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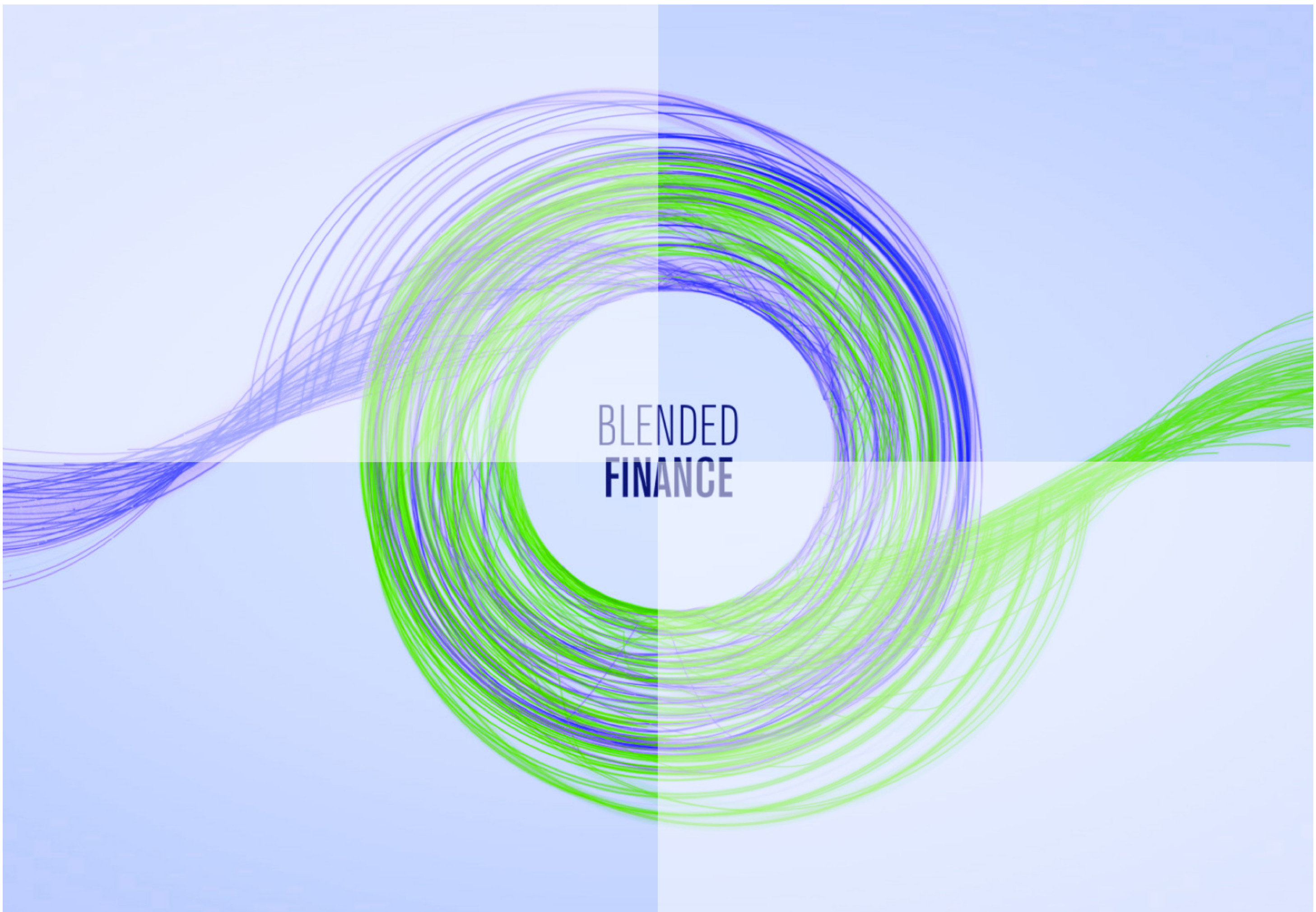
ReDesigning Development Finance Initiative
A joint initiative of the World Economic Forum and the OECD

Insights from Blended Finance Investment Vehicles & Facilities

January 2016



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Executive Summary

This insight paper synthesizes the findings of a survey commissioned by the ReDesigning Development Finance Initiative (RDFI) to: (1) generate a view of existing Blended Finance funds, facilities and supporting mechanisms (the "investment vehicles"), (2) derive insight into the implementation and motivations of these vehicles, and (3) analyse the additionality, impact and effectiveness of different Blended Finance approaches.

The survey is an initial attempt to start building the evidence base on the role of Blended Finance in contributing to development outcomes in emerging and frontier markets and the ability of this approach to catalyse private capital. The lack of consistency in common terminology and definitions for Blended Finance has limited data analysis to date, which the recent development of the *Blended Finance Toolkit* is helping to address.

The results of the survey show that Blended Finance has contributed significantly to catalysing capital for emerging market investment, resulting in positive development outcomes. The 74 funds and facilities within the scope of the survey account for $25.4 billion in assets ($14.9 billion in direct funding across 61 funds, and $10.5 billion supplied through 13 supporting mechanisms). In addition, while only 32.4% of funds and facilities responded to questions on social, environmental and economic returns, the data indicates that development and philanthropic funders ("development funders") have achieved or outperformed their impact targets, reaching at least 177 million beneficiaries.

Additionally, realized returns do not appear to be affected by this approach, with average expected and realized returns in line with the market. Reported average yields for debt were 5.4% and equity investment returns of 16.3% are competitive.

Respondents emphasized the non-financial benefits of Blended Finance as particularly interesting, including the ability to address market failures, extend the reach of finance, reduce risk exposure, increase the viability of innovative structures and access specialized knowledge from partners.

Development funders surveyed cited the ability to leverage private capital or demonstrate the viability of transactions as a primary motivation to adopt Blended Finance, with the vast majority of respondents (89.2%) citing an intent to scale, replicate and raise additional rounds of funding for a Blended Finance investment vehicle.

Private capital providers indicated that their interest in Blended Finance is a reflection of demand from clients for access to attractive and responsible investments in high-growth markets and the ability to mitigate investment risks such as those related to early-stage business models.

While feedback from the survey wasn't comprehensive, funds and facilities that provided a breakdown of capital sources show significant funding coming from private capital sources. Private capital leverage is limited at early investment stages, but ranged over 20x for some of the supporting mechanisms, suggesting a need for increased development funding support for early-stage and higher risk projects that need to mature to attract private capital at scale.

Based on this limited survey sample, Blended Finance appears to be an effective approach for engaging private capital to deliver impact and returns. However, key challenges need to be addressed to gain deeper insight into the impacts and effectiveness of Blended Finance, including standardized interpretation of concepts and related classifications, consistent approaches to evaluating impact and leverage ratios, recognition of new approaches within the measurement of Official Development Assistance, and greater visibility of financial returns for investment vehicles.

Methodology

Objective

Discussion about mainstream adoption of Blended Finance to encourage emerging market investment has been constrained by a lack of quantifiable data to benchmark current activity and effectiveness. To understand the market landscape, a research survey was commissioned with a series of questions to explain:

1. Investor motivations: What motivations drive private, development and philanthropic actors to invest in Blended Finance structures?

2. Leverage: Has the strategic use of development finance and philanthropic funding in Blended Finance models facilitated flows of private capital to emerging and frontier markets that would otherwise not have been deployed?

3. Impact: Have Blended Finance models delivered capital to investments that drive social, economic and environmental impact?

4. Returns: Have Blended Finance models been structured to deliver financial returns in line with business objectives for private capital providers?

Scope

The survey focused on a cross-section of existing Blended Finance funds and facilities with pooled, committed capital from development funders and private capital sources. The scope was deliberately limited in order to:

- produce aggregate, macro-level insights
- create a standardized sample
- highlight actors engaged in Blended Finance
- avoid double-counting financing at the fund level

To accomplish this, the survey sought a spread of investment vehicles that ranged across sectors, geographies, maturity of target investments, and stakeholders to provide insights on investor behaviours and scalable models and generate results that could be standardized and classified. Subsequently, individual projects that received Blended Finance at the project level were deliberately excluded to avoid double counting, given a presumed lack of visibility into individual fund investments. Breakdowns of the capital structure were also studied to highlight the diverse types and interests of actors using this investment approach.

Note:

The Working Party on Development Finance Statistics (WP-STAT) of the Organisation for Economic Co-Operation and Development's Development Assistance Committee (OECD-DAC) is preparing a complementary survey issued through its network of statistical correspondents. Its objective is to collect comprehensive data on amounts mobilized from official development interventions in the private sector, and to survey activities such as guarantees, syndicated loans and shares in collective investment vehicles from 2012-2014. In addition, the OECD-DAC effort will seek to determine attribution among various parties that invest together in a pooled structure. This effort will complement the survey findings indicated herein and will provide a more detailed view of leverage and appropriate mobilization calculations.

By definition, the survey focused on funds and facilities that supply capital to emerging or frontier markets.[1]

Execution

The research team identified Blended Finance investment vehicles through interviews and desk research, and summarized the following data:

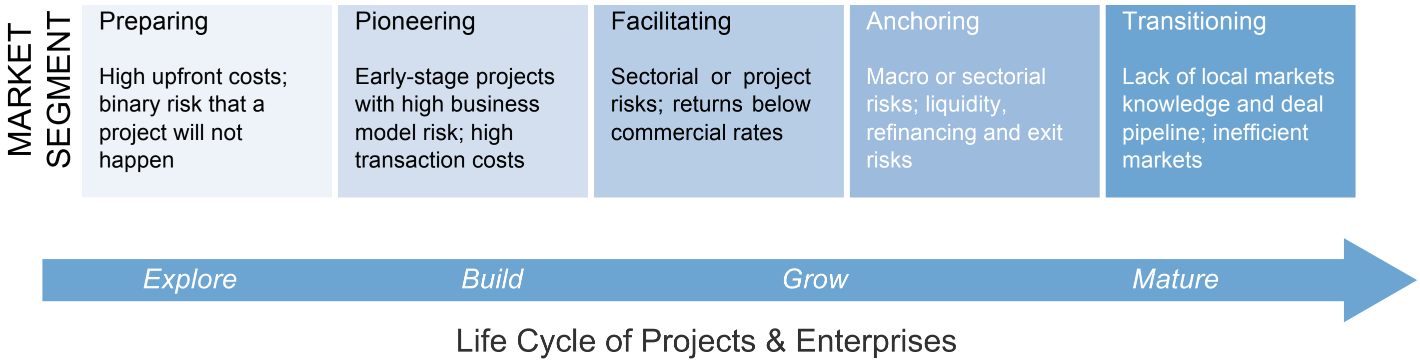
- Fund overview: Name of fund, size of fund ($ million), high-level description, sectors of focus, geographies of focus, market opportunity and investors/partners.
- Capital structure, risk and return: Capital structure and returns for development funders and private actors, including debt, equity, guarantees, grants, technical assistance, target returns and realized returns.
- Impact: Details on development impact to date.
- Scalability and replicability: Data indicating intention and/or ability to scale, replicate and raise funds.
- Miscellaneous: Sources and contact details.

Questionnaires were sent to development funders and fund managers identified through the World Economic Forum network, desk research and stakeholder analysis. Participants were asked to (1) populate and validate survey data, and (2) add additional, relevant funds and facilities to broaden the survey sample. Follow-up conversations were held to clarify the research objectives and to ensure the best data quality possible. Data collection spanned five weeks from the initial survey outreach to the close of collection.

Of the 102 investment vehicles shortlisted for the survey, sufficient information was available to classify 74 (50 based on survey data, 24 based on secondary research) as eligible for the survey.

Investment vehicles were classified into five market segments (Figure 1) based on the type of capital provided, the stages of maturity that the vehicle targeted, and the role played by development funders to support investment. Common elements surveyed across market segments included risk-return profiles, the roles of development funders and private actors, and the types of financing structures required.

Figure 1: Market Segments by Project and Enterprise Life Cycle



Source: *Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders*

The survey also segmented investment vehicles that use development funding to facilitate private investment into specific supporting mechanisms:
– Technical assistance: Supplements the capacity of investees and lowers origination and transaction costs.
– Risk underwriting: Fully or partially protects the investor against risks and capital losses.
– Market incentives: Provides results-based financing and offtake guarantees contingent on performance and/or guaranteed payments, in exchange for upfront financing in new or distressed markets.

Respondents included:

Development and philanthropic funders:

- Asian Development Bank (ADB)
- African Development Bank (AfDB)
- UK Department for International Development (DFID)
- European Investment Bank (EIB)
- Netherlands Development Finance Company (FMO)
- Grand Challenges Canada
- Inter-American Development Bank (IDB)
- International Finance Corporation (IFC)
- International Finance Corporation Asset Management Company (IFC-AMC)
- KfW
- Ministry of Foreign Affairs of the Netherlands
- Overseas Private Investment Corporation (OPIC)
- United States Agency for International Development (USAID)

Private fund managers:
21 fund managers provided responses to the survey on an anonymous basis.

Data Overview

The following overview of the survey includes the breakdown of capital between types of investment vehicles and the size of funds (Tables 1-2); and investment breakdowns by region and sector (Tables 1-3). Note that the tables and figures reflect a sample of Blended Finance market activity rather than indicative data that provides a comprehensive view of the Blended Finance market.

Table 1: Survey Sample Size and Capital under Analysis

Total Sample Size	74
Number of funds/facilities	61
Number of supporting mechanisms	13
Total capital under analysis ($ million)	$25,445.4
Total funds/facilities	$14,964.0
Total supporting mechanism	$10,481.4

Source: Survey

Table 2: Breakdown by Type of Capital

	Fund/Facility ($ million)	Supporting Mechanism ($ million)
Mean	245.3	806.3
Median	96.9	180.0
Minimum	4.8	10.0
Maximum	3,000.0	6,500.0

Source: Survey

Table 3: Breakdown by Geography and Sector

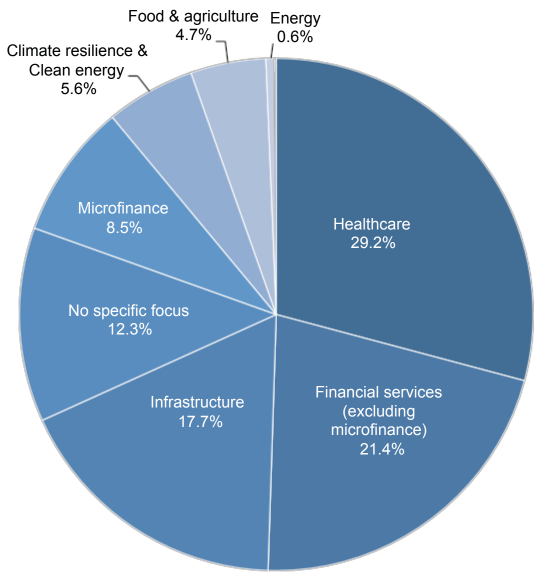
Development Region	Sample Capital ($ million)	% of Capital	No. of Funds/ Facilities	Median Fund Size ($ million)	Minimum Fund Size ($ million)	Maximum Fund Size ($ million)
Region-specific investments	9,483.5	37.3	52	85.4	4.8	1,200.0
Sub-Saharan Africa	5,675.5	22.3	36	61.3	4.8	1,200.0
East and South-East Asia	1,723.0	6.8	6	250.0	23.0	625.0
Latin America and the Caribbean (including Mexico)	390.2	1.5	3	89.2	20.0	281.0
South Asia	324.3	1.3	4	87.7	14.0	135.0
Middle East and North Africa	160.0	0.6	1	160.0	160.0	160.0
Eastern Europe, Russia and Central Asia	1,210.5	4.8	2	605.3	10.5	1,200.0
Global investments	15,961.9	62.7	22	250.0	36.7	6,500
Total	25,445.4	100	74	--	--	--

Source: Survey

The survey reviewed Blended Finance capital pools across a range of geographies. Of the investment vehicles surveyed, almost two-thirds of funds (62.7% of total capital sampled) did not have a specific regional focus, although this was heavily influenced by $6.5 billion in capital commitments allocated by the International Finance Facility for Immunisation (IFFIm). When IFFIm is removed from the dataset, the spread between global and regional capital invested is nearly equal (49.9% and 50.1%, respectively). Most other global funds or facilities were below $800 million in size. Data on investment vehicles focused on Sub-Saharan Africa were most readily attainable, heavily weighting the capital attributed to this region (22%).

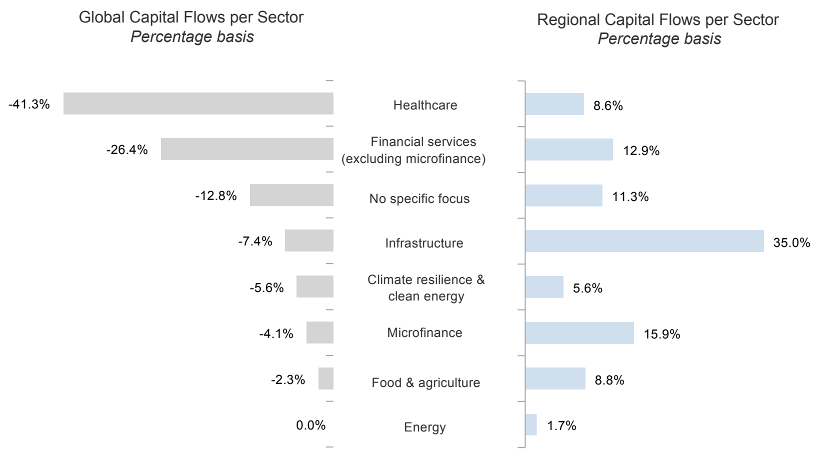
The survey sampled investment vehicles that address a range of objectives targeted by the Sustainable Development Goals in emerging and frontier markets. Among sectors (Figure 2), healthcare accounted for 29.2% of fund and facility capital analysed, followed by financial services (21.4%) and infrastructure (17.7%). Viewed on global and regional levels (Figure 3), regional funds tended to focus on infrastructure (35.0% of capital sampled), while global funds focused more on healthcare and financial services (41.3% and 26.4%, respectively).

Figure 2: Capital Breakdown by Sector



Source: Survey

Figure 3: Global and Regional Capital by Sector



Source: Survey

Table 4: Sample Breakdown by Market Segment and Supporting Mechanism

	Number	% of Total	Capital per Segment or Mechanism ($ million)	% of Total Capital	Average Size of Fund per Segment or Mechanism ($ million)
Market Segment					
Preparing	12	16.2	1,122.3	4.4	93.5
Pioneering	9	12.2	462.3	1.8	57.8
Facilitating	18	24.3	4,721.0	18.6	262.3
Anchoring	20	27.0	5,240.4	20.6	262.0
Transitioning	2	2.7	3,418.0	13.4	1,709.0
Supporting mechanism*					
Risk underwriting	9	12.3	3,026.5	11.9	336.3
Technical assistance	2	2.7	944.9	3.7	472.5
Market incentives	2	2.7	6,510.0	25.6	3,255.0
Total	74	100	25,445.4	100	--

*Note: Figures represent the amount that the supporting mechanism will underwrite or support, not the committed capital.

Source: Survey

The data suggest that more mature investment opportunities were more successful in attracting private capital at scale, suggesting a significant role for development funding at the earliest stages of the investment life cycle. The average fund size increases as market segments mature from the pioneering to the transitioning stage (Table 4), suggesting a greater need for development finance and philanthropic capital at early stages when risk levels are highest and private capital needs a greater degree of risk mitigation.

Key Takeaways

Investor Motivations

The survey sought to determine investor motivations for using Blended Finance, and the barriers this approach may help to overcome. To produce a standardized sample, respondents selected motivations and risks from predefined choices within the questionnaire.

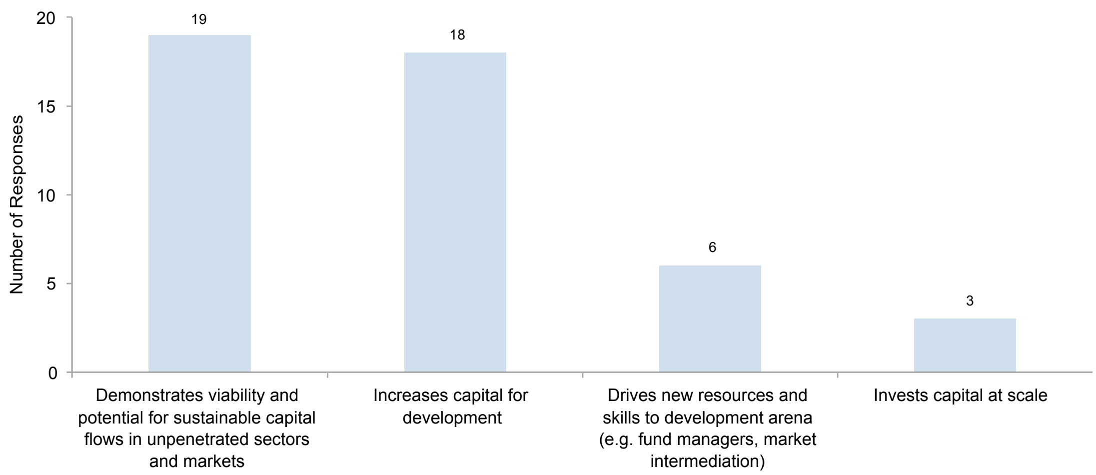
Insight Question
What motivations drive development funders and private actors to invest in Blended Finance structures?

Findings

Leverage and demonstration effect were significant motivators for development funders. Investors largely focused on increasing the scale of impact and sustainable solutions in priority development sectors and geographies. As shown in Figure 4, 36.5% of respondents cited "demonstrates viability and potential for sustainable capital flows in unpenetrated sectors and markets" as an investment motivation, suggesting that investors use capital from development funders to demonstrate models that can lead to long-term, fully commercial solutions. Reinforcing the belief that Blended Finance seeks to enable additional development funding capital flows, 34.6% of respondents indicated that this approach "increases capital for development". In addition to leverage and the demonstration effect, respondents also indicated sector-specific motivations such as reducing climate change impacts and bolstering lending and support for small to medium-sized enterprises (SMEs), consistent with their specific investment mandates for engaging in Blended Finance.

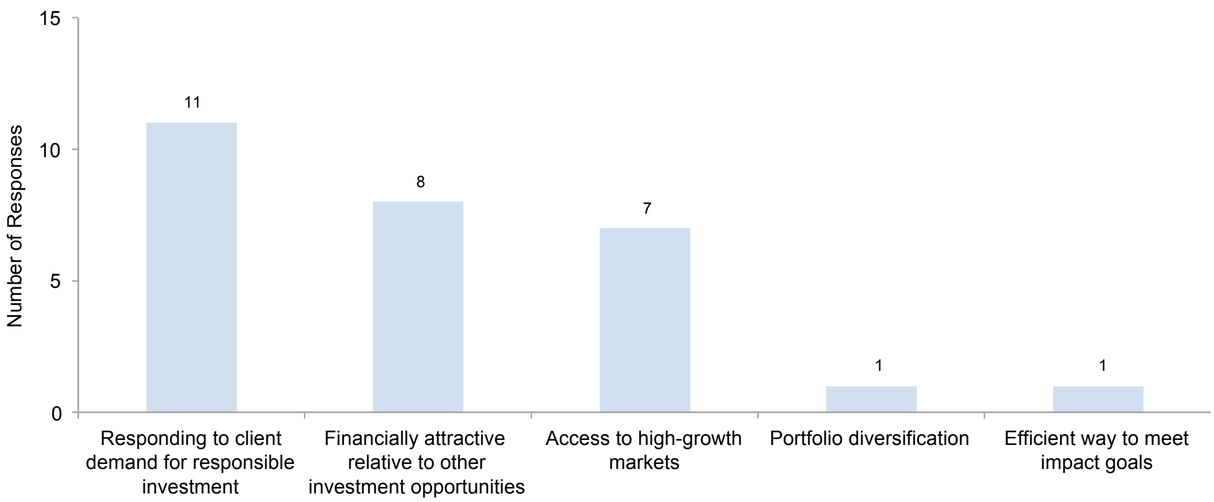
Private sector actors indicated that Blended Finance helps them access new markets, tap into growth opportunities in emerging and frontier markets, and broaden the extent of the impact of their funding. As shown in Figure 5, respondents cited "responding to client demand for responsible investment" (31.4%), "financially attractive investments relative to other opportunities" (22.9%), and "access to high-growth markets" (20%) as reasons for using Blended Finance as part of their investment structuring.

Figure 4: Development Funders Investment Motivation



Source: Survey

Figure 5: Private Sector Investment Motivations



Source: Survey

Table 5: Priority Risks Mitigated by Blended Finance Structure[2]

Risks Cited among the Top Three Priorities	No. of Respondents	% of Respondents
Early-stage business model	21	26.3
Project “go/no go”	11	13.8
Small and segmented investment options	10	12.5
Political (sovereign and country)	9	11.3
Lack of bankable pipeline	9	11.3
Corporate	9	11.3
Liquidity	8	10.0
Currency	3	3.8
Total	80	100.0

Blended Finance structures mitigated barriers that would otherwise have impeded private sector investment. “Early-stage business model risk” was the most frequently cited “Top Three” priority risk, appearing in the list for 26.3% of respondents (Table 5).

The survey also analysed risks within different market segments – by stages of maturity – to understand how Blended Finance might address perceived investor barriers at each stage (Table 6):

– Vehicles addressing **Preparing** opportunities (helping to get projects to financial close) cited project “go/no go” and “early-stage business model” risks most frequently as the reason for opting for Blended Finance. This suggests that development funders can reduce the high perceived risk of project non-completion and absorb significant costs upfront.

– Vehicles addressing **Pioneering** opportunities (supporting early-stage innovation and development) indicated risks related to early-stage business models, small and segmented investment options and liquidity as the reason for Blended Finance. This suggests that development funders can assist entrepreneurs to test and/or incubate ideas, limit investor losses and provide short-term exit options.

– Vehicles addressing **Facilitating** opportunities (financing the commercial viability of investments) also referred to early-stage risk factors, despite the relative maturity of such investments, as the reason for Blended Finance. This may reflect their lack of familiarity in emerging and frontier markets, which development funders can help to remedy.

– Vehicles addressing **Anchoring** opportunities (signalling the market and providing macro risk coverage) also noted early-stage risks, reflecting a market perception that even mature projects carry risk uncertainty, as the reason for opting for Blended Finance. This suggests that development funding in a vehicle has a role to play as a quality indicator.

– Vehicles addressing **Transitioning** opportunities (providing liquidity opportunities to commercial and institutional investors) did not respond to this question. This is due in part to the limited number of vehicles in the market that fulfil this function.

Table 6: Top Risks or Barriers Mitigated and Facility Structure by Market Segment

	Market Segment				
Risks Cited among the Top Three Priorities	Preparing	Pioneering	Facilitating	Anchoring	Transitioning
Early-stage business model	3	5	7	2	-
Project “go/no go”	3	1	3	2	-
Small and segmented investment options	-	4	3	1	-
Political (sovereign and country)	2	1	5	-	-
Lack of bankable pipeline	2	1	3	2	-
Corporate	1	-	3	1	-
Liquidity	-	4	2	-	-
Currency	-	-	-	2	-
Total	11	16	26	10	-
No. of respondent funds	5	6	10	4	0

Source: Survey

Respondents also reflected on the role of Supporting Mechanisms to address investment risks and barriers in emerging and frontier markets (Table 7). **Technical Assistance** vehicles were cited for their ability to manage risks associated with early-stage investment, suggesting that the requirement for technical assistance would decrease with investment maturity. **Risk Underwriting** vehicles were cited for addressing a range of risks, suggesting it is a broad and powerful tool for public institutions to deal with investor barriers. **Market Incentives** were cited for helping to overcome liquidity constraints and corporate risks in new and distressed markets.

Table 7: Top Risks or Barriers Mitigated by Supporting Mechanisms

	Supporting Mechanism		
Risks Cited among the Top Three Priorities	Technical Assistance	Risk Underwriting	Market Incentive
Project "go/no go"	-	2	-
Liquidity	-	1	1
Currency	-	1	-
Political (sovereign and country)	-	1	-
Early-stage business model	1	3	-
Small and segmented investment options	1	1	-
Lack of bankable pipeline	1	-	-
Corporate	-	3	1
Total	3	12	2

Source: Survey

Leverage

The survey focused on the ability of development funders to attract or enable private capital through a fund or facility structure. Data collected was used to identify whether private capital was moving to investments that would otherwise not have attracted capital from these sources.

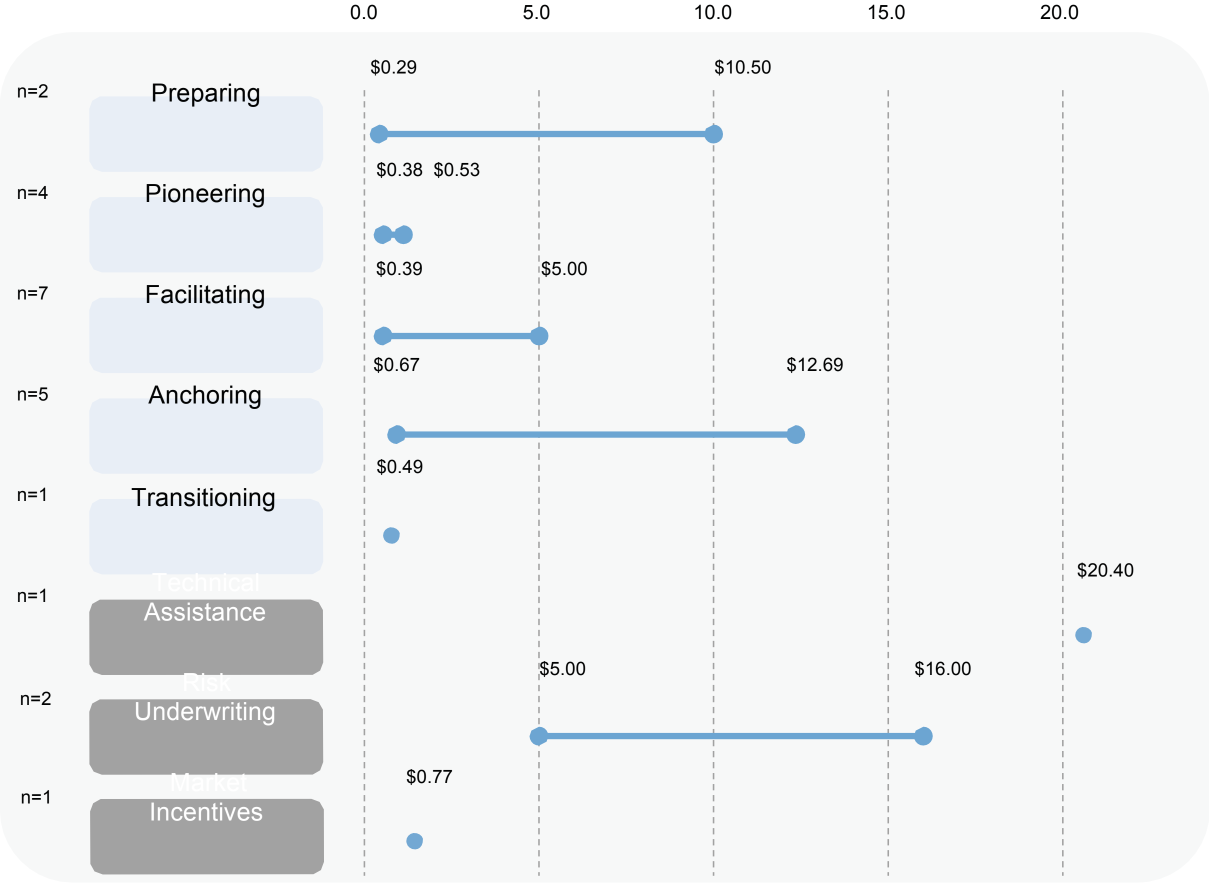
Insight Question
Has the strategic use of development finance and philanthropic funding in Blended Finance models deliberately facilitated flows of private capital that would otherwise not have been deployed to emerging and frontier markets?

Findings
Blended Finance has facilitated private capital flows to investment vehicles in emerging and frontier markets. This survey alone catalogued $25.4 billion in capital under management in 74 Blended Finance investment vehicles providing capital to emerging and frontier markets. Of the 19 vehicles that provided a breakdown between their sources of capital, at least $2.7 billion was indicated to have been sourced from private capital funds.

Private capital would not have invested without support from development funders. All respondents indicated directly or through qualitative responses that Blended Finance was required to attract private capital into their investment funds or to leverage new sources of capital.

While respondents provided limited data about their investment breakdowns, the leverage ratios provided (Figure 6) offer select indicators across funds, facilities and supporting mechanisms. Based on the data provided, results showed a wide range of leverage ratios for every dollar of development funding deployed, from less than 1x to over 20x of private capital, depending on the vehicles. Responses also indicate that Technical Assistance and Risk Underwriting are effective mechanisms for leveraging significant amounts of private capital – from a minimum of 5x to over 20x for one outlier.

Figure 6: Ranges of Private Capital-to-Public Capital Investment Ratios



Impact

The survey attempted to gather data on a standardized set of development impact results to understand the degree of impact being realized by these investment vehicles.

Insight Question
Have Blended Finance models delivered capital to investments that drive social, economic and environmental impact in emerging and frontier markets?

Findings

All respondents indicated achieving or outperforming impact targets, with investment vehicles reporting significant economic, social and environmental impacts. As reported by 24 respondents (representing $5.1 billion of capital in the overall study), more than 177 million people benefited from funds provided through Blended Finance (Table 8). While these numbers are self-reported and may use different calculations, they suggest a substantive impact and reach of Blended Finance in emerging and frontier markets.

The types of impact were varied, reflecting the different investment strategies of each vehicle. Impacts cited included the creation of new employment opportunities; reductions in greenhouse gas (GHG) emissions and deforestation; increased access to healthcare for the lowest-income groups, larger numbers of patients treated and the scaling of immunization programmes; improvement in the quantity of infrastructure projects prepared and funded; greater liquidity for microfinance institutions and SMEs; provision of commercial financing and guarantees for development projects; and improved commercial processes and procedures for companies and farmers.

Impact metrics were difficult to aggregate across investment vehicles, given significant variance among reporting approaches and impact objectives. Respondents indicated tracking anywhere from one to 50 impact metrics, with a median of seven. Two fund managers indicated using categories from Impact Reporting and Investment Standards (IRIS), with other reporting systems were cited including the Development Outcome Tracking System for GHG emission-reduction projects and an environmental, social and governance policy and management system.

Qualitative commentary on impact measurements highlighted the range of metrics across sectors and the difficulty with standardization. Metrics used to gauge the level of impact included the volume of commercial capital mobilized, capital efficiency, the number of grantees, the number of loans, loan performance, the prevalence of disease, environmental factors, the amount of carbon sequestered, the number of deals in priority sectors, income generated, quality improvements, the number of individuals trained and employment rates.

Table 8: Impact Metrics

Investee enterprises or projects since inception (n=46)	Beneficiaries reached since inception (n=24)	Jobs created since inception (n=26)	Median impact indicators tracked (n=26)	Minimum impact indicators tracked (n=26)	Maximum impact indicators tracked (n=26)
2,423	177.4 million	442,166	7	1	50

Source: Survey

Returns

The survey explored the realized and expected returns of funds and facilities to determine the return expectations for Blended Finance.

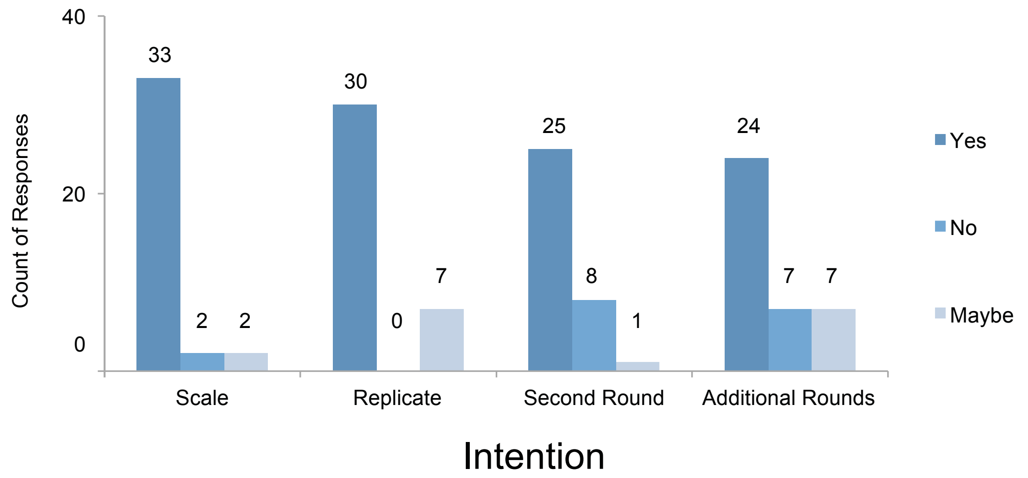
> **Insight Question**
> Have Blended Finance models been structured to deliver financial returns in line with business objectives for private capital providers?

Findings

Respondents indicated a strong intent to scale, replicate and raise additional rounds of funding for Blended Finance funds and facilities. From those responding on the intent to grow their investment vehicles (Figure 7), 89.2% indicated an intention to scale using the same investment strategy for a new fund, while 81.1% also indicated the intent to scale using a different investment strategy, such as a new sector or geographical focus, for a new fund. 73.5% indicated that the investment vehicle had raised or was in the process of raising a second round of funding, while 63.2% indicated the intent to raise additional rounds.

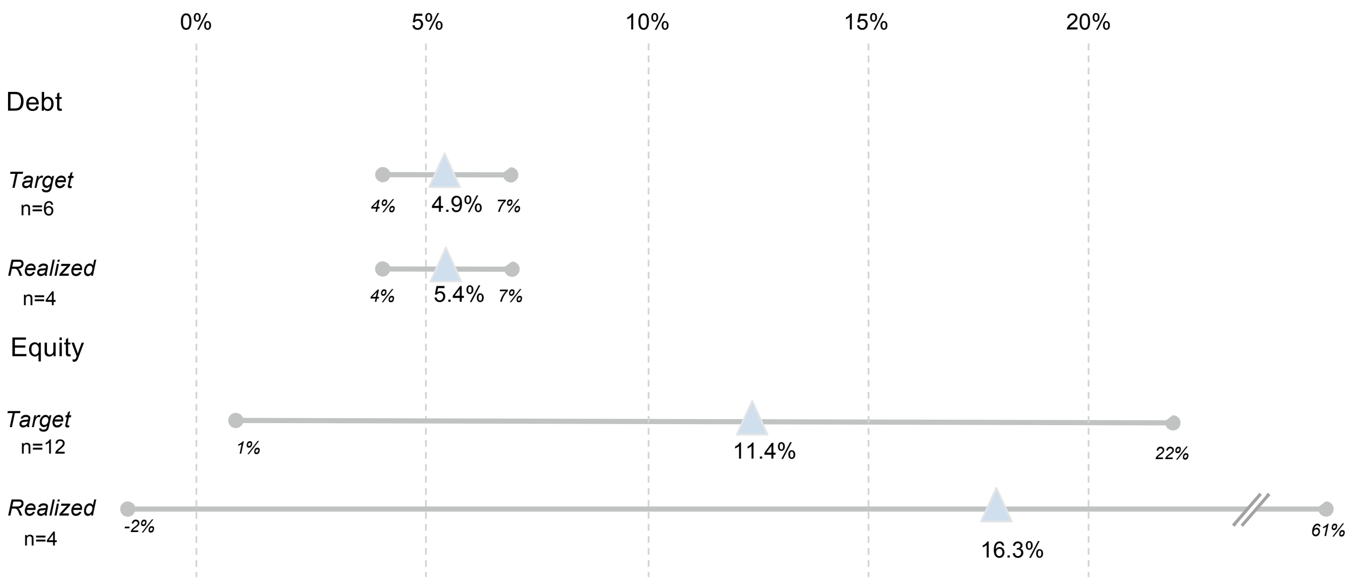
Feedback on returns was not comprehensive, in part due to confidentiality considerations, but the limited data points indicate that Blended Finance as an approach can generate returns in line with market expectations. Average expected returns of 4.9% for debt and 11.4% for equity are consistent with market rates for such instruments in developed economies. Based on the data provided, the average rate of return yielded by development funders was 5.4%, while equity investments achieved a 16.3% return (Figure 8). Realized equity returns were heavily skewed by one outlier; however, the results point to the upside potential of emerging market investment and are a reflection of the heavy influence of the maturity stages of both investments and funds reporting returns.

Figure 7: Intention to Scale, Replicate and Fundraise



Source: Survey

Figure 8: Development Funder Returns: Averages and Ranges



Source: Survey

Supplemental Insights from Practitioners

Some respondents provided qualitative insights regarding their vehicles and experiences in emerging and frontier markets which were not captured through specific lines of questioning in the survey. These responses highlight the role of development funders, the importance of Blended Finance and considerations for structuring Blended Finance transactions (Table 9).

Table 9: Respondent Commentary by Insight

Respondent Commentary by Insight	
Insight Category	Commentary
The role of Blended Finance	– **Addresses market failures**: "Blended Finance solutions address market failures by mitigating risks for private-sector investors, allowing them to make investments that would otherwise not be pursued due to high risks." – **Extends the reach of finance and offers risk reduction**: "Blended Finance has been the most important factor in being able to reach small healthcare facilities and to reduce investment risk. We have now proven that there is a viable business case for local financiers. As a result, there is now an intrinsic commercial drive for local private parties to enter into the healthcare space. But they still require the assistance of the fund to reduce the financial and medical risks."
The role of the development funders	– **Facilitate additionality**: "First-loss protection and/or a partial guarantee for senior investors facilitated the involvement of private investors who otherwise might have been too risk-averse to participate. Public investors with first-loss and mezzanine financing are essential to attract commercial money from private investors, given the natural higher risk associated with microfinance (illiquid and alternative asset class)." – **Ensure viability**: "Public funds were critical to establish and capitalize the company in order to meet regulations and to enable insurance operations from the get-go." – **Act as a source of specialized knowledge**: "[The DFI's] knowledge around what makes a power project commercially bankable was vital for selecting early-stage power projects for grant financing."
Considerations for structuring	– **Legal structure should accommodate investors**: "The [investment] company's legal structure is specifically designed to easily accommodate scalability and to meet the needs of different investors." – Fund manager – **Balance priorities of development funders and private sector**: "It is crucial to balance two sets of complex, and sometimes competing, priorities – those of the private sector, and those of the public sector." – DFI respondent – **Be strategic about long-term, shared-value partnerships**: "Undoubtedly, investors have to think carefully about capital allocation across a diverse pool of assets. As investors attempt to discern between markets and asset classes, one critical factor to consider is the kind of long-term partnerships they want to create. This kind of partnership thinking governs the way we originate projects, the sponsors we back, the structure of our platform and, most importantly, the value we place on our investors; we see this as an important factor in the asset allocation mix and the creation of sustainable, blended finance vehicles." – Fund manager – **Select strong partners**: "Having solid first close partners and accommodating their needs in the structure is what made the difference." – Fund manager – **Stakeholder coordination and education are necessary**: "It requires significant effort to coordinate stakeholders – bringing people from the traditional insurance industry into [Blended Finance], and vice versa; there is a critical education component necessary with all stakeholders to make sure everyone has the same understanding of the product and the value it creates." – Fund manager – **Test and pilot mechanisms before scaling them**: "It is critical, given this stage of development of the development/social impact bond industry, to first pilot the intervention and to have significant data to prove to funders and investors that there is a high likelihood of achieving the social outcome, before launching the bond itself. We initially tried to launch the bond without a pilot, and have since gone back and piloted the interventions in one district." – Fund manager

	– **Impact and returns are both needed to accelerate development**: “To accelerate global development, capital flows from institutional investors need to open up into asset classes that can offer social impact and robust financial return.” – Fund manager – **Funds need to be patient**: “It is important to give the fund time to grow, while being aware of the risk involved. Different risk layers address the risk appetite of different types of investors.” – DFI respondent – **Enable more qualified local fund managers**: “The public and private investors were originally exploring a fund-of-funds approach, but struggled to find additional qualified fund managers on the continent [Africa] to successfully achieve both public and private targets. Establishing a community of practice to this end could go a long way.” – Donor agency respondent – **Use intermediaries when necessary**: “The negotiation of the process to establish this fund took a very long time and potentially could have been expedited with the use of a neutral facilitator.” – Donor agency respondent

Conclusions

The investment vehicles and facilities surveyed demonstrate the significant potential of Blended Finance to deliver increased capital flows, development impacts and financial returns for investment vehicles and their investors. The survey results outlined in this paper shed light on the different but complementary motivations of private capital and development funders, highlighting the potential of Blended Finance to align incentives in capital markets. The results outline the influence of the investment life cycle in determining risks that need to be addressed, and emphasise the critical role of development funders in providing funding and support at early stages when risks are highest, allowing opportunities to mature and attract private capital at scale. Importantly, the survey results have yielded evidence of both activity and competitive returns that should encourage greater adoption of this approach.

It is hoped that this paper will form a solid basis for future analysis. Further research and analysis is required to provide a more holistic view of the Blended Finance landscape that can reinforce these findings, capturing inputs from a more comprehensive range of investors and vehicles to strengthen the case for Blended Finance as an approach to effectively finance development outcomes and realize the United Nations Global Goals for Sustainable Development.

A number of challenges remain in developing a comprehensive evidence base related to Blended Finance, particularly the inclusion of individual projects and PPPs that blend development funding with private capital that should fall within the scope of analysis. Efforts to facilitate Blended Finance transactions, including online investor platforms (Convergence) and multistakeholder partnerships (Sustainable Development Investment Partnership), should increase the awareness of and provide greater visibility into different transactions and market participants using Blended Finance.

Greater visibility into returns and standardized metrics are also needed to solidify the business case for Blended Finance. Due to confidentiality issues, return outcomes are expected to remain particularly opaque, so further analysis will need to rely heavily on anecdotal evidence. Furthermore, the variability of returns based on the stage of investment and the maturity of the investment vehicle needs to be examined further to ensure that results are not skewed. Standardization of Blended Finance definitions and methodologies for leverage, reporting and impact will be required to help aggregate data more effectively, which efforts by the OECD to develop Total Official Support for Sustainable Development metrics should help to resolve.

Despite the limitations of this paper, sufficient data has been compiled to present a compelling case for the mainstream adoption of Blended Finance by development funders and private capital, working together to finance projects that demonstrate additionality in emerging and frontier markets. Blended Finance provides a systematic approach that does not appear to compromise return expectations, and can be an effective catalyst for sourcing the trillions of dollars needed to realize positive development outcomes in these markets.

Appendices

Select Participating Funds and Facilities

The following investment vehicles included in this analysis demonstrate innovative examples of Blended Finance. These vehicles represent 79% of those participating in the survey, as some respondents requested that their participation remain confidential. Funds marked with an asterisk (*) had their survey populated, to the extent possible, with publicly available information by the research team. Surveys for funds with no asterisk were submitted by contacts. Note that some descriptions have been submitted directly by the respective investment vehicle.

Name of Fund/ Facility	Description	Size ($ million)	Primary Region of Investment	Primary Sector of Investment
Aavishkaar India Micro Venture Capital Fund (AIMVCF)	AIMVCF provides risk capital and technical assistance to micro, small and medium enterprises in agriculture, dairy, healthcare, water and sanitation, as well as technology for development, education and renewable energy sectors. It seeks to become the first external investor in portfolio companies.	14.0	South Asia	No specific focus
Aavishkaar Frontier Fund (AFF) – Asia	AFF extends Aavishkaar's pioneering enterprise-based development approach. The fund invests in enterprises serving low-income populations in underserved geographies on a commercially sustainable basis in South and South-East Asia. It focuses on inclusive businesses across sectors: affordable healthcare and education, water and sanitation, food and agricultural services, access to energy, technology for development and livelihoods. It also seeks to deliver commercial returns to investors and support local economies. AFF is sponsored by Aavishkaar Venture Management Services and will be investing in Bangladesh, Sri Lanka, Indonesia and Pakistan.	75.0	East and South-East Asia	No specific focus
Aavishkaar India II Company Ltd (AVI II)	AVI II is an investment company that scouts and invests in enterprises active in the social infrastructure sector in rural and underserved India on a commercially sustainable basis. The company has a pan-Indian geographical focus, with special attention to underserved areas such as the country's low-income states. Investment sectors will be health, water and sanitation, education, agriculture, livelihoods, technology for development and renewable energy. The company has put a distinctive investment strategy in place, designed to tackle the challenges of building a strong, proprietary pipeline able to deploy capital. The "sow, tend and reap" investment strategy allows the company to make investments across the growth stage, building a portfolio with a balanced risk-return profile.	93.8	South Asia	No specific focus
Abraaj Growth Markets Health Fund* (AGHF)	The $1 billion fund is structured along commercial principles, on market terms with a strong emphasis on delivery of large-scale social impact. AGHF will start by addressing healthcare needs in and around Africa and South Asia, with three key investment themes: 1) acquire and grow "catalytic anchor assets" around which the rest of a healthcare ecosystem can crystallize; 2) assemble proven innovations into integrated ecosystems; and 3) adopt and propagate proven disruptive innovations to scale.	1,000.0	Sub-Saharan Africa	Healthcare
African Agricultural Capital Fund	This investment fund injects risk capital into agricultural supply chains in East Africa to support smallholder farmers and leverage additional financial and human capital in the sector.	25.0	Sub-Saharan Africa	Food and agriculture

African Agriculture and Trade Investment Fund (AATIF)	AATIF is a development fund created by KfW and Deutsche Bank on behalf of the German Federal Ministry for Economic Cooperation and Development. Deutsche Bank acts as the investment adviser. The fund provides loans and guarantees and can potentially also provide equity, to a limited extent, to experienced private-sector enterprises and farmers in Africa. AATIF's aim is to unleash the existing potential of agriculture and trade on a sustainable basis; the main focus is sustainable promotion of income for those working in the agricultural sector and improved competitiveness of local enterprises.	142.0	Sub-Saharan Africa	Food and agriculture
African Health Markets for Equity*	Operating in Nigeria, Kenya and Ghana, this five-year investment will increase the scale and scope of franchised healthcare, expanding from reproductive health to addressing malaria, acute respiratory infections, diarrhoea, nutrition, maternal care, HIV and tuberculosis. Growth will come through simultaneous and coordinated work in policy reform, technology for health communication, systematic improvement in quality, strengthening of patients' ability to pay, and improved provider access to capital. The programme expects to include 2,734 provider outlets and avert 2.9 million disability-adjusted life years (DALYs) at $46 per DALY.	60.0	Sub-Saharan Africa	Healthcare
African Risk Capacity Insurance Company Ltd	The first-ever African natural disaster insurance pool, this initiative and specialized hybrid mutual insurance company is designed to improve current responses to weather-related food security emergencies. The inaugural insurance pool was launched in May 2014 with four countries and five seasons insured against drought for $129 million, for a premium of $17 million. Countries include Kenya, Mauritania, Niger and Senegal.	200.0	Sub-Saharan Africa	Food and agriculture
Althelia*	The Althelia Climate Fund is a public-private partnership that will deliver multi-benefit GHG reductions, with a focus on sustainable land use and payment for ecosystem services (including forest carbon, or initiatives for reducing emissions from deforestation and forest degradation (REDD+)).	150.0	Sub-Saharan Africa	Climate resilience and clean energy
Aureos/Abraaj Africa Health Fund*	The Africa Health Fund seeks to improve access to affordable, high-quality health services for low-income Africans, while providing investors with strong long-term financial returns. Its strategy is to tackle the fragmentation in private healthcare provision and to drive economies of scale in support sectors such as pharmaceuticals, medical devices and diagnostic services. The fund invests debt, equity and quasi-equity in private healthcare goods and services in Africa.	105.4	Sub-Saharan Africa	Healthcare
Beira Agricultural Growth Corridor (BAGC) Catalytic Fund*	This partnership encourages responsible private investment in commercially viable, early-stage agribusinesses, with direct benefits for many smallholder farmers in Mozambique. The project has two key elements:(1) the BAGC Partnership, a Mozambican not-for-profit membership organization that supports changes at the policy level; and (2) the BAGC Catalytic Fund, a social venture-capital investment vehicle managed by impact investor AgDevCo, which invests in emerging agribusinesses.	23.0	Sub-Saharan Africa	Food and agriculture
Business Partners International Rwanda SME Fund	This fund was established by the IFC, Stichting DOEN, Rwanda Enterprise Investment Company and Business Partners Limited. A local Rwandan investment fund, it provides integrated investment and value-added solutions for small and medium entrepreneurs, from single-owner businesses to partnerships and multi-owner ventures.	7.2	Sub-Saharan Africa	No specific focus
Business Partners International Southern Africa SME Fund	With investors including AfDB, IFC, DOEN, FMO and Proparco, the fund is expected to offer tailored finance solutions for SME start-ups, expansion programmes, acquisition finance and property finance in Malawi, Zambia and Namibia.	30.0	Sub-Saharan Africa	No specific focus
Canadian Climate Fund for the Private Sector in Asia	This is ADB's first concessional debt co-financing facility specifically oriented to supporting private-sector operations for combating climate change. This fund aims to stimulate private-sector investment in climate change mitigation and adaptation by supporting private-sector efforts to overcome the risks and cost hurdles of leading-edge technology. It will also work towards initiating and scaling up projects to reduce GHG emissions and strengthen resilience under climate change.	81.5	Asia-wide	Climate resilience & clean energy
Conflict-Affected and Fragile Economies Facility (of the Multilateral Investment Guarantee Agency)*	The facility provides political risk insurance to encourage private-sector investment in fragile and conflict-affected countries to create jobs.	80.0	Sub-Saharan Africa	No specific focus

Currency Exchange Fund (TCX)	The TCX is a special-purpose fund providing over-the-counter derivatives to hedge the currency and interest rate mismatch created in cross-border investments between international investors and local borrowers in frontier and less liquid emerging markets. The goal is to promote long-term local currency financing by contributing to a reduction in the market risks associated with currency mismatches.	740.0	Global	Financial services (excluding microfinance)
Danish Climate Investment Fund	The fund offers risk capital and advice for climate projects in developing countries and growth markets in Asia, Africa, Latin America and parts of Europe. It invests in projects which contribute, directly or indirectly, to the reduction of GHG emissions. Share capital is provided for the establishment of companies in collaboration with Danish businesses, and co-investments can be made in major climate projects that include Danish technology or know-how. The Investment Fund for Developing Countries manages the Danish Climate Investment Fund.	236.0	Global	Climate resilience and clean energy
Deutsche Bank Eye Care Fund	This debt fund aims to restore and improve the eyesight of people in low-income segments of developing countries by extending finance to eye-care organizations that provide affordable sight-saving surgery. These organizations use the financing to expand treatment capacity – for example, by constructing new hospitals and facilities, running community outreach programmes and purchasing equipment.	14.5	Sub-Saharan Africa	Healthcare
DevCo*	DevCo advises poorer developing-country governments on structuring transactions to facilitate sustainable private-sector participation in infrastructure. DevCo is a multi-donor facility of the Private Infrastructure Development Group (PIDG), established by the IFC and the United Kingdom's Department for International Development (DFID), and supported by other PIDG members. DevCo supports infrastructure transactions in the poorest countries by providing funding for expert consultants to prepare projects for private investment. DevCo funds, which are all supplied by PIDG donors, can be used to support the marketing, planning and development of transactions, as well as implementation support. DevCo can also provide partial underwriting of IFC risks associated with advisory mandates.	36.7	Global	Infrastructure
Dutch Good Growth Fund (DGGF)*	The DGGF supports Dutch SMEs and entrepreneurs in emerging markets and developing countries by offering a source of financing for development-relevant local investments and exports. It provides loans, guarantees, insurance and equity for Dutch SMEs doing business in DGGF countries, and for investors in local SMEs.	792.0	Global	No specific focus
Emerging Consumer Fund (LeapFrog II)*	An operational investor, the fund has a team of specialists that actively partners with portfolio companies – from strategy and product design to distribution – and makes equity investments into impact enterprises that provide financial services to low-income populations. It provides growth capital for high-growth companies in Africa, South Asia and South-East Asia.	400.0	Sub-Saharan Africa	Financial services (excluding microfinance)
Essential Capital Consortium (ECC)	The ECC is a five-year, $50 million social investment fund that seeks to respond to gaps and opportunities in the emerging impact investing industry in order to propel the sector towards creating intentional benefits that address the needs of the poor. It provides debt financing to profitable or near-profitable social enterprises in three sectors - energy, health and financial services - for lowest-income groups (including microfinance institutions (MFIs) that are developing new products related to housing, education, energy efficiency or other emerging sectors). The financing helps support the growth and expansion of new product lines from these enterprises to serve the poor in the developing world. The ECC also promotes the use of a code of conduct for social enterprises.	50.0	Global	Financial services (excluding microfinance)
EU-Africa Infrastructure Trust Fund (EU- AITF)	Established in 2007, the EU-AITF aims to increase investment in infrastructure in Sub-Saharan Africa by blending long-term loans from participating financiers with resource grants. The EU-AITF offers technical assistance in support of all project phases, interest-rate subsidies to decrease the EU-AITF financiers' loan interest rates, and investment grants to finance project components or part of the investment. Financial instruments include guarantees, risk mitigation measures, equity or quasi-equity investments or participations.	934.0	Sub-Saharan Africa	Infrastructure

European Fund for Southeast Europe (EFSE)*	The EFSE provides sustainable funding to entrepreneurs and private households in South-East Europe, including the European Neighbourhood eastern region, helping small businesses to grow and generate additional income, as well as to create and sustain employment. In addition, it assists low-income families in improving their housing conditions. The fund operates through financial intermediaries in South-East Europe (including the European Neighbourhood eastern region), which include commercial banks, microfinance banks, microcredit organizations and non-banking financial institutions such as leasing companies. These intermediaries on-lend funds received from the EFSE to its ultimate target group: micro and small enterprises and low-income private households. The EFSE is replenished with funds from various donor agencies, European governments and international financial institutions, as well as by private investors. The existing donor or public capital constitutes what is termed a “first loss” tranche, or the first tranche to be used in the event of losses. Other risk tranches are tailored to the returns and risk requirements of other investors, who often wish to participate in the EFSE because of its prestige. To date, EFSE has acquired committed funds of over €1.05 billion, approximately 66% of which is private capital.	1,200	Eastern Europe, Russia and Central Asia	Microfinance
Frontier Clearing Fund	The Frontier Clearing Corporation B.V. (Frontclear) is a development initiative focused on encouraging more stable and inclusive financial markets in emerging and developing countries. Frontclear guarantees counterparty risk in repurchase agreements, derivatives, securities lending and trade finance markets. All guarantees are subject to local collateral requirements posted by the local party.	180.0	Global	Financial services (excluding microfinance)
Fund for Agricultural Finance in Nigeria (FAFIN)*	FAFIN is an innovative agriculture-focused investment fund providing tailored capital and technical-assistance solutions to commercially viable SMEs and intermediaries across Nigeria’s agricultural sector. It uses quasi-equity, equity and debt instruments to structure investments. The fund invests in such enterprises as part of its mission to increase the amount of commercial capital available for the country’s agriculture and to stimulate agriculture-led inclusive economic growth in Nigeria. FAFIN seeks to hold 25-49% of equity in an investee company and partner with it to substantially scale up the business. It may hold this equity directly through common shares or indirectly through quasi-equity instruments (convertible debentures or preferred equity). It does not seek majority shareholding. FAFIN has an independently funded technical assistance facility that supports investee companies and mitigates investment risks. With a target size of 10% of the fund, the facility is currently funded with $2 million in separate grants from donors.	100.0	Sub-Saharan Africa	Food and agriculture
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	Advised by the European Investment Bank Group, GEEREF is an innovative fund-of-funds spurring private-sector capital into clean energy projects in developing countries and economies in transition. GEEREF’s funds concentrate on infrastructure projects that generate clean power through proven technologies with low risk. Its funds target attractive financial investments that also deliver a strong positive environmental and developmental impact. By December 2014, GEEREF had invested in six funds across Africa, Asia, Latin America and the Caribbean.	245.0	Global	Climate resilience and clean energy
Global Health Investment Fund (GHIF)	The GHIF is a $108 million fund that aims to facilitate partnerships that offer sound investment for funding life-saving medical research and development. The GHIF invests in vaccines, drugs, diagnostics and devices to help fight diseases which disproportionately affect low-income countries.	108.0	Global	Healthcare
Grassroots Business Fund (GBF)*	Combining investment capital with philanthropic or technical support funding, the GBF delivers a distinctive blend of investment capital and business advisory services through two main vehicles working together: a private investment fund and a non-profit organization. The GBF is a spin-off of IFC’s Grassroots Business Initiative.	61.0	Global	Food and agriculture
Green Africa Power (GAP)*	A new facility and investment vehicle, GAP seeks to encourage renewable energy generation projects in Africa. It aims to address barriers by reducing the upfront cost of capital while maintaining overall commercial returns, providing cover for specific construction phase risks and using policy dialogue to move towards cost-reflective tariffs.	163.8	Sub-Saharan Africa	Energy

GuarantCo*	GuarantCo provides guarantees to lenders to support local currency financing for infrastructure projects in low-income countries, thus promoting domestic infrastructure financing and capital market development.	450.0	Global	Infrastructure
Health Insurance Fund (HIF)	Launched together with the Investment Fund for Health in Africa (IFHA), HIF facilitates access to affordable and quality healthcare for low-income people in Sub-Saharan Africa through innovative healthcare financing and delivery. HIF is part of the PharmAccess Group, which includes the Medical Credit Fund, SafeCare and the PharmAccess Foundation. The PharmAccess Group stimulates complimentary initiatives, namely standards for clinical and business quality improvement, loans for clinics, health plans (insurance), mHealth and research, and collaborates with Dutch and African research institutes and universities on impact evaluation and research.	108.3	Sub-Saharan Africa	Healthcare
IDB Multilateral Investment Fund Public-Private Partnership Program (under the Global Environment Facility's PPP programme)	This programme will make targeted equity investments in funds to promote energy efficiency, renewable energy and biodiversity in Latin America and the Caribbean.	281.0	Latin America and the Caribbean (including Mexico)	Climate resilience and clean energy
IDB Infrastructure Fund (InfraFund)*	This facility is dedicated to assisting public, private and mixed-capital entities in Latin American countries in identifying, developing and preparing bankable and sustainable infrastructure projects that have the potential of reaching financial closure.	20.0	Latin America and the Caribbean (including	Infrastructure
IFC's Synthetic Securitization/ Reg-Cap Trade	IFC, a member of the World Bank Group, is providing credit-risk protection to Crédit Agricole Corporate and Investment Bank on a $2 billion portfolio of business involving clients in developing countries.	90.0	Global	Financial services (excluding microfinance)
InfraCo Africa*	Funded by multiple donors, InfraCo Africa is a privately managed company established to act as a principal private-sector developer. The company has a pioneering development role and offers full development capability that includes taking a project from its earliest stage to its final one (where it is financed and economically viable).	126.7	Sub-Saharan Africa	Infrastructure
InfraCo Asia*	Funded by multiple donors, InfraCo Asia is a privately managed facility established to act as a principal private-sector developer in South and South-East Asia. It has a pioneering development role and offers full development capability that includes taking a project from its earliest to its final stage (where it is financed and economically viable). InfraCo Asia is a facility of the PIDG, a coalition of donors.	62.6	Sub-Saharan Africa	Infrastructure
Infrastructure Crisis Facility – Debt Pool LLP (ICF-DP)*	The ICF-DP, a PIDG facility, is a closed-end fund that provides long-term loans to infrastructure projects in emerging economies to address financing gaps that have resulted from the financial crisis. The fund, available to all private infrastructure projects started by international financial institutions, will not make investments after December 2015.	640.5	Global	Infrastructure
INFRONT Frontier Markets Fund 2*	The US and Canadian governments are supporting Sarona Frontier Markets Fund 2 to stimulate private investments into developing countries. The fund invests growth capital in companies and private-equity funds in frontier and emerging markets. The focus is on small to mid-market companies because the fund's manager believes it is best positioned to meet the needs of the rapidly growing middleclass in those markets. The goal is to achieve superior returns by creating world-class companies, employing highly progressive business strategies, and operating to the highest standards of business, ethical, social and environmental excellence.	250.0	Global	No specific focus
International Finance Facility for Immunisation (IFFIm)	IFFIm uses long-term, legally binding donor pledges to issue vaccine bonds on the capital markets. The money raised from investors helps fund vaccine alliance Gavi's programmes to meet immediate country demand for vaccines. This ensures a near-term positive impact on public health that strengthens and protects future generations.	6,500.0	Global	Healthcare
Investment Fund for Health in Africa (IFHA)	The IFHA is a private equity fund dedicated to small- to medium-sized (equity) investments in private healthcare companies in Africa. It started with donations from large multinationals that wanted HIV/AIDS care and health insurance for their employees in Africa. The IFHA predominantly focuses on companies active in the following sectors: care provisioning (hospitals, clinics and similar care providers); manufacture and supply of healthcare products; and wholesale and distribution.	56.7	Sub-Saharan Africa	Healthcare

Kenya Commercial Bank/USAID/GE partnership*	Established by USAID and GE in conjunction with Kenya Commercial Bank, the partnership is to make up to $10 million in local financing available to SMEs for developing private health facilities, including small clinics, diagnostic centres and hospitals in Kenya. Healthcare providers that qualify will be able to access more favourable financing through improved risk sharing, training and services. Advantages include longer loan terms, competitive interest rates and small, upfront capital investments. The partnership marks the first time that a Development Credit Authority facility was established directly with the support of a multinational company.	10.0	Sub-Saharan Africa	Healthcare
Kenya SME Fund (Business Partners International)	This local Kenyan investment fund was established by the IFC, European Investment Bank, East African Development Bank, Sarona, CDC Group and Business Partners Limited. It provides integrated investment and value-added solutions for small- and medium-size entrepreneurs, from single-owner businesses to partnerships and multi-owner ventures.	14.1	Sub-Saharan Africa	Financial services (excluding microfinance)
Medical Credit Fund (MCF)	The MCF is a non-profit health investment fund founded in 2009 by PharmAccess International. Its primary objective is to enhance the provision of affordable quality healthcare services by reducing the investment risk of lower-tier healthcare providers. By doing so, healthcare providers become financeable and can invest in quality enhancement and facility expansion. The MCF seeks to generate “triple bottom line” results: (1) financial – the total available amount of capital for healthcare is increased, at a return for investors; (2) clinical – achieved quality improvements are measured and evaluated according to international standards; and (3) social – more people in low-income groups gain access to more and improved healthcare services.	30.0	Sub-Saharan Africa	Healthcare
Microfinance Initiative for Asia Debt Fund	This fund fosters responsible finance principles in the region and further develops local financial markets by providing financing (senior and subordinated loans), mainly in local currency on commercial terms to MFIs, especially those classified as Tier 2 and Tier 3, in emerging Asian and Central Asian markets.	175.0	East and South-East Asia	Microfinance
Moringa Fund (Moringa SICAR)	Moringa SICAR is an investment vehicle with a final targeted size of €80 million, and invests in profitable larger-scale agroforestry projects with high environmental and social impacts. It invests in Latin America and Sub-Saharan Africa via equity and quasi-equity investments of €4-10 million. The fund manager adds value through its technical skills, environmental and social expertise, and global network. The fund leverages agroforestry as an inherently sustainable practice to distinguish itself from other land-based investment approaches and to ensure that its projects are genuinely sustainable.	89.2	Latin America and the Caribbean (including Mexico)	Food and agriculture
Mozambique Malaria Performance Bond (MMPB)	The MMPB is a development impact bond that funds interventions for malaria reduction in Mozambique.	10.0	Sub-Saharan Africa	Healthcare
New Partnership for Africa's Development – Infrastructure Project Preparation Facility (NEPAD-IPPF)*	The NEPAD-IPPF special fund aims to assist African countries, regional economic communities, specialized agencies and related institutions by providing grant resources for (1) preparing high-quality and viable regional/continental infrastructure projects, with a view to requesting financing from public and private sources; (2) developing a consensus and partnership for project implementation; and (3) promoting infrastructure projects and programmes aimed at enhancing regional integration and trade.	46.0	Sub-Saharan Africa	Infrastructure

Novastar Ventures*	Novastar seeks to develop fully commercial businesses that adapt and deploy innovative business models to profitably serve proven demand for basic goods and services, thereby improving access, affordability and quality.	50.0	Sub-Saharan Africa	No specific focus
OrbiMed Asia Partners II, LP Fund	The fund seeks to provide capital to healthcare companies in Asian nations, including China and India, where rising affluence is fuelling demand for medical products and services.	325.0	Asia-wide	Healthcare
Pan African Infrastructure Development Fund (PAIDF)	A closed-end private equity fund, the PAIDF seeks to invest in infrastructure projects in the energy, transport, water and sanitation, and information and communications technology sectors. The AfDB contributed $50 million to the first fund (PAIDF1) and another $25 million to the second (PAIDF2). PAIDF investors comprise state pension funds, top investment banks and financial institutions, as well as leading DFIs. The fund's objective is to invest directly in infrastructure projects in all regions of Africa, and in securities of companies that own, control, operate or manage infrastructure and infrastructure-related assets. It may also participate in joint ventures with corporate and governmental partners.	1,200.0	Sub-Saharan Africa	Infrastructure
Providing Employment and Knowledge (PEAK II)	Providing employment and knowledge are the aims of Equity for Africa's investments. PEAK II is structured as a revolving charitable fund, recycling repayments into new investments to create further employment. This fund focuses on smaller investments where transaction costs are higher, and on more experimental investments in new locations or sectors. PEAK II pays a management fee to Equity for Tanzania to cover transaction costs.	4.8	Sub-Saharan Africa	No specific focus
Philippine Investment Alliance for Infrastructure (PINAI)	PINAI is a 10-year, closed-end fund, dedicated to equity investment in Philippine infrastructure.	625.0	Philippines	Infrastructure
PIDG Technical Assistance Facility (TAF)*	The Technical Assistance Facility (TAF) is a pool of funding within the PIDG Trust to assist PIDG companies in supporting capacity building and to help scope out potential investment opportunities. TAF achieves its goals by helping PIDG companies and clients evaluate, develop and/or implement risk mitigation, financial and regulatory mechanisms, standards, systems and procedures essential to raising funds in capital markets. This enables developing countries to make a strong and positive contribution to growth and poverty reduction. TAF provides mechanisms for delivering short- and medium-term projects on technical assistance and capacity building by issuing technical assistance grants and providing advisers, trainings and secondments. It can also provide viability gap funding support designed to make projects economically viable over the long term and commercially viable for investors.	57.0	Global	Infrastructure
Pledge Guarantee for Health (PGH)*	PGH provides countries with working capital to help smooth over any delays in donor aid disbursements, giving them time to plan their procurements. It reduces the time needed to deliver critical health commodities by six to eight months.	100.0	Global	Healthcare
Progeny	Recognizing the market need for a dedicated project development finance entity, infrastructure developer Harith created and launched Progeny with the intention to provide early-stage support for infrastructure project development. Leveraging existing relationships and commitments from African institutional capital, Progeny will cultivate partnerships with governments, state-owned enterprises, DFIs, commercial banks and project sponsors/promoters within its system to originate projects and provide complementary resources and capacity for infrastructure development.	45.0	Sub-Saharan Africa	Infrastructure

Survey Questions

1. Fund/Facility Overview
– Blended Finance model name
– Brief description
– Total model size
– Launch date
– Is this fund or facility still active? If not, date of investment's completion
– Sector of focus: priority sector no. 1, no. 2 and no. 3, along with approximate percentage of funds allocated to sector
– Geography of focus: priority region of investment no. 1, no. 2 and no. 3, along with approximate percentage of funds allocated to region
– Geography of focus: region of capital supply no. 1 and no. 2, along with approximate percentage of funds allocated to region
– Primary investment motivation for development and philanthropic as well as private investors
– Names of development and philanthropic as well as private investors

2. Investment, Risk and Return Details
– Development and philanthropic capital
  – Debt instruments: total debt, senior debt, junior debt, realized return, target return
  – Equity instruments: total equity, senior equity, junior equity, realized return, target return
  – Guarantees: paramount, percentage
  – Grants: reimbursable grants, traditional grants
– Private capital
  – Were finance return targets for private capital achieved?
  – Debt instruments: total debt, realized return, target return
  – Equity instruments: total equity, realized return, target return
  – Guarantees: paramount, percentage
– Technical assistance amount
– Instrument and return totals (if breakdown wasn't provided): total development and philanthropic (D&P) and private debt, total D&P and private equity, total D&P and private guarantees, target return, realized return
– Additionality:
  – If public capital/blending was required for private-sector investment
  – The risks or barriers that the Blended Finance model directly addressed that would have impeded private investment (select the top three priorities from the drop-down menu)
  – Any other risks or barriers addressed
  – Any additional commentary on fund structure

3. Select Impact Metrics
– Total number of investee enterprises or projects since inception
– Total number of beneficiaries reached by investee enterprises or projects since inception
– Total number of jobs created since inception
– Are you a first-time fund manager?
– Have you achieved your impact targets?
– Number of impact indicators tracked (mark 0 if no measurement tracking)
– Any additional commentary on methodology used to measure impact; list other impact indicators used

4. Future Scalability and Replicability
– Do you intend to scale the model?
– Have you raised or are you in the process of raising a second round of funding?
– Do you intend to raise additional rounds of funding?
– Do you intend to replicate the model in different sectors or geographies?
– Add commentary or clarification on best practices, lessons learned or future funding potential

5. Miscellaneous
– Sources
– Public sector, private sector and fund manager contact details

Blended Finance Lexicon and Survey Definitions

Blended Finance
Blended Finance is the strategic use of development finance and philanthropic funds and capabilities to mobilize private capital flows to emerging and frontier markets.

Blended Finance deal/transaction is one that combines public and private capital in order to deliver along three pillars:
1. Impact: Investments in sectors that have a transformative social and economic impact in emerging and frontier markets
2. Leverage: Private capital funding in an investment that scales the impact of the public funds in the transaction
3. Returns: Risk-adjusted returns in line with market expectations

Development and philanthropic funders include donor agencies, development finance institutions and public and private philanthropic foundations.

Financial additionality exists when commercial financiers would not have invested in a development activity without public-sector intervention.

Financial intermediaries are institutions that facilitate the channelling of funds between investor and investee companies or projects, and between lenders and borrowers.

Private sector capital providers/investors/actors are diversified financial institutions and intermediaries, institutional investors (such as pension funds, insurance companies and sovereign wealth funds) and high net-worth individuals.

Blended Finance Financial Instruments
Flexible debt is debt with favourable terms for the borrower relative to market rates and risks (e.g. longer tenor, lower interest rate).

Grants are financial awards with no expected repayment or compensation over a fixed period of time.

Junior equity refers to equity investments accepting lower financial returns in exchange for positive development impact; it has the lowest-priority claim on a company's dividends and, in case of bankruptcy or liquidation, on a company's assets.

Market rate debt is borrowed money to be repaid, typically with interest.

Senior equity refers to ownership in a company where value is determined at the time of investment.

Subordinated/Junior/Mezzanine debt is debt which, in the event of default, is repaid only after all senior obligations have been satisfied.

Blended Finance Tools

Direct funding is the provision of debt, equity or grants to a project or company at various stages.

Supporting mechanisms are a set of indirect mechanisms that attract private capital by mitigating risk to address investor barriers across the entire life cycle of a project or enterprise. These include:

1. Technical assistance: Advisory services that support the investee project or enterprise to function more effectively and efficiently, creating the potential for long-term commercial sustainability and ultimately improving the investment viability
2. Risk underwriting: Unfunded risk underwriting tools that improve the credit rating by offering better terms and/or additional assurance that investors will be repaid amid unforeseen credit events, effectively shifting the risk-return profile of an investment opportunity enough to enable private investors to commit capital
3. Market incentives: Risk management tools that can reduce investor risks from excessive market volatility while seeking to deliver positive returns and limit the downside risk of investing in emerging and frontier markets; these include local currency swaps, interest rate swaps and credit default swaps

Blended Finance Segments

Market segment is the stage of a project or company in the investment life cycle when specific barriers are encountered in raising private capital. The five stages are:

1. Preparing, when significant initial costs are encountered, coupled with uncertain viability and visibility into whether a project will be approved.
2. Pioneering, when entrepreneurs are experimenting with new ideas, products and business models in early-stage investments, and it is difficult for private investors to justify the time and funds to support innovation.
3. Facilitating, when ongoing projects and enterprises requiring capital to fund expansion and/or existing operations may offer strong development returns, but the risk-adjusted returns for private investors may be below commercial thresholds.
4. Anchoring, when mature or credible enterprises/projects seek capital for scaling or replicating in critical areas of development, but capital providers may be hesitant to invest because of real and perceived macro risks (such as political and sectoral risks, as well as currency risks and uncertainty around exits).
5. Transitioning, when projects and enterprises are at a very mature stage, suited for commercial viability and access to commercial markets, but many private investors lack access to a pipeline of deals that are sufficiently sizeable and scalable to fit within investor mandates.

Blended Finance Risks (survey definitions)

Corporate risk: The risk that a company, examined on a standalone basis, will not perform well commercially, thereby increasing the risk of default.

Currency risk: The risk from the change in price of one currency against another.

Early-stage business model risk: The risk associated with early-stage businesses that have unproven models.

Lack of bankable pipeline: The risk of having limited projects to invest in.

Lack of local intermediaries: The risk of having an insufficient number of local intermediaries; also, these intermediaries, for example, may not have a track record or may be too small.

Lack of standard financial products: The risk of a lack of both standardized financial products and knowledge of Blended Finance products.

Liquidity risk: The risk that assets may not be readily available to meet a demand for cash.

Political risk (sovereign and country risk): Sovereign risk refers to the risk that a country (the sovereign) will default on its obligations. Country risk refers to the risk of a downturn in the investment environment, and is mainly composed of transfer and convertibility risk; for example, the risk that a government may impose capital or exchange controls that may prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside the country; and cases of *force majeure*, such as war, expropriation, revolution, civil disturbance, floods and earthquakes. Investors face the risk that the regulatory environment may not be conducive to foreign investment, and significant tax barriers may exist.

Project "go/no go": The risk that a project will not, for example, be approved or reach completion; it also includes the risk of long and expensive investment lead times and limited transparency (e.g. in government procurement processes).

Small and segmented investment options: The risk associated with small deal sizes; certain markets will have difficulty absorbing capital given their small size and segmentation.

Endnotes

[1] "Emerging" and "frontier" markets refer to countries included in the OECD-DAC list of Official Development Assistance (ODA) recipients. In this survey, funds and facilities deploying capital in emerging markets outside of this list of countries were also included due to the mandate of some participating vehicles to cover a broader definition of emerging and frontier markets.
[2] Of the respondents, 33 provided at least one priority risk; 19 provided the top 1, 2 and 3 priority risks; 11 provided the top 1 and 2 priority risks; and three provided only the top priority risk.

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