Discussion paper

Aligning blended finance with the Busan principles of development effectiveness

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Contents

Executive summary

This discussion paper provides a proposed framework for approaching and understanding blended finance in development effectiveness. Its starting point is that principles of effective development cooperation can and should apply to all forms of development cooperation, including blended finance. Our analysis examines existing development effectiveness principles using the framework established by the 2011 Busan Partnership Agreement (country ownership; transparency and accountability; a focus on results; and inclusive partnerships). We analyse these principles against what is known about policies, strategies and principles for blended finance.

While we find that all development effectiveness principles are conceptually reflected to some degree in blended finance approaches, three key barriers to delivering on the principles may exist:

1 Lack of agreement between all stakeholders (or appropriate dialogue platforms for reaching agreement) on the role of blended finance in delivering sustainable development objectives and therefore what 'effectiveness' means

2 Recognition that the principles are important, but lack of consensus between stakeholders on how they should be operationalised in blended finance

3 Practical challenges in applying the principles in the same way as traditional development cooperation, due to institutional constraints of different actors participating in blending

Given this, we propose that certain indicators used in traditional development partnerships may need to be shaped and adapted to ensure they are relevant and useful in new partnerships and contexts while still bearing in mind the development priorities of developing countries. We attempt to adapt the indicators accordingly, while retaining the spirit and rationale of the core principles, and present these amended indicators as options for discussion. We also suggest that incorporating new indicators of effectiveness that reflect the institutional strengths and responsibilities of other actors involved in blending can add value to the final framework. It will be important to ensure that all principles are considered together for blending and the approach is mutually agreed between partners, as there can be some tradeoffs between indicators in the framework when considered holistically; this needs careful consideration.

Through presenting these proposals, we aim to stimulate debate that generates more evidence to inform substantive policy dialogue, learning and mutual understanding. This dialogue can drive progress in overcoming these three challenges. It is especially important to encourage discussion of the respective roles which partner countries, donor governments, civil society and other key actors could play in strengthening the development effectiveness of blended finance. Finally, we emphasise that this paper should be considered complementary to important discussions ongoing about the appropriate use and reporting of official development assistance used in blending.

Introduction

Broadly speaking, the term 'blended finance' refers to the use of public inputs (financial, in either concessional loan or grant form, or sometimes in the form of technical or other resources)[1] to somehow reduce risk or increase returns for a private investor in a partnership approach to a financial investment. The idea is that the public and/or philanthropic inputs 'leverage' or catalyse a private investment that otherwise would not be made, creating positive development outcomes. Blended finance can be delivered through many different kinds of partnerships, some using complicated financing instruments and arrangements more familiar to investment fund managers.

In this paper, we take a broad view of blending, discussing a range of initiatives that are considered 'blending' by donors and philanthropic actors. We set aside (for now) important issues, such as the tracking and reporting of official development assistance (ODA) for blended finance, which will be covered in more detail in our forthcoming report (to be published in late 2016). Instead, we consider what evidence has been generated about 'effectiveness' in blended finance initiatives, including those which use ODA. We look at policies and practices of some key institutions undertaking blended finance, including the following:[2]

- The European Commission's Directorate-General for International cooperation and Development (DG DEVCO) regional investment facilities for blending loans and grants[3]
- The Blended Finance Unit of the International Finance Corporation, World Bank Group
- Multi-funder initiatives which deploy blending, such as the Global Financing Facility for 'Every Woman Every Child'
- Key bilateral development finance institutions (DFIs) that may manage or invest blended finance on behalf of donors

It is important to point out that as our review investigates how a set of policies aligns with a set of principles, we did not seek to provide evidence on the actual impacts on the ground of blended finance. Rather, we are examining whether the 'development effectiveness' principles are recognised and aligned with what is known about policy approaches and working practice in blended finance.

Purpose of this paper

Many blended finance arrangements are still in the early stages, with little evidence about best practice in the public domain, except some lessons generated from case studies. Such literature can be daunting for development effectiveness stakeholders not fluent in the language of investment management, and more used to the policies and systems of the public sector. As a result, accessible policy guidance about blended finance is limited. Most public sector actors do not yet have 'blended finance policies' or strategies.[4] While some DFIs do have principles and guidance for the use of blended finance, these are generally specific to institutions – designed to help organisations meet internal objectives rather than publicly agreed shared objectives for development.[5]

Agreeing shared objectives and principles to achieve common development goals in partnership, is at the heart of development effectiveness; as is enhancing a shared understanding of the respective roles that each actor plays in these partnerships. The ambitious 2030 Agenda for Sustainable Development ('Agenda 2030') requires scaling up partnership efforts in development effectiveness; no one actor can deliver the immense effort required alone. And as donors and multilateral institutions invest more ODA in blended finance initiatives, there is a growing need to define and agree shared principles for effective delivery of blended finance, through inclusive, open and honest debate. For this we need a better understanding of how new partnerships, including 'blending', can work best, and dialogue that includes new actors. The focus of these efforts must be on driving effective practice. Blending, when it is done, must have sustainable, positive impacts for the poorest people in developing countries, make best use of public resources, and should not undermine wider development efforts being made by governments. This discussion considers blended finance not only through the lens of 'effective aid', but in line with broader efforts to understand how private actors can contribute to responsible, inclusive and sustainable growth and development.

This paper analyses the 'development effectiveness' of blended finance activities, using available evidence, and provides proposals and starting points for discussion. Given the informal and patchy nature of evidence available, we hope other stakeholders will generate additional perspectives in response to this paper. Our findings are primarily targeted at the international community of development effectiveness stakeholders; however, we hope to promote dialogue with other key actors.

Review of dialogue to date

Before the Fourth High Level Forum on Aid Effectiveness in Busan in 2011, the Organisation for Economic Cooperation and Development (OECD) initiated a working party to look in detail at the role of the private sector in effective development, in response to increasing interest from both donors and partner countries. The ensuing report largely focused on maximising contributions of core business to development rather than 'blended finance' (though it mentions the rise in 'catalytic' uses of aid to attract investment). It did not capture views from DFIs. However, it did highlight priorities for increasing effectiveness in public–private partnerships (PPPs), including: building trust and shared objectives between actors; increasing understanding of roles, responsibility and risks; and promoting transparency.[6] While the Busan agreement does not specifically refer to blended finance, it recommends partners 'facilitate, leverage and strengthen the impact of diverse sources of finance', including 'private investment'[7] and calls on all actors including the private sector to play an active role in delivering effective development cooperation.

Useful analysis has been generated on these topics since Busan, reflecting the broader recent interest in understanding the quality and effectiveness of ODA channelled to and through the private sector. Civil society organisations (CSOs) and other non-governmental actors have produced reports on the development effectiveness of aid to DFIs (common implementing partners for donors in blended finance) or on specific blended finance mechanisms, such as guarantees.[8] These generally highlight similar priorities as the OECD report, while raising concerns that ODA channelled through the private sector does not meet effectiveness standards (particularly around mutual accountability, impacts on poverty, and country ownership). Development effectiveness stakeholders have specific concerns on donor use of ODA funds for blending rather than traditional grants and loans. This choice is problematic if blending diverts scarce ODA from supporting basic services in developing countries, such as health or education, particularly if blending does not actually deliver much additional finance to the poorest and most vulnerable countries (which is still not clearly evidenced).[9]

However, it is not clear that donors will actually choose between using ODA for 'Project 1' (traditional grant or loan) and 'Project 2' (blended) in Country A. Some may do both; for others, Project 2 may be the only possible investment in Country A; they can face political, budgetary and organisational constraints "that mean blending public grants with private loans is an open door whilst others are closed."[10] For some donors, it is possible that blending may be used strategically: an extra 'tool in the toolbox', to be deployed when conditions are right (such as when private actors would add real value alongside a public intervention). This said, while there is clear evidence that the priorities of developing countries include securing increased private sector contributions to development goals, and even PPPs, there is less evidence that they are widely demanding blending from their donor partners. Indeed the drive for blending in the development discourse appears largely donor-led. These (valid) concerns may have precluded discussion of blended finance in a development effectiveness context. Even though the EU recently committed to make its blending operations 'fully consistent with development effectiveness principles',[11] there is little consensus about exactly how that might look in practice.

But whether ODA should or should not be used (and reported) in blending is not the focus of this paper. Instead we provide some general information on how blending of public and private funds happens in practice, whether ODA is involved or not;[12] and attempt to analyse blending through a development effectiveness lens. Our starting point, as with the Busan agreement, is that all actors have a different but complementary role to play in delivering effective development. New forms of partnerships mean examining how traditional development effectiveness frameworks can be adapted with mutual agreement, without compromising the important core principles. Translating these concepts for new actors and engaging them in this dialogue is essential. Despite initial policy discussion on these topics in the past two years, mainly between governments,[13] we are still far from mutually agreeing how to move forward. This is particularly since blended finance involves a range of actors, public and private, that cannot always easily communicate. We need evidence on the development effectiveness of blended finance, and analysis to identify opportunities for behaviour change (and propose solutions to challenges).

Structure of this paper

In Section 1, based on common understanding of the 'Busan' development effectiveness principles and the indicators contained in the related monitoring framework, we briefly analyse how each principle and indicator can be applied in blended finance policy and practice. For each, we propose that principles/indicators are either a) applicable, b) applicable if adapted or c) not applicable or relevant by definition. We also discuss proposals for enhancing effectiveness through shaping the indicator to retain the core rationale.

In Section 2 we describe a separate set of measures of effectiveness that are commonly used in blended finance, to promote understanding of what 'effectiveness' can mean for other actors, such as DFIs and private investors, involved in blended finance. This is important for two reasons. Firstly, it helps the understanding of terms and concepts that may be unfamiliar to development effectiveness stakeholders and enhances mutual understanding of roles and responsibilities. Secondly, where we find that traditional principles of effectiveness are less applicable to blended finance, these new concepts may help define a more useful and relevant approach. We conclude in Section 3 by proposing key elements of a potential framework for development effectiveness in blended finance, and provide recommendations for the future.

BOX 1

Terms used within this paper

We use terms familiar to the development effectiveness community, but less familiar to private companies, investors and financing institutions who also take part in blended finance partnerships. Terms include '**project**' to mean a specific activity, funded by a combination of actors and conducted in a developing country to deliver a development outcome (other actors in blended finance may more often refer to 'investments' or 'deals'). '**Host country**' or '**partner country**' refers here to the country in which the project takes place. '**Donor country**' is used to refer to the country in which either a government agency providing public funds, or their bilateral DFI, is domiciled. In a blended finance context there can be a difference of terms used to refer to the company that receives the investment from blended finance. Sometimes beneficiary refers to the partner country (apparently used in DG DEVCO); however, in other contexts this term might mean the private actor, 'client' or 'investee' that is the immediate recipient. To complicate things further, sometimes the recipient of blending is a public sector entity. Moreover, DFIs may refer to 'affected communities' that are intended to ultimately receive impacts from the investment. For clarity, we will use the term '**investee company**' or '**client company**' rather than 'beneficiary', unless we are talking about an instance where the public sector is in receipt of funds. We also use the term '**DFIs**' for simplicity in cases where this may also apply to the private sector lending arms of multilateral development banks (such as the IFC) which are also active in blending.

1

Principles of development effectiveness and blended finance

This section covers the core principles of effective development cooperation as set out in the Busan Agreement, and reflected in the monitoring framework of the Global Partnership for Effective Development Cooperation. We also summarise the underlying rationale for the principles and indicators. Our evidence review found that while some can be directly relevant, others are more difficult to apply in current form. Yet since the core principles should apply for all actors and partners in development cooperation, we propose some ideas for how blended finance can be more closely aligned with effectiveness principles and how indicators could be adapted while still reflecting the important underlying rationale.

1. Ownership of development priorities by developing countries

The rationale for the principle *ownership of development priorities by developing countries* is that development cooperation providers that align with national plans and development priorities deliver more sustainable results suited to local needs. (There is also an underlying rationale that this can reduce transaction costs for partner countries, as they can focus on their own priorities, rather than responding to a diverse array of donor and funder priorities.) The nature of 'country ownership' has changed over time as 'aid effectiveness' has become 'development effectiveness'. This concept used to imply a national government-led approach and sought to ensure donor priorities did not subsume developing country priorities. But since Busan, the principle of country ownership has been deepened to imply a notion of democratic accountability to, and inclusive consultation in national planning with domestic actors such as CSOs, the private sector and citizens.

We should note that considering this topic is necessarily somewhat ideological. Perspectives on what is 'effective' will reflect views on the appropriate role of government in 'directing' or 'managing' private sector investment for development. For the private sector, minimum liaison with government may be preferred, since this diminishes time spent delivering profitability objectives. However, where public funds and especially ODA is involved in blending, country ownership of results must be examined closely.

Aligning development cooperation with country results frameworks

While there is no fixed template, country results frameworks (CRFs) essentially express agreed country-level development priorities and link these to monitoring results of development cooperation interventions. CRFs are usually the product of a 'negotiation' process with other development partners and funders, linked to national strategic frameworks as well as global development objectives. Multi-stakeholder support and accountability are pillars of a CRF.[14]

Our findings support those of previous reviews, concluding that country ownership, and particularly partner countries' involvement in decision-making, is very low in blended finance – at least when measured against a conception of country ownership that demands leadership from national government. While in blended finance projects in the social sectors, local or national development plans may be more explicitly incorporated into the objectives of blended finance projects, in fact, the Global Financing Facility is the only platform we found that publicly states that partner countries should drive planning of projects at the strategic level.[15] In the EU blending facilities, host governments may participate in strategic development of specific deals, but it is not clear from available evidence that this happens consistently within the process. One reason may be that blended finance by nature can be delivered in one-off project form, which reduces the likelihood of aligning with national plans or local systems.[16] However, the difference in approach may be deeper than this. The World Economic Forum's 'how to guide' to assist development organisations in 'starting up' blending does not mention the need to consult with partner countries at any stage, from conception of a blended finance approach to execution of a project. Though the Guide does encourage organisations to be aware of the external environment, the stakeholders mentioned throughout are all either within the institution (staff) or are private partners.[17]

Evidence also indicates that it is rare for partner country governments to be actively involved in decision-making at project level. This is less surprising. In many cases, blended finance involves deals between investors and private companies – even if the investor is a nationally owned development finance institution or blending facility acting as a fund manager for public–private funds. Involving any government actor in the host country may also be avoided at project level, as risks and conflicts can arise from political vested interests in investee companies.

In some contexts the practicalities also preclude country ownership in the traditional sense. An example of one kind of set-up may help illustrate: a deal involving blended finance may be generated in a developing country by a private actor (rather than initiated by the donor or DFI). They may apply to a specific fund, or approach the DFI representative with a proposal (the

project is probably well past design stage). The DFI staff (investment officers) will screen the project for its institutional objectives (investment guidelines), including financial criteria; environmental, social and governance (ESG) performance standards; and expected contribution to priority development outcomes. Once satisfied that the project may meet the criteria, the investment officer will go to the DFI's investment committee to get 'clearance in principle' and then proceed with due diligence and negotiate the contract.

Only the final approval will involve the DFI's board (the previous steps are all the responsibility of the DFI's investment officers and management). If a donor is involved at all, it is only as a provider of funds (and these funds may be pooled, so are often fungible and not directly linked to projects). Liaison or consultation with host governments around implementation of the project is generally the responsibility of the investee/client company, as part of their contractual obligation to comply with DFI environmental and social performance standards for investees. This interaction might be at local authority level only. Central government may be involved – and according to our findings, this is not often – only after the investment decision is made, perhaps if a project involves significant social or environmental risk, large-scale land acquisition or resettlement. This process can be 'hands-off' for the actor investing funds, in the sense that staff at institutions doing blending are generally expected to generate deals, not manage 'projects'. (However, it should be noted that DFIs will maintain active oversight, to ensure the return of capital at the end of the investment period; this is a core part of the business model. Some DFIs will sit on the board of the investee company.) Though some oversight of investee companies is expected, visits to the site may be limited: we found mixed evidence on this point – it may depend on whether the DFI is investing via a private equity firm, or directly.

But for some DFIs, aligning with a strategic plan for the partner country **is** one of a few key criteria for the board in making a decision to invest using blended finance. The institutional 'country strategy' may be more directly aligned with the government's national priorities; some plans may have been developed in partnership with government (though they may be primarily focused on economic development objectives).

A counterpoint view, however, is that country ownership and consultation on projects funded by DFIs is actually very strong if perceived through a lens that monitors compliance of investee companies with the host country government's legal and regulatory frameworks. Such frameworks would, usually, respond to national strategic priorities and plans, and may incentivise investments in specific sectors or industries. Country ownership could also be conceived as strong in blended finance, if we see local authorities as active and accountable arms of national government. While it is true that DFI investee companies would typically not consult with finance or planning ministries in the way the Busan framework expects, DFIs and their investees must follow the country's legislation – and this often requires very extensive consultation with local authorities and compliance with permits. Many sectors that DFIs invest in are heavily regulated (eg financial services, energy, industry) and DFIs will not invest before carrying out due diligence to confirm that required permits have been obtained from local authorities in a lawful way. So, while DFIs do not have documented processes for developing their country priorities in consultation with partner governments (or even the donors that provide funds), it is debatable whether they could or should put such processes in place.

In any case, it is clear that at the point of decision-making on an individual investment, the judgment on whether the proposal is aligned with national priorities is made by the board, not by consulting with a partner country. The question then is how the essential rationale for the indicator can be upheld to maintain country ownership within the practicalities of these business models and the appropriate expectations for respective actors in the partnership. We believe this indicator can be **adapted to** reflect an appropriate model of country ownership for blended finance, which refers to:

1 complying with host country legal and regulatory frameworks for doing business (which should, in theory, support national planning priorities)

2 enhancing the role and accountability of local authorities in country results frameworks, as they mainly deal with DFIs (and their local community stakeholders) in practice

3 strategically aligning blended finance investments with national priorities.

The third point may be most difficult to flesh out. While it may indeed be a risk (to the objectives of the DFI) to involve partner countries in decision-making about individual blended finance projects, for reasons already discussed, it **is** possible that the strategic objectives of a blended finance investment approach for a DFI (or other fund manager) could still be aligned with the priorities of host countries. (This is also considered best practice by some blended finance actors who use national plans to develop their

institutional approaches.) We could therefore discuss how to achieve greater emphasis and development of these three elements of country ownership to better understand blending within CRF approaches. This could be complemented by partner countries' efforts to involve DFIs and private actors in dialogue (discussed later).

First, however, it is clear that further dialogue is needed to unpack different approaches and institutional models more clearly to understand better where the entry points are for incentivising behaviour change, and allocate roles and responsibilities where they best fit. Fundamentally, while development stakeholders rightly demand accountability and responsiveness to national priorities where public funds are concerned (especially ODA), private actors may argue that public financial management approaches are completely unsuited to private investment (which respond to the market, not government) and that attempting to direct the investments would reduce their impact.

Blended finance is hence where two different approaches meet, and we are just at the start of the dialogue that aims to bring them closer together. Perhaps blended finance approaches should only be truly considered 'development cooperation' if they promote efforts to cross this divide. If they do not, public funds are simply being used to subsidise activities that could, arguably, have been carried out by a commercial bank. Since blending attempts to address market failures by using public money to achieve certain objectives, it seems that at least the nature of those market failures, and the objectives to be achieved through blending, must be open to discussion with partner countries and their stakeholders.

Untying aid (from the purchase of goods and services in the donor country)

The rationale for this indicator is to ensure that donors do not use aid to give unfair advantage to their own domestic companies (without 'strings attached'). Blended finance measures up somewhat poorly against this indicator at face value. While there are some exceptions, such as initiatives that leverage investments to small and medium-sized enterprises domiciled in developing countries,[18] the mandates of DFIs – and sometimes their board representation – can mean that blended finance partnerships often secure investment opportunities for companies from the donor country.[19] In some cases these opportunities have been generated indirectly by the use of ODA,[20] thus effectively tied aid. Some civil society actors have accordingly recommended that aid channelled to the private sector (including blended finance), should instead aim to benefit domestic companies in the host country.[21]

It is important to note, however, that 'tying' blended finance activities to promoting investment from developed countries can sometimes be the intended benefit of blended finance partnerships. Exposing domestic markets to the interest of international investors is aimed at encouraging improved legal, regulatory, environmental and social standards, as well as expanding trade and growth opportunities for domestic businesses (though more evidence is needed on whether these broader benefits are actually generated, as discussed in Section 2). Development strategies for developing countries often include securing foreign direct investment in certain sectors (energy, for example); blended finance may in some cases help to deliver this, particularly where domestic investment is not forthcoming.

Pending further evidence, one option could be to apply the indicator for blending only in cases where alignment with country priorities can already be clearly demonstrated. We could consider how the indicator could be **adapted only for these specific cases**, while reflecting the same rationale. There are some obvious priorities. The first is that the framework should encourage actors to ensure profits from the leveraged private investment are not solely flowing to developed countries, but that they strengthen local economies, benefit local companies and conform to domestic tax regimes. Blending investments that include both international and domestic private actors could promote more effective development results. The French development agency AFD, for example, has created partnerships that combine international loans channelled through local banks into domestic development projects accompanied by technical assistance provided in grant form.[22] This generates revenue domestically and capitalises on local knowledge of markets, while promoting foreign investments. Monitoring revenues generated through blended finance deals would build on existing efforts by DFIs to collect data on taxes paid by investee companies.

A second priority is ensuring that domestic investors are not disadvantaged or 'crowded out' of the market by larger international players 'subsidised' by ODA. (This is discussed in Section 2.)

All this being said, in the case of ODA-funded blending, it is important not to backtrack on important commitments by donors to untie aid. Blended finance that uses funds reported as ODA should be expected to fully comply with this indicator, and efforts need to be made in enhancing reporting to ensure that compliance can be monitored (as this is currently very difficult). Dialogue may need to focus on how donors can better direct, track and report what their funds are doing, when they are invested by other actors.

Effective institutions: developing country capacities are strengthened/local systems used

The rationale here is to build sustainability and local ownership, and to reduce reporting and administrative burdens on host countries. We have already seen that, at present, blended finance mostly involves direct contact between fund managers and companies rather than between donors and governments, or even donors and companies. Hence this indicator can by definition only apply to current practice if it is **adapted** to fit the context – or else we need to examine how the practice needs to change to comply with the principle. We need mutual agreement among stakeholders on which is preferable, but for the sake of discussion, we present options for adapting the indicator to align with current practice.

The first and most obvious point is that, to align with this indicator, the investment should ideally directly help build a 'real business' (rather than create a complex financial activity, which cannot be traced easily to an impact on the ground). A second point (which some DFIs already emphasise) is that blending activities should build the capacity of investee companies. Increased sustainability of domestic companies can often be an expected outcome of blended finance partnerships, particularly for those DFIs with strong expertise in capacity building. While efforts are often based on enhancing the company's profitability, they can also have developmental impact. For example, the UK's DFI, CDC, provides toolkits and support for fund managers, to help investee companies comply with ESG performance standards and other requirements.[23] This can have clear developmental benefits for the host country's society and economy (but it should be noted that the long chain of influence still implies a low control of ultimate outcomes from the DFI). To add value within a blending partnership, especially when they have the benefit of a more holistic development knowledge of the community in which the company operates, development cooperation partners could pay closer attention to encouraging emphasis of the developmental aspects (rather than just profitability) in capacity building, and monitoring to encourage greater employment of locals.

Finally, there is an important dimension that could be called 'capacity building for the domestic investment environment'. The rationale for the use of donor grants to subsidise private investment is generally that the investment environment is too 'risky'; ODA can incentivise the private sector to countries where they otherwise would not invest. In this context, blended finance is a short-term tool to address the **symptom** (reducing risk, case by case). However, steps should also be taken to address the **cause** (the underlying weak legal and regulatory framework or other conditions creating real or perceived risk). The indicator on 'effective institutions' could reflect partnership efforts to use blended finance not as a one-off 'quick win' but embedded in a coherent package of measures to enhance the investment environment, for example, capacity building for public financial management and managing PPPs.[24] A recent paper from the International Finance Corporation (IFC) notes: "Blended finance can help key investments proceed, but should be seen as a stepping stone to more comprehensive reforms."[25] This approach would align with commitments made by many countries at the Third International Conference on Financing for Development to increase their aid for domestic revenue mobilisation.[26] Partner countries should be in the driving seat of such an approach, and coordinated strategic dialogue between DFIs and donor agencies would be needed. More discussion would also be needed to decide appropriate approaches for developing joint strategies in fragile or vulnerable country contexts.

Finally, there are obvious global political economy dimensions in this debate. A holistic approach to blended finance in development effectiveness – taking into account the commitment of UN member states to 'enhance efforts in policy coherence for development' in Sustainable Development Goal (SDG) target 17:14 – will mean making efforts to remove obstacles in trade and investment agreements that may limit developing countries' abilities to manage private finance and reduce risks.[27]

2. Transparency and accountability for development results

The rationale for this principle *transparency and accountability for development results* is to enhance accountability and strengthen legitimacy and mutual trust between development partners, ensure affected communities are fully informed and consulted about activities which affect them, and to help countries plan for incoming funds, all of which enhance results.

Making information publicly available

Transparency is well reflected, at least conceptually, in the policies and principles of actors involved in blended finance.[28] However, significant challenges in accessing information and data still exist, as others have also documented. This may be because, while all actors in blended finance prioritise transparency in principle, the target stakeholders for information are different (for example, transparency to investors or boards rather than the public). There also may be different views on the kind of information stakeholders need (eg format, timeliness). Here, consensus needs to be promoted; transparency and accountability is to "the intended beneficiaries of our cooperation, as well as to our respective citizens, organisations, constituents and shareholders".[29] Here we look at the key information required for full transparency to these actors, and whether it is available. It should be noted that generally DFIs follow national legislation on transparency, rather than international standards, which leads to variance in practice; and that some information is seen as commercially sensitive and not usually shared in blending (terms and conditions of loans, for example). Even within these constraints, some DFIs strive for best practice and promote greater transparency than others do.

1. Strategic documents and policies

Information needed for transparency would include:

- strategies and policies guiding use and decision-making on blended finance
- institution structure and governance organograms
- names and affiliation of board members who make decisions on investments
- strategic guidance given to boards, such as sector/country investment strategies
- policies that apply to private fund managers and investees (for example, ESG performance standards)
- frameworks and templates to explain how results data is collected, reported and evaluated
- minutes of board meetings and records of decisions made.

While many blending institutions provide some of these, we did not find any that made all of these documents available. Criteria and strategies that guide blending decision-making are rarely public.

2. Project-level information (on individual blended finance investments or activities)

While DFIs' transparency policies usually apply to their investments – including projects funded by blended finance, in practice, accessing project data is difficult. Full transparency would call for clear project descriptions; names of funding partners; investee companies and all subcontractors; the whole dollar value of projects; information on public/donor funds invested; and environmental and social assessments. Past and proposed future deals should be available. We found that comprehensive information like this is almost non-existent. Qualitative information on projects is summary only (without partner names, specific location, contact points, or intended developmental outcomes). The value of the individual contributions to the deal by each partner is mostly unavailable (held to be commercially sensitive). Project evaluations and results may not be published, especially if results are less than positive.

However, we found (during research for our forthcoming data report) that many DFIs and donor agencies had more information on both strategies and projects available on request. In some cases, the sole barrier to giving information to us was that data could not easily be collated or formatted in time. This suggests that progress on transparency could quickly be made. This indicator should be considered **applicable** to blended finance. Public funds and especially ODA used in blending must be fully transparent and accountable.[30] Blending institutions should publish all non-commercially sensitive strategic documents related to blending activities. Where ODA is being used, but this is 'fungible' and cannot be tracked to specific projects, data on all potentially ODA-funded activities should be available in the first instance, while reporting is improved to allow for greater traceability. Institutions managing and implementing blending activities should publish data to the International Aid Transparency Initiative (IATI) data standard (which can exclude all commercially sensitive information); some actors (such as the Netherlands development bank FMO and the Private Infrastructure Development Group) already do.[32]

(We cover reporting in more detail in our forthcoming report.)

In line with the spirit of Agenda 2030, we should also consider the role of partner country governments in strengthening the legal and regulatory frameworks relating to transparency around private investments, especially to require companies to publish better information about their activities and who they receive investments from. The scale of the deal can help define the actors responsible for disclosing information to the public. In smaller projects, local authorities could help share information with communities about private investments being made in their jurisdiction. In others, central government could improve the environment of transparency around private investments. In complex multi-stakeholder partnerships, roles and responsibilities for disclosing information to key stakeholder groups, including beneficiaries of the investment, should be agreed, and these roles and responsibilities made public.

3. A focus on results

Inclusive reviews of progress and results for mutual accountability

Mutual reviews of progress are led by developing countries and seek to involve all development partners. They aim to encourage all actors in development cooperation to be accountable for results, and to promote learning to strengthen progress.

We have already seen that there is little direct dialogue with partner countries at present on blended finance deals, which implies poor performance on mutual review. It is difficult to consider this indicator directly, so we reviewed how results are currently defined, measured and evaluated in existing blending, and found mixed evidence on whether results are accountable or reviewed by partners. While there is some informal evidence that donors are encouraging their DFI partners to maintain a more developmental lens on their investment, it seems (as discussed earlier) that mostly they are hands-off on how ODA is invested by DFI partners into private equity funds or domestic banks, and that DFIs may be equally hands-off. Results in practice are mostly with the private investee to define, deliver and report on (no doubt with some exceptions). In terms of reviewing the results once delivered, while this may be done by institutions and their auditors, it does not appear to be linked to any partnership reviews with countries. Results information is reported either at institutional level aggregated globally (to showcase the performance of an institution), or shared in promotional case studies (which do not measure successful outcomes against the initial intended outcomes, for example).

However, the drive to achieve results is embedded in the business model of DFIs and private actors (at least, to secure a financial return). Being 'results-driven' is well reflected in most institutions delivering blending; they have institutional objectives and frameworks for monitoring institutional performance against these, and all DFIs monitor outcomes of deals in some way. Attempts are also being made to improve reporting practices in response to stakeholder demand for information; for example DFIs of the European Development Finance Institution (EDFI) agreed to harmonise reporting in 2012.[32] That said, the drive to achieve a 'return on investment' does not fully realise the approach explicit in the Busan agreement: results "must have a lasting impact on eradicating poverty and reducing inequality".

The issue then is how to progress current practice to ensure alignment with this important principle, while not stifling attempts in new partnerships to innovate, and recognising that sometimes new models of delivering results need to be trialled and tested. We need to ensure intended results for both developmental and financial returns are defined, agreed, delivered and reviewed in an inclusive and open manner by concerned parties. This requires that an understanding of results that aligns with the Busan vision is promoted among all actors, recognising that private finance will have a different role in delivering these results than do public actors. This is essential to make the use of public funds – and especially ODA – for blending transparent and politically legitimate. Particularly important is making sure every actor in a blended finance activity chain is accountable for their role in delivering results, whether success or failure, and that recourse is available to those affected if the activity causes harm. Importantly, we did not find clear evidence that all actors involved agree that attracting private investment through blending is a means to an end – that private investments 'leveraged' by public funds should deliver sustainable development and poverty eradication (rather than being an end in themselves). Promoting this agreement may be the first step. This said, it is also fair to say that blending activities are not the only forms of development cooperation where challenges arise in measuring long-term impacts beyond the initial measurable outputs. A useful approach may be to 'test and scale': to pilot small initiatives, defining and reviewing the results inclusively with all actors and agreeing on best practice, before scaling up and committing large amounts of public money.

Some donors are also trying to promote a more development-friendly approach in blending: for example, by incentivising behaviour change in less inherently development-focused

DFIs, by providing them with dedicated poverty-focused funding inputs (for which they allow lower financial returns) to encourage them to invest in riskier markets. Others are building dialogues with the social-impact-investing community, which has developed innovative results measurement models for private actors, helping companies track environmental and social impacts alongside financial returns. It is possible (though of course debatable) that targeting blended finance to the social sectors as the EU is seeking to do may be more 'transformational'; attracting socially minded investors who seek development impact over profit and do not mind taking a bigger risk. Blended finance, managed carefully, may help bring together public and private actors to promote learning about getting better results, and develop impact measurement. Partner countries, civil society and other actors must now have a role in defining, delivering and reviewing blended finance impacts, and deciding what effectiveness looks like. We also need much more comprehensive evidence on experiences to date, including from practitioners. Finally we need better understanding of what outcomes different actors can be responsible for on the ground, to define roles and responsibility and promote accountability.

Predictability of flows

The rationale for advance disclosure in development cooperation is to help partner country governments plan for incoming funds (granular detail is needed). While our review suggests that advance notice of a deal enhances effectiveness of blended finance, such as DFIs publishing advance notices of projects on their websites, the rationale for doing so is different. It is mainly to deliver on transparency commitments (to allow stakeholders to engage and respond). We suggest that this indicator is **not applicable** to blended finance as there is no similar requirement for partner countries to plan for funds. Similarly, *giving aid which is on budget and subject to parliamentary scrutiny* is considered **not applicable** to blended finance by definition. (It is worth reflecting on the implications here, and on what circumstances may incentivise donors to use ODA in blending mechanisms over other forms of support, an important discussion beyond the scope of this paper.)

4. Inclusive partnerships

This principle is an important dimension of the Busan agreement, ensuring that civil society and the private sector (alongside other non-governmental actors) can both participate in and contribute to development design and planning, as well as review results; this enhances both results and accountability. Gender equality is seen as a pre-requisite for sustainable growth. Since domestic governments are primarily responsible for creating the 'enabling environment' and promoting gender equality, this principle does not directly apply to blended finance practice currently (except the few initiatives where partner governments are involved in strategy and design of projects). But it would be wrong to dismiss these indicators without discussion and we present some ideas for how to consider them in the context of blending (though their actual measurement may be less appropriate). Blended finance-funded projects can have a role in enhancing inclusive partnerships and may fund a company, service or product that directly engages with other actors. Blended finance activities should also not undermine inclusive partnerships, but support and strengthen country efforts.

Civil society operates within an environment that maximises its engagement in and contribution to development

DFIs generally have performance standards for investee clients that expect companies to conduct open consultations with local communities as part of risk mitigation and ESG. However, especially where large infrastructure projects are concerned, there is evidence of some projects from international financial institutions (which also practice blending) infringing human rights, causing displacement, or otherwise disadvantaging communities.[33] This is a complex topic, which cannot be explored here in depth. We suggest at the minimum that blended finance investments are restricted to companies that comply with human rights standards and other regulatory frameworks. Some private companies do more to actively promote community empowerment and local ownership; companies with these (proven) ethics could be prioritised for blended investments. Accountability mechanisms are also important, so communities can hold private companies that benefit from blended finance funds to account for their actions and impacts. Ideally, performance standards would hold companies not just to a 'do-no-harm' approach towards community engagement, but a 'do-good' approach. These mechanisms should be linked to mutually defined and agreed results, as discussed earlier.

Engagement and contribution of the private sector to development

The quality of public–private dialogue (PPD) is the key way that the private sector's engagement is assessed in the Global Partnership for Effective Development Cooperation (Indicator 3).[34] Since blended finance is by default an instance of PPD, the indicator needs to be **adapted**. We propose to reflect the indicator firstly in principles of country ownership (engagement of the private sector in development planning); and secondly in results (contribution of the private sector to development impact).

On the first element, engagement, the EDFI's first annual report notes:

DFIs focus almost exclusively on their investment operations and rarely engage in the policy making process in the countries where they invest. At the same time, the policy environment and other market conditions greatly affect [their activities]. In many cases, development partners can do more to include private sector representatives in their policy dialogues.[35]

We could qualitatively enhance country ownership indicators, perhaps to draw out how well blended finance actors like DFIs and other funders participate in PPD led by partner countries.

One approach which could enhance engagement is establishing sector-specific platforms with a country, regional or global scope to include DFIs and private investors; blended finance projects are often led by sector specialists rather than country specialists. More proposals and lessons need to be shared, to identify solutions that are achievable in practice. (The second element 'private sector contributes to development results', has been covered in '3. A focus on results.')

Gender equality and the empowerment of women and girls

The Busan Partnership Agreement, as well as Agenda 2030 (SDG 5), has recognised the importance of empowering of women and girls and promoting gender equality. The rationale for this is achieving sustainable results, and promoting equality and human rights.

There are examples of blended finance initiatives that specifically benefit women and girls, such as the UN Capital Development Fund 'Local Finance Initiative' (which promotes inclusive growth, and is linked to partnership approaches in country on gender-sensitive budgeting)[36] and the investments generated by the Global Financing Facility for 'Every Woman Every Child'.[37] Yet broadly speaking, the vital empowerment of women and girls for development and equitable investments across genders is not reflected in policies, performance standards or results frameworks for institutions managing blended funds.[38] Though we have not reviewed practice on the ground, cases have been documented of projects funded by international financial institutions, which also deliver blending, that have exposed women and girls in communities to risks such as sexual harassment or violence.[39] All actors should be responsible for making concrete efforts to reduce these risks, and for incorporating important principles of gender equality into projects funded by blended finance. Progressive action could include the explicit recognition in institutional strategies and policies on blending that empowering women and girls is essential for development. Investment choices should reflect these policies, and for investee companies, ESG performance standards could be updated to encourage companies to employ women and girls. They should also be encouraged to take steps to reduce gender-based employment discrimination and sexual harassment by staff of investee companies, including by drawing up action plans to mitigate risks to communities.

2

New elements of effectiveness in blended finance

Here we briefly summarise alternative concepts of effectiveness used by other stakeholders in blended finance. Considering these can promote understanding of roles, responsibilities and mandates of various actors and encourage a more mutually agreeable idea of 'effectiveness' in practice. This is also important so that dialogue about development effectiveness in blended finance does not duplicate existing efforts being made by blending actors, but can seek to complement them. We have arranged these indicators where they seem to best align with existing development effectiveness principles. It is interesting that we could not find indicators of effectiveness in blended finance discourse that seemed to align with 'inclusive partnerships' or 'country ownership' principles. This suggests that the principles of 'results' and 'transparency' may be good starting points for mutual understanding and promotion of dialogue, as there are more areas of common ground between actors.

"A focus on results"

Additionality

Unless it is demonstrated that public funds are necessary to a) make a private investment happen ('leverage' it) and b) increase the development impact of projects, then the public funds are not considered 'additional', a key measure of their impact and effectiveness. Since there is already good technical literature on these topics, we do not discuss them here at length.

- **Financial additionality:** Would the private investment have happened anyway? If it would have, the public institution is not 'leveraging' additional funds but simply subsidising private companies, or crowding out other (perhaps domestic) investors. This undermines effectiveness considerably and is an important concern for actors practising blending.
- **Developmental additionality:** Did the presence of public funds and/or public actors increase the positive impacts on development of a private investment? (Some actors also look at the 'transformative' effect of blending on markets through demonstration effects.)

As measurement of both types of additionality is a topic of current debates in key blending institutions, we suggest a placeholder indicator in a new framework.

Investments in line with financial integrity principles and ethical investments

Blending actors may have institutional guidelines or principles requiring the appropriate use of offshore financial centres, balanced with needs of developing countries; compliance with domestic tax regimes; responsible investments in line with global standards of financial integrity;[40] and other investment standards such as UN Equator Principles or UN Principles for Responsible Investment. This could be an important indicator to retain in a new framework as financial integrity could enhance long-term effectiveness and wider developmental impacts of blended finance.

Flexibility

Flexibility means responding to opportunities and adapting the blending approach to the context and market to deliver the agreed results. Flexibility, ability to learn and adapt, or 'creativity' may be seen as essential to achieving blended finance results. Institutional flexibility is also sometimes characterised as a way of overcoming 'institutional' barriers to blending and partnering with the private sector, particularly since blending could require a fairly significant change in organisational or institutional approach for developmental actors. As 'flexibility' is subjective, it may be less useful as an indicator. However, this point is at the heart of the different approaches of the public and private sectors, and must be considered as we review all the principles.

Timeliness of public inputs

If public finance is to truly catalyse private investment, it needs to be engaged at early stages. Doing so may also increase the likelihood of shaping project outcomes to ensure greater developmental impact. (Overly bureaucratic donor processes can, however, present challenges in this regard.) Early engagement of the public actor is also presented as a driver of 'developmental additionality'.

Harmonisation and alignment

Blending itself is seen as a tool to enhance donor coordination at country level. Particularly in the EU context, it can help to decrease transaction costs for host countries.[41] Harmonising processes and systems for investee companies is also useful for reporting (if they receive funds from more than one DFI, for example). This may be a useful indicator to include.

"Transparency"

Good corporate governance and oversight:

Internal governance to reduce conflicts of interest and promote accountability to funders and other actors. Since this is an operational or internal principle rather than one that directly enhances development effectiveness, we suggest it is not needed in the framework.

3

Conclusion

Our analysis suggests that a framework for effectiveness in blended finance could reflect the core principles, using some existing, some adapted, and some new indicators. The resulting framework (Table 1) should be considered a list of ideas and elements for discussion, rather than concrete proposals of language.

As noted in the text, there is a clear need to consider effectiveness in blended finance holistically, bearing in mind trade-offs between some of the indicators. It should also be noted that some of these indicators may also apply to private actors in all forms of development cooperation.

This proposed framework provides a starting point for discussion. We acknowledge that our analysis has been based on limited evidence and that our findings may not apply in all institutions, partnerships or country contexts. We therefore hope that others will add to our findings and proposals.

The analysis also highlights some key priorities for making blended finance more effective. Firstly, there is an urgent need to engage both DFIs and private actors involved in blending in development effectiveness dialogue, globally and at national level. These actors' inputs would also strengthen discussion around proposals presented in this paper. We also found that the 'results' and 'transparency' principles are reflected more fully in existing conceptions of effectiveness in blended finance. These two principles represent a potentially useful starting point for an approach to deepening mutual understanding of development effectiveness between public and private actors.

We also propose that blended finance debate in development cooperation needs to encourage actors on both sides (public and private) to 'cross the divide'. It should clarify differences between public and private actors and encourage mutual understanding, particularly on 'country ownership', where there are clearly divergent approaches.

Secondly, transparency and accountability is extremely limited in blending activities, particularly on results and traceability of public funds. It will be impossible to make meaningful progress in enhancing effectiveness without efforts to generate better information and data on blended finance activities; this needs immediate attention and action. Accordingly, our forthcoming report will present recommendations on how the reporting of ODA used in blended finance can be improved to enhance transparency and accountability. Thirdly, efforts should be made to enhance the ownership and responsibilities of partner countries in blended finance; more evidence is needed on how blended finance investments can best be strategically aligned with country results frameworks and national priorities.

Finally, we have not (yet) conducted extensively on the views of partner countries on current blending activities, nor could we find significant evidence generated by Southern civil society, or experts in developing countries on these issues. Further dialogue must include these stakeholders, particularly to seek views on the appropriateness of using ODA for blending versus other priorities, and the impacts of blending initiatives in different countries and sectors.

TABLE 1

Framework for effectiveness in blended finance

	1. Ownership of development priorities by developing countries	2. Transparency and accountability for development results	3. A focus on results	4. Inclusive partnerships
Indicator retained from Busan framework		Both project or deal and strategic-level information publicly available and accessible including past and future projects and names of all subsidiary investees and partners (incorporates 'predictability' from country ownership).		Investee funds and companies promote equal employment opportunities for and empower women and girls.
		All actors delivering blended finance make information on how results are defined, delivered and reviewed public, and publish project and institutional evaluations.		
Indicator adapted from Busan framework	Blended finance is aligned with and contributes to country-owned development priorities. This could be reflected in several indicators covering some or all of: • ensuring compliance of blended finance with national legal and regulatory frameworks for doing business (with the assumption they are linked to national planning priorities) • enhancing the role and accountability of local authorities in country the results frameworks • strategically aligning blended finance investments with national priorities (linked with 1d). Domestic partners are prioritised for investments, where this does not undermine ESG standards or standards for responsible investment. International companies benefit from blending only where alignment with country priorities can be demonstrated. This demonstrably strengthens economic conditions of the developing country and generates domestic revenue (b and c adapted from indicator on 'Untied aid').		Investee companies become financially sustainable, with enhanced capacity for social and environmental responsibility (incorporates 'contribution' from private sector indicator).	Investee funds and companies respect human rights, consult and engage local communities and promote community empowerment.

TABLE 1 CONTINUES ON NEXT PAGE

TABLE 1

Framework for effectiveness in blended finance (continued)

	1. Ownership of development priorities by developing countries	2. Transparency and accountability for development results	3. A focus on results	4. Inclusive partnerships
New indicator of effectiveness from blended finance policy and practice to be added	Public–private dialogue includes DFIs and private investors (incorporates 'engagement' from private sector indicator). Blended finance investments are complemented by demonstrable, aligned efforts by development partners to use ODA to strengthen domestic markets and regulatory frameworks, and bearing in mind SDG 17:14 on policy coherence.	All actors in multi-stakeholder partnerships agree roles and responsibilities in delivering full transparency; agreements are published. All actors delivering blended finance have accountability mechanisms in place to allow affected communities recourse to complain if necessary.	Blended finance delivers financial additionality and developmental additionality in line with agreed priorities in the developing country (recognising that these concepts are still being clearly defined). Public actors are engaged at early stages of blended finance initiatives and can shape and influence project outcomes according to country results frameworks. Blended finance funders coordinate activities at country level. 'Test and scale' – blended finance starts with a pilot, to reduce the risks of project failure impacting on communities and wasting public funds. Investments comply with global financial integrity standards, environmental and social standards.	
Busan indicator not applicable	Predictability indicator incorporated under transparency. Aid on budgets indicator not relevant.			(PPD indicator incorporated in 'country ownership' and 'results'.)

Note on evidence consulted

To conduct this analysis we reviewed a wide range of evidence. Firstly, policies and principles governing operations at major development finance institutions (DFIs). DFIs are often the main implementing actors managing blended finance investments on behalf of donor agencies. Secondly, we reviewed independent third-party evaluations and reports on DFIs, blending institutions and specific mechanisms. Given the limited information available on blended finance policies and practice, we obtained extra information on how general policies and principles applies to blending operations through interviews with institutional and expert stakeholders wherever possible. Finally, we examined the policy approaches of specific initiatives and multi-stakeholder partnerships that promote the use of blended finance to achieve the Sustainable Development Goals. Due to the large number of sources consulted (especially for the transparency and results section), we limited references to those that contain relevant information on blended finance, to avoid this list becoming too cumbersome. In the text, we cite comments with stakeholders without attribution, as views were given informally. Any misrepresentations, errors or inaccuracies in this paper are solely the responsibility of the author and we welcome corrections. Questions or comments on the sources consulted are also welcomed.

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Notes

1 These funds are not always reported as ODA, though rules on reporting are currently undergoing change at the OECD Development Assistance Committee (DAC). For a fuller explanation of the kinds of public inputs that donors can make in blending, see Development Initiatives, 2016. *The role of blended finance in the 2030 Agenda: Setting out an analytical approach*, p16. http://devinit.org/#!/post/the-role-of-blended-finance-in-the-2030-agenda-setting-out-our-analytical-approach

2 This is by no means an exhaustive list of current blending activities. A recent survey by the World Economic Forum found 74 'funds and facilities' that were apparently delivering blended finance.

3 To date, blending through the EU facilities has mainly sought to leverage funds from DFIs, though the intention is to partner more with private actors. The new European Investment Platform, announced in 2016, is undergoing consultation. It will consolidate the EU's blending activities into a broader 'three pillar' approach to development in developing countries.

4 Although some public sector actors have begun producing policy documents covering 'innovative finance', which does have some crossover.

5 With the exception of the EU, which has published policy guidance documents and website pages summarising how the DEVCO blending facilities help it achieve development outcomes.

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12 Not all public inputs into blending are currently reported as ODA. Since it is challenging to track ODA through blended finance activities, we use the term 'public funds' throughout, but highlight what is known about ODA when the information is relevant.

13 Such as the substantive preparations for the 2015 Third International Conference on Financing for Development, and during symposia for the 2016 High Level Meeting of the Development Cooperation Forum (DCF).

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18 The Sarona 'Frontier Markets Fund' seeks to drive investment in small to midmarket companies in 'emerging and frontier markets'. Countries include Colombia, Egypt, Tunisia, Mexico, Malaysia, Nigeria, Morocco, Turkey, India, Algeria, Angola, Brazil, Indonesia, Ecuador, Peru, Vietnam, South Africa.

19 Such as the Overseas Private Investment Corporation (OPIC), which has the mandate to promote opportunities for US businesses investing abroad. OPIC does not report its activities as ODA (yet); it provides net benefits to the US through loans and guarantees. In regard to DFIs, an example is FMO, the Netherlands Development Finance Company (51% owned by the Dutch state and 49% by commercial banks, trade unions and other members of the private sector).

20 Oxfam-Eurodad joint research report on blended finance, 2016, forthcoming

21 Kwakkenboes, J, 2012. *Private profit for public good? Can investing in private companies deliver for the poor?* Eurodad. p22

22 See SUNREF case study in AFD [French Development Agency] and UN Development Programme (2016). *Financing the SDGs in the Least Developed Countries (LDCs): Diversifying the Financing Tool-box and Managing Vulnerability*, p36

23 CDC [UK Development Finance Institution]. *ESG Toolkit for Fund Managers*. Available at: http://toolkit.cdcgroup.com/working-with-cdc/

24 One example of this approach is the IFC's Global Agricultural and Food Security Program (GAFSP), a blending initiative. A public sector window helps governments with national agriculture and food security plans. A private sector window provides long- and short-term loans, credit guarantees, and equity. However, it is too early to assess whether this initiative has been effective.

25 The paper also makes the more technical point that "in the long term it is preferable to pursue risk allocation structures which align risk exposure to the ability to manage that risk – thus providing incentives to actually reduce the risk." Sierra-Escalante, K and Gregory, N, 2016. *Blending public and private finance: What Lessons Can be Learned from IFC's Experience?* EMCompass Note 3, April 2016.

26 However, investment incentives for both domestic and foreign investors can include tax holidays. This needs to be considered in light of the domestic resource mobilisation agenda.

27 Romero, M, 2014. 'International private finance for development: risky business?' in *Great Insights: Private Sector Matters*, Vol. 4 Issue 5, p17.

28 Increased transparency is sometimes framed as an intended outcome or benefit of blending. Large international companies attracted through blending often have to comply with higher global standards of transparency than do domestic investors or contractors, which could in theory incentivise overall improvements domestically.

29 The Busan Partnership Agreement, 2011, Section 11d

30 The OECD DAC's Development Cooperation Directorate is currently working to revise ODA reporting rules to better track DFI funds and facilitate the counting of 'private sector instruments', or mechanisms used by donors (such as guarantees) to 'leverage' private investments. Since decision-making on these points is imminent, we have not discussed these revisions here. However, development effectiveness principles are apparently not being explicitly considered by DAC donors, in relation to ODA-eligibility of private sector instruments.

31 To look at IATI data visit www.d-portal.org, which displays raw data on expenditures published by DFIs and private actors involved in blending, though data quality varies. Since data is updated in more or less real time, the following link to a specific set of activities may not always show the same information, but it can provide a useful example: http://d-portal.org/q.html?aid=XM-DAC-47086-EAIF

32 Different reporting systems are burdensome on clients, which leads to less reporting. The harmonisation should hopefully increase availability of results data.

33 The Internal Displacement Monitoring Centre's 2016 *Global Report on Internal Displacement* notes that 15 million people a year are displaced by development projects. See also Oxfam, 2015, *The Suffering of Others*.

34 Data gathering for Indicator 3 has been based on the 'Public-Private Dialogue in Developing Countries' methodology developed and tested with the World Bank, which provides evidence on (1) the legal and regulatory context for PPD; (2) the country's readiness to host, create or sustain a dialogue process; and (3) the organisational effectiveness of a given PPD platform. However, as noted earlier, dialogue with host governments or indeed donors about most blended finance deals may be quite minimal, particularly where DFIs are concerned.

35 EDFI (2014) Annual Report. Available at: http://www.edfi.be/news/news/35-edfi-annual-report-2014.html

36 Un Capital Development Fund (UNCDF) Local Finance Initiative: Available at: http://www.uncdf.org/lfi

37 http://globalfinancingfacility.org/

38 While some donor agencies with overarching gender-related policies may mainstream this into blended finance activities in practice, we found no evidence of this as a systematic approach.

39 https://www.theguardian.com/global-development/2016/jan/12/world-bank-cancels-uganda-road-sexual-assault-claims

40 EDFI, Briefing Note on EDFI Guidelines for Offshore Financial Centres. Available at: http://www.edfi.be/component/downloads/downloads/13.html

41 European Court of Auditors, 2014. *Special Report: blending regional investment facility grants with financial institution loans to support EU external policies*. Available at: http://www.eca.europa.eu/en/pages/DocItem.aspx?did=28909

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