred to as foundations, endowments and charitable trusts, are the most common. Philanthropic foundations are NGOs with principal funds established by wealthy individuals, groups, or corporations to make grant to achieve a specific goal. Private philanthropy is an important source of development finance.

In this context, philanthropies are known for having relatively low risk-aversion levels and for being willing to invest in innovative financing models and business concepts. In recent years, there has been an expansion in the levels and types of philanthropy in developing countries. The sources of, and support for, philanthropy in or to these countries include, among others, wealthy families and businessmen, corporate foundations with ties to local businesses, and private foundations based in more developed countries[76]. Foundations usually have a specific missions and interests, and sometimes geographical focuses. Foundations generally do not fund operational, overhead or recurring costs, but at the same time they are a good source for

[75] Istanbul International Centre for Private Sector in Development, Impact Investing, https://www.undp.org/policy-centre/istanbul/impact-investing-0 [accessed on 6 August 2024]
[76] Guide Blended Finance, Bowmans, 2023 (https://bowmanslaw.com/wp-content/uploads/2023/10/SA-Guide-Blended-Finance_2023-03.pdf)

start-up funding of new initiatives and tend to be interested in the future self-sustainability of a program[77].

In general, NGOs are instrumental actors in the world of blended finance, bringing their unique strengths to various stages of the transaction cycle. According to Convergence, fifteen percent of all blended finance transactions involve at least one non-profit organisation[78]. The key ingredient NGOs can provide to blended finance transactions is the social, environmental and impact expertise[79]. Also NGOs possess a deep understanding of local communities and social challenges, which may be helpful in identifying suitable projects for blended finance interventions, and in sectors where NGOs are naturally well represented they are also well positioned to co-lead the design and implementation of blended finance solutions – in partnership with an institution with financial expertise[80]. NGOs can play a vital role in ensuring the active participation of beneficiaries throughout the transaction process. This includes capacity building programmes for local communities to ensure they can effectively participate in project design, monitoring, and evaluation. NGOs can contribute to monitoring and evaluation processes by collecting data on social and environmental impacts, ensuring that blended finance transactions achieve their intended goals. They can also work with communities to track progress and identify areas for improvement. By sharing their experiences and lessons learned from participating in blended finance transactions, NGOs can contribute to the broader knowledge base and advocate for best practices in the field. This can help improve the effectiveness of future blended finance initiatives.

It is important to take into account the specific capacities and areas of expertise of different NGOs. Large international NGOs may have broader resources and technical skills, while smaller, local NGOs may have deeper community connections and understanding of specific social issues.

Social Enterprises. Hybrid businesses that aim to combine social impact with financial sustainability can play a key role in project delivery within blended finance structures. The specific type of social enterprise will depend on the sector and target population (e.g., social impact businesses, social entrepreneurs, Benefit Corporations).

Social enterprises have many similarities to NGOs in terms of their role in blended finance transactions: they are deeply embedded in the communities they serve and understand the local context, which allows them to navigate complexities and ensure project success, and can identify critical social and environmental challenges that require innovative solutions. This local understanding is invaluable in structuring projects that effectively address these issues. Their involvement can ensure that blended finance transactions prioritise and track not only financial returns, but also the social and environmental outcomes achieved. Social enterprises, with their proven track record of meeting social needs with limited resources, can demonstrate the viability of projects, potentially mitigating risks for private investors. Social enterprises often have the operational expertise and local networks needed to implement projects effectively. Social enterprises within the blended finance mechanism may use social impact bonds or pay-for-performance delivery models.

Providers of Technical Assistance and Consulting Services. Technical assistance providers can be DFIs, IO, MDBs, NGOs, specialised consulting agencies, firms with relevant expertise offering consultancy services to support the design, structuring, and implementation of blended finance transactions. Such support may be provided on pre-investment stage by assisting project developers in refining their project concept, conducting feasibility studies, and developing robust business plans, to ensure the project is well-structured, financially viable, and attractive to potential investors. In addition, TA can help prepare investee companies or

[77] Mobilizing Funding For Biodiversity Conservation: A User-Friendly Training Guide, Convention on Biological Diversity, 2001

[78] How NGOs are blending capital to amplify their impact (Blog), 08.08.2022 (https://www.convergence.finance/news/5gG6kXkd4XUTUITFuO2zcD/view)

[79] Ibid

[80] Ibid

project developers to meet the investment criteria of blended finance structures and facilitate constructive dialogue and collaboration between diverse stakeholders, such as investors, project developers, and local communities. This may involve improving financial management systems, governance practices, or environmental and social impact frameworks. TA providers can offer training and capacity building programs for local stakeholders involved in blended finance projects, including training for government officials, project developers, or community organisations, empowering them to effectively participate in the finance blending. Additionally, TA providers can participate in conducting due diligence on projects, identifying potential risks and developing their mitigation strategy, project monitoring, evaluation and impact measurement.

Consulting agencies (advisory firms) acting as intermediaries identify, test, and develop structures that successfully bring public, philanthropic, and private investors into one blended transaction while attending to their respective investment interests and requirements. In fact they are the very mechanism that "blends the capital", working with many different actors, accommodating their individual needs and structuring investments that combine varying risk-return profiles. Consulting agencies costs are often covered by BDAs[81] or DFIs.

Knowledge Institutions. Universities, research institutes, and think tanks contribute by conducting research, awareness raising activities, developing and sharing best practices[82], and informing the field of blended finance. These organisations can undertake a range of studies to examine the challenges and barriers to, and identify promising areas for, the implementation of blended finance. These include sectoral analysis, the development of metrics to assess social and environmental impacts, and the study of different financial instruments and their performance.

Knowledge institutions can provide TA in various areas, including legal due diligence, social and environmental assessments, analysis of transaction structuring parameters, and economic and financial modelling. Such assessments have the positive value of building expertise that can be used in future blended finance transactions, as well as building a common knowledge base on blended finance, including identifying challenges and barriers. Knowledge institutions can also act as expert organisations in the process of developing policy frameworks to promote and facilitate blended finance.

BRICS perspective on blended finance actors and coordination

Task Force members provided a variety of information on examples and practices of blended finance for infrastructure projects. The analysis of the information presented shows that the BRICS countries are using a wide variety of actor compositions in the blended financing of infrastructure projects.

The central players in blended finance transactions related to BRICS infrastructure projects national, subnational and local governments, multilateral development banks and development finance institutions, in particular national development banks, export credit agencies and commercial banks.

In general, the case studies presented by PPPITF members are consistent with global blended finance practice and demonstrate the BRICS countries' understanding of approaches to structuring blended finance transactions from the perspective of transaction participants.

However, interesting elements can be identified that demonstrate the more complex levels of implementation of blended finance. In examining the role of actors in blended finance transactions for infrastructure projects in the presented case studies, the following observations emerge.

[81] USAID Blended Finance Starter Kit, USAID INVEST, 2020

[82] G20 Principles to Scale up Blended Finance in Developing Countries, including Least Developed Countries and Small Island Developing States, 2022

The multisectoral initiatives proposed by Task Force members largely demonstrate that multilateral development and national development banks are key actors through which blended finance facilities and programmes operate, in particular such national banks may be mentioned – Banco Nacional de Desenvolvimento Econômico e Social - BNDES **(Brazil)**, State Development Corporation VEB.RF **(Russia)**, National Bank for Financing Infrastructure and Development (NaBFID), IIFCL (India Infrastructure Finance Company Limited), National Bank for Agriculture and Rural Development – NABARD and Small Industries Development Bank of India – SIDBI **(India)**. There are other actors involved in the functioning of these multisectoral initiatives, but the role of national development banks seems the most prominent. The multisectoral initiatives presented represent fund, facility and programmes, which makes it possible to highlight the function of national development banks not only as a direct participant in blended finance transactions, providing concessional capital, technical assistance and structuring services, but also as an operator of specialised mechanisms designed for blended finance. An example of a unique programme deserves special attention - the NFWE platform, operating under the auspices of the Government of **Egypt** and the Ministry of International Cooperation of Egypt, which brings together 25 bilateral & multilateral development partners, with multilateral development banks as the main anchor institutions.

In the energy sector, represented by case studies from **China**, national development institutions are involved in three out of four infrastructure projects, i.e. export-import banks and export insurance corporations. Multilateral development banks are also involved in two infrastructure projects.

National and local governments were involved in all projects, which is typical for the infrastructure sector. What is unique about the examples presented by China is that two of the projects are not just examples of blended finance in one country, but examples of blended finance infrastructure projects in other countries, involving governments, commercial banks and equity investors also on the side of implementing country. Such transactions require complex financial and legal architecture.

The transport sector serves as a prime example of sharing best practices in infrastructure development, particularly in the implementation of PPP mechanisms. This sector is well suited for such initiatives due to its comprehensibility, the measurability of outcomes, strong demand, proven track record and clear opportunities for return on investment. The examples presented particularly compelling, highlighting a clear concession structure, as seen in India's cases involving SPVs, implementing agencies, governments and banks.

Additionally, they showcased the potential for simultaneous participation by export credit agencies from various countries, as demonstrated in the financing of metro construction projects **(the UAE)**, as well as the participation of the National Development Fund (DFI) in the implementation of a road project **(Iran)**.

The social sector stood out in terms of the number of examples of blended finance for infrastructure projects and was notably diverse in the range of actors involved in their financing. For instance, in a school construction project **(the UAE)** implemented through a PPP mechanism, the crucial roles of the lead financial advisor, legal advisor and technical advisor were emphasised. As previously mentioned, the involvement of such key players in blended finance transactions is critical to success, especially when multiple actors are engaged. These advisors contribute directly to financial direct modelling, structuring, particularly at the legal level, and the effective blending of finance. However, key financing, without which the project would have been difficult to implement, came from several commercial banks.

In the example of providing quality housing **(South Africa)**, there is an extensive pattern of involvement of different actors in the project and in addition to government agencies, there is the involvement of an infrastructure fund, a development company, DFIs and commercial banks, providing both loans and grants as well as sponsor's equity.

The SAMRIDH Healthcare Blended Finance Facility **(India)** is an initiative in the healthcare sector to catalyse innovative financing mechanisms to improve healthcare services for India's most vulnerable populations. The program uses a three-fold tactic to mobilise a capital pool from diverse partners inter-alia including 1) Multi-stakeholder partnerships, 2) Diversified funding mechanism and 3) Shared Value Goals. The project is being implemented with the participation of not only BDA, but also scientific advisors, knowledge institutions, foundations, bilateral & multilateral donors, corporate CSR, family offices & foundations, high net-worth individuals, public & private banks, non-banking financial corporations, DFIs.

Of interest is the legally enshrined structure of the actors in the accompanied residence for people with mental impairments project **(Russia)**, which is a soft infrastructure development approach. The structure envisages authorised body (local relevant authority), operator (national development bank), which provides technical assistance by structuring the project, monitoring it and organising an independent assessment of the achievement of social impact, organiser (investor) and implementer (NGO like charitable foundation). At the same time, the programme to create modern campuses is being implemented through a fairly well-known concession mechanism, although the national development bank (VEB.RF) has a role in conducting economic and legal due diligence of investment projects.

The Olifants wastewater and sanitation project **(South Africa)**, which aims to provide increased assurance of water supply, involves government entities, the water users association, various mining companies, an infrastructure fund, DFI and commercial borrowers. It may be noted that there is an obvious conclusion from that project and social sector projects about the more complex structure of blended finance deals that require participation, including beneficiaries of social impact.

The information contained in the Task Force members' submissions demonstrates the critical importance of the coordination architecture to ensure that all parties work together in a synchronised, consistent and transparent manner. Obviously, the main tool to achieve this is the legal formalisation of relationships, but this is not a silver bullet, as the management component of the whole process of implementing a blended finance transaction cannot be fully formalised. The analysis of the materials shows that in the infrastructure sector this function is most often performed by government institutions, DFIs, advisory entities and specially created vehicles. In most cases, the statutes of the NDBs or national DFIs do not contain specific provisions on the possibility of implementing blended finance, but the case studies demonstrate that this does not create any practical obstacles to the participation and implementation of infrastructure projects blended finance.

Taking the example of PPPs as a subset of blended finance, blended finance transactions for infrastructure projects require significant efforts by the stakeholders involved to develop a common architecture of interaction for each project. This, in turn, may lead to an overall increase in transaction costs in the absence of established practices. In the long run, however, the financial, environmental and social benefits of blended finance may outweigh the transaction costs compared to traditional forms of infrastructure project financing, which are mainly based on public budgets.

There is no uniformity in the composition of participants in each transaction; rather, there is evidence to suggest that a flexible and unique mix of participants is a key feature of each infrastructure project's blended finance transaction. On the one hand, this once again demonstrates how flexible blended finance is and allows combining the efforts of participants having different nature and objectives, on the other hand, the lack of certain standardisation and typology of relationships in the design of blended finance transactions obviously demonstrates the need for universalisation. At the same time, in the case of specialised funds or facilities, this issue is less acute, as one of the elements of their activity is the development of project selection criteria and the development of standardised documents on the interaction of participants in blended finance transactions.

Multi-stakeholder platforms (MSPs)

Such an extensive list of possible actors in blended finance, and the complex nature of blended finance transactions, naturally leads to the critical importance of a well-functioning mechanism for cooperation and interaction between all stakeholders – public institutions, private investors, social enterprises, NGOs, and knowledge institutions. Blended finance transactions, by their very nature, necessitate the collaboration of diverse actors. In this case, coordination can be considered both from practical point of view, within the framework of structuring a specific transaction in relation to an infrastructure project, and at a more global level, involving the creation of partnership platforms and similar initiatives that ensure the interaction of organisations practically involved in blended finance transactions.

Indeed, by design, blended finance is a way to establish MSPs around specific issues. Blended finance transactions often bring together a broad coalition of stakeholders around a particular issue, including multilateral development agencies, private commercial investors, impact investors, civil society and others. This approach not only allows each partner aim for specific investment outcomes, but also enhances knowledge sharing and exchange of ideas, which are important additional benefits from these operations[83].

There is no single concept of a multi-stakeholder platform. Platforms are one part of the multi-stakeholder partnering that has developed over recent years. Multi-stakeholder partnering is firmly embedded in the implementation approach of the SDGs. However, the literature on multi-stakeholder partnerships and multi-stakeholder platforms does not provide clear distinctions between the two. Relationships of this nature have been called partnerships, platforms, coalitions, alliances, challenges, networks, global action networks and initiatives[84]. The similarities between the concepts of MSPs and multi-stakeholder partnerships in the blended finance context are such that in some cases they are interchangeable.

For example, the following two definitions illustrate the lack of a consistent terminology in the literature: The UN defines partnerships as: voluntary and collaborative relationships between various parties, both public and non-public, in which all participants agree to work together to achieve a common purpose or undertake a specific task and, as mutually agreed, to share risks and responsibilities, resources and benefits'. While some studies define 'partnership platforms' as: an ongoing mechanism to catalyse collaboration for development in a systematic way. Platforms undertake activities to convene and align government, business, non-governmental organisations, civil society organisations, donors and other development actors around a particular issue or geography, facilitate innovative collaborative approaches and directly broker and support new partnering action[85].

At the same time Partnerships 2030 define a multi-stakeholder partnership as "a type of cooperation with the following four features: Stakeholders from at least three areas (civil society, private sector, public sector, academia) work together on an equal footing through an organised, and long-term engagement in order to contribute to the common good"[86].

Regardless of which definition applies, MSPs play central roles as new financial actors in shaping the legal and ideational structures of development assistance. MSPs have become frontline financial actors that initiate new financial markets and provide key financial instruments through which the financialization of development assistance occurs. This financialised model relies on the steady multiplication of new financial markets and instruments that increasingly dominate the development assistance arena in ways that expand the reach

[83] GEF, Innovations in Blended Finance: A Summary, https://www.thegef.org/sites/default/files/publications/Blended_finance_Final_NI_Approved_LR_0_1.pdf
[84] DCED, Engaging with the private sector through multi-stakeholder platforms, https://www.enterprise-development.org/wp-content/uploads/DCED-Platforms-Review.pdf
[85] Freeman, C., Wisheart, M., Fry Hester, K., Prescott, D., and Stibbe, D (2016). Delivering on the promise: In-country multi-stakeholder platforms to catalyse collaboration and partnerships for Agenda 2030. World Vision International, Uxbridge and The Partnering Initiative, Oxford.
[86] What is an MSP?, Partnerships 2030, https://partnerschaften2030.de/en/what-is-an-msp/ [accessed on 10 September 2024]

of capital into frontier markets and hitherto untapped sectors[87]. In this model, MSPs offer a 'four-in-one' proposition: filling financing gaps in issue areas critical to sustainable development, catalysing or leveraging financing from the private sector, brokering between developed and developing states in buy-downs or debt swaps, and optimising development assistance by fostering cost effectiveness. This offer is rolled out through a complex and multi-layered architecture of private legal agreements that underpin the new financial instruments and mechanisms such as up-front incentives and subsidies, frontloading mechanisms, results-based instruments, and debt swaps. The resulting financialized development assistance model in which the financial economy becomes central to funding development has had adverse consequences. First, the model compounds the power, reach and influence of private donors and MSPs vis-à-vis both developing countries and international organisations. Second, it creates accountability shortcomings by downplaying or obfuscating medium- and long-term socio-economic impacts that may originate from the use of new financial instruments, given the lack of effective oversight mechanisms. Third, it runs the risk of exacerbating fragmentation in development assistance[88].

In the area of blended finance, these platforms can act as knowledge repositories, collecting data on blended finance transactions, conducting research on their effectiveness and disseminating best practice through various channels. This is important because learning from experience and disseminating best practices in the blended finance ecosystem greatly enhances the success of blended finance transactions.

One of the key benefits of MSPs is their ability to facilitate interactions between a wide range of stakeholders who might otherwise lack opportunities for engagement. By providing a neutral space for dialogue, MSPs can facilitate the establishment of trust and relationships between public and private entities, knowledge institutions, social enterprises and communities. They also act as a central hub for the disseminating information and facilitating links between project developers, potential investors, and technical assistance providers. This unifying force enables the identification of common goals and facilitates the formation of partnerships that are necessary for the structuring and implementation of blended finance deals. Collaboration can lead to the standardisation of key aspects of blended finance deals, including legal documentation, impact assessment systems and risk mitigation tools. The establishment of standardised procedures can reduce transaction complexity, increase market confidence and ultimately attract a broader range of investors to blended finance. Cooperation between governments and financial regulators in different jurisdictions can facilitate the creation of a harmonised regulatory framework for the development of blended finance. This will reduce regulatory uncertainty for investors and enable cross-border blended finance transactions to be conducted with greater impact.

A variety of platforms, joint initiatives, partnerships, working groups and other formats exist at the international and national levels with the objective to bring together stakeholders in blended finance, including governments, investors and development finance institutions. These platforms facilitate the identification of infrastructure needs, the discussion of potential blended finance opportunities, the development of innovative financing solutions and, ultimately, the acceleration of sustainable infrastructure development in a country or region. Examples provided by Task Force members illustrate the necessity for such multi-stakeholder collaboration platforms.

One of the examples is the IDA-IFC Blended Finance Facility (BFF), which builds on and expands IFC's existing blended finance platforms, including the Blended Climate Finance programs, the private sector window of the Global Agriculture and Food Security Program (GAFSP), and the SME Finance facilities, and extends support into new high-impact sectors[89]. The GIIN Blended

[87] Erdem Türkelli G. Multistakeholder Partnerships for Development and the Financialization of Development Assistance // Development and Change. 2021. Vol. 53. No. 1. pp. 84-116.
[88] Ibid
[89] IDA, World Bank, Blended Finance Facility (BFF), https://ida.worldbank.org/en/financing/ida-private-sector-window/blended-finance-facility-bff [accessed on 6 August 2024]

Finance Working Group is another example of international MSP, facilitating knowledge sharing and capacity building within the blended finance community, including publication of research reports, case studies, and best practice guides, hosting webinars and conferences. Egypt's NWFE programme is an example of a national platform that allows for the formation of strategic partnerships that combine the unique strengths of different multilateral and bilateral development partners. The strategic alliances established under the NWFE programme include actors with significant reputation and expertise on the global stage, with the aim of catalysing private capital and providing technical assistance[90].

Another example may be the Tri Hita Karana Roadmap (THK) for Blended Finance, which was launched in 2018 by Indonesia and represents a multi-stakeholder platform for formulating shared values and guidance on scaling up blended finance in support of the SDGs. THK has identified action areas to scale up blended finance in quantity and quality, including to translate the values into good practices; mobilisation drivers such as incentives and standardisation; address transparency issues and opportunities, as well as specificities in the enabling environment with a particular focus on working with local actors such as national development banks, and with respect to impact measurement and management. These action areas have been taken forward by dedicated working groups that continue to develop guidance material available. The THK's community platforms and its activities to create mutual understanding, build capacity and strengthen technical assistance are examples of multi-stakeholder approaches to scale up blended finance[91].

As can be seen from the above, multi-stakeholder platforms are becoming a common practice and serve as an effective mechanism for developing joint solutions and sharing knowledge, especially in the area of achieving the SDGs, and the BRICS countries are no exception. The India Blended Finance Collaborative (IBFC), which is a voluntary holistic, multiyear platform to accelerate and mainstream the use of blended finance in India through access to curated knowledge, resources and relevant networks[92], is one example, and Egypt's NFWE platform provides opportunities for mobilising climate finance and private investments to support Egypt's green transition, reflecting the interlinkages and complementarity between climate action and development efforts, with the participation of international banks.

Also Convergence (The Global Network for Blended Finance), the Global Blended Finance Alliance, The ImpactAssets Impact Investment Platform, the Green Climate Fund, the Climate Bond Initiative, the OECD Development Assistance Committee are worth mentioning.

The BRICS Interbank Cooperation Mechanism (ICM)

ICM, operating under the BRICS umbrella, serves as an effective platform for cooperation among the BRICS development banks. Its activities are focused on important practical aspects of development financing, including blended finance and infrastructure development.

Indeed, the ICM has identified blended finance as a key priority area for the Russian presidency this year, with the State Development Corporation VEB.RF acting as the coordinating body. Through the ICM meetings and working groups, the member banks are able to conduct joint needs assessments, identify promising sectors for blended finance interventions and collaborate on project pipelines that align with the development priorities of several BRICS countries.

Furthermore, the ICM functions as a forum for the dissemination of knowledge and the exchange of best practices, including the sharing of experiences related to blended finance (such as grants, guarantees, partial loss guarantees, first-loss positions, and technical

[90] Egypt's Nexus of Water, Food & Energy from Pledges to Implementation, Progress Report № 1, November 2023
[91] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks (2022), Scaling up Blended Finance in Developing Countries, OECD, Paris
[92] The India Blended Finance Collaborative (IBFC), https://blendedfinanceindia.org/ [accessed on 10 September 2024]

assistance), as well as the development of capacity within the BRICS development banking community.

Member banks with expertise in specific areas of blended finance can disseminate best practices and technical knowledge to their counterparts. This can equip BRICS development banks with the necessary skills to design, structure and implement successful blended finance transactions.

The ICM can serve as a platform for collaboration on developing standardised impact measurement methodologies for blended finance projects in the BRICS region and facilitate co-financing arrangements between BRICS development banks for blended finance transactions.

An example that underlines the potential of the ICM is the Memorandum of Understanding on General Cooperation between the members of the ICM and the New Development Bank, which states that areas of mutual interest include financing and co-financing of projects, joint project financing programmes, investment funds to finance projects in priority areas, the development of effective and sustainable financing solutions, the exchange of experience and knowledge in the field of technical assistance for the preparation and implementation of development projects, and the development of policies and procedures relating to environmental, social and governance principles and standards[93].

Additionally, ICM can participate in activities related to harmonising currency exchange mechanisms within the BRICS. The BRICS Interbank Cooperation Mechanism presents a substantial opportunity to foster collaboration and coordination in blended finance transactions within the BRICS.

[93] Memorandum of Understanding on General Cooperation between the members of the ICM and the New Development Bank 2022, https://www.ndb.int/wp-content/uploads/2022/11/MoU-between-NDB-and-the-Members-of-the-BRICS-ICM.pdf [accessed on 6 August 2024]

2.3. BLENDED FINANCE INSTRUMENTS AND MECHANISMS

In practice, blended finance is realised through a set of instruments and mechanisms that act as a connective tissue, bringing together or otherwise "mixing" different stakeholders in a blended finance transaction, while ensuring the main objective - the correlation and balance of interests of all participants and the focus on achieving the development impact.

Blended finance instruments and mechanisms can be considered in terms of different categories and levels at which they are applied in practice.

From a corporate perspective, it is possible to approach the categorisation of blended finance through the levels at which blended finance is implemented.

The Coalition for SDGs offers the following approach to categorisation of blended finance structures available to real economy companies in the concept of corporate blended finance[94]:

Table 9. Categorisation of Corporate Blended Finance Levels

Level	Description
Fund-level	A combination of concessional funding (usually public or philanthropic funds) and full-return private capital in a fund for investments in companies' regular equity or bonds
Company-level	The use of catalytic capital from public or philanthropic sources directly in the capital of a company. In these transactions, public or philanthropic investors provide guarantees or insurance to improve the credit of companies, or give them subsidised concessional loans at below-market terms. The most common forms of company-level blended finance are equity investments, below-market loans or local currency loans, as well as credit guarantees for the repayment of principal and interest on corporate loans or bonds
Outcome-based blended finance	Public or philanthropic entities invest in fixed-income instruments in which the financial and/or structural characteristics are tied to predefined sustainability or environmental, social, and governance (ESG) objectives. The objectives are measured through predefined sustainability KPIs and targets. The use of outcome-based mechanisms incorporate blended finance is a promising way for DFIs to scale the quality and quantity of SDG finance in emerging markets. With the increasing popularity of Sustainability-Linked bonds, more and more companies and investors are getting comfortable linking financial instruments to their sustainability performance. Outcome-based finance can be used by DFIs to support corporations in providing critical solutions for the SDGs while ensuring more impact for their investments. The concept of outcome-based blended finance is also related to development impact bonds (DIBs). These financial products are designed to furnish development programs with money from

[94] Mapping Examples of Corporate Blended Finance, CFO Coalition For the SDGs, https://www.cfocoalition.org/blueprints/p3-3-3-mapping-examples-of-corporate-blended-finance, [accessed on 6 August 2024]

	private investors who earn a return, paid by a third-party donor, if the program is successful. As with performance-based blended finance, DIBs require agreement at the outset on the objectives to be measured, which are then independently verified
Project-level	Public or philanthropic investors provide funding or financial support for important private sector infrastructure projects that support the SDGs, to help mobilise private capital. The most common forms of project-level blended finance are guarantees and insurance. In the development finance space, these two highly effective mechanisms are used to leverage scarce public funds to incentivize the private sector. They can mobilise and leverage commercial financing by protecting against and/or mitigating risk, notably commercial default or political risks. The World Bank Group, through its Multilateral Investment Guarantee Agency (MIGA), has an entire practice dedicated to promoting cross-border investments in developing countries by providing guarantees (political risk insurance and credit enhancement) to investors and lenders. While MIGA works primarily with governments, private companies often benefit from the guarantees and de-risking solutions when the participate in the projects. Guarantees are also used by export credit agencies to promote exports of national technologies and solutions in markets that are too risky for the private sector alone

Source: CFO Coalition for SDGs

An effective blended finance transaction can structure and/or calibrate traditional financial instruments in such a way as to address investor concerns regarding the risk-return profile of investment opportunities in developing countries in order to mobilise commercial capital while ensuring delivery of the expected development outcomes[95].

The three main approaches to group blended finance instruments and mechanisms include technical assistance, risk underwriting, and market incentives[96].

At the same time, there is a view that concessional finance, impact investment and partnerships can be included separately in this group[97].

Technical assistance (technical/operational expertise)

Technical assistance addresses the risks in new, uncertain and fragmented markets for investors. Costs and risks associated with exposure to new markets, technical uncertainty, and the inability to build a pipeline can be reduced through this mechanism, lowering the high transaction costs for investors and operational risks, which often dissuade a commitment of funds. Technical assistance is an essential tool to attract private capital to development projects, allowing knowledge gaps to be addressed and new projects to be developed and technically accompanied (in kind or by a technical assistance grant).

[95] OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris.
[96] Blended Finance Vol.1: A Primer for Development Finance and Philanthropic Funders, OECD (2015)
[97] Understanding Blended Finance in the Lens of Integrated Financing, UNEP, https://wedocs.unep.org/xmlui/bitstream/handle/20.500.11822/44271/Understanding%20Blended%20Finance%20in%20the%20Lens%20of%20Intergrated%20Financing.pdf?sequence=1&isAllowed=y [accessed on 6 August 2024]

Development funding can be used to provide targeted support in the form of advisory and consulting services for project preparation (especially early stage such as exploration studies), operational assistance, product development, skills training, transmission of working knowledge and other professional services to improve the business viability of investee projects or enterprises and thus enhance investment performance.

For example, technical assistance grants can be used to conduct feasibility studies, develop detailed project plans, and establish robust monitoring and evaluation frameworks. This meticulous planning process reduces uncertainties and de-risks the project for potential investors. In the blended finance context, technical assistance can be directly incorporated within a blended finance fund or facility, or operate as a separate entity.

The advantage of technical assistance is the ability to highly leverage capital which can lead to substantial benefits, including greater project viability; improved performance of investee enterprises, leading to enhanced investment performance; enhanced local knowledge and capacity, which benefits across the full project cycle; provide for upfront costs (e.g. project preparation), if projects do not achieve financial closing, which would otherwise have been covered by investors, thus increasing the willingness to invest and improve risk-return profile; Increasing the efficiency of local markets[98].

Risk underwriting (capital preservation)

Risk underwriting reduces specific risks associated with a transaction. This mechanism provides direct compensation or assumes losses for specific negative events, addressing concerns of private capital providers related to macro and project/company specific risks to ensure capital is preserved.

Risk underwriting instruments can either improve the credit profile of companies and projects seeking to raise more or cheaper capital, or provide comfort to investors that they will be able to recover their investment or absorb smaller losses if events negatively impact their returns, effectively shifting the risk-return profile of an investment opportunity. Two of the most common types of risk underwriting tools are insurance policies and guarantees. Insurance policies are contracts issued by a third party agreeing to make a payment in the case of a particular event occurring, preserving the capital for the lender. The type of risks that may arise are manifold, all of which may influence the value of the investment. In this way, they can reduce actual or perceived risks[99].

A guarantee is a formal assurance that if an undesirable event occurs, the guarantor will take action on behalf of the guaranteed party and assume responsibility. For example, a guarantee can be used to ensure that if a company fails to repay the lender, a development funder will cover part of the repayment. Guarantees can help to ensure that investors receive a minimum level of returns, or can limit an investor's losses if an investment underperforms expectations. 'First-loss' guarantees are one particular guarantee instrument which states that the development funder will absorb the initial losses associated with an investment. For example, a guarantee from a DFI could cover a portion of the investment in case of unforeseen political events that disrupt project operations. This significantly reduces risk for private investors, making the project more commercially viable. A DFI might as well provide a partial credit guarantee to a loan provided by a private bank to a project developer (credit enhancement). This guarantee improves the creditworthiness of the loan, allowing the bank to offer a lower interest rate, ultimately making the project more financially attractive for the developer. Donors have found these to be powerful tools. A political risk guarantee from a multilateral organisation could be used to mitigate the risk of government policy changes that might negatively impact the project's profitability[100].

[98] Blended Finance Vol.1: A Primer for Development Finance and Philanthropic Funders, OECD (2015)
[99] Ibid
[100] Ibid

Other forms of risk underwriting include currency hedges and interest rate swaps which can be used to smooth out volatility in the market and protect investors against excessive volatility and losses[101].

The benefits of risk underwriting include making more development projects commercially viable, by shifting the risk-return ratio and reducing the cost of capital; enabling development funders to support a larger number of projects; typically no requirement of immediate outlay of capital, when using guarantees and insurance policies, and funding may be require only when called, which will only happen in a proportion of cases; the ability to respond to project needs and/or investor needs, to ensure funds are channelled into the highest impact sectors[102].

Market incentives (results-driven financing/price guarantees)

Market incentives address critical sectors that do not support market fundamentals. This helps new and distressed markets that require either scale to be commercially viable or reduced volatility, by providing fixed pricing for products in order for private capital to justify committing to the sector.

Market incentives aim to support investment in high-impact sectors, but in which normal market fundamentals do not exist.

They are particularly important in market segments which require innovation around new products and services that address development outcomes, creating potential for commercial markets where they did not originally exist.

They are generally structured as a guarantee for payments against products and services based on performance or supply, or in exchange for upfront investment in new or distressed markets. Examples include advance market commitments, awards, prizes, challenge funds, matching funds, and development impact bonds, among others. A more traditional approach is also possible, which is no less effective, such as the tax breaks from government for private companies that invest in a specific project. This financial incentive encourages private sector participation and reduces the overall project cost[103].

Market incentives can provide investors with visibility on pricing and revenue in order to create new markets, removing market uncertainty; smoothing out cash flows for development projects; encouraging capital to move into sectors with high development impacts.

For example, by guaranteeing the pricing of products above currently prevailing market prices, investors remove elements of market uncertainty by locking in a margin. This can encourage scaling production to naturally reduce overall pricing in the future. In such instances, visibility into financial returns enables investors to quantify the risks and make informed investment decisions[104].

Market incentives can also be used to address capital intensive activities where investors provide upfront funding for development interventions and donors or governments repay them with a premium based on the outcomes of the intervention to help smooth out sometimes unpredictable grant flows when there is an immediate capital need[105].

Some instruments, such as grants or technical assistance, might not be seen as "blended" in themselves. However, there is blending within a transaction and blending over time. While the former refers to blended capital that exists simultaneously within the same transaction structure, the latter refers to capital that is provided with the intention to catalyse other forms

[101] Ibid
[102] Ibid
[103] Ibid
[104] Ibid
[105] Ibid

of capital over time – e.g., grants provided at seed stage to make a social venture investible for private capital at a later stage[106].

Additionally, approaches to enhance the quality of blended finance scheme and used instruments can be noted, in particular first loss capital and hedging.

First loss capital. In impact investing, catalytic first loss capital (CFLC), a term coined by the GIIN, is used for achieving purpose-driven demonstration or leveraging effects. This instrument refers to a socially and environmentally driven credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment in order to catalyse the participation of co-investors that otherwise would not have entered the deal. CFLC can be provided through four possible instruments: equity, wherein the provider takes the most junior equity position; grants, which may be converted into debt or equity; guarantees, to cover a set amount of the losses; and subordinated debt, wherein the provider takes the most junior debt position[107].

The value proposition to providers includes accelerating impact, optimising resources and achieving better terms for investees. CFLC can be a way to demonstrate to other investors the viability of a deal, organisation, or sector for market development. It can also be a longer-term investment to gain leverage for impact. For their part, recipients benefitting from first loss capital can better meet their investment obligations and gain a competitive advantage over other funds or businesses[108].

Hedging. Hedging against foreign exchange and interest risk is often required in development financing transactions in order to attract adequate commercial financing[109]. As the premium attached to hedging instruments is often quite expensive in the development finance context, multilateral organisations and currency exchange funds, capitalised by donor countries, sometimes step in to offer more cost-effective options[110]. The most popular hedging instruments are swaps and forward contracts.

One example of financial innovation in the space of swaps is the rise of debt for nature swaps, where a portion of a country's foreign debt is refinanced at a discount in exchange for local investments in environmental conservation. These swaps are typically structured as follows: First, a developing nation commits to protecting nature or achieving climate-friendly outcomes, for example by investing in climate-resilience infrastructure or protecting biodiverse forest. In support of that commitment, creditor governments and private partners agree to repurchase the debt at a discount, with more favourable interest rates and repayment terms. Investment from the private sector is key here, whereby private investors in addition to governments can participate in repurchasing sovereign debt[111].

The table below summarises a non-exhaustive list of common blended finance instruments and mechanisms, which will be disclosed later in the text.

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[106] Report "Blended Finance: When to use which instrument? Phase 1: Clusters and decision-making factors", Taeun Kwon, Barry Panulo, Stephen McCallum, Kelvin Ivankovik, Zaakir Essa, Initiative for Blended Finance at the University of Zurich, 2022

[107] Habbel, V., E. Jackson, M. Orth, J. Richter and S. Harten (2021), "Evaluating blended finance instruments and mechanisms: Approaches and methods", OECD Development Co-operation Working Papers, No. 101, OECD Publishing, Paris

[108] Ibid

[109] OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264288768-en. Also see CGAP, Development Finance Institutions and Financial Inclusion: From Institution-Building to Market Development, https://www.cgap.org/sites/default/files/Focus-Note-DFIsand-Financial-Inclusion-Mar-2017-rev_0.pdf

[110] Ibid

[111] Four blended finance trends for 2023, Ayesha Bery, Nicholas Zelenczuk, BLOG, https://www.convergence.finance/news/4HzPSM7h7ZTwJMOkvsg713/view

Table 10. A Non-Exhaustive List of Blended Finance Instruments and Mechanisms

Group	Instruments and Mechanisms
Technical assistance	Grants and expertise
Risk underwriting	Guarantees Insurance Debt instruments Equity instruments Public-private partnership mechanism Funds mechanism Facilities mechanism
Market incentives	

Grants and expertise

Grants. A financial or non-financial contribution usually provided by DFIs, philanthropies, or governments with no expected repayment to for example support capacity building, provide strategic or technical support, a grant might be used to cover the upfront costs of a feasibility study, making the project more attractive to private investors. Preparation facilities can improve project financial viability by offsetting high up-front transaction costs, reducing the uncertainty of a project becoming operational[112].

The primary intention of providing a grant or technical assistance is to support the achievements of impact goals.

Grants and technical assistance require less financial knowledge to implement, and many development and philanthropic actors are familiar with these instruments. In many cases, they are used in combination with other instruments to support and ensure that impact goals are achieved[113].

Both instruments play an important role when entering new markets. They are often used for market research and market development prior to and during main investment activities.

By mapping out investment opportunities or developing the pipeline through grants, or by providing operational expertise through technical assistance, these instruments also improve the risk and return profile of transactions. However, It can be difficult to strike a balance between making sure the capital provided is having the intended impact and not encumbering the recipient with too much of a bureaucratic burden. Historically, stand-alone grants and technical assistance have been criticised for their lack of effectiveness. Due to the lack of financial knowledge among providers, they can lead to poor use of resources, which is why their use in combination with different instruments in offers a path to being more catalytic[114]. One interesting example of incremental support for an infrastructure project is the provision of cascade grants, which can be modelled to bridge infrastructure projects financial gaps by

[112] Blended Finance: A Brief Overview, IDFC, 2019
[113] Report "Blended Finance: When to use which instrument? Phase 1: Clusters and decision-making factors", Taeun Kwon, Barry Panulo, Stephen McCallum, Kelvin Ivankovik, Zaakir Essa, Initiative for Blended Finance at the University of Zurich, 2022
[114] Ibid

covering specific project development stages, such as feasibility study and environmental impact assessment.

BOX 1. CASE STUDIES ON GRANTS

Pune Metro Line III (India)

The Pune Metro rail project comprise three corridors spanning 55 km (Line 1 to Line-3). While the first two lines are being implemented with Government funding, Line 3, spanning a length of 23.205 km with 23 stations enroute as a fully elevated corridor, is being developed on a Public-Private Partnership (PPP), adopting the DBFOT mode with Viability Grant Fund (VGF) support from the Authority.

In this project of TPC USD 989.64 Million, a VGF grant of USD 252 million is given by the Government of India and the sub national government of Maharashtra mainly during the construction period. Rest of the funding to be arranged by the concessionaire.

The VGF Grant so provided will enhance the viability of the project, reduce the equity requirement for the private partner and further reduce the cost of Capital involved in the project. The project is under progress and about 4000+ direct employment has generated. In operation phase of the project about 800+ persons will be employed for operation and maintenance of the system.

The project helped to save more than 50 % of travel time taken between two nodes. Timely Land Acquisition, VGF Support, healthy mix of Fare box and Non-fare box revenue are some of the key factors that facilitated successful award of the project.

The Scheme for Financial Support to PPPs in Infrastructure (Viability Gap Funding scheme or VGF) is a Central Sector Scheme of the Government of India. The Scheme provides financial support in the form of grants, one time or deferred, to economically desirable but commercially unviable infrastructure projects undertaken through PPPs with a view to make them commercially viable.

VGF support can be up to 60 % of the Total Project Cost (maximum up to 30 % by the Central and State Governments each) for the social sectors i.e. Water Supply, Waste Water Treatment, Solid Waste Management and Health, Education, and up to 80 % of the Total Project Cost (maximum up to 40 % by the Central and State Governments each) for Pilot/Demonstration Projects in Health and Education sectors. For other sector projects, Viability Gap Funding up to 40 % of the Total Project Cost (maximum up to 20 % by the Central and State Government each) is available.

Lufhereng Mixed Housing Development Project (South Africa)

The Lufhereng Mixed Housing Development Project (the Project) is a ZAR 26 billion (~USD 1.5 billion) human settlement development that has been identified as a priority since its inception in 1996. The project involves the development of 31,000 housing units of a mixed typology on 2,000 hectares (ha) of land owned by the City of Johannesburg (CoJ).

The development is a brownfield project that comprises 10 phases that are being constructed over a 10-year period (2022-2032). The main constraint to the development of the project is the lack of bulk infrastructure, specifically internal, link and bulk services (electrical, water, sanitation and roads infrastructure), water storage reservoirs, top structures and stormwater links, to unlock the further development of top structures by the private sector. The cost of the bulk infrastructure is estimated at ZAR 7.7 billion (~USD 431 million). The project utilises grants and debt instruments. The funding breakdown for the project is as follows:

• CoJ's contribution (through the Human Settlement Development Grant and the Informal Settlements Upgrading Partnership Grant): ZAR 1.2 billion (~USD 70 million);

• Debt: ZAR 3.1 billion (~USD 171 million); and

• Grant funding through the Budget Facility for Infrastructure: ZAR 3.4 billion (~USD 190 million).

Performance-based grants (PBGs). Known variously as outcomes-based funding, pay for performance or results-based financing – have been used increasingly in recent years to mobilise private capital for blended finance and impact investing in support of the SDGs. Grants can be critically important for the development of a project pipeline, especially in less mature sectors and riskier geographies, creating significant crowding in of private capital. In using PBGs, "a funder makes payments conditional on achievement of pre-agreed outcomes. The full payment is only received if the agreed-upon outcomes – i.e. measurable and independently verifiable social or environmental impacts – are achieved". PBGs can be used for project preparation to bring a project to bankability. This can increase, directly or indirectly, the return realised by other funders[115].

PBGs can be used as matching or first loss capital to attract additional investors, for more extensive due diligence on prospective investees, or to provide business advice and training to enhance the success of investees. By providing these grants, funders seek to catalyse leverage, additionality, business growth, job creation and targeted developmental outcomes such as reduced waste, increased renewable energy or expanded gender equality. In this sense, the partner investment funds using the grants can serve as tools not only for accelerating and scaling capital placement, but also for multiplying taxpayer-funded contributions enabling financial and policy gains[116].

Impact bonds. Impact bonds are outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority (or outcome payer) and the investor is repaid only if these outcomes are achieved. Impact bonds encompass both social impact bonds and development impact bonds[117]. There are nearly 300 impact bonds worldwide, which attracted about USD 0.8 billion of investments[118] since the launch in 2010.

Development impact bonds. One form of outcome-based financing that has gained prominence over the past years is the development impact bond (DIB).

"DIBs are results-based contracts in which one or more private investors provide working capital for social programs, implemented by service providers (e.g. NGOs), and one or more outcome funders (e.g. public sector agencies, donors, etc.) pays back the investors their principal plus a return if, and only if, these programmes succeed in delivering results". Outcome

[115] Habbel, V., E. Jackson, M. Orth, J. Richter and S. Harten (2021), "Evaluating blended finance instruments and mechanisms: Approaches and methods", OECD Development Co-operation Working Papers, No. 101, OECD Publishing, Paris
[116] Ibid
[117] A glossary of key terms and working definitions around impact bonds and outcomes-based contracting, The Government Outcomes Lab, Blavatnik School of Government, University of Oxford (https://golab.bsg.ox.ac.uk/knowledge-bank/glossary/)
[118] According to Impact Bond Dataset, The Government Outcomes Lab, Blavatnik School of Government, University of Oxford, (https://golab.bsg.ox.ac.uk/knowledge-bank/indigo/impact-bond-dataset-v2/, date of application: 08/15/2024)

targets are agreed upon by the parties and measured by an independent third party. Outcome funders, or "payers," are usually donor agencies or philanthropic foundations[119].

Social impact bonds. A type of outcome based contract that incorporates the use of private funding from social investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority and the investor is repaid only if these outcomes are achieved. There is no singular, standard definition of what constitutes a social impact bond. In practice, social impact bond approaches vary across a number of aspects, including: the nature and amount of payment on outcomes; the nature of capital used to fund services; strength of performance management; and social intent of service provider(s). As more projects are being developed across the world, the model is likely to continue to evolve and be adapted to specific local circumstances[120].

BOX 2. CASE STUDY ON PERFORMANCE-BASED GRANTS

Accompanied Residence for People with Mental Impairments in Chelyabinsk Oblast (Russian region)

Social Impact Projects (SIPs) are the Russian analogue of Social Impact Bonds (SIBs), a pay-for-success impact financing instrument whose key feature is that payments are made from the regional budgets only if a social impact defined in the project passport is achieved. SIP means that the project activities are 100 % financed by the project investor ("organiser"). The organiser implements the project independently or engages a professional service provider ("implementer").

One of the key elements within the framework of SIP implementation in Russia is the participation of the National Development Bank – State Development Corporation VEB.RF as a technical assistance intermediary ("operator"). As an "operator" VEB.RF provides advisory support to subnational governments, including development of regulatory documents, monitors project implementation, and ensures independent evaluation of the achievement of social impacts. The advisory support and monitoring of project implementation is free of charge for the region, the region reimburses only the costs incurred by "operator" for engaging an organisation to conduct an independent evaluation.

The structure of a blended finance transaction under the SIP is as follows:

- the engagement of organiser and operator by the region based on a grant agreements;
- the organiser hires the "implementer" based on a civil law contract;
- the "operator" engages the organisation to conduct an independent evaluation of the achievement of a social effect based on the civil contract on the results of a competitive procurement procedure.

In early 2021, the Ministry of Social Relations of the Chelyabinsk Oblast approached VEB.RF with the idea of implementing a SIP aimed at improving the quality of life of people with mental impairments by creating a system of supported housing. At that

[119] Habbel, V., E. Jackson, M. Orth, J. Richter and S. Harten (2021), "Evaluating blended finance instruments and mechanisms: Approaches and methods", OECD Development Co-operation Working Papers, No. 101, OECD Publishing, Paris
[120] A glossary of key terms and working definitions around impact bonds and outcomes-based contracting, The Government Outcomes Lab, Blavatnik School of Government, University of Oxford (https://golab.bsg.ox.ac.uk/knowledge-bank/glossary/)

time, more than 3.5 thousand people with mental impairments were living in public psycho-neurological boarding houses (PNBH) in the Chelyabinsk Oblast, and across the country - more than 156 thousand people. The region spends a considerable amount of budget funds on the care of people with mental impairments in public PNBHs.

A certain part of them has potential for accompanied residence at home and, with some support from public social services and civil society development institutions, will be able to live in a society outside a public PNBH. Accompanied residence not only improves the quality of life of people with mental impairments, but also reduces the cost of providing public services in the long term.

The SIP was chosen for its ability to implement an innovative solution without the need to divert budget funds during implementation; to flexibly adapt private sector practices to government tasks; and to involve experts, investors, VEB.RF and regional authorities in intergovernmental interaction to achieve social impact.

The planned social impact of the project was to provide accommodation for people with mental impairments in small groups in separate residential premises (at home) and/or with individual support at home without the need for maintenance in public PNBHs. The indicated social effect was planned to be achieved by:

• socialisation of people with mental impairments, teaching them the skills of independent living and their adaptation to the conditions of accompanied residence;

• acquiring work experience (social and labour rehabilitation), including in workshops specially created as part of the project, with a view to promoting employment.

16 people with mental impairments previously living in public PNBHs (group 1) and 8 people with mental impairments living at home and recognised as needing public PNBH (group 2) were selected to participate in the project.

The project implementer rented apartments for the accommodation of the project participants, created a special workshop, purchased the equipment, hired social workers, psychologists, and industrial training masters. In addition to training in social, household and professional skills, implementer assisted project participants to find paid work and get their own housing.

According to the results of the project, all participants adapted to independent living with periodic support in the form of providing social services in their place of residence (at home) and received at least 400 hours of work experience (social and labor rehabilitation) each. 94 % of the participants (23 out of 24) confirmed positive changes in their condition and/or living conditions as a result of the project implementation. In addition, almost all group 1 participants were employed, received salaries and continued to live in their own or rented apartments with periodic support from social workers after the completion of the project.

The independent evaluator noted that, in addition to the social effect, the project has a long term budgetary efficiency:

• The transition to independent living with periodic home support more than 10 times reduces the cost of providing social services compared to the stationary form;

• The employment of participants brings additional tax revenues to the regional budget;

• Reducing the need to finance the creation and modernisation of stationary social service organisations' facilities.

Upon completion of the project and confirmation of the achievement of a social impact after independent evaluation, the region paid a grant to the organiser- 30.9 million RUB / 340.7 thousand USD.

The success and high impact of the project has enabled further implementation of the accompanied residence system in the region.

Guarantees and insurance

Guarantees. Another widely applied instrument in blended-finance practice, the development guarantee, involves a guarantor agreeing to "pay part of or the entire value of a loan, equity, or other instrument in the event of non-payment or loss of value". In addressing credit, technical or political risk, the resources underlying guarantees are only disbursed when the intermediary or borrower suffers losses. Through careful front-end design and due diligence, and sometimes syndication, creditor default rates and actual losses to issuers have tended to be manageable, even minimal, while development results have been perceived as significant. By reducing risk, the instrument can attract more risk-averse investors. Guarantees can also be an attractive blended finance instrument because they optimise the use of public funds, as these funds are only disbursed in the case of actual losses. Guarantees do not involve cross-border flows unless the underlying investment fails and the guarantee is called upon. Hence, uncalled guarantees are not considered as an outflow of funds and cannot be counted as ODA by public sector funders. If a guarantee is invoked, existing processes will specify that these payments are counted as ODA on a cash flow basis[121].

Although guarantees can be highly effective, they are not the solution to every financing problem and may be used with the right governance and diligence. Guarantees cannot resolve underlying real-economy drivers of project costs and revenues to make projects commercially viable. Nor do they fundamentally address weak legal and political environments or internal (human capital) business challenges. Project development and capacity-building funding are therefore needed in combination with guarantees. In addition, purchasing a guarantee comes at a cost to investors, which may reduce their margins relative to other investment opportunities. Finally, guarantees can create moral hazard. For example, when a bank has a loan portfolio guaranteed, it may exert less effort in screening and monitoring borrowers[122].

A first-loss guarantee is type of guarantee in which the guarantee provider agrees to bear losses incurred up to an agreed percentage in the event of default by the borrower. The purpose of a first-loss guarantee is to reduce risk and attract lenders and investors who may be hesitant to participate in a deal because of concerns about the level of risk involved. By offering to cover the first losses, the guarantee provider reduces the risk and increases the confidence of potential lenders and investors[123].

Pooled first-loss guarantee. A pooled first-loss guarantee is a type of guarantee in which multiple lenders or investors pool their resources to collectively bear the first losses incurred in a portfolio of loans or investments. In a pooled first-loss guarantee, each lender or investor contributes a portion of their investment to a common pool.

[121] Ibid
[122] Consultation paper "Better Guarantees, Better Finance. Mobilising capital for climate through fit-for-purpose guarantees", Blended Finance Taskforce, 2023
[123] A Focused Assessment of the International Development Association's Private Sector Window. An Update to the Independent Evaluation Group's 2021 Early-Stage Assessment, World Bank, 2024 (https://ieg.worldbankgroup.org/evaluations/ida-psw/glossary-0)

This pool is then used to cover any initial losses that may occur in the portfolio. The guarantee providers agree to bear the first losses up to a predetermined amount. This reduces the risk exposure for individual lenders or investors and increases their confidence in participating in the portfolio.

In the case of the Private Sector Window, a pooled first-loss guarantee is used to cover a portfolio of International Finance Corporation transactions, usually loans, made to a variety of different clients in different countries, with different risk ratings. The guarantee covers the first losses, up to an agreed percentage, on the agreed pooled portfolio[124].

A partial credit guarantee covers payment risks, specifically a portion of scheduled repayments of private sector loans or bonds against the risk of default. The partial credit guarantee can be utilised to support mobilisation of private funds for project finance, financial intermediation and policy-based finance. Partial credit guarantees can cover any debt instrument including commercial debt from an individual lender or a syndicate of lenders, bond issues, and debt derivatives such as cross currency swaps. Instruments, which do not trigger a default in case of non-payment, are not directly eligible such as equity participations and equity-linked derivatives[125].

Insurance. Insurance as an instrument covers the performance risk of one party to another that exists in the development, funding, construction, operation, and decommissioning phases of an investment[126] and "can reduce specific types of risk in transactions by transferring the risk of loss to the provider for a predefined premium". Insurance is used extensively in infrastructure projects and for mitigating climate risk.

Comparing guarantees and insurances, the latter is more flexible than the former. The elements covered by insurance can be defined as required. Insurance can cover a wide range of risks, including health, life, natural hazards, project risks or credit default[127]. Insurance provides alternative solutions for bank letters of credit and can be very competitively priced. Deferred equity surety solutions are important instruments in the growing private power purchase agreement space, which require financial commitment and performance guarantees[128].

Non-payment insurance allows lenders to transfer the default risk associated with project finance loan obligations to well-rated insurers. Lenders can use non-payment insurance coverage to leverage their participation while operating within their internal prudential credit limits.

Seen as an effective way to facilitate a greater amount of private capital into developing markets, as it covers loan obligations to multilateral borrowers under repack lending structures. Covers counterparty risk under private power purchase agreements and gas supply agreements that can help investors have more confidence in the underlying non-payment risk of a project and be able to access greater capital[129].

Political Risk Insurance. Helps mitigate the risk of significant losses stemming from government actions or inactions. Political risk insurance can be a key tool for lenders and investors in managing the underlying political risks associated with the project to safeguard the loan and/or investment. Can help meet the growing demands of investors looking to deploy capital in jurisdictions that are considered risky by combining private, multilateral, and public sources of political risk capacity. Can drive asset valuations allowing investors to derive greater value from the sale of assets supported by political risk insurance[130]. Private political risk

[124] Ibid
[125] AfDB, Guarantees, https://www.afdb.org/en/projects-and-operations/financial-products/african-development-bank/guarantees [accessed on 6 August 2024]
[126] How insurance can help mobilize blended finance for projects in Africa, Marsh, 13.08.2023 (https://www.marsh.com/en-gb/industries/energy-and-power/insights/insurance-help-mobilize-blended-finance-in-africa.html)
[127] Ibid
[128] How insurance can help mobilize blended finance for projects in Africa, Marsh, 13.08.2023
[129] Ibid
[130] Ibid

insurance providers, which are profit-oriented, offer coverage for developing and developed countries and for varying tenors. Most public providers are national ECAs, which may cover both export credit/trade transactions, as well as longer-term investments. ECAs usually support investors and lenders from their home country going into developing countries, and may also have mandates to support development and be self-sustaining. Finally, several multilateral agencies, such as MIGA, also provide political risk insurance. These providers often have special programs for small and medium investors, companies, and banks from developing countries. Coverages, pricing, tenor, and eligibility vary widely by political risk insurance provider, host country (destination of the investment), and sector or type of investment[131].

Debt instruments

Private debt instruments are the most frequently used instruments in development finance and impact investing. DFIs and certain investment funds make loans to businesses, directly or indirectly through financial institutions, obliging the borrower to repay the principal plus agreed upon interest, at either a fixed or variable rate.

A loan may be secured by property or other assets, cash, inventory, or receivables. Similarly, a line of credit, which is a flexible loan with an upper limit, enables the borrower to draw on it as needed and repay on flexible terms. A third debt instrument commonly used in blended finance is the bond, a fixed income instrument issued by governments, public utilities, banks or companies to raise capital for growth and development. Investors that buy bonds become debtholders or creditors of the issuer and are paid an agreed-upon interest rate over the term of the bond. Some bond products are also designed to achieve ESG objectives, such as green bonds, which may be purchased privately or on public securities markets. To spread their risk, some investors hold multiple bonds with different maturities, a practice called "laddering"[132].

DFIs, banks and other lenders often prefer to use loans, lines of credit or bonds in structuring blended finance deals as these instruments are relatively straightforward to design, negotiate and enforce legally and administratively in most jurisdictions. While their financial returns are typically modest, they also are usually well secured and thus offer a manageable level of risk to investors. Moreover, for investor portfolios, which are likely to include equity, guarantees and other products, debt instruments can provide a solid option for investment diversification[133].

The provision of debt instruments is very popular among investors, which has resulted in a highly competitive market for solvent customers. Loan products are often subsidised through the provision of technical assistance and margins for investors continuously decrease. The loan volumes and conditions provided by the market address the needs of larger customers but are less attractive for smaller firms. The provision of small ticket sizes or favourable[134].

Syndicated loans. Syndicated loans are defined as loans provided by a group of lenders (called a syndicate) who work together to provide funds for a single borrower. The main objective is to diversify the risk of a borrower default across multiple lenders and thereby encourage private participation. The lenders can provide the loan as a fixed amount of funds, a credit line, or a combination of both. The syndicate typically consists of two groups of lenders, i.e. the lead arrangers of a loan and junior participants. Lead arrangers establish the relationship with the borrower, negotiate the terms of the contract and set the price of the loan.

The arrangers typically retain a portion of the loan and sell participations in the remaining portion of the loan to junior participants. The number of junior participants may vary according to the size, complexity and pricing of the loan. In development finance, loan syndications typically come in two different forms, involving different actors and different types of loan

[131] About Political Risk Insurance, MIGA, https://www.miga.org/political-risk-insurance [accessed on 6 August 2024]
[132] Habbel, V., E. Jackson, M. Orth, J. Richter and S. Harten (2021), "Evaluating blended finance instruments and mechanisms: Approaches and methods", OECD Development Co-operation Working Papers, No. 101, OECD Publishing, Paris
[133] Ibid
[134] Ibid

agreements. Firstly, the A/B loan structure which typically involves multilateral development banks (MDBs) as lead arrangers (A loan), who sell the remaining portion to commercial banks (B loan). In this case, the borrower only signs a contract with the lead arranger. The second model is where lead arrangers may seek to syndicate parallel loans from other multilateral development banks or sovereign entities. In this model, the lead arranger negotiates with the borrower in co-ordination with all parallel lenders. Every syndicate member then has a separate claim on the debtor, although there is just one single loan agreement[135].

Syndicated loans aim at a more efficient sharing of risk, both in geographical as well as in institutional terms. In development finance, multilateral development banks often act as lead arrangers, aiming at encouraging private participation in the loan. The implicit assumption is that private investors would not participate without the involvement of a MDB or other sovereign entities. Private investors are assumed to benefit from a range of de-risking measures, better monitoring systems and the preferred creditor status of MDBs.

Lenders and borrowers are further expected to make savings in cost and time through this streamlined approach. Borrowers are not required to meet all the lenders in the syndicate to negotiate the loan agreement. Rather, the borrower only needs to negotiate the terms of the loan with the lead arranger. The arranger then mobilises other lenders, discusses the loan terms with them and determines how much each lender will contribute to the loan. In this regard, lenders may ensure that the loan portions will not be subject to double counting when measuring the ODA elements of the loan[136].

Loan syndications typically allow borrowers to attain large amounts of funds to finance capital-intensive projects, which a single lender would not be able to provide. The syndicate can structure the loan in a series of tranches, offering different types of interest, such as fixed or floating interest rates, or offer the various loan tranches in different currencies. This can be useful as it can provide greater flexibility for the borrower or reduce the borrower's risk of currency fluctuations[137].

Senior debt is a financing arrangement provided by commercial banks, DFIs or institutional investors, representing the highest claim on the borrower with the lowest downside risk to the lender. As part of the terms of such a financing arrangement, the borrower normally must pledge its assets as collateral, i.e. senior debt is a secured form of financing. The protection provided by the collateral reduces the risk and potential losses incurred by the lender substantially, making senior debt facility terms more favourable to the borrower. Senior debt represents the most prevalent form of debt raised by corporates seeking to fund their operations and reinvestments, namely capital expenditures (Capex)[138].

Senior debt is typically priced at the lowest interest rate compared to riskier types of debt instruments, i.e. unsecured debt capital. Since the financing is secured by the borrower's assets, the collateral can be seized by the lender in the case of default (i.e. due to a missed interest payment or if the borrower cannot repay principal) or a covenant breach. Moreover, the interest expense owed on senior debt is most often priced at a floating rate against a specified benchmark rate such as SOFR (formerly LIBOR), as opposed to a fixed rate. As such, senior debt is perceived as the cheapest source of financing because of the secured nature of the financing, i.e. senior debt carries the lowest cost of debt relative to "riskier" tranches of debt[139].

One distinct feature of senior debt is that it is raised in a private transaction between the borrower and lender(s). In contrast, debt securities like corporate bonds are issued to institutional investors in public transactions and those corporate bonds can be traded freely on

[135] Ibid
[136] Ibid
[137] Ibid
[138] Senior Debt, Step-by-Step Guide to Understanding Senior Debt in Corporate Financing, Wall Street Prep, https://www.wallstreetprep.com/knowledge/senior-debt/ [accessed on 6 August 2024]
[139] Ibid

the secondary bond market. The confidential aspect of senior financings can be favourable to borrowers that want to limit the amount of information disclosed to the public[140].

There different types of senior debt, such as Revolving Credit Facility (Revolver), Term Loan A or Term Loan B.

Subordinated debt represents the debt tranches lower in priority compared to the 1st lien, senior secured debt instruments[141]. Typically consist of financing capital provided by traditional banks, a syndicate of banks, or a group of institutional lenders. The term "subordinated debt", often used interchangeably with junior debt, is used to categorise debt securities with lower priority relative to the senior debt tranches. In the event of default, subordinated debt claims are paid out once senior debt holders have first been repaid in full, i.e. all debt obligations per the loan agreement have been satisfied. Unlike senior debt, subordinated debt is rarely secured, meaning that the lending agreement did not require the borrower to pledge collateral as part of the financing agreement. In the event of default, senior debt lenders are in a far more favourable position given their typical liens on the borrower's asset base[142].

Given the higher risk tied to subordinated debt, the pricing – i.e. the interest rate – is set at a higher level than that of senior debt to compensate the subordinate lender for the additional risk. Subordinated debt securities such as high-yield bonds are usually priced at a fixed interest rate. The pricing is structured as fixed to ensure the lender receives an expected yield irrespective of the prevailing economic conditions, whereas the floating interest rate would fluctuate based on an underlying rate benchmark (e.g. SOFR). Subordinated debt lenders are more likely to charge fees for borrowers that repay debt ahead of schedule, in an effort to mitigate the loss in return for the lower interest expense (or the lender might prohibit early repayment for a set number of years or the entire borrowing term)[143].

There different types of subordinated debt, such as 2nd Lien Subordinated Notes, High Yield Bonds, Paid-in-Kind Notes, Convertible Debt, Mezzanine Financing, i.e. Hybrid Securities.

Subordinated debt instruments sit right in between senior debt and equity in the overall capital stack. Compared to equity holders – both preferred stock and common shareholders – subordinated debt is less risky and higher in terms of priority. However, they do not have the same type of unlimited upside as equity[144]

BOX 3. CASE STUDIES ON DEBT INSTRUMENTS

Route 2020 Dubai Metro Extension Project (the UAE)

The UAE's Route 2020 Dubai Metro Extension Project used blended finance mechanisms to extend the metro by 15 kilometers, adding 7 stations and upgrading the existing network. The project involves the design, construction, installation, testing, commissioning, system maintenance, and supply of additional rolling stock. The project assumes a fully public investment of AED 10.6 billion (2.89 billion USD) based on loan agreements. Financing was structured with Export Credit Agencies - backed Club Loans from BPI France and Spanish Export Credit Agency (CESCE), alongside Commercial Club Loans, with advance payments made using cash contributions from the allocated budget.

[140] Ibid
[141] Subordinated Debt, Step-by-Step Guide to Understanding Subordinated Debt (Sub Notes), Wall Street Prep, https://www.wallstreetprep.com/knowledge/subordinated-debt/ [accessed on 6 August 2024]
[142] Ibid
[143] Ibid
[144] Ibid

Guangdong Yuedian Yangjiang Shapa Offshore Wind Power Project funded by the New Development Bank (China)

The Project contributes to the development of the offshore wind power industry in Guangdong Province, optimisation of the energy structure and response to climate change through the construction of an offshore wind farm with an installed capacity of 300,000 kW in Yangjiang City, Guangdong Province.

The Project Loan Agreement was signed on December 3, 2019 and became effective on January 13, 2020. The total investment of the project is set at RMB 5.963 billion (USD 856 million), with capital set at 20 % of the total investment and the rest settled through financing.

Currently, 20 % of the project construction capital is injected by shareholders, and the remaining 80 % of debt financing consists of the 1) NDB loan of RMB 2 billion (USD 287 million), with a loan rollover period of 22 years, 2) project syndicated loan of RMB 2.5 billion (USD 359 million, including the policy bank Export-Import Bank of China, commercial banks including Agriculture Bank of China, Industrial and Commercial Bank of China, Bank of China and China Construction Bank, and finance companies), with a term of 20 years 3) finance lease loan of RMB 524 million (USD 75 million) by Guangdong Energy Finance Leasing Co Ltd, with a term of 18 years, the contract was signed in April 2019.

The project utilises variety of debt instruments, including sovereign loans from MDBs, special funds for promoting economic development in Guangdong Province, fixed asset loans from policy and commercial banks, financial leasing.

Lower Sesan 2 Hydro Power Project (China)

The project, located on the Sesan River in Stung Treng Province, Cambodia, with an installed capacity of 400 MW, is currently the largest hydropower project in Cambodia. It operates on a Build-Operate-Transfer (BOT) model and is co-invested by China Huaneng (holding 51 % of shares), Cambodia's Royal Group (39 %), and EVN International Joint Stock Company (10 %). Construction began in January 2014, and the project was officially commissioned for commercial operation in December 2018.

The project's financing structure is composed of three key elements: USD 250 million in finance lease, USD 547 million syndicated loans from commercial banks and USD 10 million in shareholder loans.

Given the unique characteristics of a hydropower project and the extended negotiation period for overseas financing, the project pioneered the use of a cross-border direct financing lease, securing USD 250 million to fund the project's construction needs. This innovative approach successfully addressed the capital requirements during construction.

China Development Bank, as the lead arranger, coordinated a USD 700 million syndicated loan (USD 547 million ultimately disbursed), with Bank of China, Export-Import Bank of China, and Pudong Development Bank's Kunming Branch participating.

In June 2016, an additional USD 10 million was loaned from the shareholder, International Energy Company, to meet further construction funding needs.

Cox’s Bazar Wind Power Project in Bangladesh (China)

The project, located in Cox’s Bazar City, Chattogram Division, Bangladesh, is the first large-scale centralised wind power project in Bangladesh. The 66MW Wind Power Project installed 22x3MW wind turbine generating systems, a 132kV step-up substation and a 10km 132kV double-circuit transmission line. With construction starting in September 2021, the project was put into operation in 2023.

The project is invested by China-based Wuling Power Corporation Ltd. (WPCL), a subsidiary of State Power Investment Corporation Ltd. In terms of project financing, the proportion of project financing is 70 % of the total investment, and the transition from short-term loans of domestic financing institutions of not more than 3 years to long-term project loans, the short-term loans have been put in place to ensure that the project construction funds, and the long-term project loans are proposed to be selected from the Export-Import Bank of China's concessional low-interest RMB loans.

The project has the following capital structure: public capital – 27 %, private funding – 3 % by private sector in Bangladesh, 70 % bridge loan from other SOEs. The bridge loan is planned to be transitioned to the Export-Import Bank of China’s policy low-interest RMB long-term loan.

This project utilises following debt instruments: long-term loans and bridge loans.

Hebei Clean Heating Project funded by the World Bank (China)

The project, located in Xingtai City, Chengde City, Zhangjiakou City, and Pingshan County in Hebei Province, was designed to enhance air quality and boost energy efficiency in the Beijing-Tianjin-Hebei region. Implemented from 2016 to 2021, the project's main construction components included the new construction and renovation of 330 conventional heat exchange stations and 116 building heat exchange stations, the construction of 198 kilometers of heating pipelines, the dismantling of 103 small distributed coal-fired boilers, and the establishment of new centralised heat exchange stations. The heating area covers 18 million square meters, with 8 million square meters utilising industrial waste heat as the heat source.

Adopting a blended finance approach, the project's total investment amounted to RMB 1.26 billion (USD 181 million), comprising a World Bank loan and domestic matching funds. The capital structure was as follows:

1) Central and local financial subsidies: RMB 86.46 million (USD 12 million).

2) State-owned enterprises' contribution: RMB 161.34 million (USD 23 million).

3) Private sector contribution: RMB 190.76 million (USD 27 million).

4) Commercial bank loan: RMB 200 million (USD 28 million).

5) World Bank loan: RMB 624.43 million (USD 90 million).

Equity instruments

Equity describes an investor's share in the ownership of a corporation that gives the owner claims on the residual value of the corporation after creditors’ claims have been met. Companies sell two main types of shares to investors: common shares, which carry voting rights, and preferred shares, which do not. However, the owners of preferred shares are paid dividends on company income before common shareholders.

If the business fails, preferred shareholders are paid after creditors and bondholders but before the owners of common shares. Investors can also build equity indirectly by buying the shares of financial institutions or purchasing the units of investment funds; these entities, in turn, lend or buy shares in their portfolio companies, often small and medium-sized enterprises (SMEs). In the case of blended finance deals, public or philanthropic institutions make direct or indirect equity investments to help reduce risk and stabilise returns for commercial investors with the aim of crowding in additional private capital[145].

Equity investments provide long-term growth capital that private enterprises in developing and emerging markets often lack. Equity financing is risk-absorbing, so it allows companies to pursue riskier, higher-growth strategies. Moreover, equity financing provides investors the opportunity to influence the investee firm and its decisions from inside. In this sense, equity instruments deployed directly in companies, or indirectly in financial institutions or investment funds, can be efficient tools for raising and blending capital and achieving high additionality[146].

While equity financing is a promising instrument with a distinct value proposition, it is still a rather new instrument in development finance. Equity instruments entail high financial and reputational risks for the funder. Moreover, it requires enhanced assessment and governance to manage the portfolio and to determine the right time and conditions for an exit. Against this background, most investors (e.g. pension funds) are limited when it comes to providing equity financing[147].

Public-Private Partnership mechanism

PPPs combine a range of blending instruments and constitute a mechanism to crowd in commercial finance. A public-private partnership is defined as a co-operation between a government and private partners in which the latter provide public services for a financial return. PPPs thus are collaborations between public and private entities in which risks, returns and financing are negotiated among the partners. As such, PPPs are an institutionalised form of blended finance[148]. They also constitute an SDG in themselves – SDG 17 (Partnerships to achieve the Goal)[149]. Although there are varying definitions of PPPs, perhaps the simplest way to describe them is as '…any contractual arrangement between a public entity, or authority, and a private entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility'[150]. Some practitioners define blended finance as an impact driven extension of PPPs[151]. Indeed, blended finance and PPP are two ways through which private influence and responsibility increase in areas generally seen as public. As such, the concepts are sometimes confused[152].

In simple words, blended finance has to do with how an investment is financed, and therefore the inherent profitability of an investment. PPP on the other hand, has to do with how and by whom an investment is implemented. The alternative to blended finance is either public or private finance. The alternative to PPP, on the other hand, is public procurement. In practice, an investment could involve either PPP, blending or both at the same time[153].

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[145] Ibid
[146] Ibid
[147] Ibid
[148] OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264288768-en
[149] United Nations, Transforming Our World: The 2030 Agenda for Sustainable Development, https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf
[150] World Bank Group: Public Private Partnerships, The Economic Impact of Public-Private Partnerships in the Infrastructure Sector: Literature Overview, https://library.pppknowledgelab.org/documents/2384/download
[151] Blended Finance 2.0. Giving voice to the Private Sector Insights from a BlueOrchard survey on Private Investors, October 2018, BlueOrchard
[152] Amonya, Fred. (2024). Blended Finance: A Darting Quest for Fullness. http://dx.doi.org/10.13140/RG.2.2.21891.92969.
[153] Ibid

The services that the private actor deliver through a PPP is eventually paid by either public authorities, or by users through user fees that are regulated by the public authorities. The "P" for "private" is often assumed to be big (and often foreign) companies. However, there are many different forms of PPP, and the private entity can be e.g. small and medium enterprises, (although challenging) and faith-based organisations[154].

The main advantages of PPP are that governments may not have to pay upfront investment costs (depending on the specific arrangement), and that they get access to know-how in managing the project/investment. The disadvantage is that PPP are often much more expensive in the long run, since governments generally pay lower interest on loans than private companies. In addition, the fact that the public authority has less control of the project can turn out to be problematic, as is the fact that the public sector often does not have the necessary capacity to negotiate, implement and monitor a project in the public interest[155].

One of the main motivations for structuring a project as a PPP has been said to 'achieve efficiency gain in the provision of infrastructure assets and services'[156]. For example, a PPP in the water sector of a developing country can achieve an increase in the number of people connected to improved water services, as well as increase overall water supply quality and reliability[157].

BOX 4. CASE STUDIES ON PPP MECHANISM

Isfahan-Ahvaz Two-Track and Electric Railway Project (Iran)

The project implemented under BOT scheme is one of the important priority projects of the country in the transportation sector, which requires large amount of financial resources. In addition to direct benefits, this project will significantly increase rail transportation, import, export, and transit loads, and will save fuel, reduce emissions, and save time, etc.

The pattern of project financing with foreign finance and public and private participation is as follows:

Public sector

- financial support of the Ministry of Industry, Mine and Trade and subsidiaries up to 25 %,
- financial support of car insurance companies up to 10 %,
- annual plan budget and Note 19 of credits up to 5 %,
- foreign investor up to 20 %,
- domestic finance up to 20 %,
- barter exchanging of petroleum materials or government lands up to 10 %.

Private sector:

- Contractors' investment up to 20 %,
- National Development Fund facility up to 20 %,
- stock market for project fund up to 20 %.

The project implements blended finance through PPP mechanism and attracts financing from variety of sources, in particular financial support of the Ministry of Industry, Mine and Trade and subsidiaries, financial support of car insurance companies, annual plan budget, foreign investment, domestic finance, barter

[154] Ibid
[155] Ibid
[156] OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris
[157] Ibid

exchanging of petroleum materials or government lands, contractors' investment, National Development Fund facilities, stock market for project fund facilities.

Programme (Federal Project) to Create a Network of Modern Campuses (Russia)

The programme to create a network of world-class university campuses is being implemented as part of the national project "Science and Universities" under the Decree of the President of the Russian Federation dated 07.05.2018 No. 204, which provides for the creation of at least 40 modern university campuses in different regions of Russia by 2036.

The programme envisages the creation of about 4 million square metres of educational, research and scientific production, sports and cultural facilities, including up to 100 thousand new places for students and teachers.

Blended financing is used in projects implemented through one of the forms of public-private partnership - concession (concession agreement). A concession agreement involves a private partner in the creation and effective management of public property. The peculiarity of a concession is that the ownership of the object of the agreement remains with the public party.

Campus projects involve the implementation of projects at the regional level with co-financing from the federal budget, i.e. the responsibility for project implementation lies with the government of the constituent entity of the Russian Federation and the infrastructure object created and managed by the private partner is owned by the region.

The creation of campuses will create conditions for the development of human capital, contribute to the growth of the attractiveness of domestic science and education, and attract talented young people. In addition, the development of educational infrastructure will contribute to the improvement of the urban environment, the growth of investment and entrepreneurial activity, and the launch of new commercial projects in the project cities. Return on investment and investor profitability are ensured at the stage of facility operation mainly through commercial revenues (student accommodation fees, income from renting out space, income from providing additional paid services).

This project has the following complex capital structure: public capital – 48 %, including 40 % of the federal budget and 8 % of regional budgets, private capital – 52 % are off-budget funds, including shareholder loans (6 %), bank loans (39 %) and VAT refunds (7 %).

The project implements blended finance through PPP mechanism and attracts financing from variety of sources, in particular subsidies of the constituent entities of the Russian Federation, shareholder loans, loans from state and commercial banks, other interbudgetary transfers from the federal budget to the budgets of the constituent entities of the Russian Federation for the purpose of co-financing the expenditure obligations of the constituent entities of the Russian Federation.

Zayed City Schools PPP Project (the UAE)

The project will deliver K-12 schools to Zayed City in Abu Dhabi, with a total capacity of 5,360 students. The schools will include the following: a Kindergarten and cycle 1 school (2,000 students), cycle 2 and cycle 3 school for boys (1,680 students), cycle 2 and cycle 3 school for girls (1,680 students). The concession period for the project spans 22 years, comprising a 2 year construction phase followed by a 20 year operational phase. Educational services will be provided by Charter School Operators, while the project company will manage both hard and soft Facilities Management services. The legal framework for this project is primarily governed by Law No. 2 of 2019, which was enacted to encourage long-term private sector participation in major infrastructure projects within the Emirate of Abu Dhabi. This law provides the regulatory framework, procedures, and guidelines for executing PPP projects, ensuring transparency, accountability, and legal certainty for all parties involved. The project financial structure relies heavily on loans that are prioritised for repayment, supplemented by equity investment from the project stakeholders.

The project was fully financed through a combination of senior debt and equity contributions by the private sector partner. This blending method, which combines senior debt and equity from private sources with performance-based availability payments from the public sector, optimises financial sustainability and risk distribution, ensuring the project's long-term viability and alignment with public service goals. The financial instruments used in the project comprises of 80 % senior debt and 20 % equity.

On the non-financial side, the project included a comprehensive capacity-building initiative with the Abu Dhabi Department of Education (ADEK) and an international technical advisor. This initiative was designed to ensure that the project’s design, implementation, and management meets the highest standards. In addition, extensive efforts were undertaken to enhance market understanding and acceptance of PPPs through targeted campaigns that increased the visibility of both the ADIO program and the Zayed City Schools PPP Project.

Vadodara Mumbai Expressway Package I (India)

The construction of about 379 km long Vadodara-Mumbai Expressway is implemented under Public Private Partnership mode. The project is a part of Delhi Mumbai Expressway, 1,380 km, eight lane greenfield expressway. The project of total road length of 379 km is divided into 18 packages. The example provided here is for package-1 of the Vadodara Mumbai expressway. Package 1 (24 km) – Km 355.000 to Km 378.740.

In the project, 40 % the Bid Project Cost is given as construction support from the Authority and 60 % of the Bid Project Cost is invested by the private player. Out of the Total Project Cost of around USD 243 million, USD 97.28 million is provided by the public as construction support and USD 146 million is invested by the private partner. Construction payment support of 40 % during construction and remaining 60 % shall be paid to the private player as Semi-annual annuity payments on completion of the project along with interest rate.

The O&M expenses shall be borne by the concessionaire. However, for the performance of maintenance obligations, a lump-sum financial support in the form of biannual payments shall be paid by the Authority. Any O&M expenses in excess of O&M payments shall be borne solely.

Road sector is a volatile sector with traffic and revenue uncertainty. By providing construction support in HAM projects, construction, revenue, traffic and finance risks can be mitigated.

The project has resulted in reducing travel time by 3 hours, reducing logistics cost by 8-9 % and generating employment.

The project is implemented under Model Concession Agreement - Hybrid Annuity Model (HAM). HAM is a variation of the DBOT-Annuity model, incorporating a milestone-based payment mechanism during construction as found in EPC contracts, although this payment covers only the partial cost of construction. HAM – which may be viewed as a blend of the EPC and DBOT-Annuity models - rebalances the financial risks between government and the private sector. The public sector assumes the risks of revenue collection and forecast as in the annuity model, partially shares the financial risk by infusing a part of the project cost during the construction period and hedges inflation by ensuring indexation of construction costs and O&M payments[158].

Funds mechanism

Collective investment vehicles pool financial resources from different investors in financial or non-financial assets or both. They have a defined legal statute and can be divided into funds and facilities[159]. Funds are legal entities in which participants pool their resources to subsequently own equity[160]. Funds can use different types of instruments in their investments in projects or transactions[161].

They can be structured in a manner which exposes all investors to the same risk-return profile (a flat structure) or in a manner that provides for some investors to have subordinated repayment claims compared to more senior investors (a layered structure)[162]. Development Finance providers can use funds to mobilise additional commercial finance at multiple levels[163]. They can blend their capital with that of additional commercial finance providers within the structure of the fund itself or the fund can be used by development finance providers to support blended finance transactions at a project level and crowd in additional commercial finance for particular projects[164].

Structured funds are a good example of a collective investment vehicle. Structured funds are a financial approach that combines different asset classes with distinct risk and return profiles (also known as a waterfall structure). Public donors generally invest in the riskiest junior tranche, or Class C shares, which are tapped first if the fund experiences financial losses. DFIs typically invest in the mezzanine tranche, or Class B shares, which are drawn upon second. Private investors can buy Class A shares (the senior tranche), which are the least risky because they are protected from losses by the Class C and Class B shares. Class A shares are first to receive dividends and last to cover potential losses. The funding provided by structured funds

[158] Ministry of Road Transport and Highways, Government of India, 2016. "Government Circular: Hybrid Annuity Model for implementing Highway Projects-reg", https://morth.nic.in/sites/default/files/Hybrid.pdf [Accessed 10 September 2024]; Press Information Bureau, Government of India, Cabinet Committee on Economic Affairs (CCEA), 2016. "Hybrid Annuity model for implementing highway projects", https://pib.gov.in/newsite/printrelease.aspx?relid=135821 [Accessed on 10 September 2024]; Dinesh Shiwakoti and Devayan Dey, The Hybrid Annuity Model for Public-Private Partnerships in India's Road Sector: Lessons for Developing Asia, ADB South Asia Working Paper Series № 94, 2022, DOI: http://dx.doi.org/10.22617/WPS220344-2

[159] Habbel, V., E. Jackson, M. Orth, J. Richter and S. Harten (2021), "Evaluating blended finance instruments and mechanisms: Approaches and methods", OECD Development Co-operation Working Papers, No. 101, OECD Publishing, Paris

[160] OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264288768-en

[161] Ibid

[162] Ibid

[163] Ibid

[164] Ibid

is often accompanied by technical assistance, which is usually funded by grants from public donors[165].

By offering different asset classes, structured funds cater to the development objectives of public donors and DFIs, and to the investment objectives of private investors. Private investors benefit from the reduced risk that the waterfall structure provides, enabling them to invest in sectors and regions with high development potential and higher perceived risk. Publicly funded donor agencies benefit from the revolving, or continuous, use of their funds for sustainable development. Further, structured funds pool money from a variety of sources to invest in many different countries and sometimes sectors, which enables risk diversification and reduces the risk of losses. For example, a fund that invests globally will only be affected to a limited extent by an economic downturn or a currency devaluation that solely applies to a specific region or country. Such risk diversification also allows the funds to invest in a number of very risky countries, sectors or financial intermediaries with high potential development impact as the associated risks are offset by economically more secure investments[166].

BOX. 5 CASE STUDY ON FUNDS MECHANISM – ECO INVEST BRASIL FUND (BRAZIL)

Eco Invest Brasil is a Brazilian government initiative designed to create the structural conditions to attract the external private investment needed for the country's environmental transformation, along with other ongoing reforms to bring stability and predictability to the country's macroeconomic framework. The aim is to adopt innovative approaches and best financial practices, taking into account climate, environmental, social and governance criteria.

The partnership between Brazil's Treasury and the Ministry of Environment and Climate Change will offer four new lines of credit using resources from the Climate Fund to attract investment for the ecological transition and to increase Brazilian companies' access to the international debt market. The credit lines will be established with the Climate Fund. One those credit lines is the so-called "blended finance" to address the high price of hedging. This instrument will make the cost more competitive. The line can be up to 25 years, depending on the structure of the project. The blended finance line is the first of four to be regulated under Eco Invest Brasil.

The Brazilian government's initiative offers private financial institutions access to medium and long-term funding for green projects, previously exclusive to public banks. If the blended finance line achieves its leverage target of ten times, a government contribution of USD 1 billion to USD 2 billion could catalyse between USD 10 billion and USD 20 billion in private financing for sustainable projects. With wind and solar energy projects now mature enough to stand without government support, this fund focuses on emerging sectors needing a financial boost.

In general the blended finance credit line will work as follows: financial institutions will put together portfolios of sustainable projects and present them to the Ministry of Finance; those selected will receive resources from the Fund at low interest rates, but in return they will have to raise money abroad to supplement the project's funding. The Treasury's idea is to use between USD 1 billion and USD 2 billion from the Climate Fund in this call for proposals, with an interest rate of 1 % per year. The

[165] Habbel, V., E. Jackson, M. Orth, J. Richter and S. Harten (2021), "Evaluating blended finance instruments and mechanisms: Approaches and methods", OECD Development Co-operation Working Papers, No. 101, OECD Publishing, Paris
[166] Ibid

remaining money can be raised via the capital market, bank credit operations or another method.

Projects in green industrialization, biofuels, and the recovery of degraded areas, among others that fit into the ecological transformation agenda implemented by the federal government, will be financed. The project selection criterion is leverage – that is, those that raise the most funds abroad in proportion to the demand from the Climate Fund will be chosen. The minimum index established by the notice is "six": so if an institution requests USD 100 billion from the Fund, for example, it would have to raise USD 500 billion abroad, totaling USD 600 billion. The maximum level established is "twenty," a scenario in which, for every USD 100 million in resources from the Fund at 1 % interest, the institution would have to raise USD 1.9 billion, totaling USD 2 billion. In this example, public money would represent approximately 5 % of the project's funding. The Treasury Department projects that the auction will be in a "middle ground", around "ten", which would represent, in a scenario where USD 2 billion from the Climate Fund is used, the generation of USD 20 billion in green investments in the country.

Additionally, as part of the Eco Invest program, Brazil's Treasury and Securities and Exchange Commission (CVM) are launching a fund consortium to attract private investment in early-stage sustainable projects. This new vehicle aims to finance the structuring of projects aligned with ecological transformation, following a format similar to private equity funds (FIPs) and receivables investment funds (FIDCs).

Blended finance facilities

Facilities within the blended finance context pool donor government financing towards blending[167]. They do not engage commercial finance investors directly but provide the finance that MDBs, BDBs, other DFIs and other intermediaries can use to crowd in additional commercial finance[168].

Through facilities, governments can influence the allocation of funding to specific issues[169]. Blended finance facilities provide development finance to be spent with the purpose of crowding in additional commercial finance 'further downstream' in a specific project or transaction[170]. Facilities can provide a range of the instruments – grants, loans, equity, guarantees and technical assistance being among them[171]. Facilities that target a specific geographical area usually target many sectors, whereas facilities that are mandated to tackle a specific issue across multiple jurisdictions usually focus on fewer sectors[172].

Blended finance facilities are often set up with the participation of national development banks, which not only organise and operate the facility, but are also serve as the recipients of budget funds blended with private capital, as in the following Russian example.

[167] OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264288768-en
[168] Ibid
[169] Ibid
[170] Ibid
[171] Ibid
[172] Ibid

BOX 6. CASE STUDY ON BLENDED FINANCE FACILITIES – PROJECT FINANCE FACTORY (RUSSIA)

The Project Finance Factory (PFF) is a blended finance facility for financing large-scale investment projects in priority sectors of the Russian economy. The main goal of PFF is to attract “long money”. Borrowers can obtain funds on the basis of syndicated credit (loan) agreements with the participation of commercial banks and State Development Corporation VEB.RF. State support measures are applied to increase lending to specific projects. VEB.RF selects potential projects, participates in structuring financing and acts as a credit manager within the syndicate. The PFF helps to bridge a market gap, such as the reluctance of banks to take on long-term interest rate risk, and does not finance mergers and acquisitions, company acquisitions, or turnaround activities.

One of the most important advantages of the PFF is that it allows to simultaneously solve the problem of capital insufficiency and hedge the interest rate risk of investors. Over the term of the loan, the growth of the key rate on loans (granted at a floating rate) is hedged by a subsidy from the budget (at around 7 per cent). This allows the Factory to meet the current demands of investors. The PFF makes it possible to achieve a ratio of 35 raised RUB per 1 RUB of capital allocated by the state. There are syndicates in which the ratio of funds of the development institute and funds of commercial banks is 1 RUB to 3 RUB, 1 RUB to 4 RUB.

PFF was created within the framework of the programme based on the Russian Federation Government Resolution No. 158 dated 15.02.2018, which is designed to support large investment projects in Russia with a total value of RUB 3 billion (≈USD 35 million) or more, with a financing term of no more than 20 years. Financing for PFF projects is provided at a floating interest rate in the format of key rate + margin. At the same time, the key rate is subject to a threshold, which does not change over the entire term of the loan. The cap value is calculated as of the date of the decision to finance the project based on the target inflation rate and the average yield of indexed federal loan bonds. When the key rate is higher than the cap value set for the project, the borrower receives compensation from VEB.RF for the difference in rates. In essence, PFF provides counter-cyclical protection in long-term projects.

The implementation of PFF can be illustrated by the example of financing an infrastructure project in one of the Russian Federation constituencies – “Construction and operation of a toll public motorway of regional significance with a motorway tunnel and bridge crossing under a concession agreement”.

The project is being implemented under a concession agreement between the Russian region and a private investor. The project will be financed from the following sources:

- capital grant from the regional budget and inter-budget transfers in the amount of RUB 31.4 billion (≈USD 363 million);
- Russian and foreign shareholders' funds in the amount of RUB 1.4 billion (≈USD 16 million);
- syndicated loan with participation of a commercial bank and state development corporation VEB.RF in the amount of RUB 9.6 billion (≈USD 111 million) under the PFF programme;
- other sources - RUB 5.4 billion (≈USD 62 million).

The ratio of public finance to private finance is 66 %/34 %.

Financial instruments used in the project: equity loans, syndicated loans, capital grant.

The PFF makes it possible to ensure increased financial stability of investment projects thanks to a subsidy protecting the project from a key rate increase (the government provides VEB.RF with a subsidy to compensate borrowers for the difference between the actual value of the key rate and the value fixed for projects in the PFF). This blended finance approach allows commercial banks to provide investment long-term loans for 10-15 years, with the main liquidity being commercial banks' money, while VEB.RF funds usually account for 20-25 % of the required loan.

In South Africa, an infrastructure fund serves as a blended finance facility, leveraging public sector seed capital to catalyse private sector financing and maximize the cost-effective participation of private-sector investors in government projects. This approach ensure the efficient allocation of resources and fostering a conducive environment for private investment.

BOX 7. CASE STUDY ON BLENDED FINANCE FACILITIES – OLIFANTS MANAGEMENT MODEL PROGRAMME (OMMP) – INFRASTRUCTURE FUND (SOUTH AFRICA)

The Infrastructure Fund was established in 2020 with seed funding of ZAR 100 billion (~USD 5.6 billion) over 10 years to catalyse ZAR 1 trillion (~USD 56 billion) in private-sector financing. The role of the Infrastructure Fund is to transform public infrastructure through bespoke blended financing solutions by sourcing and blending capital from the private sector, institutional investors, development finance institutions and multilateral development banks. The main benefit of the Fund is that it maximises the cost-effective participation of private-sector investors in government projects while facilitating early financial closure. The Fund deploys a diverse range of instruments, including grants, concessional loans and subordinated facilities.

Since its establishment, the Infrastructure Fund has made significant progress in supporting the financing of public infrastructure. One such project is Phase 2B and 2B+ of the OMMP. The OMMP is a source-to-tap solution that seeks to provide approximately 263 million cubic metres per day (m^3 per day) to commercial users and institutional users by 2050. The total investment cost is estimated at ZAR 25.8 billion (~USD 1.4 billion).

Phase 2B and 2B+ of the OMMP entails developing 121km of new steel pipeline with a design capacity of 95 Mℓ/d; constructing a bulk raw water pipeline (i.e., from Flag Boshielo to Piet-se-Kop) and refurbishing a section of the existing pipeline (i.e., from Piet-se-Kop to Sekuruwe). The project is estimated to cost ZAR 6.3 billion (~USD 353 million). The Infrastructure Fund has structured the financing of the project to include a combination of sources:

- Water Trading Entity grant through the Department of Water and Sanitation (i.e., Public): ZAR 461 million (~USD 26 million);

• Infrastructure Fund Concessional Facility (i.e., Public): ZAR 1 billion (~USD 56 million);

• Grant Funding through the Budget Facility for Infrastructure (i.e., Public) ZAR 1.4 billion (~USD 78 million); and

• Commercial Lenders (i.e., Private) ZAR 3.4 billion (~USD 190 million).

The injection by the Department of Water and Sanitation, and grant funding through the Budget Facility for Infrastructure are intended to subsidise indigent users, to receive free water. The Infrastructure Fund concessional facility is intended to uphold the user-pay principle while maintaining the tariffs within an affordable range. Collectively, these instruments present a bespoke blended finance solution that obviates the need for government guarantees in the transaction.

There are examples of blended finance facilities involving international financial institutions and foreign ECAs, notably the UAE project, which is using such a facility to structure its financing.

BOX 8. CASE STUDY ON BLENDED FINANCE FACILITIES – WARSAN WASTE TO ENERGY PROJECT (the UAE)

The Warsan Waste to Energy project is set to convert over 5,600 tonnes of residual solid waste into a 200 MW of electricity, feeding into the DEWA grid. This will make it the world's largest waste-to-energy plant to date. The facility will consist of five processing lines, with some delivered in 2023 and the remainder scheduled for delivery in 2024.

The project is financed through a Structured Finance Facility offered by international financial institutions, including the Japan Bank for International Cooperation ("JBIC") and the Nippon Export Investment and Insurance Agency ("NEXI"), specifically for the project's Special Purpose Vehicle ("SPV"), the Dubai Waste Management Company P.S.C ("DWMC").

The loan is co-financed with JBIC, Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd, Société Générale, KfW IPEX Bank GmbH, Standard Chartered Bank, Crédit Agricole Corporate and Investment Bank, Siemens Bank GmbH. The total co-financing amounts to approximately USD 927 million, with financial institutions providing USD 475 million (51 % of financing) and JBIC contributing USD 452 million (49 % of financing). NEXI provides insurance for the portion of the loan covered by the financial institutions.

The projects financing structure is as follows:

- Approximately 15 % of the private investment in SPV
- Approximately 40 % financing by JBIC
- Approximately 45 % financing by financial institution, insured by NEXI
- The total project funding requirement amounts to USD 1.1 billion.
- Concession risks that could jeopardize the SPV's financial stability were mitigated by NEXI

The financial instruments used in the project include insurance for private banks and direct funding. Additionally, the Department of Finance for the Government of Dubai issued a payment undertaking to the SPV in exchange for its services in processing solid waste and converting it into energy, thereby diverting waste from landfills.

Blended finance facilities established by the government and covering a wide range of sectors with the participation of national development institutions and philanthropic organisations deserve special attention. One such unique blended finance facility has been established in India by the Subnational government of the Goa (India).

BOX 9. CASE STUDY ON BLENDED FINANCE FACILITIES – GOA BLENDED FINANCE FACILITY (INDIA)

The Goa Blended Finance Facility is a climate financing vehicle that pools in investments from public, private, development and philanthropic sources, with a single goal of accelerating the low carbon, climate resilient initiatives outlined in the State of Goa Action Plans. The facility focuses on prioritising adaptation and resilience actions on ground, apart from providing blended finance opportunities to partially viable mitigation projects.

Climate focused projects includes projects in the area of renewable energy, green hydrogen, electric vehicles, waste-to-wealth technology etc.

The Goa Blended Finance Facility is envisaged to be set-up under the National Investment Fund / Alternative Investment Fund mechanism outlined by the Government of India, to enable wider population of the facility and deployment of financing instruments

The following amounts are expected to be mobilised in the first tranche of the Goa Blended Finance Facility (in USD).

- Subnational Government of Goa – USD 100 million
- Multilateral Development Banks – USD 200 million
- National DFIs – USD 200 million
- Catalytic Philanthropic Organisations – USD 10 million.

The finance facility is pooled with investments from public, private, development and philanthropic actors. In terms of rolling out financial and non-financial solutions, a whole spectrum of instruments and mechanisms including the following are envisaged;

- Project preparation facility
- Technical assistance
- Concessional debt
- Commercial debt
- First and second loss guarantees
- Performance linked loans
- Results based financing
- Demonstration grants

This facility is still to provide blended finance to actual infrastructure project. However, given the wide spectrum of instruments envisaged by the facility such as Concessional Debt, Technical assistance, Guarantees and Grants, this facility would be able to mitigate viability risk, financial risk, lenders' discomfort, etc. associated with the project. The Goa facility now set-up can be replicated by other subnational Governments to accelerate climate goals.

In the Brazilian example, the national development bank, BNDES, acts directly as a blended finance facility, implementing a large-scale public programme to select sustainable development projects, including infrastructure projects, and match them with appropriate financing instruments, including private capital.

BOX 10. CASE STUDY ON BLENDED FINANCE FACILITIES – BNDES PUBLIC CALL FOR BLENDED FINANCE (BRAZIL)

Banco Nacional de Desenvolvimento Econômico e Social (Brazlilan Develoment Bank - BNDES) has launched in 2022 a public call for proposals focused on supporting projects and programmes in the areas of forest bioeconomy, circular economy and urban development[173].

The BNDES focus is on selecting financial structures capable of attracting different types of investors to enable economic growth, fostering projects and companies that need access to comprehensive and impactful financial solutions, such as small cooperatives, development projects for disadvantaged communities or solid waste recyclers[174].

BNDES will disburse up to BRL 90 million (approximately USD 16 million) in non-reimbursable resources in up to 12 projects. The selected projects will be responsible for attracting third-party resources of at least BRL 3 for every BRL 1 provided by BNDES, resulting in total investments of around BRL 400 million in support of projects with a strong socio-environmental impact and that meet sustainability parameters. The project implementation period is up to 12 years[175].

The projects may promote the attraction of concessional capital and commercial capital, with a minimum global leverage in the blended finance structure of 4 times in relation to BNDES support.

As a result of the public call 11 projects from the following sectors were selected: 4 in forestry bioeconomy, 4 in urban development and 3 in circular economy.

The proposals presented in the public call launched by BNDES include financial instruments such as debentures, certificate of real estate receivables (CRIs), certificate of agribusiness receivables (CRAs), guarantee funds, credit funds (FIDCs), private equity funds (FIPs) and provision of technical assistance.

At the current stage, the selected projects are being analysed by BNDES.

In another example of India's blended finance facility, it is notable for its comprehensive and flexible system of building partnerships in the health sector between a wide range of stakeholders, including ODA agencies, with a tailored approach to selecting projects and financing instruments.

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[173] BNDES lança solução financeira híbrida inovadora para incentivar projetos socioambientais, https://www.bndes.gov.br/wps/portal/site/home/imprensa/noticias/conteudo/bndes-lanca-solucao-financeira-hibrida-inovadora-para-incentivar-projetos-socioambientais [accessed on 10 September 2024]
[174] Ibid
[175] Ibid

BOX 11. CASE STUDY ON BLENDED FINANCE FACILITIES – SUSTAINABLE ACCESS TO MARKETS AND RESOURCES FOR INNOVATIVE DELIVERY OF HEALTHCARE (SAMRIDH) (INDIA)

Sustainable Access to Markets and Resources for Innovative Delivery of Healthcare (SA SAMRIDH Healthcare Blended Finance Facility is an initiative under the United States Agency for International Development (USAID) and IPE Global's flagship project "Partnerships for Affordable Healthcare Access and Longevity" (PAHAL), aims to catalyse innovative financing mechanisms to improve healthcare services for India's most vulnerable populations. SAMRIDH is supported by USAID in technical collaboration with the Principal Scientific Advisor to the Government of India, Atal Innovation Mission, NITI Aayog, National Health Authority, Indian Institute of Technology (IIT-D), The Rockefeller Foundation, IndusInd Bank, Axis Bank, Caspian Impact Investments and NATHEALTH. This initiative is implemented by a Technical Support Unit managed by IPE Global.

Through this initiative, SAMRIDH combines commercial capital with public and philanthropic funds to mitigate barriers to private investment in healthcare. The approach aims to drive greater resources towards market-based health solutions to improve access to affordable and quality healthcare services for India's most vulnerable populations.

The facility follows a four-step approach:

- Mobilise and Converge Financial Resources through strategic partnerships, diversified funding and shared value goals;
- Identify high impact healthcare solutions by identifying inclusive business models from a teeming pool of solutions in the market;
- Enable access to affordable growth capital by tailoring financial models, mitigating financial risks and partnering financial institutions;
- Monitor and evaluate impact for scale by measurable indicators, dynamic monitoring systems, external assessment and advanced analytics.

SAMRIDH combines commercial capital with public and philanthropic funds to mitigate barriers to private investment in healthcare. SAMRIDH has mobilised a capital pool of over USD 300 million as of date to offer both grant and debt to healthcare enterprises.

The program uses a three-fold tactic to mobilise a capital pool from diverse partners.

I. Multi stakeholder partnerships.
SAMRIDH mobilises resources from multiple segments, like philanthropies, international aid organisations, and adopts new approaches to attract capital from public & private sector.

II. Diversified funding mechanism
Two key funding modalities are undertaken to raise financial assets for the program.

- Grant funding: Partnerships with Bilateral & Multilateral Donors, Corporate CSR, Family Offices & Foundations, High Net-worth Individuals to generate a pooled fund of USD 300 million inter alia including grant pool of USD 50 million and debt pool of USD 250 million.

- Syndicated loan: Strategic engagements with Public & Private Banks, Non-Banking Financial Corporations, Development Finance Institutions to facilitate access to syndicated loan facility and get a leverage of over 5-10x for every USD invested through grant pool.

III. Shared Value Goals

Adopting a goal-oriented approach, the facility aligns with partners to combine resources for a common goal and advance our shared vision to strengthen healthcare delivery in India.

Every project under the facility has different ratio of public to private capital. The project will utilise grant funding, syndicated loan, provision of technical assistance and capacity building of the enterprises to help them raise commercial investments through blended financing solutions for long-term sustainability and expansion.

BRICS perspective on blended finance instruments and mechanisms

The available case studies indicate that the BRICS countries have a diverse and extensive range of blended finance instruments and mechanisms to finance infrastructure project.

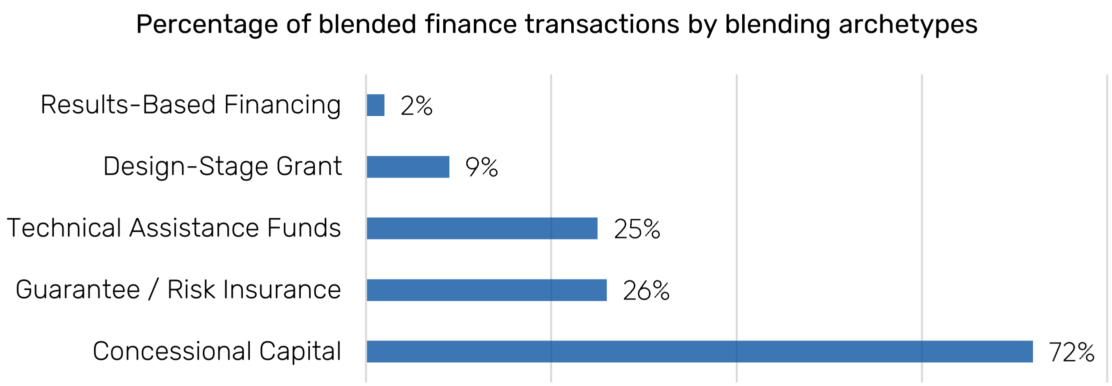
A number of factors influences the richness of the set of blended finance instruments and mechanisms. However, it can be stated that examples of blended finance, regardless of their complexity, are present in all BRICS countries.

The analysis demonstrates that the most prevalent instruments utilised for financing infrastructure projects in blended finance transactions are debt instruments and concessional financing, encompassing grants, subsidies, and other forms of financial assistance. Concurrently, the case studies illustrate the pivotal role of national development institutions in the implementation of blended finance initiatives.

Technical assistance represents the most prevalent non-financial instrument within the realm of blended finance.

Indeed, according to Convergence concessional debt or equity has been the most common archetype, including first-loss debt or equity, investment-stage grants, and debt or equity that bears risk at below-market financial returns to mobilise private sector investment. There has been an increase in the use of both concessional debt or equity and guarantees or risk insurance in recent years[176].

Figure 6. Blended Archetype Frequency

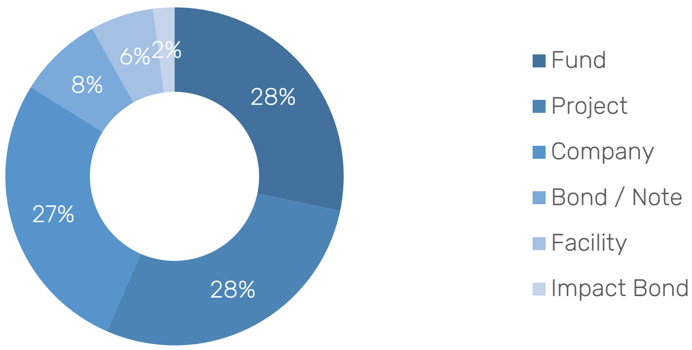


Source: Adapted from Convergence

[176] Convergence, Blended Finance, https://www.convergence.finance/blended-finance [accessed on 6 August 2024]

According to the Global Infrastructure Hub, in the infrastructure blended finance deals it has analysed, on average commercial capital represented 73 % of the financing of blended finance infrastructure and within financial commitments for blended finance infrastructure deals, debt had the largest share (57 %), followed by equity (26 %), guarantees (14 %), and grants (3 %)[177]. The case studies also illustrate the efficacy of establishing dedicated funds and blended finance facilities, which serve not only as direct capital providers, offering the requisite technical assistance for structuring a blended finance transaction, but also as knowledge and experience accumulators, facilitating the replication of successful experiences. The positive experience of funds and facilities is supported by Convergence data, which shows that funds (e.g., equity funds, debt funds, and funds-of-funds) have consistently accounted for the largest share of blended finance transactions, although we have seen greater diversification across transaction types in recent years[178].

Figure 7. Blended Finance Vehicle Types



Source: Adapted from Convergence

This appears to be due to the fact that multiple projects can be combined within funds and facilities, thereby reducing both the inherent risk of the projects themselves and that of private investors. In consequence, funds and facilities frequently establish a standardised process, amass positive and negative experiences, and develop criteria that streamline investments and reduce transaction costs. Furthermore, by pooling substantial amounts of capital, funds and facilities can finance larger and more impactful projects. Consequently, funds and facilities facilitate the more efficient channelling of public and private capital into sustainable infrastructure and other development projects. In conclusion, the BRICS countries have demonstrated a noteworthy level of advancement in the exploration and implementation of blended finance, as well as in the utilisation of a diverse array of blended finance instruments and mechanisms. This evidence substantiates not only the potential for fiscal space expansion but also the BRICS countries' proactivity towards the deployment of innovative financial solutions. The implementation of blended finance instruments and mechanisms represents a pivotal stage in the attainment of a primary objective that has garnered considerable recognition: the encouragement of private capital investment in sustainable development goals, including sustainable infrastructure.

Despite the notable progress made by the BRICS countries in the field of blended finance, there remains a significant untapped potential for the mobilisation of private capital and philanthropic funds through this approach. This could be achieved by diversifying the range of financial instruments and mechanisms employed. By addressing the challenges and barriers outlined in the following section, it is possible to provide a positive impetus for further incentivizing and scaling blended finance for infrastructure and sustainable projects.

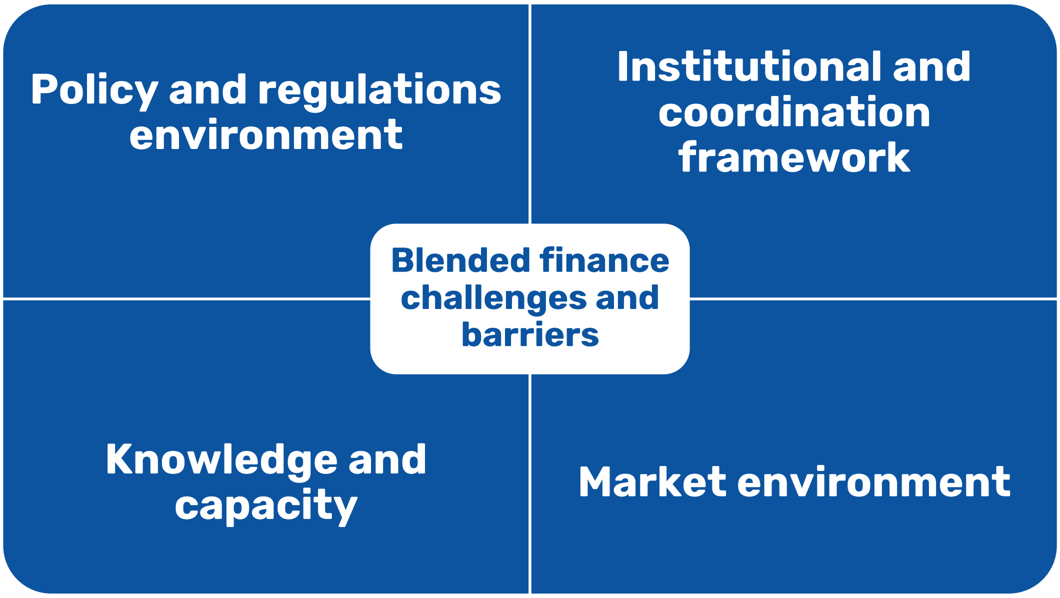
[177] GI Hub, Blended Finance in Infrastructure, Infrastructure Monitor 2023, https://cdn.gihub.org/umbraco/media/5464/gih_infrastructuremonitor_2023_blended-finance.pdf
[178] Ibid

2.4. THE CHALLENGES AND BARRIERS OF BLENDED FINANCE

While blended finance in itself represents an approach to overcoming investor barriers and increasing the supply of private capital to key sectors and countries, its implementation faces its own challenges and barriers to expanding its use, including in the financing of infrastructure projects. Understanding and describing these challenges and barriers enables the development of effective strategies and solutions to address them, and facilitate a more efficient use of blended finance in infrastructure projects.

Deploying capital in emerging and frontier markets can be an attractive source of returns and portfolio diversification for private sector capital providers. However, private sector actors also have varying thresholds of risk tolerance in emerging markets, and may be seeking different levels of returns[179]. Analysing various sources (e.g. Escalante et al. (2017 forthcoming), NGFS[180] and others), four categories of challenges and barriers to increasing the use of blended finance can be tentatively identified (Figure 8).

Figure 8. Categories of Challenges and Barriers to Increasing the Use of Blended Finance



The categories presented provide a snapshot of the main challenges and barriers to scaling up blended finance, both in general and in relation to the financing of infrastructure projects. The information provided by Task Force members fits within these categories and provides a systemic view of the barriers that can support the scaling up of blended finance for infrastructure development.

Policy and regulations environment

In the current year, the Global Alliance of Impact Lawyers published a comprehensive study, 'Unlocking Legal Pathways for Blended Finance', covering various legal issues in the development of blended finance. The study notes that discussions surrounding blended

[179] Using blended finance to overcome barriers to climate investments, CDKN, https://cdkn.org/story/feature-using-blended-finance-overcome-barriers-climate-investments [accessed on 6 August 2024]
[180] Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies, NGFS, 2023, https://www.ngfs.net/sites/default/files/medias/documents/scaling-up-blended-finance-for-climate-mitigation-and-adaptation-in-emdes.pdf

finance are primarily focused on the facilitating such transactions using concessional capital, but there is a lack of discourse around the regulatory and legal frameworks used[181].

There is **no single recognised and standardised framework for blended finance**, which has been a key challenge for DFIs, investors, legal professionals and beneficiaries.

Alignment of principles in blended finance frameworks is crucial for a number of reasons including stakeholder cooperation, risk mitigation, efficient capital mobilisation, legal and regulatory compliance, long-term sustainability, mission consistency and transparency[182].

The complex regulatory landscape is seen as a deterrent to participation in sustainable finance as requirements of compliance are seen to be unclear. In an effort to address this challenge, the OECD Development Assistance Committee established principles and guidelines in 1991 which have continued to develop with other international initiatives on blended finance, most notably the 'DFI Enhanced Principles on Blended Finance for Private Sector Projects', creating a framework for impact investors, such as donor countries, to use when providing and managing development assistance capital which are widely recognised in the international financial sector[183].

Jurisdictions may differ in their ways of structuring blended finance, including taking into account approaches to sustainable development. For example, tax incentives and government subsidies have been used as the main tool to direct private investment into the energy sector[184].

Globally, senior debt was used as the most in blended finance transactions making up 32 % between 2015 and 2020. A joint report by the African Development Bank (AfDB) and DFI supported this finding, stating that senior debt represented 46 % of concessional financing commitments. In using traditional business models, MDBs are able to invest their own capital in projects, which have a low-medium risk tolerance rather than mobilising private investment, which is what concessional finance seeks to achieve. The joint report reaffirmed **the need to move away from conservative funding structures** within blended finance in their Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations[185].

The preference of debt and equity instruments in blended finance can also be explained through the legislative environment in which they operate. Some investment instruments are governed by established legislation making them **easier to structure and assess** their risk and return profile. Therefore, the level of concessionality can be determined by the positioning of the debt or equity capital within the funding structure with more concessional funding taking a subordinate position and thus higher risk. The regulatory landscape may influence the choice of financial instrument. Fewer regulations for being an equity capital provider allows equity to be deployed faster, whereas debt investments are better suited for frontier markets as they are easier to recover due to the requirement of collateral and regular interest payments[186]. The OECD positively reported on the role of guarantees for unlocking blended finance for the SDGs and to provide certainty, particularly when open ended or unilateral termination rights which negatively impact the certainty of a contract. In this regard, it may be noted that there is a distinct lack of discussion on **termination rights or insolvency procedures** within blended finance[187].

There is also **a common problem in the categorisation of vehicles and enterprises into "for profit" and "not-for-profit"**. This has a silo effect that blended finance structures may be specifically designed to overcome.

[181] Unlocking Legal Pathways for Blended Finance | Case Studies and Global Insights, the Global Alliance of Impact Lawyers (GAIL), 2024,
[182] Ibid
[183] Ibid
[184] Ibid
[185] Ibid
[186] Ibid
[187] Ibid

Legally this requires particular attention to fiduciary duties and governance. The traditional view on fiduciary duties – underpinned by the principles of shareholder capitalism and modern portfolio theory – has been that the duty of directors to act in the best interests of the corporation (in the case of for-profit corporations) means to act in the best financial interests of the shareholders. **This limits their ability to consider or pursue impact objectives**[188].

Another common issue is the **tax and accounting treatment of blended finance projects**. Tax is a consideration for any legal structure. It is a particular issue for blended finance structures as they commonly combine the tax features of a for profit enterprise with some element of charitable or other non-profit tax relief[189].

Generally, there is **no separate recognition of social impact activities for tax purposes** meaning that the blended finance structure may either seek to preserve the for profit/non-profit silos sufficiently to preserve the traditional tax treatment or it may compete for funds with a for profit tax profile and an impact investment risk profile[190].

Accounting requirements can sometimes differ from or add further complications to the tax analysis; for example, over issues such as **when blended finance is an asset and when it is a liability**. This is particularly an issue where the structure includes recoverable grants. Certain structures useful for blended finance can also be impacted by accounting rules that bring third party concessional capital on to balance sheets.

Member counties **have securities law regulating financial products and financial dealings** with varying scope and levels of complexity. They provide a framework for transparency, investor protection and responsible investing, require some level of product registration, adviser licensing, and product disclosure. They need to be considered when capital raising for a blended finance structure. If they apply, they will usually **add costs and time** to the raising and require the involvement of specialist managers.

Most blended finance projects are not of a size or nature that can accommodate that level of cost. For this reason, most blended finance structures are wholesale, not retail (as this attracts a higher level of regulation). Even with a wholesale fund, sponsors of a blended finance project may need to weigh up the complexities of a capital raising in one of the more regulated jurisdictions against the benefits of the depth of their capital markets[191].

The issue that stands out most strongly is **the need to build a consensus on the legal principles applying to blended finance transactions**. To create an alignment of principles across jurisdictions so that participants – investors, enterprises, public agencies or any other stakeholder – can have common expectations as to the principles defining how a blended finance structure will work, irrespective of the particular laws in a particular jurisdiction. It is evident from the discussion above about the legal landscape and the legal structures and instruments that each jurisdiction is dealing with similar legal issues and is coming up with similar legal solutions.

But generally, **solutions are being developed in isolation** to meet a particular need at a particular time. The legal frameworks are patchy and often unclear or untested on key issues. Where consensus is built across jurisdictions it will not only support the growth of a genuinely multi-jurisdictional market, it will also help purely domestic projects by allowing them to draw on a wealth of international experience that is well tested and well-established[192].

There are a number of ways of aligning blended finance principles:

- **developing a statement of blended finance legal structuring principles** – this can be a reference tool, developed as a guide for all jurisdictions, similar to a term sheet but

[188] Ibid
[189] Ibid
[190] Ibid
[191] Ibid
[192] Ibid

less transaction specific, and focused on objectives and benchmark criteria rather than technical legal requirements – it is partly descriptive, and partly about best practice[193];

- **increasing the market awareness of blended finance legal solutions**, particularly the structures and instruments in different jurisdictions that are already fairly well aligned – one mechanism proposed for this purpose is a blended finance legal primer. This would be an introduction to blended finance legal objectives, structures and instruments designed for lawyers who have not yet worked in this area and for non-lawyers seeking to develop a blended finance project[194];
- **encouraging financial hubs to compete** for blended finance capital raisings – the competition will put into sharper focus what is needed and what works for multiple jurisdictions[195].

A common statement of principles will be more effective at this stage than seeking standard documents because blended finance covers too broad a range of activities and structures to be realistically reduced to a set of documents (compare, for example, the extent of the International Swaps and Derivatives Association documents for swaps and derivatives which are just two of the financial instruments used in blended finance)[196].

The legal design for a blended finance transaction may **focus on the purpose** – the impact outcome sought to be achieved. This is a guiding principle at several levels:

- it defines the criteria against which the legal arrangements need to be designed and assessed;
- it guides the substance of the terms of the legal relationships involved in the blended finance; and
- it helps to identify and address unintended consequences that may undermine the impact (e.g. inappropriate exit incentives when a financing terminates)[197].

The legal arrangements may be structured to **ensure the impact integrity** of the blended finance project. This will ordinarily be a requirement in any case of concessional funders, government stakeholders and tax authorities. It generally is achieved through governance, reporting, project delivery and similar aspects of the project[198].

There are a wide range of legal structures and instruments that are used in blended finance and each jurisdiction offers a range of legal "building blocks" for this purpose.

The particular structures vary between jurisdictions but the principle of developing an appropriate legal structure by combining existing legal forms and adjusting them as needed is common across jurisdictions[199].

By its nature blended finance is providing new solutions for social and environmental needs where the market fails. It raises governance, risk allocation, reporting and operational requirements that are different from financing that is purely commercial or purely concessional.

Much of the legal innovation **involves re-working existing legal infrastructure and instruments** to fit the blended finance project. It allows solutions to be found and designed more quickly as compared (for example) to newly legislated legal forms. It also reduces the level of legal assurance required, as the legal elements are largely familiar to the parties[200].

In addition to the above, the regulatory intricacies of structuring blended finance transactions significantly **escalate costs** and the absence of standardised models exacerbates this

[193] Ibid
[194] Ibid
[195] Ibid
[196] Ibid
[197] Ibid
[198] Ibid
[199] Ibid
[200] Ibid

challenge, rendering many initiatives **economically unviable**. In addition, regulatory barriers can limit the blending of different sources of capital, resulting in a lack of flexibility or template models, which in turn hinders the development and scaling of blended finance solutions. Regulatory constraints pose formidable barriers to seamlessly merging commercial and philanthropic capital.

This impedes the efficient deployment of resources towards endeavors that require a blend of financial instruments[201].

The policy and regulatory challenges outlined above are fairly universal and cross jurisdictional, including in the BRICS countries. The level of development of the regulatory landscape in the BRICS countries varies, and in some cases the case studies show a rather extensive use of heterogeneous financial instruments and sources of capital, indicating a certain level of maturity of the national blended finance market. In terms of policy and regulation, Task Force members agree that there is a need for greater understanding and clarity on how blended finance works, the development of regulatory frameworks and standardised models for blended finance.

One case study confirms that overseas infrastructure projects with use of blended finance require lengthy negotiation procedures and certain innovative approaches to cross-border direct financing and leasing modes. Another BRICS member mentioned in a survey that the main challenge could be setting a clear line separating the assets owned by the government and which are owned by the private sector, and the control over these asstes. Especially when used as collateral for financing the project.

The analysis shows that, alongside the market environment, regulation and policy are currently among the most common categories of barriers and challenges identified by Task Force members that need to be overcome in order to scale up blended finance for infrastructure projects.

Institutional and coordination framework

Actions and activities of all actors involved in the blended finance ecosystem, organisational actions and a well-established system of coordination between national players are essential for the implementation of blended finance transactions, especially in infrastructure development.

As mentioned, blended finance is a multi-stakeholder financing approach **success of which strongly relies on bringing actors together** that have different mandates, including developmental mandates and commercial mandates, as well as on combining different financial flows, including concessional or non-concessional development finance and private financial flows.

To exploit the potential that blended finance can play in financing sustainable development, it is important to coordinate across the different stakeholder groups.

The success of blended finance significantly depends on deploying development finance in such way that private investment is unlocked, while respecting all parties' respective mandates and risk appetites. This includes the need to allocate risks between development and commercial parties in a balanced and sustainable manner[202].

Coordination is relevant at the country-level, at the actor-level and even possibly at the sector level. Such issues can be addressed upfront by government-initiated coordination at the project as well as at the policy level. Coordination on blended finance may bring together governments and policy makers that can drive the enabling environment, intermediaries as

[201] From Capital to Impact: Role of Blended Finance – Legal and Regulatory Framework, Nishith Desai Associates, 2024 (DMS Code: 28849.2)

[202] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks (2022), Scaling up Blended Finance in Developing Countries, OECD, Paris.

commercial banks that structure transactions or asset managers, as well as providers of development and commercial capital[203].

A crucial element of coordination is also communication. It is important that public and private parties speak “the same language”, formulate clear ambitions and expectations, and trust each other.

On a fundamental level, a **lack of clear and consistent language is crucial** in developing and advancing a common understanding and framework of blended finance. To this effect, it may make sense to identify, implement and leverage the concept of “embedded advisors”, **dedicated blended finance advisors**, who bridge that gap between governments and private sector actors, for example as a hub for coordination and with respect to pipeline development, and capacity building[204].

Some Task Force members note that, from a coordination perspective, the challenges focus on issues of fund mobilisation, such as **identifying and approaching** potential donors, private investors and public institutions; socialising the development impact with the commercial viability of the intervention to motivate them; and negotiating the size and nature of the contribution to the mobilised fund.

Accountability to stakeholders is a further key consideration that blended finance actors may strive to achieve. Transparency can, in this sense, be understood as a dual upstream (i.e. towards stakeholders such as donor governments, asset owners, asset managers, etc.) and downstream (i.e. towards local stakeholders and intended beneficiaries) process. Donors and private sector partners may uphold their responsibility to ensure that transparent, reliable, disaggregated and interoperable data on people and the planet “creates constructive feedback loops with affected stakeholders”.

The OECD Blended Finance Principles Guidance similarly emphasise that “transparency should not be seen as an end goal in itself, but rather as a facilitator of greater accountability, learning and trust”. Accountability to local stakeholders, in turn, can improve the quality of blended finance transactions through facilitating partnerships for access to in-depth local knowledge regarding the identification of good investment opportunities and understanding the effectiveness and compatibility of impact targets and results with local development priorities[205].

With regard to infrastructure development, some studies stress the fundamental importance of overcoming the problem of **inventory of bankable projects** to foster blended finance transactions. Indeed, a project is only bankable if it can demonstrate that its returns will pay the remuneration of capital (both debt and equity) after all related expenses in a satisfactory and timely way. For financial returns to materialise, a whole range of activities need to take place so that the infrastructure asset can be developed and put into operation to start generating revenues. In cases in which the financiers are institutional investors, project preparation (or pre-investment) activities have an added layer of preparation and complexity given the need to satisfy capital market regulations[206].

A project cycle of four or five years (often the length of an election period) could prove very short for infrastructure projects in sectors such as hydro-energy, urban transport, toll roads, airports and ports, water distribution systems, and others. These types of projects have complex contractual arrangements where some LICs are not just prepared to manage. Capacity building is also needed to strengthen contract management[207].

This type of risk has lately increased in complexity with the added components of sustainability and climate-change resilience. After the December 2015 Paris Agreement, the donor and DFI

[203] Ibid
[204] Ibid
[205] Ibid
[206] Garcia-Kilroy, Catiana, Ellis Juan, Satheesh Sundararajan, and Gonzalo Martinez Torres. 2023. "Institutional Investors and Sustainable Infrastructure: A Global Review of case studies to finance the infrastructure gap."
[207] Ibid

community reacted swiftly and created multiple soft financing and grant windows to support green investments in EMDE countries. Most of these windows (including the Global Environmental Facility, Green Climate Fund, Special Climate Change Fund, and Adaptation Fund) have procurement and project technical requirements that demand solid project preparation techniques for projects to be considered for financing. EMDEs with weak institutional capacities have a tough time accessing these windows, which are critical to complement project financing for sustainable infrastructure. This is a critical area in which DFIs' experience in project preparation could play a significant role[208].

Indeed, one Task Force member highlighted that selecting good projects requires special care. Bad projects may appear to have a false economic and financial viability and/or an overestimated socio-environmental return expectation. Great attention may be paid to the procedure for selecting the projects to benefit from.

NDBs remain to date an underused conduit for the mobilisation of commercial capital, for reasons internal and external to them. At the same time, an increasing body of literature underscores the potential role of NDBs in bridging in particular the investment gap for low emissions, climate-resilient infrastructure. Moreover, beyond single transactions, in order to engage and scale local development actors such as NDBs or local DFIs' ability to mobilise private finance for sustainable development, government owners may develop and implement clear and coherent mandates, incentive systems and capacities. Such systemic approaches will be crucial for inducing system-level change that will elevate local development actors such as NDBs from a funding to an enabling role. In this regard, NDBs can hold a comparative advantage over their multilateral counterparts given their embeddedness in national policy contexts, their proximity to the local private sector and their provision of financing in local currency. These roles mutually reinforce each other and elevate the relevance of national development banks in local capital market development and bringing blended finance to scale[209].

Another challenge for blended finance in infrastructure projects is **government action failure**. Risks involving government action are more challenging to mitigate given the nature of their origin (that is, EMDEs' long-term government commitments in a fast-changing political and economic climate). These are also risks that DFIs are very familiar with. The day-to-day activities of DFIs focus on upstream work to assist member countries in improving their institutional and regulatory frameworks that affect economic growth and the attainment of the SDGs. From economic and social infrastructure to governance and institutional capacities, to job markets and fiscal sustainability, and many other challenging activities, DFIs have supported EMDE countries in improvements to mitigate government action failures. DFIs have developed a robust toolkit of risk mitigation products that address failures, as described in some of the case studies in the next chapter. There are indications that what seems to best cover the full risk of a government's defaulting on its contractual commitments is the blended finance mechanisms that combine several financial products to provide full protection of the debt service payments to lenders and institutional investors[210].

Another **important barrier to increased use of blended finance is the data gap and transparency**, including limited access to reliable and standardised data, which hampers informed decision-making; inconsistent data collection and reporting methods across countries make it difficult to compare projects and assess their potential impact and viability.

This is compounded by the limited availability of historical performance data on blended finance transactions for infrastructure projects. Indeed, the development community typically assesses the perceived investment risk in emerging markets to be higher than the actual risk, especially

[208] Ibid
[209] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks (2022), Scaling up Blended Finance in Developing Countries, OECD, Paris.
[210] Garcia-Kilroy, Catiana, Ellis Juan, Satheesh Sundararajan, and Gonzalo Martinez Torres. 2023. "Institutional Investors and Sustainable Infrastructure: A Global Review of case studies to finance the infrastructure gap."

for debt transactions. However, data to dispel this assumption is not yet available to private investors. Lack of data translates to difficulties for investors to underwrite EM investments.

For private equity investments, the lack of a robust or comprehensive historical track record (especially in more frontier markets), demonstrating sufficient returns compared to developed markets, deters investment[211].

The Task Force members repeatedly emphasised that **coordination between stakeholders** in the blended finance ecosystem is a challenge and a barrier that needs to be addressed. At the same time, there is a need to improve communication and interaction not only ***between*** sectors but also ***within*** sectors, especially the public sector. **Effective information sharing** in early project identification, demonstration and storage is needed.

Knowledge and capacity

While capacity building programmes are a key constituting factor of blended finance's ambition to build markets, it is important to identify what the main capacity building needs are in order to attract more private investment via blended finance, and align them with development priorities[212].

Implementation and technical capacity challenges may impede blended finance flows reaching scale in developing countries, including LDCs and SIDs. While the concept of blended finance and principles may be increasingly established in the international community, **awareness and understanding in developing countries is still limited**. Any set of standards focusing on the developing country perspective can be complemented with actionable takeaways, capacity building and institutional support[213].

Some studies have identified the following barriers to scaling up blended finance: **a lack of local government capacity** in emerging market economies, the need for greater institutionalisation, **limited experience of asset managers with blended finance** as a non-established asset class and lack of capacity and experience of asset owners. Lack of local government capacity has resulted in **a lack of well-planned or established projects**. In addition, a risky, unstable, non-transparent and/or not sufficiently attractive regulatory environment are typical barriers for investors. While in order to pass through the strict due diligence of large institutional investors, asset managers who are managing and deploying such vehicles need to be highly institutionalised/professionalised with strong expertise and history catering to institutional investors. Many blended finance vehicles in the market are managed by smaller asset managers (often even first-time managers), who typically cannot pass the strict due diligence requirements of large institutional investors. At the same time Mid-size and smaller institutional investors, do not have the capacity and experience to cope with the relatively complex blended finance structures and the due-diligence process for these vehicles[214].

One critical element of capacity to mobilise private finance for investment is the enabling environment for investment in a given country. While there is no universally agreed definition of 'enabling environments', it is clear that a range of policy issues matter. Countries' with higher levels of country income typically have more developed capacity to attract private finance for investment. Importantly, this capacity is often driven by a country's enabling environment for investment, which is generally stronger for countries with higher levels of country income and development. LDCs and SIDs face specific issues in strengthening their enabling environments for investment and attracting private finance. For instance, they typically have a weak presence on capital markets, and either lack a sovereign credit rating or have one which is not of investment grade. May also incur high political volatility, increasing their risk premia required by

[211] Discussion Paper "Scaling Blended Finance", UN-convened Net-Zero Asset Owner Alliance, 2021
[212] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks (2022), Scaling up Blended Finance in Developing Countries, OECD, Paris.
[213] Ibid
[214] Discussion Paper "Scaling Blended Finance", UN-convened Net-Zero Asset Owner Alliance, 2021

investors. Relatedly, many LDCs and SIDs face limited fiscal space and are heavily indebted. Adding climate change considerations, LDCs and SIDs are often experiencing the phenomenon of dual vulnerability: On the one hand, they experience fiscal vulnerability and macroeconomic instability, and on the other, extreme climate vulnerability. Hence, it is in particular important in the case of LDCs and SIDs to strengthen enabling environments for investment, in addition to efforts in blended finance[215].

Developing countries may be interested in and aiming at creating an ecosystem – for blended finance, and for private stand-alone investment in the long run rather than taking a transaction-by-transaction approach. Including local institutions – such as financial institutions but also private enterprises – as development partners in blending finance transactions is a critical lesson in delivering blending solutions that result in positive impacts on individual transactions but also market development, including through the emphasis of improving the ecosystem[216].

Transparency remains a significant obstacle to the scaling and improvement of blended finance operations. To navigate blended finance to where it can best play out its added value, an **understanding of the opportunities and challenges of blended finance is needed**, which includes transparency about financial and development impact-related characteristics. While blended finance does not necessarily need a concessional element to unlock private investment, softer terms of financing are sometimes needed to direct private investment to sectors that do not (yet) attract stand-alone private finance. Information on the financial aspects such as volumes, terms and, in particular, the level of concessionality is needed at a sectoral and even transaction level to better understand how to crowd-in (and not crowd out) private financing. Additionally, information on results achieved through blended finance can help ensure that it helps mobilise quality private capital, e.g. private finance for investment in line with local development priorities[217].

Access to data and the methodologies used to process it provides investors with the knowledge they require to make well-informed decisions. Additionally, it provides invaluable learnings for the improvement of future blended finance operations and increased knowledge of hitherto less advanced and active private markets[218].

However, while **more reliable and robust disaggregated data is needed** to assess the results of blended finance, this data is still lacking and in many cases access to information – in particular on financial terms – remains limited due to confidentiality concerns[219].

Some sources note that **the challenge of shifting mindsets** remains. The misconception that impact first investing, and patient capital, can be utilised in limited investment areas, such as official development assistance, or by development agencies, continues to be a barrier for expansion of private investment in these initiatives[220].

Another complex issue is **the confusion between addition and additionality in the project**. When assessing the ratio of DFI investment, for example in an infrastructure project, to the private side, the figures can often look impressive. In such projects, it is often assumed that the infrastructure project would not have been possible without the DFI investment. In this case, the DFI provides information on its additionality in the project (financing is provided at a price that is not available on the market, innovative financial instruments are used or technical assistance is provided that significantly improves the quality of the project), but measuring the

[215] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks (2022), Scaling up Blended Finance in Developing Countries, OECD, Paris.
[216] Ibid
[217] Ibid
[218] Ibid
[219] Ibid
[220] Blended Finance Overview, Blended Finance Working Group, GIIN https://thegiin.org/blended-finance-working-group/ [accessed on 6 August 2024]

factual additionality is only possible after the project has been implemented, i.e. counterfactual thinking is required[221].

Investors may lack understanding of the risk transfer mechanism in a blended finance transaction for an infrastructure project leads to a misperception that DFI involvement always contributes to risk mitigation, when in fact, depending on the characteristics of the transaction, risk transfer instruments keep the risk on the public investor's balance sheet (for example, a DFI may lend a certain amount to a company building a hydroelectric dam on the condition that it is repaid later than other lenders or at a lower interest rate. If the government reneges on an agreement to pay a certain price per kWh for the dam's electricity, the project could default. The DFI transfers this risk to its own balance sheet by participating in the deal, but this does not mitigate the investor's risk)[222].

In addition, limited expertise in complex blended finance structures remains an obstacle to the expansion of blended finance, e.g. asset managers may lack the in-house expertise needed to effectively structure and evaluate blended finance deals, which typically involve multiple stakeholders, complex risk-sharing arrangements and unique financing instruments. As well as continues to be present limited investor awareness of blended finance opportunities and necessity for the professionals with skills in infrastructure finance, impact investing, and complex deal structuring.

Market environment

Building local markets is one of the important prerequisites of blended finance development. Indeed, in its transitory nature, blended finance approaches may include an **exit-strategy from the outset**.

Where possible, concessionality can be reduced over time, and subsequently the share of development finance needed to unlock private investment, with the ambition to enable self-sustainable financial markets.

To get there, building, strengthening and leveraging local actors is important[223].

Public and private stakeholders often have different risk appetites. Public entities may prioritise social impact over financial returns, while private investors seek higher returns with lower risks. This **mismatch in risk appetite** can create a trade-off between development objectives and financial returns, complicating deal structuring and potentially limiting the amount of private capital mobilised. While DFIs may be willing to accept higher risk than private investors, but aligning these risk tolerances can be challenging. Ultimately, this can lead to the prioritisation of projects **with a high chance of financial return**, to **the detriment of high-impact but less commercially viable infrastructure** that primarily addresses social and environmental needs. On the other hand, MDBs may **prioritise the allocation of their own concessional funding** to projects, potentially distracting from the core objective of blended finance - mobilising private capital[224]. This may limit the overall impact of blended finance initiatives.

OECD studies show, that current blended finance flows are mainly targeting sectors where the business case for private investors is clear, including energy and banking[225]. More recent data show an increase in such flows to the industrial sector. Indeed, it became the largest target sector for target finance in the period 2017–2021, receiving a total of USD 9.5 billion. On the

[221]Theodore Talbot, Four Challenges for Blended Finance and Development Finance Institutions, Blog, https://www.cgdev.org/blog/four-challenges-blended-finance-and-development-finance-institutions [accessed on 6 August 2024]
[222] Ibid
[223] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks (2022), Scaling up Blended Finance in Developing Countries, OECD, Paris.
[224] Nancy Lee, Center for Global Development (CGDEV), Network Voices: What MDBs Can Do to Mobilize Private Capital At Scale, https://www.convergence.finance/news-and-events/news/1B8tNYETH80GmihPlFvX7M/view [accessed on 6 August 2024]
[225] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks (2022), Scaling up Blended Finance in Developing Countries, OECD, Paris.

other hand, barely any blended finance went to important sectors for LDCs, such as disaster prevention and preparedness or conflict, peace and security – a critical area for fragile and conflict-affected LDCs[226]. Overall, recent data show a rising trend in flows of blended finance to LDCs. Relatedly, **avoiding market distortion is a major concern** where donors work with and through the private sector, and is accordingly a key objective of blended finance. While concessional finance can help make projects with high development returns commercially viable, the use of minimum concessionality is an accepted principle in blended finance. Importantly, concessionality is not a pre-requisite for blending: While many blended finance examples to date have been based on concessional development finance, concessionality is not always needed in order to mobilise commercial resources. In advancing the blending agenda, it will be important to ensure there is a clear case for achieving development results in the use of blended finance, calibrating the use of concessional finance and balancing the risk-return relationship for individual transactions as needed. When concessional finance is deployed, this may only be done to the extent required to attract non-development, commercial finance and a clear exit strategy may be in place[227].

Financial market failure is one of the challenges and at the same time a barrier that significantly affects the prospects for expanding blended financing of infrastructure projects. Risks in this category are essentially linked to two types of constraints: (a) availability of long-term local-currency financing at adequate terms and conditions and (b) availability of long-term hard-currency financing within transferable and/or bearable cross-border risk levels. All the other elements of financial market failure (such as underdeveloped local capital markets, weak currencies, lack of hedging instruments, fragile institutions, and regulatory frameworks,) are components of these two constraints[228].

Availability of long-term local-currency financing mitigates a great portion of the cross-border risk (that is, foreign exchange risk), because it matches the revenue currency with the debt service currency. Long-term local-currency financing is critical for the development of subnational infrastructure. This is the urban infrastructure needed for the provision of local services administered by local agencies (in municipalities, states, regions, and so on). Most of the infrastructure involved in the fulfillment of the SDGs is linked to the provision of a local service (such as energy access, water and sewage, solid waste, urban transport, and health and education)[229].

Choice of borrowing currency may be based on the revenue requirements of the underlying project (i.e., matching revenue generation with debt service payments). Still, due to a lack of local currency long-term funding, many projects in EMDEs (i.e., toll roads), still borrow mainly in hard currency. Additionally, for fiscal reasons, most legislation in EMDE countries heavily regulates the independent access of subnational entities to hard-currency financing, leaving long-term local-currency financing as the only available option to local and regional governments. However, for the most part, EMDE countries **lack a developed municipal bond market**. The affordability risk described previously takes a high toll on urban infrastructure. The provision of urban infrastructure services at below cost-recovery tariffs hinders fiscal sustainability at the city level and thus increases cities' dependence on central government transfers, lowers their creditworthiness, and hampers their access to local-currency financing[230].

Long-term hard-currency financing in EMDE countries creates a mismatch between revenues and debt service currencies. Few EMDEs (middle-income countries) provide a set of foreign exchange risk mitigation instruments (such as swaps, futures, and hedging instruments) that

[226] (UNCTAD/LDC/2023), The Least Developed Countries Report 2023. Crisis-resilient development finance, 2023
[227] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks (2022), Scaling up Blended Finance in Developing Countries, OECD, Paris.
[228] Garcia-Kilroy, Catiana, Ellis Juan, Satheesh Sundararajan, and Gonzalo Martinez Torres. 2023. "Institutional Investors and Sustainable Infrastructure: A Global Review of case studies to finance the infrastructure gap." Equitable Growth, Finance & Institutions Insight, World Bank Group, 2023
[229] Ibid
[230] Ibid

could make this risk transferable, bearable, or both. The affordability risk constraint also affects access to long-term hard-currency financing – the largest pool of available liquidity – because the foreign exchange risk (currency fluctuations) cannot be directly transferred to the end user. Mitigating this type of foreign exchange risks has a high reward for EMDE countries because it would enable them to tap into larger and deeper global financial markets for their infrastructure investment needs. Combination solutions via blended finance structures (such as by combining first-loss structures with MIGA political risk insurance and other credit enhancements) have proved efficient at creating a hard-currency asset (that is, a project loan or bond) that can be placed among global institutional investors. Applying blended finance techniques on a project-by-project basis has a strong demonstration impact and provides comfort to global institutional investors that channel private capital into EMDEs' infrastructure projects. However, with a project-by-project approach **transaction costs are likely to be high**, the replicability of the structure is likely to be lower, and the completion of large-scale institutional mobilisation flows more challenging[231].

In relation to long-term financing, which is vital for the realisation of infrastructure projects, it is important to acknowledge that **commercial banks tend to prioritise short-term loans with high liquidity**. The extended payment periods and substantial capital requirements of infrastructure projects may not always align with their risk tolerance and investment strategies. The expansion of blended finance funds or facilities could prove to be an effective solution for removing or mitigating barriers to long-term financing of infrastructure projects by commercial banks.

Despite the range of products available to DFIs and MDBs, their **toolkit remains fairly limited** overall and has been slow to evolve. This limits their ability to tap the growing appetite for impact and sustainable investment. In particular, debt, most often denominated in hard currency, **dominates many DFI and MDB portfolios** with very limited deployment of risk-mitigation products (e.g. subordinated debt, guarantees, insurance and equity), which means that DFI and MDB products do not often meet the risk mitigation needs of the private investor, especially when it comes to mobilising private investment in low-income countries[232].

Recent Overseas Development Institute analysis of the portfolios of 12 DFIs and MDBs finds that debt financing dominates the instrument composition of most of the studied committed portfolios and that this importance appears to have increased since 2013. In 2018, 76 % of the studied bilateral DFIs commitments were in the form of loans, and loans accounted for 51 % of total DFI and MDB commitments. Compared to other products, debt tends to be simpler to manage and allows for a more frequent recycling of capital. Unfortunately, data on the type of debt are not generally available. Where data are available, they suggest that most of the debt investment is senior debt rather than subordinated. For example, external concessional finance can be used by DFIs and MDBs to enable them to make high risk investment which their own balance sheets would not normally permit (DFIs and MDBs refer to this as 'blended concessional finance'). Given that, in 2019 and 2020, 60 % and 32 % of this concessional capital was deployed, respectively, in the form of senior debt, it is reasonable to presume that much DFI and MDB own account debt investment takes the form of senior debt. Often and especially in low-income countries, **many private investors do not want to invest pari-passu with a DFI and MDB**. It increases the number of lenders who have a senior claim on project or business assets, and hence increases their risk. They want to have the least risk and have their claim paid first[233].

Several factors potentially constrain the deployment of risk capital. For guarantees, their low use is mainly to do with the lack of incentives. They are often more complicated than debt. Their ticket size is often smaller, they do not expand the balance sheet and they usually yield

[231] Ibid
[232] Schoenmaker, D and U Volz (eds) (2022), 'Scaling Up Sustainable Finance and Investment in the Global South', CEPR Press, Paris & London. https://cepr.org/publications/books-and-reports/scaling-sustainable-finance-and-investment-global-south
[233] Ibid

less than debt but use the same amount of capital as debt. DFIs and MDBs have limited appetite for equity investment as it is human resource and financial resource intensive. It requires specialist expertise, which many MDBs and DFIs do not have, and it ties up DFI and MDB capital for long periods before a return is potentially realised, with limited opportunities for exit. This limited use of risk capital constrains the mobilisation agenda, especially in low income countries and other challenging contexts where private investors have a high need for risk mitigation, given the challenging investment climates of these markets. Indeed, risk mitigation capital is generally found to have a much higher leveraging effect than senior debt[234].

Moreover, **the supply of bankable deals has been further limited** by the need for DFIs to deploy their own balance sheets (so-called A-loans). This is particularly the case in LDCs, where DFIs' A-loan targets are even higher and explicit private capital mobilisation targets often do not exist. Another reason is the limited sell down of existing loans by DFIs to institutional investors[235]. That barrier may be tackled with by pooling donor funds and standardising investment and removing "national component" requirements for donor funding.

At the same time, existing blended finance structures currently **lack rating methodologies**, which leaves investors uncertain as to how they would rate these structures and therefore has excluded less sophisticated investors from this asset class. Furthermore, **infrastructure has not yet fully become an asset class** (work in this area is being undertaken by the G20 Infrastructure Working Group)[236].

There is also a challenge and a risk that blending, when it relies on external private finance, may **crowd out the domestic financial sector** in the host country, or could unnecessarily subsidise private investment in a way that causes long-term damage to domestic markets. There is the question of whether donor agencies or other blending actors are well situated, with enough local understanding and sufficient knowledge to 'pick winners' in other countries' economies – developing or bringing in that knowledge and understanding could be a potentially expensive undertaking. Finally, careful consideration needs to be given to the appropriate use of blending in poor and fragile countries[237].

Non-profit organisations that engage in a blended finance transaction, whereby they provide non-financial capital (mainly technical assistance or project implementation based on experience, as exemplified by social impact bonds), may find themselves in a position of relative bargaining weakness compared to their private or public sector transaction partners. This puts NGOs in a vulnerable position when negotiating terms, especially when it comes to enhancing social or environmental impact. This is further exacerbated by the usual financial constraints that NGOs face.

The observations and conclusions of Task Force members in the completed survey and presented case studies are largely consistent with the challenges and barriers to blended finance, including infrastructure projects, described above.
In terms of general challenges and barriers, Task Force members highlight the high cost of borrowed capital and transaction costs, the complexity and lengthy timelines involved in structuring blended finance solutions, difficulties in ensuring a return on investment, the risks of specific financial instruments and infrastructure sector (e.g. revenue, viability, traffic, increase in estimated cost, long-term nature etc.), the lack of dedicated funding and funding mechanisms, tariff pricing and subsidisation policy issues.
With regard to the challenges and barriers to the use and development of blended finance for infrastructure projects, Task Force members highlight the high capital intensity of infrastructure projects, the limited project preparation and support available, the limited availability of financial resources and other budgetary priorities competing for these resources, and the complex and time-consuming decision-making procedures for infrastructure projects

[234] Ibid
[235] Discussion Paper "Scaling Blended Finance", UN-convened Net-Zero Asset Owner Alliance, 2021
[236] Ibid
[237] Guidance note "Innovation and Effectiveness?: Challenges, Risks and Opportunities for Blended Finance", GPEDC, 2019

involving blended finance. They also emphasise the importance of ensuring a healthy mix of fairbox and non-fairbox revenue potential to improve the financial viability of the project and attract private investment. Another key issue for infrastructure projects is the timely acquisition of land. In addition, it is often difficult to find the organiser (investor) for low return but high social impact projects (e.g. social impact bonds). Finally, there is a significant amount of redundant paperwork associated with blended finance transactions.

3. KEY LEARNINGS

This report provides an overview of the concept of blended finance and its use by the BRICS countries to finance infrastructure projects. The report highlights the issues surrounding the definition and characteristics of blended finance, the main actors, instruments and mechanisms of blended finance, and the existing challenges and barriers to scaling up blended finance.

The introductory part of the report highlights the lack of funding to close the infrastructure gap, which is only widening, exacerbated by the need to address climate-related issues. The reasons for the widening gap are multi-factorial, but one of them is that traditional sources of finance are insufficient, public budgets and MDB resources alone are not enough to meet the immense infrastructure needs of the BRICS countries, and private capital is reluctant to invest in infrastructure.

Blended finance may be an effective strategy to overcome challenges and barriers to infrastructure financing, including by de-risking infrastructure projects and unlocking private and philanthropic capital. At the same time, scaling up the blended finance approach will help focus efforts on achieving the SDGs.

In general, the data suggest that the concept of blended finance, particularly through the prism of PPPs, is known and implemented in practice in the BRICS countries. At the same time, these data indicates that the level of practical application of the blended finance approach in the BRICS countries is heterogeneous. In a number of countries, the PPP mechanism is the predominant form of blended finance for infrastructure projects.

BRICS practice and available literature show that the available international definitions of blended finance, while technically different, are fundamentally similar, at least in terms of the objectives of blended finance approaches. At the same time, the case studies presented by the Task Force members show that the lack of a legal definition of blended finance does not prevent the structuring of blended finance transactions for infrastructure projects. That is, the lack of a universal blended finance model is compensated for by its high potential for customisation to suit local characteristics and needs. There is a tendency for BRICS countries to begin to approach the methodological description of blended finance in various forms at the national and local levels, as well as on a project-by-project or facility-by-facility basis. The key importance of embedding blended finance through the objective of achieving sustainable goals is noted.

In terms of the actors involved in blended finance, the Task Force members demonstrated the diversity of practice in the composition of the actors involved in blended finance for infrastructure projects. Beyond the obvious MDBs, the case studies presented and the available literature demonstrate the critical importance of the role of development finance institutions, particularly NDBs, in scaling up blended finance, including for infrastructure financing. It may be noted that the mandates of DFIs, including NDBs, rarely include specific provisions for blended finance, which does not pose any practical obstacles to their participation and implementation of blended finance in infrastructure projects. Government institutions, advisory entities and specially created vehicles are also key players in structuring blended financing transactions for infrastructure projects. It is worthy of note that the data suggests a greater potential for the utilisation of NDBs for blended finance transactions, particularly in the mobilisation of commercial capital.

In the long term, the financial, environmental and social benefits of blended finance may well outweigh the transaction costs associated with the complexity of structuring blended finance deals and coordinating stakeholders compared to traditional forms of infrastructure project financing, which are mainly based on public budgets. One of the ways to facilitate, within certain limits, the establishment of the effective coordination necessary for the synchronisation, consistency and transparency of a blended financing transaction is the use of legal tools to standardise and formalise such coordination (e.g. standardised agreements, document templates, regulatory frameworks).

Multi-stakeholder platforms emerge as facilitators in this complex process fostering collaboration and coordination to make blended finance transactions happen. In connection to that consideration may be given to using existing BRICS formats, in particular the BRICS Interbank Cooperation Mechanism, not only to share experiences, practices and knowledge on blended finance, including infrastructure projects, but also for methodological work that would allow for a common understanding of blended finance among BRICS members. This could be particularly useful in the case of cross-border investment by BRICS countries in infrastructure projects in BRICS countries.

In terms of instruments, the report shares various financial and non-financial blended finance instruments such as technical assistance, risk underwriting (capital preservation) and market incentives (results-driven financing/price guarantees). The use of debt and concessional capital for blended finance transactions in relation to infrastructure projects is dominant. It could be said that the practice of using guarantees, insurance and other instruments for blended financing of infrastructure projects is not widespread enough. At the same time, there are examples of BRICS members using innovative instruments such as social impact bonds to finance soft infrastructure.

From the point of view of the application of blended finance mechanisms, there is a clear preference for the creation of specialised funds and facilities, apart from the PPP mechanism. The largest number of thematic examples of blended finance facilities indicates that they are currently the most appropriate mechanism for applying blended finance to the financing of infrastructure projects. Typically, their activities include the development of project selection criteria and the development of standardised documents for the interaction of participants in blended finance transactions.

Almost without exception, technical assistance is the main instrument of non-financial blended finance for infrastructure projects. The available data show that MDBs, NDBs, ODA and ECAs are by their very nature well suited to participate in blended finance transactions both from financial and non-financial instruments side, including contribution to the creation of institutional memory and the potential for replication of blended finance transactions.

In the section on challenges and barriers to blended finance, both challenges and barriers were identified based on international research and analytical data, as well as information provided by Task Force members. The challenges and barriers in the report are grouped into 4 categories: 1) policy and regulatory environment, 2) institutional and coordination framework, 3) knowledge and capacity, 4) market environment.

Alongside the market environment, regulation and policy are currently among the most common categories of barriers and challenges identified by Task Force members that need to be overcome in order to scale up blended finance for infrastructure projects.

The analysis of challenges and barriers in the policy and regulatory environment described in the report shows that a key obstacle to the uptake of blended finance is the complex regulatory landscape, exacerbated by the lack of a standardised or common blended finance framework to ensure, inter alia, alignment of blended finance principles. In addition to the regulatory issue, there is the ambiguity of the tax and accounting treatment of blended finance transactions, including separate recognition of social impact activities for tax purposes. The regulatory intricacies of structuring blended finance transactions significantly escalate costs and the absence of standardised models exacerbates this challenge, rendering many initiatives economically unviable.

Another complicating factor in blended finance transactions, which has both regulatory and market implications, is the predominance of the commercial interests of the private party over the development objective of the infrastructure project in question. Similarly, there is a more general issue of ensuring sustainable impact considerations in projects that are to be implemented through a blended finance model. This is compounded by the fact that institutional investors, asset managers and other investment structures have fiduciary duties that limit their ability to consider or pursue impact objectives.

To address the current legal uncertainty surrounding blended finance, the report suggests, on the basis of available sources, the prospect of issuing a statement of blended finance legal structuring principles, raising market awareness of blended finance legal solutions and encouraging financial centres to compete for blended finance capital to identify what is missing and what is still needed for blended finance.

As noted above, coordination is a key issue in blended finance transactions and its effectiveness determines the success of the transaction. Coordination is important both at the country level and at the level of the sector, typical actors and participants in a given transaction. Furthermore, Task Force members emphasise that there is a need to improve communication and interaction not only between sectors but also within sectors, especially the public sector. Within coordination, communication issues can be identified as a separate component, which, in the absence of a unified approach to blended finance regulation, leads to a lack of clear and consistent language in developing and promoting a common understanding and framework for blended finance. In addition to that, effective information sharing in early project identification, demonstration and storage is needed. The relevant section of the report notes that the use of dedicated blended finance advisers may be a useful practice.

The report identifies the absence of an inventory (pipeline) of bankable projects, particularly infrastructure projects, and the lack of mechanisms for selecting promising infrastructure projects as significant institutional and market obstacles to scaling up blended finance. Nevertheless, when selecting projects for commercial viability, it is essential to strike a balance between commercialisation and the project's developmental impact and contribution to the SDGs. This is also aggravated by institutional barriers related to data gaps and transparency, including limited access to reliable and standardised data, which hampers informed decision-making; inconsistent data collection and reporting methods across countries make it difficult to compare projects and assess their potential impact and viability. This is compounded by the limited availability of historical performance data on blended finance transactions for infrastructure projects.

The report repeatedly asserts the necessity of awareness raising and capacity building for the success and scaling of transactions and the development of a blended finance market. Furthermore, the enabling environment for investment in a given country is a critical element in the potential to mobilise private finance for investment. The report notes the high potential in an integrated approach to creating a blended finance ecosystem, which could facilitate a transition from a transaction-to-transaction approach.

Furthermore, the lack of sufficient transparency of blended finance transactions represents a significant challenge that is interrelated to the aforementioned obstacles. Without adequate transparency, it is difficult for all stakeholders to fully comprehend the opportunities and challenges associated with blended finance, which encompass transparency regarding financial and development impact-related characteristics. There is also a need to raise awareness and sensitise participants in the blended finance market to the results of blended finance transactions. Currently, there is a dearth of data in this regard, and in numerous instances, access to information, particularly pertaining to financial aspects, is constrained due to confidentiality concerns. In addition, there is a lack of understanding of the risk transfer mechanism in blended finance transactions, where DFI participation creates a misperception that the risk is mitigated while the risk remains on the public investor's balance sheet.

The most extensive set of challenges and barriers to the blended financing of infrastructure projects can be found in the area of the market environment. The main complication is the divergence in risk appetite between public and private parties, which manifests as a desire to prioritise projects with clear commercial benefits and smaller development effects. Furthermore, it is challenging to circumvent market distortion and adhere to the principle of minimum use of concessionality in blended finance projects with high development returns.

When concessional finance is deployed, this may only be done to the extent required to attract non-development, commercial finance and a clear exit strategy may be in place.

In the context of infrastructure projects, the issue of financial market failure represents a significant challenge. Risks in this category are essentially linked to availability of long-term local-currency financing at adequate terms and conditions and availability of long-term hard-currency financing within transferable and/or bearable cross-border risk levels.

In relation to long-term financing, which is vital for the realisation of infrastructure projects, it is important to acknowledge that commercial banks tend to prioritise short-term loans with high liquidity.

The expansion of blended finance funds or facilities could prove to be an effective solution for removing or mitigating barriers to long-term financing of infrastructure projects by commercial banks.

There is a tendency to favour the use of more familiar and regulated financial instruments for blended finance. This is also reflected in the preference of private investors to invest in sectors where the business case is clear. Such sector include energy and banking, and the industrial sector has also shown significant growth recently.

In terms of the instruments available to DFIs and MDBs, the report acknowledges that they are still rather limited and evolving slowly, with DFIs and MDBs predominantly denominating their debt instruments in hard currency and under-utilising local currencies, especially in low-income countries. In addition, DFIs and MDBs have a limited appetite for equity investments and instruments such as guarantees because they are often more complicated than debt. In the case of guarantees, the ticket size is often smaller, they do not expand the balance sheet, and they usually yield less than debt but use the same amount of capital as debt.

At the same time, existing blended finance structures currently lack rating methodologies, which leaves investors uncertain as to how they may rate these structures and has excluded less sophisticated investors from this asset class. There is also a challenge and a risk that blending, when it relies on external private finance, may crowd out the domestic financial sector in the host country, or could unnecessarily subsidise private investment in a way that causes long-term damage to domestic markets.

The views expressed by Task Force members on the challenges and barriers to blended finance, as detailed in section 2.4, are consistent with information contained in analytical reports and studies by international organisations.

Thus, the analysis carried out, although not exhaustive, outlines the existence of a general trend in the BRICS countries towards the development and use of blended finance as one of the approaches to structuring transactions that facilitate the attraction of private and philanthropic capital to finance infrastructure projects.

This technical report has established a foundation for further research and methodological work on infrastructure projects blended finance, and for developing strategies at the national level to overcome the challenges and barriers to scaling up the practice. In this regard, it may be observed that the BRICS Task Force on PPP and Infrastructure provides a useful platform for the continued exchange of knowledge and practices of blended finance.

The BRICS countries are well-positioned to advance the development and exchange of experiences related to regulatory frameworks for blended finance. This encompasses the tax treatment of blended finance transactions and the establishment of robust investor protection mechanisms, in addition to the advancement of project preparation processes. The viability of blended finance is contingent upon a number of factors, including transaction costs, legal transparency, clear regulation, market certainty for the investor, and the availability of commercially attractive projects with high development impact. It is therefore important to emphasise that governments have a key role to play in creating an enabling policy environment that encourages private and philanthropic sector in blended finance. Concurrently, financial institutions, which play a pivotal role in providing catalytic capital, may be engaged in blended finance. It may be of interest to the BRICS countries to pursue the harmonisation of their domestic blended finance legislation, with due consideration of country-specific circumstances and conditions. Such an endeavour would, over time, result in a more predictable and transparent environment for private investors, thereby facilitating their participation in blended finance transactions.

In addition, it is advisable to strengthen interaction between BRICS DFIs, for example through the BRICS ICM, aimed not only at sharing experiences, practices, knowledge and technical assistance, but also at finding ways to jointly finance infrastructure projects that have a high potential for mutual benefit and development impact.

The findings suggest that blended finance will be one of the key approaches used to finance sustainable and climate-resilient infrastructure projects, which are of high importance for BRICS countries facing the growing threat of climate change. At the same time, blended finance can support the development and deployment of innovative infrastructure technologies (e.g. renewable energy), leading to more efficient and sustainable projects. In addition, the BRICS experience shows that the most natural way to develop and scale up blended finance for infrastructure projects is through specialised funds and facilities.

The use of blended finance creates a natural basis for building long-term alliances, brokering cooperation between public, private and philanthropic stakeholders, paving the way for further overcoming traditional financing constraints, and attracting diverse investors seeking financial and social returns. In addition, innovative blended finance instruments, including social and development impact bonds, may effectively distribute the burden on existing infrastructure by creating new approaches to providing social services without the need to create new infrastructure facilities.

Such projects improve the quality of life while also having a positive economic and budget effect.

Awareness-raising and capacity-building, in particular through various training programmes and the publication of guidelines, is an important component of disseminating knowledge and expanding the use of blended finance to finance infrastructure projects. So is the use of modern technology to bridge the data gap and increase the transparency of blended finance transactions. BRICS governments and DFIs can work with asset managers, investment funds and institutional investors to educate investors about the potential benefits of blended finance, including competitive risk-adjusted returns and positive social and environmental impacts.

To raise awareness of blended finance, it may be included as a topic in various regular forums, including those that bring together BRICS governments, development institutions, asset managers and private investors. This would showcase successful blended finance deals: Highlight successful blended finance projects in the BRICS region to demonstrate their viability and impact, and provide investors with in-depth information on the BRICS infrastructure landscape and the potential of blended finance in these markets. Ultimately, it can help connect project sponsors with potential investors and facilitate discussions to develop blended finance structures tailored to specific projects and investor preferences.

Equally important are targeted incentives for private sector participation to encourage blended financing of infrastructure projects, including tax breaks, loan guarantees, grants, project preparation and development grants, and others.

The New Development Bank can spearhead blended financing of infrastructure projects in the BRICS region, in particular by providing concessional loans, loan guarantees, local currency financing facilities and technical assistance, including grants. In practice, the New Development Bank enables infrastructure projects and crowd-in private sector investment. In addition, the New Development Bank may act as a platform for knowledge sharing and capacity building on blended finance in the BRICS region.

The findings presented in this technical report, combined with a strategic approach to lessons learned, offer promising opportunities for BRICS countries to create a more conducive environment for scaling up blended finance, attracting more private and philanthropic capital, and accelerating the development of sustainable infrastructure in line with their national priorities and contributing to the achievement of the SDGs and the solution of global problems such as climate change.

The expansion of blended finance will not only contribute to the amount of financing available for infrastructure projects, but also to the development and use of innovative technologies in the infrastructure sector, such as to facilitate digital transformation of traditional infrastructure, thereby contributing to more efficient, sustainable and resilient infrastructure projects.

In addition, blended finance can support the development of cross-border infrastructure projects promoting connectivity of BRICS countries and facilitate regional trade, investment and economic cooperation.

This could facilitate substantial economic growth, job creation and enhanced living standards for millions of citizens in the BRICS countries.

The BRICS' experience in developing and applying blended finance to infrastructure projects can be shared with other developing countries, facilitating global knowledge sharing and accelerating the adoption of blended finance for sustainable development worldwide.

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