BLENDED FINANCE FUNDS AND FACILITIES - 2018 SURVEY RESULTS PART II: DEVELOPMENT PERFORMANCE

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BETTER POLICIES FOR BETTER LIVES

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Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AECF	Africa Enterprise Challenge Fund
AFD	Agence française de développement
AfDB	African Development Bank
AIMM	Anticipated Impact Measurement and Monitoring
AUM	Assets under management
BEIS	Business, Energy and Industrial Strategy
BMUB	Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (Germany)
BMZ	Federal Ministry for Economic Co-operation and Development (Germany)
CAF	Corporacion Andina de Fomento
CEO	Chief executive officer
CDC	Commonwealth Development Corporation (United Kingdom)
CIV	Collective investment vehicle
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DCFTA	Deep and Comprehensive Free Trade Area
DEval	Deutsches Evaluierungsinstitut der Entwicklungszusammenarbeit
DFID	Department for International Development (United Kingdom)
DG DEVCO	European Commission's Directorate-General for International Co-operation and Development
DG NEAR	European Commission's Directorate-General for Neighbourhood and Enlargement Negotiations
DFI	Development finance institution
EAIF	Emerging Africa Infrastructure Fund
EBRD	European Bank for Reconstruction and Development

EC	European Commission
EE	Energy efficiency
EIB	European Investment Bank
EnDev	Energising Development
ESG	Environmental Social and Governance
EU	European Union
EU-AITF	EU-Africa Infrastructure Trust Fund
EvalNet	OECD DAC's Network on Development Evaluation
FMO	Netherlands Development Finance Company
GCMCII	Global Commercial Microfinance Consortium II
GCPF	Global Climate Partnership Fund
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
GHG	Greenhouse gas
GIF	Global Innovation Fund
GIIRS	Global Impact Investing Ratings System
GIZ	German development agency
GPEDC	Global Partnership for Effective Development Co-operation
GRI	Global Reporting Initiative
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IDH	The Sustainable Trade Initiative
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IIC	Inter-American Investment Corporation
IIX	Impact Investment Exchange
IFI	International Financial Institution
IFU	Danish Investment Fund for Developing Countries
IIX	Impact Investment Exchange
ILO	International Labour Organisation
IMM	Impact measurement and management
IRIS	Impact Reporting and Investment Standards
IRRM	Integrated Results and Resources Matrix
KfW	German Development Bank

KPI	Key performance indicator
LDC	Least developed country
LDN	Land Degradation Neutrality
LuxDev	Lux-Development S.A
M&E	Monitoring and Evaluation
MDB	Multilateral development bank
MFI	Microfinance institution
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, small and medium-sized enterprise
ODF	Official development finance
OECD	Organisation for Economic Co-operation and Development
OeEB	Oesterreichische Entwicklungsbank AG
PE	Private equity
PI	Partner institution
PIDG	Private Infrastructure Development Group
PRI	Principles for Responsible Investing
R&D	Research and development
REPP	Renewable Energy Performance Platform
RVO.nl	Netherlands Enterprise Agency
SDG	Sustainable Development Goals
Sida	Swedish International Development Co-operation Agency
SME	Small and medium-sized enterprise
SPI4	Social Performance Indicators 4
SROI	Social Return on Investment
TA	Technical Assistance
TIMS	Transition Impact Monitoring System
UN	United Nations
UNCDF	United Nations Capital Development Fund
USD	United States dollar
VC	Venture capital
VCTF	Venture Capital Trust Fund
WBG	World Bank Group
WLB	Women’s Livelihood Bond

Abstract

The OECD Survey on Blended Finance Funds and Facilities represents a major step forward to consolidate evidence to inform policy makers and market players in the blended finance field, as they strive to both mobilise and shift financing towards the Sustainable Development Goals (SDGs). This working paper provides findings from the 2018 edition of the OECD survey relating to the development strategy, performance tracking and evaluation approach of the surveyed blended finance funds and facilities. It follows another working paper focused on the management, capital structure, investment strategy and portfolio allocation of the surveyed vehicles.

The paper presents new evidence on the extent to which blended finance vehicles anchor their investment strategy, as well as their environmental, social and governance (ESG) safeguards, to international agreements on sustainable development and align with the OECD Blended Finance Principles. It investigates how blended finance funds and facilities track development performance, by examining the nature of their development targets, the tools used to track progress towards them, as well as the level of measurement of performance indicators. The paper also sheds light on how respondents assess development results and on the diversity of evaluation culture, approaches and language across vehicles.

Executive summary

The OECD Survey on Blended Finance Funds and Facilities aims to consolidate evidence of the latest market trends in blended finance and to explore how their development impact is being tracked and evaluated. This work feeds into ongoing efforts to consolidate evidence and provide policy guidance in support of the OECD DAC Blended Finance Principles, whose focus is unlocking commercial finance for the Sustainable Development Goals.

This working paper presents findings from the 2018 OECD Survey about the development strategy, performance tracking and evaluation approach of the surveyed blended finance funds and facilities. In particular, evidence from this working paper will feed into policy guidance currently developed to support policy makers in the implementation of the OECD DAC Blended Finance Principle 5. This Principle aims at ensuring that blended finance operations are "monitored on the basis of clear results frameworks, measuring, reporting on and communicating on financial flows, commercial returns as well as development results". This paper follows another OECD working paper showing evidence from the OECD Survey on the management, capital structure, investment strategy and portfolio allocation of the surveyed vehicles.

The 2018 OECD Survey results show that over half of the 180 respondent blended finance vehicles anchor their investment strategies to international agreements on sustainable development, in particular one or more of the United Nations Sustainable Development Goals (SDGs). In general, facilities are more likely to do so than funds, as they typically have a clear development mandate. More than 70% of vehicles targeting No Poverty (SDG 1), Decent Work and Economic Growth (SDG 8), while Life below Water (SDG 14) and Peace, Justice and Strong Institutions (SDG 16) are among the least targeted SDGs.

Evidence from the survey also shows that blended finance vehicles are aligning with the OECD Blended Finance principles, despite their recent adoption. Survey results suggest that the OECD Blended Finance principles are slightly more popular than the DFI Enhanced Principles on Blended Finance. This may reflect their operational application, in the eye of the surveyed managing organisations.

Besides the goal of avoiding negative externalities when using blended finance approaches, the increasing focus on impact management and measurement advocates for active and continuous tracking of development performance to inform investment decisions. From the OECD Survey results, it emerges that most blended finance vehicles (funds particularly) adopt quantitative targets to monitor progress towards their development objectives, which are most frequently of an economic nature, followed by social and environmental ones. Despite this, 37% of respondents did not adopt any quantitative target, which implies that their overall performance tracking may be disconnected from the strategic objectives.

Development performance data can be collected at the different levels of measurement. Most development performance indicators used by blended finance vehicles are positioned at the output or outcome level. According to the Survey, blended finance facilities are more likely to adopt indicators at all level of results, except for impact, where funds are instead more represented. This might reflect the different understandings of what impact means amongst their managing organisations. Despite widespread adoption of impact indicators, little performance data is collected ex-post.

In terms of development impact information sources, clients are by far the most common source across blended finance vehicles. Only about one fifth of the surveyed vehicles also collects information from final beneficiaries from developing countries.

In the development context, evaluation refers to the process of determining the worth or significance of a development intervention, by assessing its relevance, efficiency, effectiveness, impact and sustainability (OECD, 2010[1]). According to the Survey, most blended finance vehicles identified a monitoring and evaluation team or unit as part of the line management structure. Facilities are more likely than funds to have identified an independent team or unit reporting directly to the Board of Directors (or equivalent). Funds instead more frequently leave the M&E responsibility with each investment manager or with their main investor. Both configurations are however not sufficient to guarantee the independence of the evaluation process, even if externalised.

Facilities are more likely to have undertaken at least one evaluation compared to funds. Over 18% of the surveyed funds have never undertaken an evaluation, nor do they envisage one in the future. Evaluations are mostly initiated because mandatory for facilities and requested by the investors for funds. This upholds the assumption that facilities are held to a higher level of direct and systematic scrutiny by their development finance providers.

The evaluation process is further characterised by a data collection phase, tailored to the questions raised by the commissioner, and which can pursue a more or less participatory approach. The Survey shows that evaluations mostly (at times exclusively) draw on monitoring data and client interviews, rather than on information collected from final beneficiaries. This finding underlines the disparity between different blended finance players in terms of external accountability, stakeholder engagement and strategic priorities.

According to the DAC Quality Standards for Development Evaluation, evaluation results must be presented in an accessible format and systematically distributed internally and externally for learning and follow-up actions and to ensure transparency (OECD, 2010[1]). Nonetheless, the OECD Survey results show that evaluations conducted by blended finance vehicles are seldom publicly available. The most common practice is to share reports only with internal management (58% of facilities) or with investors (58% of funds). Out of 137 vehicles having performed an evaluation, 35 stated that they were made publicly available, two thirds of them being facilities.

1 Introduction

The OECD Survey on Blended Finance Funds and Facilities

The OECD Survey on Blended Finance Funds and Facilities provides new insights to inform public policy makers and market players in the blended finance market, as they strive to both mobilise and shift financing towards the Sustainable Development Goals (SDGs). It focuses on one leveraging mechanism, Collective investment vehicles (CIVs), which pool resources together from different actors to invest in developing countries.

The OECD Survey on Blended Finance Funds and Facilities pursues three main objectives:

- to gather a more comprehensive picture of the latest market trends in blended finance funds and facilities,
- to understand what types of risks these funds and facilities are addressing and how they can leverage private capital more effectively and
- to explore how their development impact can be tracked and evaluated.

The first edition of this Survey was presented in the OECD publication *Making Blended Finance Work for the SDGs*. The 2018 Survey results feed into ongoing OECD work on blended finance,[1] which strives to consolidate the evidence base and provide a cohesive policy framework, while enabling sustained, informal dialogue, sharing of information, and identification of emerging practices. Furthermore, this work contributes to the multi-stakeholder efforts initiated under the Tri Hita Karana Roadmap, which lays out a shared value system and five areas for action, including good practice, mobilisation, transparency, impact and inclusive markets.[2]

Part I of the 2018 OECD Survey results is presented in OECD Development Co-operation working paper 59 (Basile and Dutra, 2019[2]), where the reader will find more details on the definition of Collective investment vehicles (CIV) and on the methodology (sections 1.2 and 1.3 respectively). The first publication discusses the capital structure, investment strategy and portfolio of the surveyed vehicles and is thus highly complementary to what follows. This Part II of the 2018 OECD Survey focuses on the development strategy, performance tracking and evaluation approaches of the respondent vehicles.

[1] http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/blended-finance.htm.

[2] The Roadmap brings together governments, development financiers and private sector entities for the purpose of increasing engagement and improving the framework which will allow blended finance to scale in size and become more effective. For a brief overview please see (OECD, 2018[37]), "Tri Hita Karana Roadmap for Blended Finance". http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Tri-Hita-Karana-Roadmap-for-Blended-Finance.pdf

Collective investment vehicles: blending approaches

Collective investment vehicles (CIVs) represent varied set of investment tools, which may be difficult to navigate, for policy makers and civil society alike. The OECD distinguishes between two different pooled models:

- A fund is a pool of capital which can be comprised of a mixture of development and commercial resources that provides financing to direct investees (e.g. projects or companies) or indirect investees (e.g. through credit lines or guarantees) that provide on-lending. In addition to mobilising commercial capital at the fund-level, this type of CIV may also mobilise additional financing at the project, or investment, level. Funds can be structured in two ways, either in a flat structure where risks and returns are allocated equally to all investors (all investors are pari passu), or in a layered structure where risks and returns are allocated differently across investors.[3]
- A facility is an earmarked allocation of public development resources (sometimes including support from philanthropies), which can invest in development projects through a range of instruments with the purpose of mobilising additional finance (e.g. commercial) through its operations.[4]

This categorisation goes beyond what may be listed in the vehicle's official name. Moreover, in order to be considered in the OECD Survey as a blended finance fund or facility, such vehicles must:

- Have a defined legal statute (e.g. by formalised agreement between the two parties),
- Pool together different sources of finance from public and private actors, at a national or international level, with development or commercial mandates
- Invest in developing countries (as defined in the DAC List of ODA Recipients),[5]
- Have an explicit objective, or implied, to mobilise additional finance,
- Include their own accounting and financial reporting, separate from the managing organisation.

A more in depth-discussion of their investors, capital structure and managing organisations can be found in the OECD Development Co-operation Working Paper 59 "Blended Finance Funds and Facilities 2018 - Survey Results Part I: Investment Strategy" (Basile and Dutra, 2019[2]).

The OECD DAC Blended Finance Principles

By adopting the OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs, members of the Development Assistance Committee (DAC) have committed to monitoring the development results of their blended finance operations (Principle 5). The OECD Development

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[3] Another way of describing a flat fund would be a 'one-tranche fund', without subordination terms. Structured funds may also be conceived, not to generate a return, but to solve a problem: in this case, donors provide a risk protection, the only investors are DFIs and return expectations are likely to be mandated.

[4] Facilities can be set-up in many different ways, with distinct terms of operations and mandate. For example, three potential types of facilities may be characterised as follows: 1) managed by governments, providing concessional financing and often investing in funds (e.g. the European Commission's blending facilities and the Green Climate Fund); 2) managed by a DFI or a private asset manager, providing concessional finance (e.g. FMO's Access to Energy Fund); 3) managed by DFIs, on commercial terms (e.g. those by the CDC Group).

[5] See: http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm

Co-operation Directorate has been mandated to establish further policy guidance to support the implementation of each Principle.

Box 1.1. OECD DAC BLENDED FINANCE PRINCIPLE 5: Monitor blended finance for transparency and results

To ensure accountability on the appropriate use and value for money of development finance, blended finance operations should be monitored on the basis of clear results frameworks, measuring, reporting on and communicating on financial flows, commercial returns as well as development results.

A) **Agree on performance and result metrics from the start**. Since inception, development and commercial actors taking part in blended finance operations should adopt a common monitoring and evaluation framework. Performance and result metrics should be applied to both direct engagement of donors in blended finance and to intermediated operations, while specific reporting arrangements may be tailored to context. Establishing a common set of key performance indicators should be a priority to ensure a transparent, harmonised and comparable assessment of results, thereby also providing a common framework of intervention for all parties to a given blended finance operation.

B) **Track financial flows, commercial performance, and development results**. In order to assess the effectiveness and efficiency of blended finance operations, the financial and development performance of all parties should be assessed against predefined and agreed upon metrics. These should cover development finance, additional commercial finance mobilised (including financial returns), and the results achieved on development objectives.

C) **Dedicate appropriate resources for monitoring and evaluation**. Adequate systems should be put in place to allow the monitoring and evaluation of the development interventions supported through blended finance. Donors should align on a common understanding of blended finance assessment methodologies to ensure consistency in data collection and reporting.

D) **Ensure public transparency and accountability on blended finance operations**. Information on the implementation and results of blended finance activities should be made publicly available and easily accessible to relevant stakeholders, reflecting transparency standards applied to other forms of development finance. Besides accountability, external communication on blended finance performance is instrumental in mobilising further commercial capital, by improving the availability of market information and the quality of risk assessment for the efficient pricing of investments.

This work feeds into ongoing efforts to consolidate evidence and provide further policy guidance in support of the implementation of the OECD DAC Blended Finance Principles, whose focus is Unlocking Commercial Finance for the Sustainable Development Goals. It also contributes to ongoing work on Blended Finance Evaluation undertaken as part of the OECD DAC's Network on Development Evaluation.

Box 1.2. OECD DAC EvalNet working group on blended finance

The OECD DAC's Network on Development Evaluation (EvalNet) contributes to better development results by supporting evaluation to build a strong evidence base for policymaking and for learning. EvalNet sets norms and standards, and develops guidance to improve evaluation practice. The network is made up of the independent evaluation units of OECD DAC member countries and multilateral organisations.

EvalNet's Working Group on Evaluating Blended Finance – co-ordinated by Denmark, Germany, Norway and the OECD Secretariat – is working to address the challenges in evaluating the effectiveness and results of blended finance. By developing a common understanding of how to evaluate blended finance operations, this work will help strengthen the evidence base. Ultimately, the aim is to support more effective blended finance operations for sustainable development.

To this end, the Working Group will focus on three themes:

1. The first work stream will establish a shared understanding of blended finance and evaluation concepts and terms. This will involve a systematic review of how definitions are used and the implications of these different understandings/definitions for programming and evaluation. This work will be done in late 2019.
2. The second work stream, to be carried out in 2020, will explore how to evaluate 'development additionality' or 'development impact' (terms currently used to describe the contribution of blended finance activities to sustainable development). 'Additionality' is a key concept in impact measurement and evaluation of blended finance, but there is no shared understanding of how it should be evaluated. This work will fill that gap by exploring methods and approaches for evaluating 'development additionality'.
3. The third and final stream will develop a shared understanding of how to evaluate different blended finance instruments and complementary supports, including evaluation of unintended effects, such as market distortions. This work will examine how specific instruments (equity, guarantees, loans, etc.) and the combination of instruments with other support (such as technical assistance) should be evaluated. This work will be complete in early 2021.

Following completion of these three work streams, and building on the forthcoming guidance on the OECD DAC Blended Finance Principles, EvalNet plans to develop more in-depth guidance for evaluating blended finance, as needed.

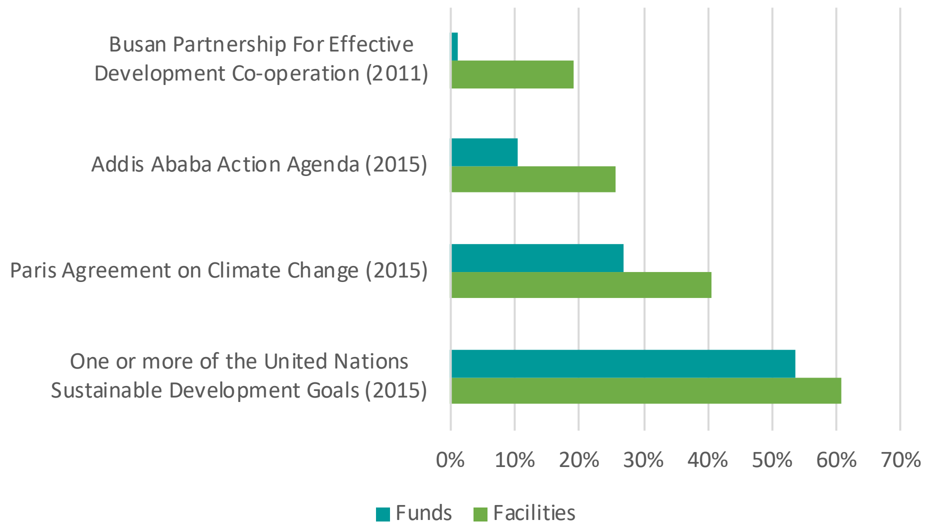
2 Setting the development strategy

More than half of the blended finance vehicles anchor their strategy to international agreements on sustainable development

Over half of the surveyed funds (54%) and facilities (61%) anchor their investment strategies to one or more of the United Nations Sustainable Development Goals (SDGs), as shown in Figure 2.1. The surveyed vehicles target around 7 SDGs in their investment strategies, the average being slightly higher for facilities. No Poverty (SDG 1), and Decent Work and Economic Growth (SDG 8) are targeted by over 70% of vehicles. More than half also target Climate Action (SDG 13) and Gender Equality (SDG 5). In contrast, SDGs that were targeted the least include Life below Water (SDG 14) and Peace, Justice and Strong Institutions (SDG 16). These findings have been confirmed in both the 2017 and the 2018 OECD Survey editions.

In general, **facilities are more likely to ground their investment strategy to international agreements on sustainable development**. This is likely attributable to the fact that such vehicles are more publicly driven. By definition, facilities only pool sources of capital which have a development mandate, whereas funds also mobilise purely commercial investors. The majority of capital sitting in facilities (96%) comes from concessional development finance providers, and the other 4% is non-concessional development finance (Basile and Dutra, 2019[2]). Among funds, the composition of capital is more diverse: 42% is concessional development finance, 32% non-concessional development finance, and 26% commercial finance. Facilities are also more directly steered by governments, as majority investors. Governments own 86% of all assets sitting in the surveyed facilities, contrasted with only 34% among funds. Facilities are more often managed by multilateral DFIs, whereas the majority of funds are managed by commercial asset managers. The European Investment Bank (EIB), Blue Orchard, Triple Jump and Finance in Motion are among various fund managers who anchor their investment strategies to international agreements.

Figure 2.1. International agreements referenced in blended finance vehicles' investment strategy



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

Additionally, 41% of facilities anchor their investment strategies to the Paris Agreement on Climate Action, against 27% of funds. Some funds that anchor their investment strategy to the Paris Agreement are Microfinance Initiative for Asia, InsuResilience Investment Fund, Emerging Africa Infrastructure Fund, AGRI3, BUSAC Fund, Green for Growth Fund, eco.business Fund, and African Guarantee Fund for Small and Medium-Sized Enterprises. The Addis Ababa Action Agenda and the Busan Partnership are also more popular among facilities, at 26% and 19% of responses, respectively.

The global nature of the SDGs becomes evident in their cross-sector appeal. For instance, SDG 7, affordable and clean energy, and SDG 13, climate action, are almost equally adopted by funds and facilities focussing on environment and by those operating in other sectors. Most environmentally oriented vehicles target SDG 8, decent work and economic growth, whereas SDG 1, no poverty, has been more widely adopted in other sectors. Indeed, the SDGs are the most popular international reference among funds and facilities, independently of the sector targeted by their investments. While the Paris Agreement is generally less popular, it is unsurprisingly more prominent among those vehicles operating in energy, agriculture and general environment protection.[6]

Looking more in depth at those funds and facilities that anchor their investment strategies to the Paris Agreement, three quarters operated in energy generation, distribution and efficiency. Moreover, 51% also cite agriculture and 45% general environment protection. However, these are the most frequent sectors of investment for all the surveyed vehicles and a similar distribution is observed with respect to the Addis Ababa Action Agenda. The Busan Partnership for Effective Development Co-operation, is more frequently mentioned by vehicles investing in banking and financial services (44%).

Still, out of the 180 vehicles surveyed, 70 (i.e. 38% of respondents, corresponding to over 19 bn USD in AUM, which includes almost 12 bn USD in concessional development finance) did not reference any

[6] In sectors such as transport, health, education, water, industry, banking and financial services, and business, 55% of the surveyed vehicles mentioned the SDGs and only 17% the Paris Agreement. In energy, agriculture and general environment protection, 58% of them reference the SDGs and 38% the Paris Agreement on Climate Change.

international agreement in their strategy. Many of them were established before 2015, when the United Nations' Sustainable Development Goals, the Paris Agreement on Climate Change, and the Addis Ababa Action Agenda came into force. Hence, the older funds and facilities had to retroactively integrate these commitments into their investment strategy. About 59% of funds and facilities established before 2015 adopted one or more of the United Nations' Sustainable Development Goals and 30% of them also adopted the Paris Agreement.

There are numerous alternative investment strategy anchors, for instance the Kyoto Protocol. European bodies typically operate within the European Union policy framework, which includes the Treaty provisions on external action, detailed through the EU Global Strategy on Foreign and Security Policy, the new European Consensus on Development, the EU/Africa Infrastructure Partnership, and the reviewed European Neighbourhood Policy. Other international initiatives mentioned by the European Commission Directorate General for Development Co-operation (DG Devco) include the Sendai Framework for Disaster Risk Reduction and UN Security Council Resolution 2282 on sustaining peace. The European Investment Bank also cited the new European Consensus on Development. The EU-AITF contributes to the "Sustainable Energy for All" initiative launched by the United Nations, based on eligibility criteria defined by the European Commission. The NEPAD-Infrastructure Project Preparation Facility mentioned anchoring their investment strategy to the Accra Action Agenda. The Global Commercial Microfinance Consortium (GCMCII) cites the Smart Campaign, which defines principles for client protection in the microfinance industry. BlueOrchard follows the InsuResilience Global Partnership, which was launched at the 2017 UN Climate Conference COP23 in Germany, as a multi stakeholder initiative to protect the poor and vulnerable against disasters.

Furthermore, a frequent mission of blended finance vehicles is supporting the development of local capital markets, through the use of local currency. The G20 Action Plan to Support the Development of Local Currency Bond Markets represents an important reference in this regard, although it was mentioned only once in the Survey. Out of the 180 respondents, 65 mentioned supporting the development of local capital markets, most of them being blended finance funds. Almost a quarter of the total AUM captured for 2017 was denominated in local currency (Basile and Dutra, 2019[2]). While 71% of funds reported having a portion of their portfolio in local currency, only 27% of the surveyed facilities reported the same. This is likely because facilities often lend to local financial intermediaries, as opposed to directly investing in local companies.

Blended finance vehicles are aligning with Blended Finance Principles, despite their recent adoption

The OECD-DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals reflect the policy mandate of the Development Assistance Committee (DAC). They address the financing needs for sustainable development as set out in the Addis Ababa Action Agenda, by focusing on mobilising commercial capital and enhancing development results. The DFI Enhanced Principles on Blended Concessional Finance for Private Sector Projects are positioned at the operational level, from the perspective of development finance institutions (DFIs). The OECD DAC Principles and the DFI Enhanced Principles reveal a consistency in best practices in the deployment of blended finance. Both commitments have been adopted in October 2017 and, while they are most popular among more recent blended finance vehicles, 97 of the 144 vehicles established beforehand have decided to retroactively incorporate them.

In general, the OECD Survey results show that the OECD-DAC Blended Finance Principles are slightly more popular than the DFI Enhanced Principles on Blended Finance. Adherents to OECD-DAC Blended Finance Principles include about 46% of facilities and 29% of funds. A similar proportion is observed for the DFI Enhanced Principles on Blended Finance (44% of facilities and 24% of funds). Therein, 43 respondents chose to align with both sets of principles in guiding their deployment of blended finance. This underlines the complementarity and consistency of the two approaches.

Multilateral and bilateral DFIs are more likely to follow the DFI Enhanced Principles, compared to the OECD-DAC Blended Finance Principles. These include the IFC, the chair of the DFI Working Group, as well as members of the DFI Working Group, such as the Asian Development Bank, Inter-American Development Bank, African Development Bank, as well as commercial asset managers, like Africa50, Climate Fund Managers and Obviam. This may reflect their operational application, in the eye of the surveyed managing organizations. Governments and not-for-profit asset managers are more likely to align with the OECD-DAC Blended Finance Principles. Examples include DG Devco, LuxDev, and the Italian Ministry of the Environment and Land and Sea Protection.

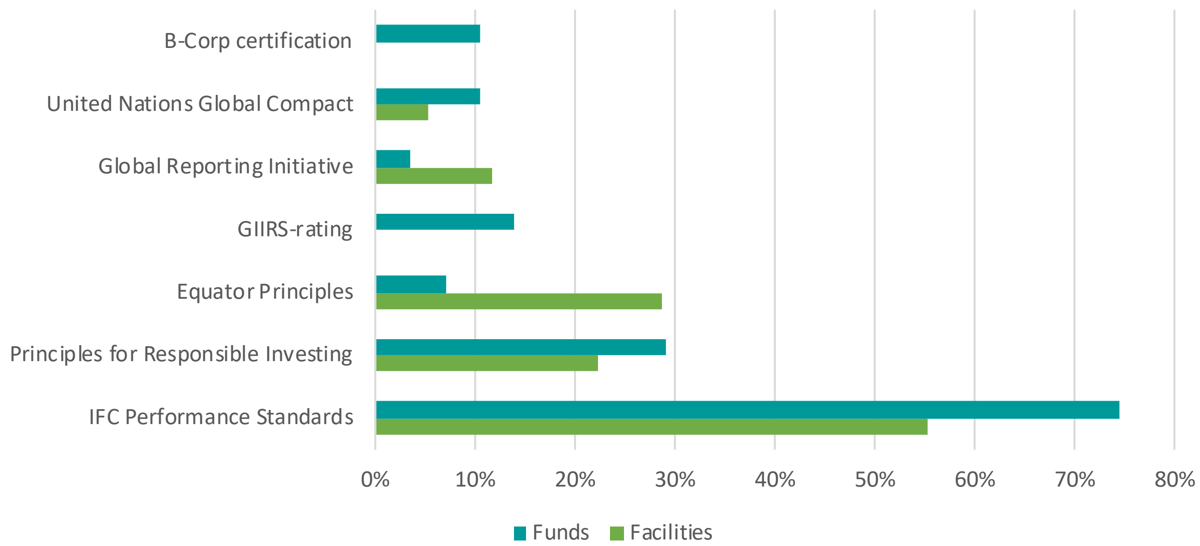
Other guiding principles mentioned by respondents include specific frameworks established by donors, such as the EU guidelines on blending operations. The European Commission (DG Devco) follow their own internal guidelines, which effectively adhere to the OECD DAC Principles. Other guiding principles do not explicitly relate to blended finance, but include the Principles for Responsible Investing (PRI), the UN Global Compact and the Universal Standards for Social Performance Management.

Still, many surveyed vehicles (73, i.e. 40% of the total respondents) reported that they align with no principles at all. Particularly, over 59% of funds do not adhere to either OECD-DAC Blended Finance Principles or DFI Enhanced Principles on Blended Finance.

Most blended finance funds and facilities align their environmental, social and governance safeguards with international standards

Overall, a wide majority of funds and facilities (83% of respondents) align their environmental, social and governance (ESG) safeguards with one or more international standard(s). The most common ones are briefly presented in Box 2.1 below.

Figure 2.2. Alignment of environmental, social and governance safeguards adopted by blended finance vehicles



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

The most frequently mentioned are the IFC Performance Standards, followed by the Principles for Responsible Investing. The IFC Performance Standards are a detailed set of criteria that deals with environmental and social management, workers treatment, energy efficiency, workplace hazards, resettlement issues, biodiversity conservation, human rights, and cultural heritage. They are more popular among funds than facilities (74% vs 55% of respondents). All vehicles managed by bilateral DFIs have chosen to adopt the IFC Performance Standards. Additionally, 78% of commercial asset managers and 63% of multilateral DFIs align their safeguards with these standards.

About 29% of funds and 22% of facilities mentioned the Principles for Responsible Investing. Facilities more often align with Equator Principles at about 29% compared to 7% of funds. This is likely explained by the fact that the Equator Principles specifically address the risk of development projects, which is more prominent in their mandate. Spearheaded by the IFC in 2003, they have been mostly adopted by other multilateral DFIs (mentioned by 40% of respondents in this category), compared to 9% of bilateral DFIs and 8% of asset managers. The Equator Principles have since been superseded by the launch of the IFC operating principles for impact management, in 2019. Their 77 signatories are all prominent players in the blended finance space (IFC, 2019[3]).

No facility cited GIIRS-ratings, which are instead adopted by funds to some extent. Among asset managers, 30% of non-profit asset managers cite aligning their ESG safeguards with GIIRS-ratings. About 12% of facilities and 3% of funds cited the Global Reporting Initiative. Commercial asset managers are the sole respondents to cite B Corp Certification, at 13%. The United Nations Global Compact sees most alignment from funds, at 10%, compared to 5% of facilities. Conversely, this is likely explained by the private sector nature of the United Nations Global Compact, which targets companies and CEOs.

Other references listed by Survey respondents included the Universal Standards for Social Performance Management, International Labour Organisation (ILO) Core Conventions. Managing organisations may design their own due diligence process, or chose to align with the one imposed by their main development finance provider. Similar cases include World Bank Group Environmental, Health and Safety Guidelines, CDC's Investment Code of Responsible Investing, Swedfund's Policy for Sustainable Development and Anti-Corruption, IFU's Sustainability Policy. Among those that do not refer to any specific standard (30 out of 180 respondents), they may still have defined their own proprietary standards (e.g. Bill and Melinda Gates Foundation and CAF) or may adapt them on an ad hoc basis, depending on the characteristics of each blending project and on the requirements of the investors involved.

Box 2.1. International standards for environmental, social and governance safeguards

The **UN Global Compact** is a set of principles to which companies commit and are designed to promote the integration of sustainability in business affairs. Companies agree to submit an annual report or sustainability report detailing their efforts to support the UN Global Compact's principles which cover human rights, labour, environment, and anti-corruption. The UN Global Compact reserves the right to demote and eventually expel members for failing to submit the requisite reports. Because the UN Global Compact mostly targets the private sector and is based on commitments by CEOs, funds naturally have greater alignment with the UN Global Compact as they have a greater representation of private companies as managing organisations.

Born under the auspices of the United Nations, the **Principles for Responsible Investing** (PRI) represent a co-operative effort of investment industry experts, intergovernmental organisations, and civil society. They specifically target asset owners, investment managers, and service providers, and attempt to incorporate ESG factors in investment and ownership decisions. Among those surveyed, 33% of commercial asset managers align themselves with the United Nations Principles for Responsible Investing. While there is no explicit mention of specific ESG measures and indicators, the PRI outlines possible actions under principle 3, which is "We will seek appropriate disclosure on ESG issues by the entities in which we invest". One of these possible actions suggests using tools like the Global Reporting Initiative. Another suggests standards like the UN Global Compact.

The **Equator Principles** are a risk management framework for assessing the risks associated with development projects. As of 2013, the principles apply to four financial products in particular: project finance advisory services, project finance, project-related corporate loans, and bridge loans.

The IFC's Operating Principles for Impact Management were designed to aid investment funds in measuring social and environmental impact with financial returns. The Principles were developed with an end-to-end process in mind, which comprises strategy, origination and structuring, portfolio management, exit, and independent verification.

B Lab, an American-based non-profit, with support from The Rockefeller Foundation, launched the **B Corporation** certification, which aims to measure a company's social and environmental performance focusing on governance, workers, customers, and the broader community. Many large multinational companies have been certified, but the majority of the 2 500+ B Corps are small businesses. Even without any official public backing, the B Corp certification has gained mainstream acceptance to convey third party verified social and environmental performance.

In 2011, the B Lab initiative further span into the **Global Impact Investing Rating System** (GIIRS), in partnership with JPMorgan Chase & Co. and the Inter-American Development Bank. The rating system is primarily intended for emerging market companies and funds, to assess their impact in the areas of governance, workers, community, and environment using an analytics approach similar to Morningstar investment rankings and Capital IQ financial analytics. The methodology for rating funds includes a weighted average of companies within the fund's portfolio as well as the fund manager. Various social stock exchanges such as Mission Markets, NeXii, the Social Stock Exchange, and BRiiX are GIIRS Partners, making the rating system compulsory for listings and participation.

Table 2.1. Overview of the most frequent environmental, social and governance safeguard standards

Standards/Principles	Year	Who is targeted?	Enforcement mechanism	Size or number of adoptees/members
UN Global Compact	2000	Companies, CEOs	Voluntary – failure to comply will result in demotion or expulsion	13 643
Equator Principles	2003	Financial institutions	Voluntary – adoption with ongoing requirements	96 Equator Principles Financial Institutions
PRI	2005, unveiled in 2006	Asset owners, investment managers, service providers	Voluntary – adopted through signatory status	1 750+ signatories
B-Corp Certification	2006, first certifications in 2007	Companies, particularly SMEs	Certification with no legal status	Over 1 800 certified B Corps
GIIRS	2011	Self-identified impact investors, including funds, companies, portfolios	Rating system – de facto requirement for various social stock exchanges	296 GIIRS members, about 15 000 assessed by B Analytics

Source: Author's compilation.

Conclusions

The 2018 OECD Survey results show that over half of the respondent blended finance vehicles anchor their investment strategies to one or more of the United Nations Sustainable Development Goals (SDGs), particularly facilities. More than 70% of vehicles target No Poverty (SDG 1), and Decent Work and Economic Growth (SDG 8), while Life below Water (SDG 14) and Peace, Justice and Strong Institutions (SDG 16) are among the least targeted SDGs. Evidence from the survey also shows that blended finance vehicles are aligning with the OECD Blended Finance principles (46% of facilities and 24% of funds), despite their recent adoption. Survey results suggest that the OECD Principles are slightly more popular than the DFI Enhanced Principles on Blended Finance among the surveyed vehicles.

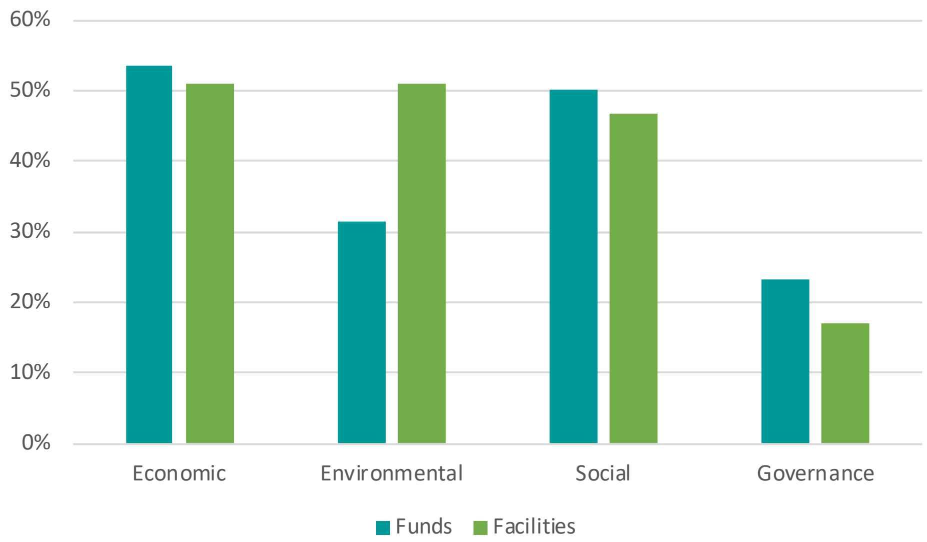
Furthermore, 83% of respondent vehicles claim to align their ESG safeguards with one or more international standards. The most frequently mentioned are the IFC Performance Standards, followed by the Principles for Responsible Investing. Among those that do not refer to any specific standard (30 out of 180 respondents), they may still have defined their own proprietary standards or may adapt them on an ad hoc basis, depending on the characteristics of each blending project and on the requirements of the investors involved.

3 Tracking development performance

Most blended finance vehicles adopt quantitative targets to monitor progress towards their development objectives

The OECD Survey shows that the development objectives of blended finance vehicles are most frequently of an economic nature, followed by social and environmental ones. Governance targets remain less popular irrespective of the blending vehicle, possibly because they are more difficult to quantify. Despite this, 37% of respondents did not adopt any quantitative target, which implies that their overall performance tracking may be disconnected from the strategic objectives.

Figure 3.1. Development targets adopted by blended funds and facilities



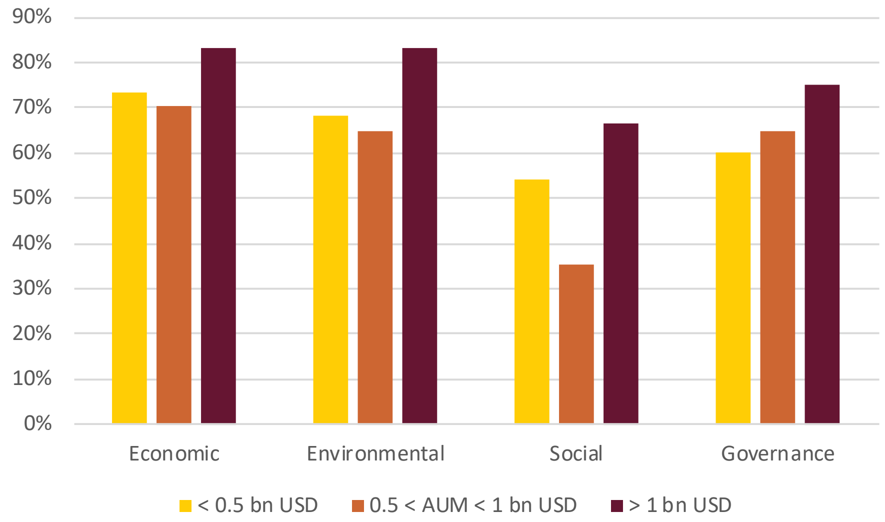
Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities.

On the one hand, the prominence of socio-economic targets may indicate that most vehicles are conceived with the intent of fostering private sector development and job creation. On the other, environmental and governance criteria may be used as a screening factor, rather than being actively pursued across all sectors of investment.

Blended funds are more likely to adopt quantitative development objectives, independently of their nature, in comparison to facilities. In particular, funds are slightly more likely to adopt economic (53 to 51% facilities), social (50 to 47%) and governance targets (23 to 17%). Facilities instead identified environmental targets more than funds (51 to 31%).

Survey results also suggest that the size of vehicles is another factor associated with the likelihood of adoption of quantitative targets to track development performance. Larger funds and facilities are more likely to adopt quantitative targets on all dimensions, relative to smaller vehicles. Indeed, 83% of funds and facilities with over USD 1 bn in AUM have adopted economic and environmental indicators, but the proportion decreases with the vehicles size.

Figure 3.2. Targets by assets under management (AUM)

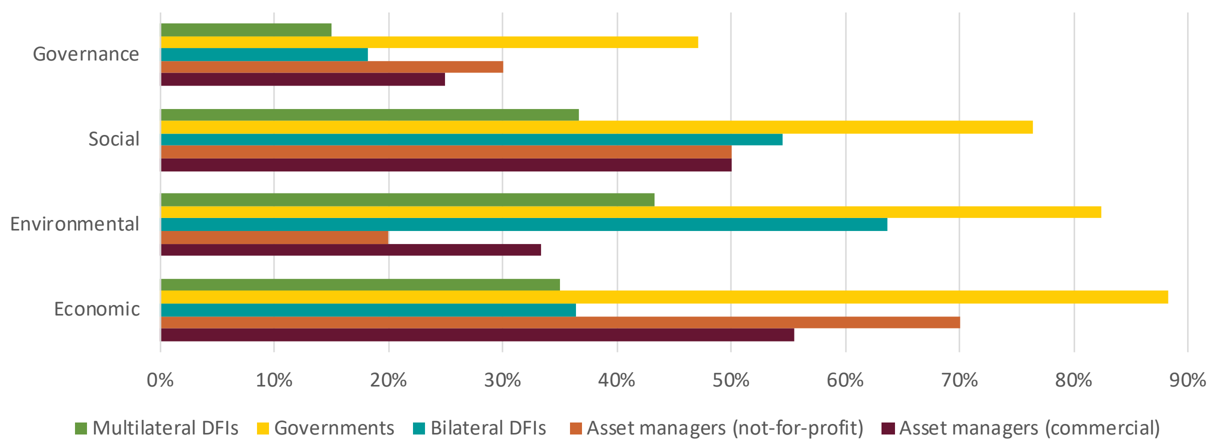


Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

A similar pattern is observed in terms of vehicle age. Vehicles established before 2009 are more likely to have established targets than more recent ones. This is probably attributable to the availability of internal resources, but also to their organisational maturity.

The type of managing organisation also influences the adoption of quantifiable development targets. Governments are the most common managing organisation to measure across all targets.

Figure 3.3. Targets by managing organisation



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities.

From the Survey results, it emerges that 88% of respondent governments measure economic targets, compared to 70% of not-for-profit asset managers and 56% of commercial asset managers. Bilateral and multilateral DFIs fall surprisingly behind in measuring economic targets, with 36% and 35%, respectively. On the environmental dimension, targets are most commonly measured by governments (82% of the surveyed) and bilateral DFIs (64%), less frequently by multilateral DFIs (43%), commercial (33%) and not-for-profit (20%) asset managers. The governments' headway is even more evident when looking at the social dimension, targeted by 76% of the respondent government entities. Bilateral DFIs track social targets more than multilateral DFIs, at 55% and 37%, respectively. Roughly, one in two not-for-profit asset managers and commercial asset managers has adopted quantitative social targets in their blended finance vehicles. Lastly, the governance dimension is the least targeted across the board, but still primarily captured by governments.

Vehicles and managing organisations further differ based on their use of key performance indicators (KPIs) when measuring various development objectives. Almost a quarter of respondents,[7] in particular facilities, use the reduction in CO2 emissions as a primary key performance indicator in measuring environmental targets. Frequent economic KPIs include job creation and tax revenue generation, again mostly mentioned by facilities. Social KPIs, health and education metrics, are also more commonly measured among facilities. Funds, instead, use more financial and returns-focused KPIs (e.g. number of loans). This might denote that facilities are more focused on outcome level indicators related to improvements at the beneficiary level, whereas funds are more attentive to returns on investment. Nonetheless, KPIs related to women's empowerment seem to be slightly more common among funds than facilities (at 24% versus 10% of responses).

[7] Among all Survey respondents, 104 of them (70 facilities and 34 funds) shared further information on the KPIs used in their blended finance vehicles.

Box 3.1. Social impact assessment must consider the diversity of causal pathways across investment and business models

Most assessments of social impact tend to focus on a narrow set of measures, particularly the creation of direct and indirect jobs by the small and medium-sized enterprises (SMEs) benefiting from an investment. To assess the social impacts of Venture Capital Trust Fund (VCTF) in Ghana, ITAD tested a collaborative, theory-based evaluation approach with a view to improve their internal reporting procedures. For nearly 15 years, the VCTF has been raising and blending both public and private capital across Ghana through a series of sub-funds (which are independently managed) to finance the growth of SMEs.

Based on a matrix of social change indicators for each investment, the evaluation team developed typologies of expected change taking into account different delivery mechanisms that were validated by VCTF staff. Three typologies were thus identified for classifying the portfolio in terms of social change by determining whether they are primarily 'job creators', 'service providers' or 'market makers'. By considering the portfolio in this way, it is possible to be more precise about likely social impacts and the different pathways to achieving change.

The qualitative case studies performed at the SME level revealed that improving social impact requires intentionality and focus by business leaders and investors. Those entrepreneurs that deliberately enhanced their benefit to society went to the heart of their business model, taking risks beyond their usual customer or supplier base, in order to better serve lower income groups. This requires both visionary leadership and support of their investors.

Furthermore, the number of direct jobs created were found to be relatively minor contributions to social impact, across all three categories. For the 'job creator' category, the indirect jobs created within the supply chain ranged from hundreds to many thousand times larger than the number of full-time employees. For the 'service providers', it was their very service that contributed to the greatest social effect (improving people's education, health, etc.). And for 'market makers', the change is longer term and systemic in leading the way for subsequent crowding-in. Thus, all three SME types demonstrate interesting, yet different, measurement challenges.

The main learning from this research is, therefore, that (1) different types of SME business model, applied in a range of different sectors, produce a variety of social impacts and (2) commonly assumed metrics (like job creation) are not equally applicable to all investments, with some types of business models creating social impact in other important ways.

The evaluation profession has much to offer on social impact analysis. Establishing a theory of change which differentiates by type of investment instrument and client profile can help understand and interpret causal links between development results. This can further be used to elaborate core assumptions behind the intended social impact as part of due diligence and reporting requirements. In turn, adaptive management tools, which have become common practice in the development finance, such as environmental, social and governance (ESG) indicators, offer a foundation of evidence from which to structure more in-depth data collection.

Efforts to produce more and better evidence on the development results of blending must be coupled with serious consideration about how to enhance transparency and ownership. While upwards accountability is important (to parliaments, asset owners and asset managers) a multi-polar and participatory perspective should include the engagement of employers, suppliers and consumers at one end of the investment chain. Depending on the structure of a fund (scale of operations, mix of debt and equity, etc.), operating costs can be very tight. In many cases, few resources are available to manage, improve, monitor and evaluate social performance. As it happened in the broader development co-operation field, public resources (development aid) might be needed to remedy such a structural weakness within the investment industry.

Source: Chris Barnett, Technical Director at Itad and Director at the Centre for Development Impact
BARNETT, Christopher et al. Understanding and optimising the social impact of venture capital: Three lessons from Ghana. African Evaluation Journal, [S.l.], v. 6, n. 2, p. 12 pages, nov. 2018. ISSN 2306-5133. Available at: <https://aejonline.org/index.php/aej/article/view/335/540>. Date accessed: 22 may 2019 https://doi.org/10.4102/aej.v6i2.335
https://www.itad.com/blended-finance-addressing-the-evidence-gap-reflections-from-an-oecd-workshop/
https://www.itad.com/beyond-venture-capital-being-purposeful-about-investing-in-ghana/

Some managing organisations established their own proprietary tools for performance tracking

Besides the goal of avoiding negative externalities when using blended finance approaches, the increasing focus on impact management and measurement advocates for active and continuous tracking of development performance to inform investment decisions.

Many DFIs have established their own impact measurement systems (Winckler Andersen et al., 2019[4]). For instance, the Transition Impact Monitoring System (TIMS) used at the EBRD contains a set of key performance indicators used by 8 facilities[8] equivalent to 8% of AUM captured in the survey. TIMS requires EBRD projects to link objectives with concrete and measurable benchmarks and specific timings. PIDG has established an internal management tool for tracking the expected qualitative and quantitative impact of all projects in the pipeline, as well as the activities (discussions, visits, baselines, evaluations) undertaken by the PIDG Development Impact team to support and verify this (PIDG, 2018[5]).

Private asset managers, like BlueOrchard, may also define tailored approaches to assess and mitigate negative or enhance positive social and environmental impacts across their investments. These proprietary tools may range from pre-investment ESG screening to adaptive impact management throughout the investment cycle. Another example, Inspired Evolution, from South Africa, applies best-in-class ESG procedures to its portfolio of underlying investments, which is considered a differentiating factor offering improved risk and value for investee companies.

Box 3.2. CO_2rA: an assessment and monitoring tool for the Global Climate Partnership Fund

Unlocking private investment for climate action is a key part of development agendas, especially since the Paris agreement. The Global Climate Partnership Fund (GCPF) is a clear example of how this can be achieved in practice. GCPF is a public private partnership fund created by KfW in 2011 to attract private capital for climate change mitigation. The innovative capital structure uses public money to catalyze private sector investment for climate change mitigation in emerging markets. More specifically,

[8] Western Balkans SME Platform, DCFTA (Deep and Comprehensive Free Trade Area) SME Direct Support Facility, Turkey Women in Business Programme, VakifBank - DPR (incl. Women in Business Programme), Ukrainian Residential EE Financing Facility, SME Local Currency Programme, Enhanced Competitiveness of Tajik Agribusiness Programme, SME Finance Facility for Central Asia, Support for Mongolian Economic Diversification through SME Access to Finance.

the fund lends directly to renewable energy projects or financial institutions (broadly referred to as clients) for "green lending" to SMEs, typically for energy efficiency (EE) related projects.

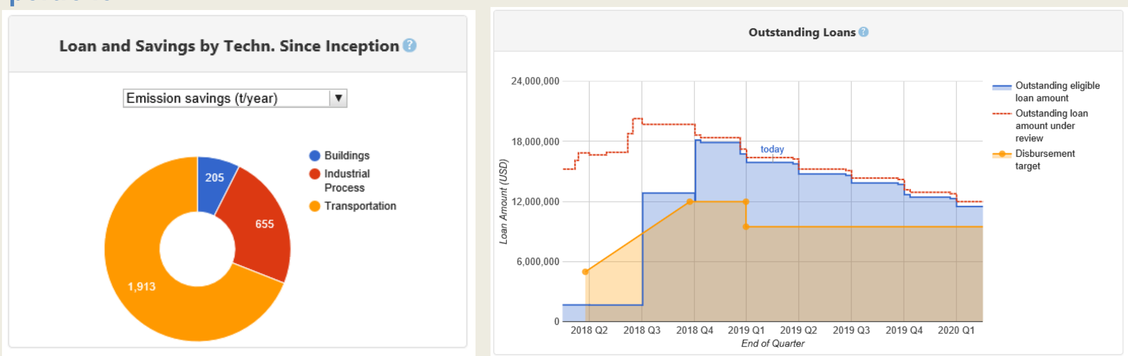
Acquiring the mandate of a fund like GCPF was a significant shift for responsAbility. Managing a blended finance fund meant addressing the needs of a different type of stakeholder, having previously worked almost exclusively with commercial investors. The managing organisation had to comply with stricter accountability requirements imposed by public investors. Junior tranche investors in GCPF include the UK Department for Business, Energy and Industrial Strategy (BEIS), the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMUB), the Danish International Development Agency (DANIDA); several DFIs are featured among the Mezzanine tranche investors (FMO, IFC, OeEB, KFW, EIB). Furthermore, climate finance was a new sector for the company. For the first time, engineers joined the investment team, their first task being to develop a tool to make green lending possible at scale.

In response, responsAbility's Carbon Reporting team created **CO_2rA** (CO_2 at responsAbility). The tool assists clients in two key areas:

- **Assessing eligibility of individual sub-loans.** GCPF clients can submit projects for renewable energy (within certain size limits) and energy efficiency that achieve savings over 20% in CO_2 or energy.
- **Monitoring on-lending targets.** GCPF requires clients to achieve certain milestones in terms of volumes on-lent and to maintain this volume throughout the lifetime of the loan. Therefore, the maturity of sub-loans given by GCPF clients to final beneficiaries (e.g. private persons, SMEs, manufacturers) and the amortization of larger sub-loans must be tracked and accounted for.

CO_2rA was created to address the needs of both the managing organisation and its client investees. The web-based tool has been designed to have a user-friendly interface that offers clients simplified reporting and immediate feedback on project eligibility. Information is typically entered by clients and verified by energy specialists in the investment team. With the help of technical assistance funds, workshops have been designed to train investees on using the tool. The tool tracks on-lending targets and provides an overview of their portfolio with GCPF, visualizing CO_2 emissions and energy saved, split by technology etc. For the investment team, **CO_2rA is essential for the operation of GCPF**, **both for reporting purposes and as an information exchange platform with clients** to facilitate continuous engagement.

Figure 3.4. CO_2rA dashboard featuring the on-lending targets and a visualisation of a client portfolio



Source: responsAbility

CO_2rA's approach to CO_2 saving calculations are in line with global reporting standards such as the GHG protocol and the IFI Framework for a Harmonised Approach to Greenhouse Gas Accounting. Sanity checks are done via data analysis on several KPIs to ensure accuracy. Because most of the information on projects financed by sub-loans is based on simulations, nameplate values and assumptions, **projections need to be assessed against real data ex post**. Internal monitoring is therefore conducted annually to ensure general data accuracy and adjust production and consumption data, for renewable projects and large EE projects respectively, to real data requested from the PIs. An external audit is also conducted on the calculation methodology and data every three years. As an in-house tool, Co_2rA is continuously developed and improved to suit the needs of PIs and the investment team.

Since 2015, CO_2rA has analysed over 75 000 sub-loans representing more than USD 600 million and savings of more than 13 million tons of CO_2 emissions over the project's lifetime. The introduction of this tool has helped to attract private investors, underlining the catalysing potential of a rigorous monitoring framework. Since responsAbility took over the management of GCPF in 2015, the share of private investors increased to over 30% and assets under management for the Fund have more than doubled.

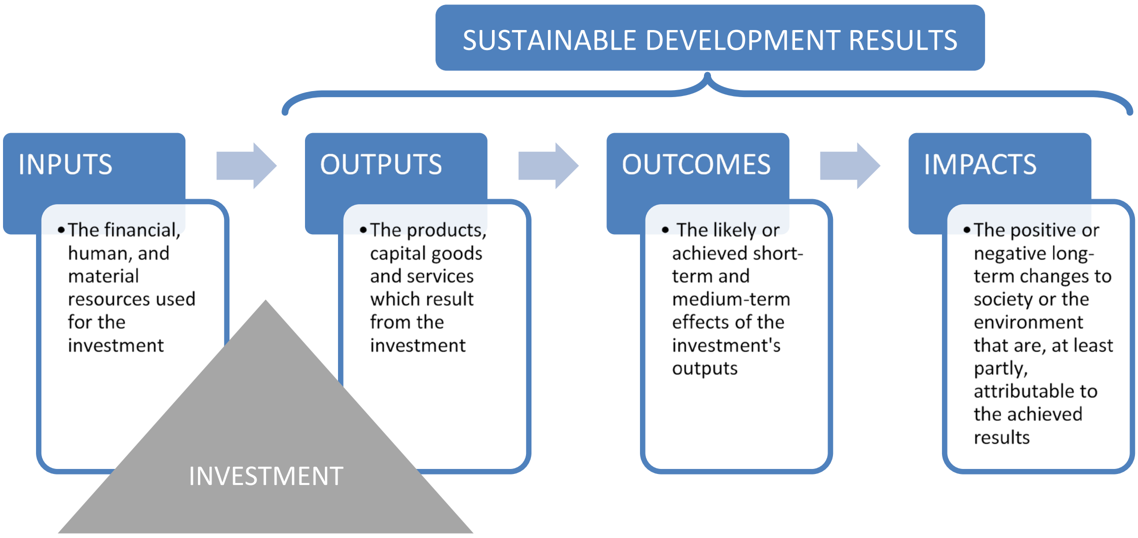
Source: Paul Hailey and Raluca Anisie, responsAbility

These tools may rely on more or less harmonised ways to collect, analyse and aggregate raw information. Managing organisations that identify themselves as impact investors often choose to align with metrics from Impact Reporting and Investment Standards (IRIS), e.g. IIX Foundation, Annona Sustainable Investment. In 2019, the Global Impact Investing Network launched IRIS+ which helps investors use empirical metrics to monitor and measure impact by enforcing some level of consistency in impact claims to facilitate comparability. Born out of the micro-finance industry, the Universal Standards for Social Performance Management, through the social performance audit tool (SPI4), are also applied to measure a fund or facility's social performance. Others have integrated official Sustainable Development Goals (SDGs) metrics in their tracking of development objectives. For instance, the Land Degradation Neutrality (LDN) Fund monitors the contribution of each investment against SDG 15.3 metrics, i.e. the proportion of land that is degraded over total land area. Other standardised methods for the quantification and valuation of social or environmental outcomes are particularly widespread in the realm of impact investing. The Impact Investing Exchange (IIX), not to be confused with its aforementioned foundation, is an impact stock exchange, which uses Social Return on Investment (SROI) to determine the impact that every dollar of an investment generates. The same technique is used to quantify how much social and environmental impact (in dollar figures) is created for every dollar invested the Women's Livelihood Bond.

Most development performance indicators used by blended finance vehicles are positioned at the output or outcome level

In addition to their heterogeneous nature, development performance data can be collected at the different levels of measurement. The OECD will use the Glossary adopted by the (OECD, 2002[6]), given its well-accepted framework and flexible cross-thematic nature. The results chain is visualised below, where definitions are marginally adapted to the investment logic, rather than a generic development intervention.

Figure 3.5. Results chain



Source: Adapted from (OECD, 2002[6]), OECD DAC Glossary of Key Terms in Evaluation and Results Based Management

The vocabulary above has permeated through the practice of several financial intermediaries. For instance, the theory of change developed by (PIDG, 2018[5]) clearly separates output and outcome indicators from the final intended impact (improved livelihoods). Similarly, the theory of change adopted by Frontclear distinguishes outputs (strengthened bank staff), outcome (expanded market access for local counterparts) and impacts (improvements in real economy triggered by increased counterparty lending) (Frontclear, 2017[7]).

Another noteworthy example is the analytical approach defined by IIX, which clearly differentiates the financial, social and environmental output and outcome indicators, measured through SROI and reported annually for the WLB, from the macro-level impacts on society as a whole. These are intended as the "broader outcomes caused by creating a sustainable impact on national or global healthcare goals" such as policy level changes at the state-level, improved health of underserved women impacting demographic dividend at the country-level, advancing the achievement of the SDGs at a global level, etc. The further the degrees of separation between implemented activities and outcomes achieved, the more difficult their attribution becomes, especially when taking into account deadweight and drop-off.[9] Hence, impacts are typically approached through "a qualitative assessment unrelated to the SROI calculation due to the multiple factors that influence macro-level changes" (IIX, 2018[8]).

However, many financial intermediaries communicate on their impact in a much looser fashion. Many of the impact metrics reported in the Survey pertain to purely operational concepts such as number of closed deals, leverage ratios, capital raised/unlocked/mobilised, and growth of investor wealth. Annual progress reports may generically refer to "lives impacted" without explaining what this means or how it was calculated. Another frequent example among impact indicators is the number of training hours delivered, without specifying how many individuals benefited from them, what skills they actually acquired, nor their

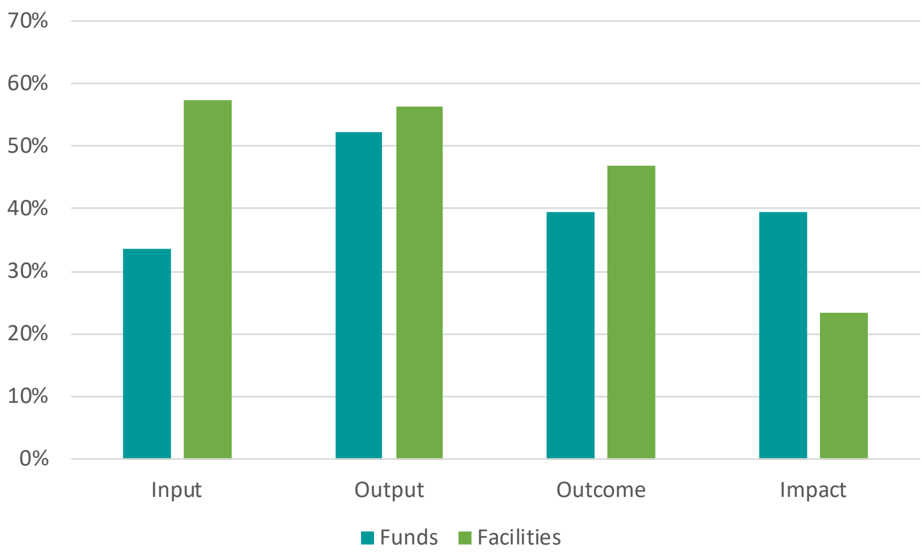
[9] In impact measurement theory, deadweight corresponds to the amount of outcome that would have happened even if the investment had not taken place. Drop off considers how the outcome resulting from an investment will diminish over time.

usefulness. For instance, projects financed by the Lives and Livelihoods Fund are expected to “make an *immediate* impact on the lives of ordinary men, women, and children on the ground” (Islamic Development Bank Group, 2019[9]). Few sources distinguish the gross development results achieved through the operations from the net part that could be attributed to the blended investment.

The Global Innovation Fund (GIF) exemplifies the conundrum faced by most investment managers by stating that “long-term impact is what counts in the end, but near-term impact is what can be easily measured today.” They introduce the concept of Practical Impact, an index of long-term benefits that might arise from their investments, through a composite indicator of the breadth, depth and probability of the impact materialising in 10 years (GIF, 2019[10]).

According to the Survey, **blended finance facilities are more likely to adopt indicators at all level of results, except for impact, where funds instead are more represented**. This might reflect the different understandings of what impact means prevailing amongst their managing organisations.

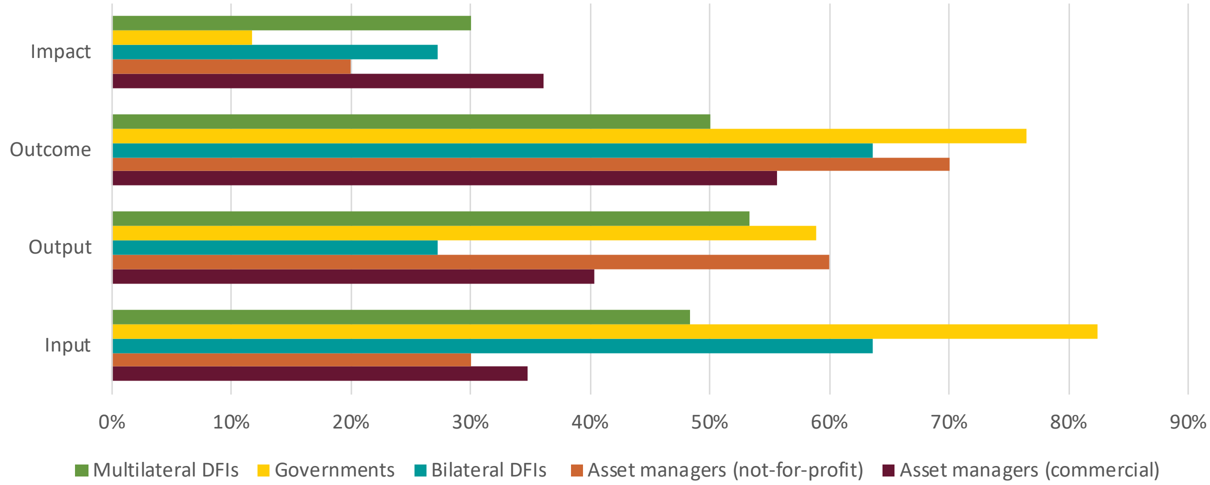
Figure 3.6. Quantitative targets by level in the results chain



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

More precisely, 39% of funds claim to have adopted quantitative targets at the impact level, compared to 23% of facilities. Due to the lack of a common vocabulary among the development finance actors, it is possible that while a managing organisation claims to measure impact, they are conflating it with outcome- or even output-level results.

Figure 3.7. Level of measurement by managing organisation

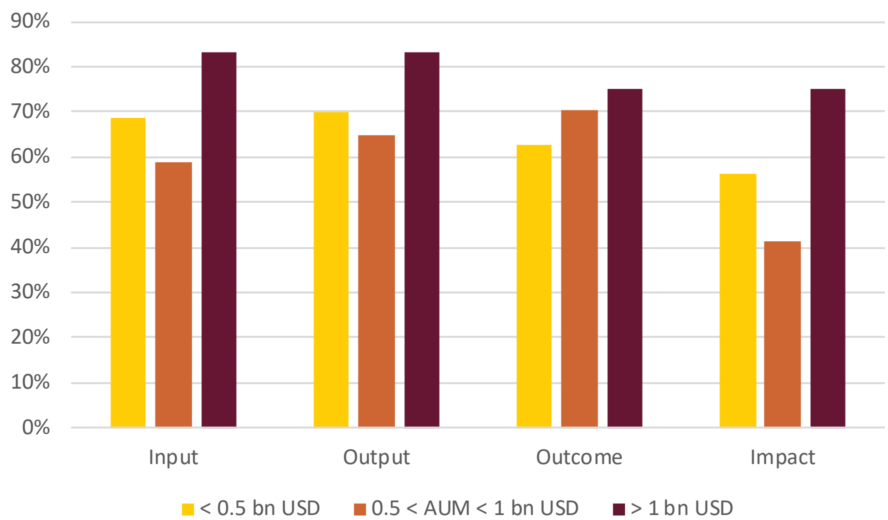


Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

Governments clearly measure results at the input, output and outcome levels more often than other managing organisations, while they record having the lowest instances of measuring impact. This is likely due to more loose interpretation of the term impact among the latter, while public administrations historically tend to adhere to a stricter definition. For instance, 36% of commercial asset managers claim to measure impact as well as 30% of multilateral DFIs, compared to 27% of bilateral DFIs and 20% of not-for-profit asset managers.

The size of facilities and funds appears to have an influence on their measurement capacity. Larger funds and facilities (above USD 1 bn AUM) are more likely to track their development results at all levels. Small or medium vehicles are instead less likely to claim to maintain impact indicators.

Figure 3.8. Level of measurement by assets under management (AUM)



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

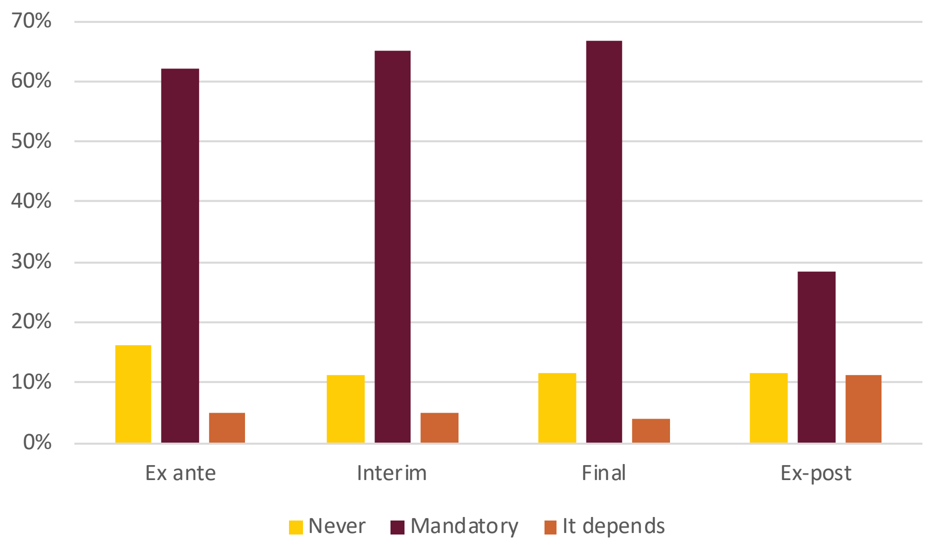
The age further contributes to the monitoring practice. Funds and facilities established before 2010 are by far more likely to measure at the outcome and impact level, compared to vehicles established after 2017. Besides organisational maturity, considerations related to their stage in the investment cycle may come into play here. Indeed, younger vehicles may assess development results in the future, but it may have been too early for them to collect reliable impact data at the time of the Survey, owing to their portfolio maturity.

Despite widespread adoption of impact indicators, little performance data is collected ex-post

Impact is defined as "positive or negative long-term changes to society or the environment that are at least partly attributable to the achieved results" (OECD, 2018[11]). Almost by design, monitoring systems cannot capture impact information: monitoring is supposed to serve the managing organisations' needs throughout the duration of the investment, while impacts are likely to manifest only after project completion. In other words, the theory of change pursued by the blended finance vehicle, as part of its development mandate, usually takes much longer to unveil than the horizon of their investment cycle. Output- and outcome-level data is often presented in annual progress reports, but impact is best captured through independent, ex-post evaluation or impact studies.

Still, many blended finance players, and part of the surveyed managing organisations, do not subscribe to the definition of impact outlined by the OECD, thereby conflating outputs and outcomes with impact.

Figure 3.9. Frequency of data collection at different stages of the investment cycle



Note: Based on 180 answers (86 funds and 94 facilities).
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

The majority of the surveyed funds and facilities report collecting monitoring data as mandatory before the investment decision (62%), during the investment period (65%), as well as at the end of the investment

(67%). Over a quarter of respondents[10] (28%) also declared that monitoring data is mandatorily collected one year or more after an investment.

Many respondents reported that monitoring and collecting data ex-post is one of the functions of the evaluation team. Others mentioned that there is sometimes no time for follow-up after a project is completed. In the absence of ex-post data collection, impact cannot be appropriately assessed. Larger vehicles (AUM above 1 bn USD) are sensibly more inclined to make data collection mandatory at all phases in the investment cycle.

Most vehicles reporting that it is mandatory to collect data at every stage typically answer so in all stages, with the exception of ex-post phase. This might denote some bias (possibly due to social desirability or non-differentiation)[11] in the quality of responses. IDB Group and EBRD, particularly, manage facilities which require monitoring at every stage of the project.

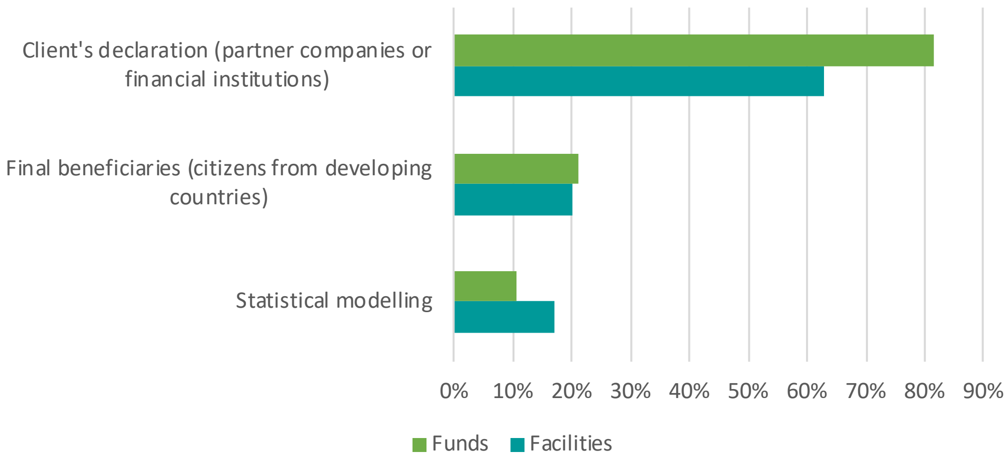
Development impact information relies mostly on client's declarations

Clients are by far the most common source of development impact information: 81% of funds and 63% of facilities rely on declarations from their direct investees (companies or financial institutions). About one fifth of the surveyed vehicles also collects information from final beneficiaries from developing countries.

[10] More precisely, 53 vehicles reported performing mandatory ex post data collection: Finland-IFC Blended Finance for Climate Program, Canada-IFC Renewable Energy Program for Africa, Canada-IFC Blended Climate Finance Program, GuarantCo, Green Climate Fund, Urban Climate Change Resilience Trust Fund, Climate and Sustainable Development Italian Platform, NEPAD-Infrastructure Project Preparation Facility, Clean Technology Fund, Global Environment Facility, The Energy Efficiency Guarantee Fund and the Climate Smart Agriculture Fund, Strategic Climate Fund, UK Sustainable Infrastructure Program, Canadian Climate Fund for the Private Sector in the Americas, Finnpartnership, GET FiT Uganda, Norfund, Finance and technology transfer center for climate change, Egypt Renewable Feed-In-Tariff Framework, EU-Africa Infrastructure Trust Fund, Ukraine Sustainable Energy Lending Facility, Global Agriculture and Food Security Program Private Sector Window, CDC Group, ACP Investment Facility, Infrastructure Credit Guarantee Company Limited, Youth Entrepreneurship and In0vation Multi Donor Trust Fund, Zoscales Fund I, Evolution II Fund, Meloy Fund I, Solidarité interationale pour le Développement et l'Investissement, Dolma Impact Fund, Ethos Fund V, Catalyst MENA Clean Energy Fund, Global Climate Partnership Fund, Microfinance Initiative for Asia, JAPAN ASEAN Women Empowerment Fund, Energy Access Fund, Insuresilience Investment Fund, GCMCII, Frontclear, The Emerging Africa Infrastructure Fund, Global Health Investment Fund, Terra Bella Colombia Fund, &Green Fund, Lives and Livelihoods Fund, LDN Fund, African Guarantee Fund for Small and Medium-Sized Enterprises Limited, agRIF, Locfund.

[11] In social science research, social desirability bias is the tendency of survey respondents to answer questions in a manner that will be viewed favourably by others. It can take the form of over-reporting positive behaviour or under-reporting undesirable behaviour. Non-differentiation (sometimes called "straight-lining") occurs when respondents fail to differentiate between survey items, by giving identical responses to all of them.

Figure 3.10. Sources of development impact information



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities.

Statistical modelling is rarely applied, although by some important players (AfDB, ADB, EIB, CDC Group, Development Bank of Southern Africa, FMO, KFW, LuxDev, PIDG), and almost systematically[12] in conjuncture with other sources of information. Recent announcements however promise to foster a more widespread and harmonised use of such tools. Introduced in 2018, the Anticipated Impact Measurement and Monitoring (AIMM) system enables IFC to rate the expected development impact before investment decisions. In particular, the estimation of economy-wide, indirect and induced effects relies on value added and employment multipliers developed by the IFC Modelling team. In the future, AIMM is expected to incorporate end-to-end results measurement for real-time monitoring and ex-post evaluation. In parallel, considerable efforts by European DFIs to streamline their economic modelling approach might lead to more uptake in the future (cf. the Joint Impact Model initiative by FMO, CDC Group and Proparco).[13]

Alternative sources of information include satellite monitoring, as mentioned by UN Environment AGRI3 managed by Mirova/Althelia. Across all Survey respondents, only six indicated that they have entrusted the data gathering and/or validation to a third party.

Not all managing organisations have a clearly identified monitoring and evaluation function

According to the OECD Quality Standards for Development Evaluation, the evaluation process should be transparent and independent from programme management and policy-making, to enhance credibility (OECD, 2010[1]). According to the DAC Principles for Evaluation of Development Assistance, the evaluation process should be impartial and independent in its function from the decision-making, delivery and management process. Impartiality contributes to the credibility of evaluation and the avoidance of bias in findings, analyses and conclusions. Independence provides legitimacy to evaluation and reduces the potential for conflict of interest. The requirement for impartiality and independence exists at all stages of

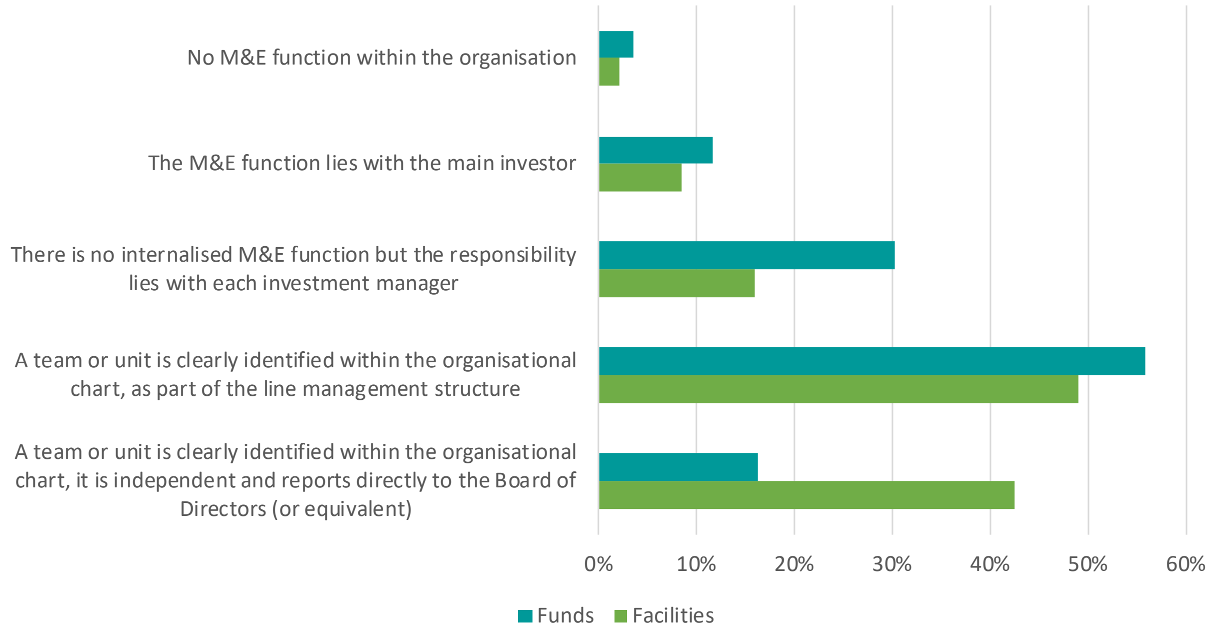
[12] The only exception being the Global Health Investment Fund, which apparently purely relies on statistical modelling.

[13] jointimpactmodel.com/

the evaluation process, including the planning of the evaluation programme, the formulation of the terms of reference and the selection and approval of evaluation teams (OECD, 1991[12]).

According to the Survey, most blended finance vehicles identified a team or unit as part of the line management structure (56% of funds and 49% of facilities). Facilities (43%) are more likely than funds (16%) to have identified an independent team or unit reporting directly to the Board of Directors (or equivalent). Funds instead more frequently leave the M&E responsibility with each investment manager (30%) or with their main investor (12%). Neither of these configurations are however sufficient to guarantee the independence of the evaluation process, even if externalised.

Figure 3.11. Monitoring and evaluation function



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

Governments are by far the most likely to have identified a fully independent team, typically housed in the evaluation department of the Ministry of Foreign Affairs (14 out of 17 vehicles). More than half of the multilateral DFIs also reported having both an independent function and within line management (35 out of 60 vehicles managed by multilateral DFIs). Indeed, the World Bank Group and the regional development banks have long established independent evaluation offices, but they also have development impact staff in their private sector arm. Private asset managers and bilateral DFIs rarely have a fully independent evaluation function. Few exceptions, based on the Survey responses, include: the CDC Group as well as Advans SA SICAR, BlueOrchard Finance, Rare Ventures, Frontclear, Inversor, Sail Ventures, Middle East Investment Initiative (MEII), Solidarité internationale pour le développement et l'investissement (SIDI), Anona Management, Ethos Private Equity GP, Bolivian Investment Management (BIM), TBC Bank.

The formalisation of the M&E function does not improve with the vehicle's maturity, on the contrary. Blended finance vehicles launched before 2009 tend to leave the responsibility of monitoring and evaluation with each investment manager (35% compared to 19% among the more recent vehicles) or with the main investor (18% to 8%). Younger funds and facilities are slightly more likely, in fact, to have a team or unit clearly identified within the organisational chart that is independent and reports directly to the Board of Directors (or equivalent), at over 31%, compared to those older than 2009, at 24%. This may reflect that managing organisations and investors alike face rising pressure for public accountability.

The OECD DAC Blended Finance Principle 5 stresses the need to dedicate appropriate resources for monitoring and evaluation. This can take several forms and functions. For instance, the Lives and Livelihoods Fund allocates 1% of its resources to the Project Preparation Facility, which helps member countries shape and design project proposals for submission to the Impact Committee and approval by the Board of the Islamic Development Bank. This support may involve, for example, commissioning technical, feasibility or impact studies, conducting baseline surveys or community consultations. Similarly, the Land Degradation Neutrality (LDN) Fund is endowed with a Technical Assistance (TA) Facility supported by donor contributions, such as the French Development Agency (AFD) and the Global Environment Facility. Calibrated at 5% of the total vehicles size, the TA Facility supports both pre- and post-investment activities on the ground, including impact monitoring by project developers, learning and knowledge sharing at the fund level.

The Survey suggests that the vehicles' size is not directly correlated to the resources devoted to such functions. Smaller vehicles (AUM below USD 500 million) are more likely than bigger ones (above 1 bn) to have identified a dedicated team or unit, either independently (31 to 25%) or as part of line management (52 to 41%). Indeed, the lack of dedicated human resources might be imputable not only to their cost, but also to their availability. According to the 2019 GIIN survey, more than half of respondents surveyed indicated that the number of professionals with appropriate impact measurement and management (IMM) skills is insufficient, and over one-third cite challenges attracting or retaining senior-level IMM staff (Mudaliar et al., 2019[13]).

Bilateral development finance providers can usually rely on government-led monitoring and evaluation, whereas private managers have to acquire such competencies in house (OECD, 2018[11]). Managing organisations may reinforce the onset of an M&E culture through the adoption and dissemination of internal guidelines. For instance, PIDG has produced by end 2018 a “Results Monitoring Handbook” which provides guidance to its companies on identifying, recording and reporting of development impact (PIDG, 2018[5]).

These concerns have to be balanced with an efficient and ‘value-for-money’ approach, where the costs related to management, technical assistance and verification should not weigh on the operation's overall budget. Especially in pay-for-success approaches, the independent verification of results for the disbursement of incentives should not be confused with other processes, such as the internal monitoring of project delivery for adaptive management purposes and the evaluation process for learning purposes. These three distinct functions are different in nature, yet mutually reinforcing.

Box 3.3. How UNCDF, a blending facility part of the UN Development Programme, captures financial and development additionality

The United Nations Capital Development Fund (UNCDF) is the UN's capital investment agency for the world's 48 least developed countries (LDCs). As a hybrid development and financing agency, it deploys capital grants, loans and guarantees to both public and private entities mainly targeting local markets in LDCs, where the needs are the greatest. With its unique capital mandate and financing instruments, UNCDF offers 'last-mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development (UNCDF, 2018[14]).

UNCDF's approach to measuring results attempts to capture both financial and development additionality through a formal theory of change and an Integrated Results and Resources Matrix (IRRM) that sets out a series of performance indicators, tracked on an annual basis (UNCDF, 2014[15]). To capture UNCDF's financial additionality, UNCDF regularly measures the additional finance that investees raise both as a result of UNDCF's support at the investment level as well as the additional 'catalytic' capital that arises from any follow-on finance that is indirectly mobilised by local actors as a result of the models and capacities originally supported by UNCDF. To measure its development additionality, UNCDF tracks a number of indicators that capture contributions to development results at both the investee level as well as at the policy or market system level.

In UNCDF's work in local development finance, financial additionality is measured *inter alia* by estimating the success of UNCDF-supported local governments in increasing their mobilisation of own resources. Development additionality is tracked through the number of local infrastructure projects completed by UNCDF. Catalytic impact is assessed by improvements in local governments' abilities to allocate, mobilise and invest their capital for investment. It is important to note that such interventions include both programmes designed to achieve scalable systemic impact, for example a new way of delivering climate finance at the local level, as well as individual stand-alone investments. The direct benefit of the investment may be limited, but its overall objective is the demonstration effect and associated policy and regulatory technical assistance towards the systemic impact. For each individual revenue-generating investment in its local development finance work, UNCDF operates a "dual key" investment committee which independently assesses financial and development outputs for each operation and ensures that a theory of change is in place against which to measure eventual impact.

Recognising the limitations inherent in any numbers-based measurement system, UNCDF's results are also validated and further explored via an independent Evaluation Unit, which makes use of theories of change at both the organisation and individual programme levels to design and conduct theory-based, mixed-method process and outcome evaluations examining questions of interest organised according to the UN/OECD criteria. Evaluators are tasked with validating the financial results that are reported by UNCDF investees, as well as exploring more deeply aspects of development additionality around improved capacity of partner organisations and the relevance and results of programmes and instruments at the beneficiary level. Evaluators also investigate UNCDF's contributions to market and system development using techniques such as contribution analysis and process tracing, taking care to recognise alternative drivers of change in what are by definition complex policy and market systems.[14] In doing so, UNCDF follows the relevant norms and standards for evaluation developed by the United Nations Evaluation Group as well as more specific guidance around measuring market development for the poor that has been developed by bodies such as the Consultative Group to Assist the Poor and the Donor Committee on Enterprise Development.

Source: Andrew Fyfe and Heewoong Kim, UNCDF

Conclusions

Besides the goal of avoiding negative externalities when using blended finance approaches, the increasing focus on impact management and measurement advocates for active and continuous tracking of development performance to inform investment decisions.

From the OECD Survey results, it emerges that most blended finance vehicles (especially funds) adopt quantitative targets to monitor progress towards their development objectives, which are most frequently of an economic nature, followed by social and environmental ones. Governance targets remain the least popular irrespective of the blending vehicle. A sizeable share of respondents (37%) did not adopt any quantitative target, which implies that their overall performance tracking may be disconnected from the strategic objectives.

Some managing organisations established their own proprietary tools for performance tracking, ranging from pre-investment ESG screening to adaptive impact management throughout the investment cycle. Survey results suggest that most development performance indicators used by blended finance vehicles are measured at the output or outcome level. Blended finance facilities are more likely to adopt indicators at all level of results, except for impact, where funds instead are better positioned. This might reflect the different understandings of what impact means amongst their managing organisations.

Not all managing organisations have a clearly identified monitoring and evaluation function. According to the Survey, most blended finance vehicles identified a team or unit as part of the line management structure. Facilities are more likely than funds to have identified an independent team or unit reporting directly to the Board of Directors (or equivalent). Funds instead more frequently leave the M&E responsibility with each investment manager or with their main investor. Both configurations are however not sufficient to guarantee the independence of the evaluation process, even if externalised.

[14] In line with UNDP's Evaluation Policy, all of UNCDF's evaluations are published – together with management responses – and can be found here: https://www.uncdf.org/evaluations

4 Assessing development results

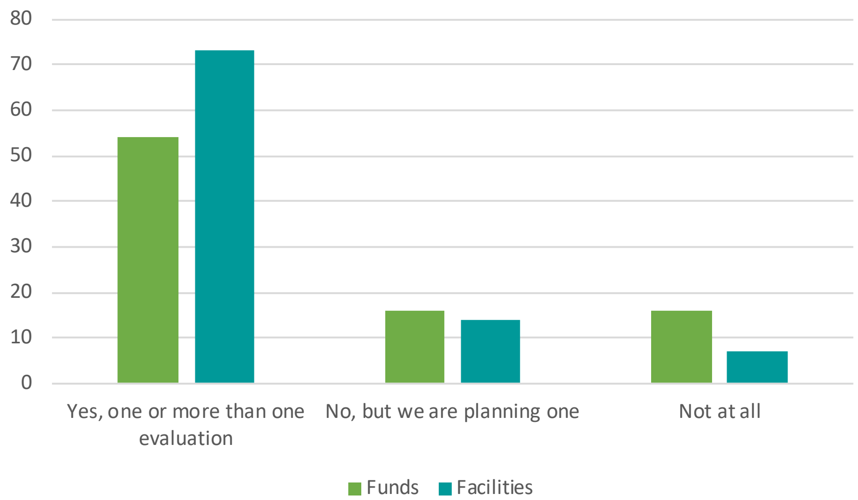
Evaluation is the systematic and objective assessment of an on-going or completed project, programme or policy, its design, implementation and results. In the development context, evaluation refers to the process of determining the worth or significance of a development intervention, by assessing its relevance, efficiency, effectiveness, impact and sustainability (OECD, 2010[1]). Some donors have adopted somewhat more precise definitions. For instance, the World Food Programme defines evaluation as the systematic and impartial periodic assessment of the performance of an intervention, carried out by an independent team of experts and conforming to international standards and publication requirements.

Evaluations typically involve the reconstruction of a theory of change, a tailored data collection plan, as well as the author's independent, yet evidence-backed conclusions. A good example of an independent evaluation that captures impact is the evaluation of the Access to Energy Fund, a facility jointly initiated by the Dutch Government and FMO who commissioned the consortium of APE, MDF, and Trinomics to conduct the evaluation (Slob et al., 2017[16]).

Many vehicles undertake some kind of evaluation, but there is a diverse understanding of the term

In total, 127 vehicles reported having performed at least one evaluation, encompassing 73 facilities and 54 funds. That corresponds to 70% of the 180 respondents. In addition, 30 managing organisations claimed to be planning one at the time of the Survey. The robustness of the information collected on this question is, however, challenged by the diverse culture and language of respondents.

Figure 4.1. Evaluations undertaken



Note: Based on 180 answers (86 funds and 94 facilities).
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

With respect to the Survey population, facilities (77%) are more likely to have undertaken at least one evaluation compared to funds (63%). Over 18% of the surveyed funds have never undertaken an evaluation, nor do they envisage one in the future.

The age of the vehicles is the most obvious limitation to having completed an evaluation. While about 12% of vehicles established before 2017 report planning on completing an evaluation, over 37% of funds and facilities established in 2017 or after report the same thing. Conversely, while 37% of vehicles established after 2017 report having one or more evaluation, nearly 80% of funds and facilities established before 2017 report the same.

Fully-fledged evaluations shared as part of the survey were mostly mandated by donor governments and their development agencies. One example is the Mid-term Evaluation of the Results-Based Financing for Low Carbon Energy Access Facility, within Energising Development (EnDev) programme.[15] The study, mandated by GIZ to a consortium of external consultants, is part of a multi-phase evaluation exercise, comprising seven deliverables, including a baseline and two impact studies.

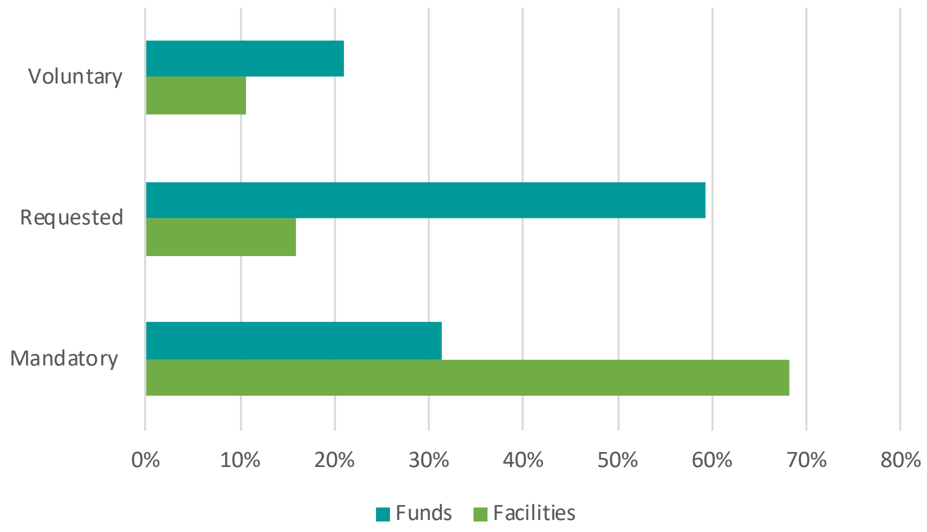
Evaluations are mostly initiated because mandatory for facilities and requested by the investors for funds

For each evaluation exercise, the governance and methodology are tailored to fit the context, objectives and scope. They should safeguard credibility, inclusiveness, and transparency (OECD, 2010[1]). Evaluators are independent from the development intervention, including its policy, operations and management functions, as well as intended beneficiaries. They need to be able to work freely and without interference.

The OECD Survey results suggest that very few blended finance vehicles spontaneously engage in evaluation, for internal learning purposes. About 21% of funds voluntarily entered the evaluation process, against 11% of facilities. Evaluation was mandatory for 68% of facilities, while for 59% funds it was explicitly requested by one or more of their investors. This upholds the assumption that facilities are held to a higher level of direct and systematic scrutiny by their development finance providers. The Survey results further confirm that development-oriented investors are more likely to request an evaluation compared to commercial ones.

[15] The Energising Development (EnDev) programme is a global energy access partnership between the Netherlands, Germany, Norway, the UK, Switzerland and Sweden. The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Netherlands Enterprise Agency (RVO.nl) act as the principal agencies. Since 2013, EnDev is piloting results-based financing approaches to enhance energy access markets with funding provided by UK’s Department for International Development (DFID).

Figure 4.2. Steering of evaluations



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

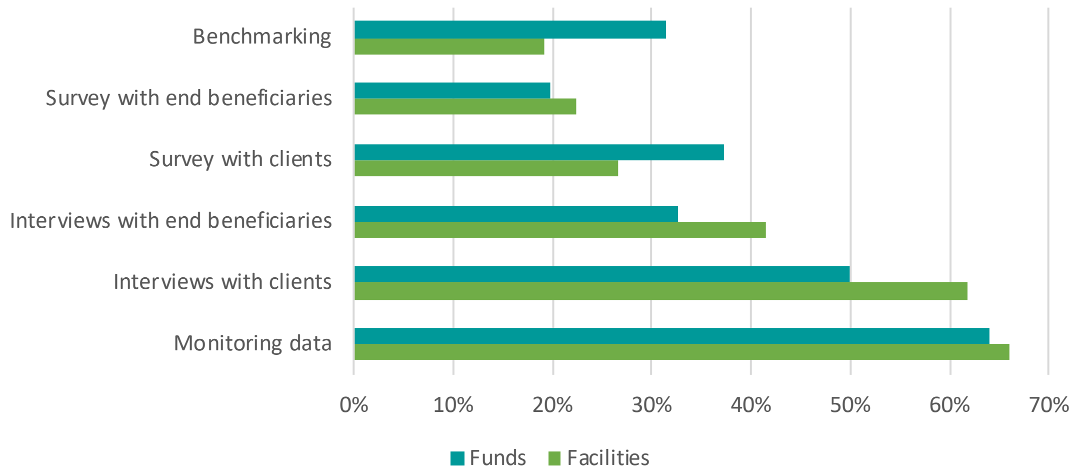
Most managing organisations (78% of the 137 respondents concerned) perceive evaluation as a recurring process, while for almost 20% it was a one-time only event. Only a few facilities regularly conduct evaluations before replenishment (e.g. KfW Regional Liquidity Support Facility, the Nordic Climate Facility and the African Legal Support Facility).

Concerning their scope, evidence from the Survey shows that evaluations are equally likely to take place at the project or at the portfolio level. Funds are slightly more likely to conduct evaluations at the investor's level, which is consistent with the previous finding that they are often initiated at their explicit request. Some of the evaluations identified as part of the Survey cover multiple vehicles at once, or thematically assess the impact of the managing organisation in a sector or geography, with minimal reference to a particular fund or facility. The choice of perimeter will necessarily influence the capacity to capture system-level effects, but also the operational or strategic use of the evaluative evidence produced.

Only a limited number of evaluations involve end beneficiaries

The evaluation process is further characterised by a data collection phase, tailored to the questions raised by the commissioner, and which can pursue a more or less participatory approach. According to the OECD Quality Standards for Development Evaluation, the full range of stakeholders, including both partners and donors, are consulted during the evaluation process and given the opportunity to contribute (OECD, 2010[1]). The Survey shows that evaluations performed by blended finance vehicles rely only to a limited extent on information collected from end beneficiaries.

Figure 4.3. Data collection tools used in evaluations



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

Out of the 127 vehicles having conducted at least one evaluation, 51 took into account the voice of end beneficiaries (i.e. 40%); albeit only 1 did so through a more extensive survey. Evaluations mostly (at times exclusively)[16] draw on monitoring data (60% of all surveyed vehicles) and client interviews (62% of facilities, 50% of funds). Approximately 41% of evaluations conducted by facilities also included interviews with end beneficiaries, compared to 32% among funds. More extensive data collection through surveys is less common. About 37% of funds do surveys with clients, compared to 27% of facilities. Less than a quarter of the evaluations conducted encompassed a survey with end beneficiaries (22% of facilities and 20% of funds). Other tools featured, for instance, literature review, interviews with management and external stakeholders (possibly including civil society organisations).

Larger vehicles (over USD 1 bn AUM) are more likely than smaller vehicles (less than USD 500 million AUM) to collect data via interviews with clients (75% to 54%) or end beneficiaries (67% to 36%). Newer vehicles are slightly more likely to utilise surveys with clients (33%) and end beneficiaries (25%) compared to older ones (31% and 20%, respectively).

Looking at the managing organisations, all private asset managers utilise interviews with clients but none of them mentioned end beneficiaries, which in contrast, are more likely to be solicited by governments and aid agencies (78% and 44% of those having lead an evaluation respectively). This finding underlines again the disparity between different blended finance players in terms of external accountability, stakeholder engagement and strategic priorities.

[16] For 9 vehicles, the evaluation was exclusively based on monitoring data. Examples include: Locfund LP, Oasis Africa VC Fund, Nordic Climate Facility, Ukraine Sustainable Energy Lending Facility, Microfinance Enhancement Facility, DWM Inclusive Finance Equity Fund II, Inversor, ECP.

Box 4.1. Development results observed on local SMEs, the most frequent client of blended finance vehicles

According to the 2018 OECD Survey, companies are the most frequent direct investee type among blended finance vehicles (Basile and Dutra, 2019[2]). Out of the 180 respondents, 70% of funds and 61% of facilities reported investing directly in companies (i.e. 117 vehicles in total), among which 80% target SMEs.

Blended finance vehicles focused on SMEs can provide financing or guarantees to local commercial banks or MFIs, which then on-lend to SMEs. Alternatively, they can directly invest in companies, or in private equity (PE), venture capital (VC) or fixed income funds, which acquire stakes in companies, including SMEs and start-ups. They can also provide technical assistance and other support for capacity building and business development of SMEs. The financial and development performance observed in SMEs will vary according to the theory of change pursued by each investment instrument.

The outreach potential, and the effectiveness in supporting SMEs, necessarily differ depending on the instrument deployed under each blended finance vehicle. Private equity (PE) and venture capital (VC) funds tend to focus on a relatively small number of clients by providing equity and management support, while banks typically extend loans to a larger client base. As noted by a recent evaluation of MASSIF,[17] a Dutch government revolving fund, the PE funds focus on ten to twenty investments, especially in SMEs. Although banks have a larger client outreach, they struggle to keep their commitments on SMEs and tend to shift towards larger SMEs and even corporates after the investment is approved, because of profitability concerns (Ecorys and Carnegie Consult, 2015[17]). A similar finding emerges from the evaluation of the EIB Investment Facility in the African, Caribbean and Pacific Group of States (ACP),[18] which reveals that most of the approved funding volumes financed a small number of large projects, mainly owned by MidCaps[19] (EIB, 2017[18]). Along the same lines, recent evaluations conducted by the Asian Development Bank (ADB) and by the Inter-American Investment Corporation (IIC)[20] point to the fact that sub-loans were often extended to larger SMEs that already had access to commercial finance, while outreach and support to underserved SMEs remained limited (ADB, 2018[19]; Haarsager et al., 2017[20]). There is hence emerging evidence that financing SMEs through intermediaries does not seem to be the most effective way to target the so-called "missing middle", i.e. enterprises that are too big to be financed by microfinance institutions (MFIs), but too small to be attractive to commercial banks or private equity firms.

Investors face significant financial performance trade-offs when investing in SMEs: lack of credit history and track record on financial performance, limited collateral, small absorption capacity, leading to high transaction costs. According to (Ecorys and Carnegie Consult, 2015[17]), MASSIF's fund investments[21] are problematic in terms of financial performance, due to their small size, and thus high management costs, coupled with the high risk of the portfolio and at times limited track record of the fund manager. For banks, expected profitability of investments in SMEs often turned out to be too low, which led them to shift their target to larger companies.

Common objectives of blended finance vehicles focused on SMEs are those of easing SMEs' access to finance and strengthening the local financial sector, among others. A remarkable contribution in this direction is thus advancing the PE and VC industries, still nascent in many developing countries, as well as the entrepreneurial ecosystem (Ecorys and Carnegie Consult, 2015[17]; Lerner et al., 2016[21]). MASSIF's investments in PE funds allowed SMEs to access instruments that are not typically accessible to them, such as equity and mezzanine, as well as to grow and eventually attract loan financing from commercial banks. Another crucial way to strengthen local financial markets is to provide financing in local currency to eliminate foreign exchange risk for financial intermediaries and ultimately reduce the cost of borrowing for final beneficiaries. MASSIF was able to provide financial products in local currency, which proved to be particularly relevant especially in contexts where the high demand for local currency financing could not be met by the still scarce and/or too expensive local currency products supplied in the market (Ecorys and Carnegie Consult, 2015[17]). (EIB, 2017[18]) shows that a significant share of loans (47% of total volume) was extended in local currency, which was considered to be a key advantage by partner IFIs.

Furthermore, some blended finance vehicles aim at providing capacity building to SMEs and improving the business environment in the country. SMEs in developing countries typically face additional challenges, other than access to finance, for instance lack of management skills, opportunities for business development and networking, resources for R&D, as well as weak policy and regulatory environment. According to an assessment of the VC funds backed by the Multilateral Investment Fund in Latin America, support in terms of networking opportunities and business training is hugely important for the investees, in particular for business development and market access (Lerner et al., 2016[21]). Training also proved to be effective in helping investees to design and implement ESG policies (Investisseurs & Partenaires, 2017[22]; Lerner et al., 2016[21]). Moreover, support to the business environment in partner countries can contribute to improve the policy frameworks, as well as the regulatory and administrative systems and procedures, as reported in (ADB, 2018[23]).

When assessing the development results of investments in SMEs, multiple dimensions can be considered at different levels (the firm, society and economy level), depending on the overarching objectives of the vehicle. The focus is typically on employment and income creation and ultimately poverty reduction. In the framework of MASSIF, employment creation was mostly prevalent among investees of the equity funds, while income improvement was more evident among recipients of MFI's financing (Ecorys and Carnegie Consult, 2015[17]). Based on 15 years of experience, the private fund manager I&P[22] concludes that investing in SMEs in Sub-Saharan Africa not only fosters the emergence of formally-structured and competent companies, which may become sector leaders and challengers to multinational companies, but it also boosts the provision of essential goods and services (e.g. electricity, water, credit options); the use of local rather than imported products; and the retention of domestic value added and profit reinvestment (Investisseurs & Partenaires, 2017[22]).

[17] MASSIF is a blended finance facility managed by FMO, the Dutch DFI, on behalf of the Dutch government, which aims at strengthening the financial sector and promote micro, small and medium size enterprises (MSMEs) in developing countries, by providing loans, mezzanine finance and equity.

[18] Through the Investment Facility in the African, Caribbean and Pacific Group of States (ACP), the EIB supports access to finance for SMEs, MidCaps and large enterprises in ACP by intermediated lending. A recent evaluation assessed the extent to which intermediated lending under this Facility contributes to supporting SMEs and strengthening the local financial markets in the ACP (EIB, 2017[18]).

[19] EIB defines mid-caps as enterprises with 250-3 000 employees, following the EU recommendation 2003/361/EC (https://www.eib.org/en/projects/priorities/sme/index.htm)

[20] The Inter-American Investment Corporation (IIC), a member of the Inter-American Development Bank Group, is a multilateral development bank committed to supporting the private sector in Latin America and the Caribbean and involved in directly supporting small and medium-sized enterprises (SMEs).

[21] Fund investments are equity or mezzanine investments made by MASSIF to funds which then reinvest equity in SMEs and other companies (Ecorys and Carnegie Consult, 2015[17]).

[22] I&P (a French impact investor dedicated to African SMEs) published a set of lessons learnt from the experience of its first impact fund (Investisseurs & Partenaires, 2017[22]).

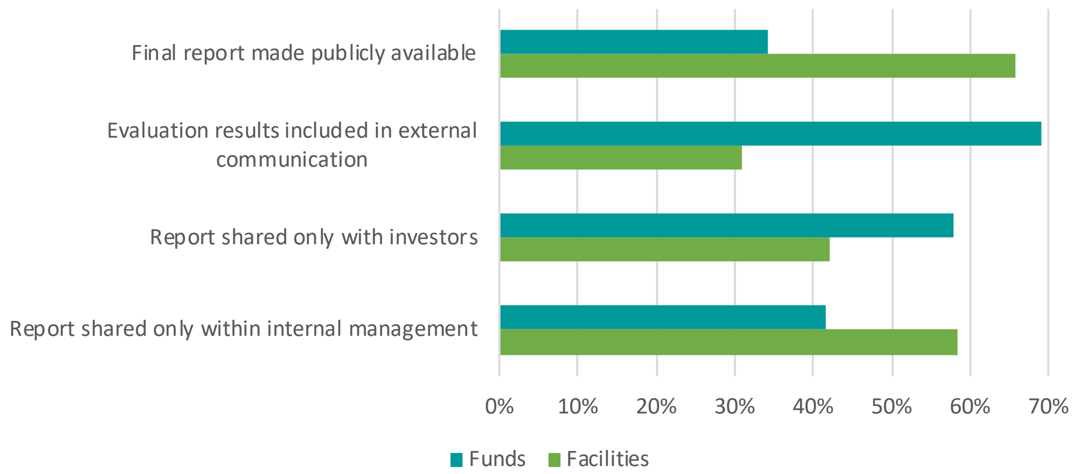
A common challenge that evaluators face is the limited data availability on development impact indicators. This might be particularly acute for SME-related investments, given their limited capacity to comply with reporting requirements. According to (Ecorys and Carnegie Consult, 2015[17]), hard data is not available to assess jobs created in SMEs that received MASSIF financing through MFIs. (EIB, 2017[18]) cautioned the extent of reliability of the data on jobs created, due to inconsistent data reporting from financial intermediaries to the EIB. Similarly, (ADB, 2018[23]) and (Haarsager et al., 2017[20]) indicate an overall lack of focus about development impact of the organisations' support to SMEs in access to finance, while still a strong focus is strictly on financial performance of investees.

A final issue faced when assessing and comparing performance of SME investments relates to the wide variation in the criteria and thresholds that countries and organisations use to identify SMEs (World Bank, 2014[24]; ADB, 2018[19]). The definition of an SME adopted by an investor might not reflect the local context of the partner country. For instance, according to (EIB, 2017[18]), while several financial products underneath the ACP Investment Facility were specifically designed to target SMEs, the EIB definition is so broad it encompasses all financial intermediaries' clients, thus failing to steer financing towards the actual "missing middle" among ACP clients.

Few evaluation reports become publicly available

According to the DAC Quality Standards for Development Evaluation, evaluation results must be presented in an accessible format and systematically distributed internally and externally for learning and follow-up actions and to ensure transparency (OECD, 2010[1]). Nonetheless, the OECD Survey results show that evaluations conducted by blended finance vehicles are seldom publicly available.

Figure 4.4. Publicity of evaluations



Note: Based on 180 answers (86 funds and 94 facilities). Multiple choice question.
Source: OECD 2018 Survey on Blended Finance Funds and Facilities

The most common practice is to share reports only with internal management (58% of facilities) or with investors (58% of funds). Besides this, 69% of funds also integrate evaluation results in their external communication, compared to 31% of facilities. Out of 137 vehicles having performed an evaluation, 35 stated that they were made publicly available, two thirds of them being facilities.

Based on the information shared by respondents and on complementary desk research, authors could locate 30 fully-fledged, independent evaluation reports online.[23] In addition, a few facilities produced multi-annual performance reviews (e.g. AgDevCo Limited, ADB Health Financing Partnership Facility), which are equally important for accountability and learning purposes, but do not necessarily ensure the independence of the authors, nor the evidence base upon which their judgement relies. Furthermore, 40 of those 137 vehicles have published annual progress reports that capture monitoring data on the output and, sometimes, outcome level.

In parallel, managing organisations (particularly DFIs) may establish an internal validation process on self-evaluations performed by the investment team, but these are not released publicly because they contain proprietary client information. They may resort to alternative forms of external accountability. For instance, PIDG maintains a publicly available database,[24] which provides development impact information on all of the projects having reached financial close and beyond. The data.pidg.org database is generated through the quantitative monitoring information, quarterly updated and disseminated in the annual progress report.

Evaluating blended finance vehicles entails specific challenges and limitations

Evaluating blended finance funds and facilities presents numerous methodological challenges and limitations. The governance and methodological challenges of blended finance evaluation (Winckler Andersen et al., 2019[4]) are compounded by the high intermediation and complex delivery mechanism intrinsic to the functioning of collective investment vehicles (CIV) as evidenced in (Basile and Dutra, 2019[2]).

Based on the sample of 30 evaluation reports[25] identified through the OECD 2018 Survey on Blended Finance Funds and Facilities, a recurring challenge relates to the mismatch between the project portfolio maturity and the evaluation timing.[26] As many blended finance vehicles are relatively new, a sizable share of their project portfolio is likely to be in early phase of implementation and only few projects might have reached financial close. At the same time, changes such as market creation or structural transformations are complex and long phenomena, which may take several years to materialise. Therefore, accurate impact and sustainability assessments, as well as analysis of general equilibrium or spill over effects are often beyond the reach of evaluators. Despite growing interest from donors and investors, mid-term evaluations can typically only detect early outcomes and, at best, early signs of impact.

Another notable obstacle reported by several studies is the attribution problem, which is crucial in impact evaluation.[27] In order to appreciate the impact of a blended finance vehicle, in particular its development additionality, evaluators must draw a causal link between the investment and the realised impact, by isolating all other influencing factors. Statistically speaking, this implies having a counterfactual, i.e. knowing what would have happened without the intervention. Experimental or quasi-experimental designs

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[23] Based on desk research performed by the authors in July and August 2019.

[24] data.pidg.org

[25] The sample comprises publicly available evaluation reports, published mostly after 2015, the vast majority of them relating to facilities rather than funds. The sampled evaluation reports have some degree of independence reflected in the methodology or in the governance of the evaluation process. The complete list can be found in the References.

[26] (Adaptation Fund, 2018[28]) (Ipsos MORI, SQ Consult & EY, 2017[26]) (REPP, 2018[29]) (Slob et al., 2017[16]) (EBRD, 2018[35]) (IDH, 2017[34]) (Lerner et al., 2016[21])

[27] (Ecorys and Carnegie Consult, 2015[17]) (Ipsos MORI, SQ Consult & EY, 2017[26]) (REPP, 2018[29]) (KfW, 2015[36])

are considered as the gold standard, but are particularly costly and unfeasible in blended finance settings. Several evaluations rather opt for a non-statistical, theory-based approach to assess the contribution (rather than attribution) made by a vehicle's investments to a particular outcome (Ipsos MORI, SQ Consult & EY, 2017[26]; Slob et al., 2017[16]; Ecorys and Carnegie consult, 2015[27]).

Because of timing issues and due to the lack of a control group, no fully fledged impact evaluation could be identified in the reviewed sample. Instead, evaluators opt for assessing either results (Adaptation Fund, 2018[28]), the achievement against the vehicle's objectives (Ipsos MORI, SQ Consult & EY, 2017[26]), the progress towards outcomes (REPP, 2018[29]), or the joint contribution of the vehicle's financing and other financing to the impact of investees' activities (Ecorys and Carnegie Consult, 2015[17]). Sustainability is also considered, albeit the identification of any long-term and general equilibrium effects is often beyond grasp. Some evaluations look at whether the innovations are taken forward even after the financial promotion ends (DEval, 2017[30]), or at the extent to which competitors manage to enter markets with high barriers (Ecorys and Carnegie consult, 2015[26]).

A third limitation concerns the statistical methodology and tools available to the evaluators of blended finance vehicles. The study sample of projects is often limited in size and unrepresentative of the whole investment portfolio.[28] This happens for multiple reasons: time and resource constraints (Adaptation Fund, 2018[28]), difficulty in reaching the targeted number of beneficiaries for interviews (Ecorys and Carnegie consult, 2015[26]), or limited number of projects close to completion (ITAD, 2019[31]). An insufficient or biased sample negatively affects the robustness of the evaluation findings and curbs their generalisation potential (so-called 'external validity').

A further challenge that evaluators face is the limited access to information, especially disaggregated data at project and beneficiary level.[29] Although this is common to all kinds of evaluations, accessing data on operations undertaken by blended finance vehicles can be particularly challenging due to the high degree of intermediation. Moreover, private for-profit actors are typically not used to share their data with external parties, due to strict confidentiality and information disclosure policies. For instance, the evaluation of the Renewable Energy Performance Platform (REPP) reports that data on the supported projects' success and failure rates is "commercially sensitive" and thus unavailable (REPP, 2018[29]). Similarly, evaluators of the Africa Enterprise Challenge Fund (AECF) could not complete a benchmarking exercise due to impossibility of collecting data from similar funds on grounds of confidentiality issues (Ecorys and Carnegie consult, 2015[26]).

[28] (Adaptation Fund, 2018[28]) (Ecorys and Carnegie consult, 2015[26]) (Ecorys and Carnegie Consult, 2015[17]) (Ipsos MORI, SQ Consult & EY, 2017[26]) (REPP, 2018[29]) (Slob et al., 2017[16]) (ITAD, 2019[31])

[29] (Adaptation Fund, 2018[28]) (EnDev, 2017[38]) (Slob et al., 2017[16]) (IDH, 2017[34])

Box 4.2. Evaluation of structured funds: methodological challenges (DEval)

The German Institute for Development Evaluation (DEval) has been mandated by the German Federal Ministry for Economic Co-operation and Development (BMZ) to conduct strategically relevant evaluations of development co-operation. In 2019, DEval is conducting an evaluation of structured funds with a view to provide an independent assessment of the financial approach as well as to identify lessons learned for the BMZ, the German Development Bank (KfW), other investors and stakeholders. It examines three broad topics:

- Alignment with the goals of German international co-operation policy and effects on donor harmonisation and co-operation
- Ability to mobilise additional funding and financial sustainability of the approach
- Impact on financial intermediaries, MSMEs and employment generation

The DEval team has reconstructed the theory of change that links the additional capital generated through the structured funds with the expected impact on the local financial market, employment generation and safeguarding of jobs. To test the assumptions underlying this Theory of Change, the evaluation follows a theory-based multi-method approach that combines qualitative case studies with quantitative data analyses.

The evaluation examines ten structured funds (SICAV-SIF) for which the BMZ provides funding in the first-loss tranche. Combined, the funds have a financing volume of over 2.5 bn EUR in over 50 countries. All ten cases will form the basis of the non-causal analysis at the donor and policy level. Four funds will be analysed more in depth to examine their impact on MSMEs and employment promotion. These were selected because they are most likely to be successful, so as to maximise potential for lessons learned and best practices.

In data collection, the evaluation team covers a wide array of actors along the value chain of structured funds, ranging from public donors, DFIs and IFIs and private actors invested in the funds to fund managers, financial intermediaries (MFIs, banks, non-bank actors) and clients. The team assesses the different perspectives in conducting interviews and focus group discussions at all levels and in reviewing documents.

Among the actors directly involved in structured funds, the financial intermediaries fulfil a key function as they select and lend-on to clients in adherence to their mission. Thus, they are an important interface in the funds accomplishing their social and/or environmental goals. Their opinion will be collected through a customised survey about changes in portfolio since the co-operation with the funds. The survey will provide quantitative data on the impact of the technical assistance provided and changes in the portfolio.

The data analysis will rely on different methods. The leverage effect of the structured funds on private and DFI investment will be calculated quantitatively and complemented with a content analysis of interview protocols and documents. To measure the effects of structured funds on the development of MSMEs, income and employment, the evaluation team will conduct a contribution analysis based on the theory of change. The survey data will be analysed using descriptive statistics and correlation analysis. In combining the different sources of information and analysis tools, the team assesses the performance of the financial approach “structured funds” at an aggregate level.

Through this independent strategic evaluation, the first of its kind in Germany and among the first globally to cover the financial approach of structured funds overall, DEval is pioneering rigorous evaluation work in this important and growing field of development co-operation in order to foster learning and accountability

Source: Valerie Habbel, Magdalena Orth and Hanne Roggemann (DEval)

Conclusions

Many of the surveyed vehicles undertake at least one evaluation, while over 18% of the surveyed funds have never undertaken an evaluation, nor do they envisage one in the future. From the Survey results, it emerges that evaluations are mostly initiated because mandatory for facilities and requested by the investors for funds. This upholds the assumption that facilities are held to a higher level of direct and systematic scrutiny by their development finance providers. The Survey results further confirm that development-oriented investors are more likely to request an evaluation compared to commercial ones.

The Survey shows that evaluations mostly (at times exclusively) draw on monitoring data and client interviews. Evaluations performed by blended finance vehicles rely only to a limited extent (or not at all, as in the case of private asset managers) on information collected from end beneficiaries. This finding underlines the disparity between different blended finance players in terms of external accountability, stakeholder engagement and strategic priorities.

According to the DAC Quality Standards for Development Evaluation, evaluation results must be presented in an accessible format and systematically distributed internally and externally for learning and follow-up actions and to ensure transparency (OECD, 2010[1]). Nonetheless, the OECD Survey results show that evaluations conducted by blended finance vehicles are seldom publicly available. The most common practice is to share reports only with internal management (58% of facilities) or with investors (58% of funds).

5 Policy implications

Most blended finance vehicles strive to contribute to the international agenda for sustainable development

Most blended finance vehicles have anchored their investment strategy to one or more international agreements. Over half of the surveyed funds and facilities have linked their investment strategies to one or more of the United Nations Sustainable Development Goals (SDGs). On average, each vehicle hinges around 7 SDGs, showing a slight increase from 2016. The Paris Agreement on Climate Action is mentioned in over one third of respondents, mostly operating in the energy sector. Still, over a third of the 180 vehicles surveyed, corresponding to over 19 bn USD in AUM, did not reference any international agreement in their strategy.

In 2017, rising international attention has led to the adoption of the OECD-DAC Blended Finance Principles and of the DFI Enhanced Principles on Blended Finance. The Survey shows that the former are slightly more popular, especially among facilities. Still, 40% of the surveyed vehicles, mostly funds, reported that they align with neither of the two. Synergies between the two sets of principles are currently being consolidated in a shared value system under the Tri Hita Karana Roadmap, which promises to marshal even wider buy-in from both public and private development finance providers.

Blended finance vehicles mostly pursue economic development objectives, followed by social and environmental ones. This reflects their ambition to foster private sector development and job creation. Over a third of respondents did not formalise quantitative development targets, which may hinder the capacity of investors to capture their (intended and actual) contribution to the sustainable development objectives.

Many environmental, social and governance standards exist, but their application by blended finance investors remains unclear

The existence of many international agreements and standards may be difficult for asset managers to navigate, especially if they do not have previous development co-operation experience.

Most funds and facilities align their environmental, social and governance (ESG) safeguards with one or more international standard(s) such as the IFC Performance Standards and the Principles for Responsible Investing. The former are particularly popular among bilateral and multilateral DFIs, but also with commercial asset managers.

In practice, institutional investors may adopt different investment strategies to take account of ESG factors in their portfolio construction (e.g. exclusionary screening, best-in-class, thematic investment, divestment or engagement). ESG processes can thus be undertaken as a risk mitigation or value creation tool, depending on the intent.

An increasing number of ESG investment options are available, but investors face technical, operational and behavioural difficulties in selecting, implementing and measuring the effect of ESG strategies (OECD, 2017[32]) More public evidence is needed to understand the practice behind ESG ratings or certifications, and to what extent these might be adapted in the context of development co-operation.

Funds and facilities differ in their approach to development performance

The Survey revealed considerable differences in behaviour amongst blended finance funds and facilities, in terms of strategy setting, monitoring and evaluation. In particular, facilities are generally better geared towards development performance in their governance and investments:

- Facilities are more likely to ground their investment strategy to international agreements on sustainable development.
- They are more inclined to adopt indicators at all level of results, except for impact, where funds instead are more represented. This might reflect the different understandings of what impact means prevailing amongst their managing organisations.
- Facilities are more likely to have identified an independent team or unit dedicated to monitoring and evaluation (M&E) and reporting directly to the Board of Directors (or equivalent). Funds instead more frequently leave this responsibility with each investment manager or with their main investor.
- Facilities are more likely to have undertaken at least one evaluation. A significant share (over 18%) of the surveyed funds have never undertaken an evaluation, nor do they envisage one in the future. Evaluation is regarded as mandatory exercise for most facilities, while in the case of funds, it needs to be explicitly requested by investors. Moreover, evaluations conducted by facilities will more frequently involve end beneficiaries and the final reports are more often publicly disclosed.

This evidence confirms that facilities are held to a higher level of direct and systematic scrutiny by their development finance providers, which is at least partially attributable to their specific characteristics, emerging from Part I of the Survey (Basile and Dutra, 2019[2]):

- Larger size, in terms of Assets Under Management (AUM): on average, the surveyed facilities gathered 483 USD millions each, against 250 USD millions for funds. Many facilities are indeed established with a view to re-invest in blended funds.
- Development-focused capital structure: the wide majority of capital in facilities is concessional and development oriented (USD 34.8 bn out of 41.5 bn), whereas funds garner more diverse sources of capital, including USD 4.4 bn in purely commercial finance (out of USD 16.8 bn).
- The players involved, as investors and managers: governments (including aid agencies) own over 80% of the AUM sitting in all facilities, while funds attract a much more diverse range of investors, including commercial asset managers, insurance companies, pension funds, corporations, high net worth individuals and family offices. Over half of the surveyed facilities are managed by multilateral DFIs, in contrast with funds, that are in the large majority entrusted to commercial asset managers.

The next Survey edition may explore further this question, by having more targeted questions depending on the vehicle type, but also by investigating the motivations that lead investors to choose one form over another.

The vehicle's size and age may also affect its capacity to track and assess development performance

The size of facilities and funds appears to be positively correlated to their capacity to track and assess development performance. Larger vehicles (above USD 1 bn AUM) are more likely to monitor their development results, at each phase of the investment cycle (from ex ante to ex post) and at all levels of the results chain (outputs, outcomes and impacts). They are also more inclined to adopt quantitative targets on all dimensions (economic and ESG). This might be partly explained by the fact that they are better capitalised, hence have more resources to dedicate to their performance tracking. However, it may also be due to the fact that they are mostly facilities and hence have a stronger development focus. In either case, one may conclude that higher transparency expectations come with bigger endowments.

The vehicle's maturity has an influence on practices related to development performance. On the one hand, older vehicles are better positioned to gather outcome and impact data and to engage in evaluation, since their portfolio has been invested for longer. On the other, younger vehicles are more likely to establish a dedicated team or unit, either independently or as part of line management. This may indicate that newer initiatives have caught on to the "impact imperative" for sustainable development finance (OECD, 2019[33]).

The above considerations call for more research to understand what is the appropriate level of resourcing for the monitoring and evaluation activities and how to design, from the start, the governance of these Collective investment vehicles in a way that promotes both internal learning and external accountability on development results.

Other dimensions, as for instance the location of the headquarters, the evergreen or close-ended lifespan, or the broad asset category chosen by the blended funds (structured or flat, private equity, venture capital or fixed income), did not exert a statistically significant influence on this Part of the Survey results.

Most "impact reporting" relies on client declarations before the end of the investment

Approximately one in three of the surveyed funds and facilities will collect some development information mandatorily before the investment decision, during the investment period, as well as at the end of the investment. This means that in a third of the cases, bespoke economic or ESG data is not systematically considered before the investment decision. Over a quarter of respondents (28%) also declared that monitoring data is mandatorily collected one year or more after an investment. Despite growing emphasis and adoption of impact indicators, little performance data is collected ex-post.

Annual progress reports produced by funds and facilities are mostly based on declarations from their client companies or partner financial institutions. Only one fifth of the surveyed vehicles also strives to integrate the voice of citizens from developing countries. Relying on direct investees as the main source of development impact information raises the question of positive reporting bias, which may be compounded by perverse incentives at play for the managing organisations themselves, especially in pay-for-results mechanisms. This calls for more in-depth investigation on the way existing impact management and measurement approaches implemented by different investors may integrate quality assurance on the bottom-up data flows.

Furthermore, less than half of the reported evaluations took into account the perspective of end beneficiaries. This underlines the generally weak capacity of blended finance vehicles to capture real, long term impact on final beneficiaries, which are ultimately the ones targeted by development co-operation. The credibility of such evaluation processes may at times also be questioned, considering the weak independence of this function in the organizational chart of most vehicles.

In other words, most of the development information available is too recent to pertain to actual impact, and possibly biased by conflict of interest and lack of triangulation from multiple sources. Even when evaluation is engaged, end beneficiaries are rarely consulted and the governance setting is often sub-optimal to secure credibility.

Governments, as investors and managing organisations, are raising the bar for accountability on development performance

Much of the divergence between facilities and funds can be explained by the fact that government-led vehicles are more (and better) accountable than those entrusted to other intermediaries.

Governments, as managing organisations, tend to measure progress across all dimensions, both economic and ESG. They feed indicators on inputs, outputs and outcomes more systematically. Compared to other players, they are also less likely to collect impact-level data, as part of the day-to-day performance tracking process. This is likely due to a stricter interpretation of the term “impact” employed among public administrations, which other actors in the blended finance space may conflate with outcome- or even output-level results.

Most vehicles under their direct supervision will benefit from an independent evaluation department housed in the Ministry of Foreign Affairs, who is best placed to assess how blended finance operations can contribute to the national development co-operation policy. Looking at the evaluation process, governments and aid agencies strive to consider the viewpoint of end beneficiaries, as opposed to private asset managers. This finding underlines again the disparity between different blended finance players in terms of strategic priorities, stakeholder engagement and external accountability.

In parallel, governments are already promoting the adoption of the OECD-DAC Blended Finance Principles by the vehicles under their direct supervision. The outstanding policy question is, how governments can actively promote better consideration of development performance also in those vehicles that are entrusted to financial intermediaries.

Funds and facilities can better contribute to increment public evidence on development results of blended finance

Blended finance is a relatively new approach in development co-operation and rapidly gaining attention among policy makers, in OECD and developing countries alike. Against this background, the production and dissemination of evaluative evidence is critical to understand the relevance and effectiveness of blended finance.

The majority of the surveyed vehicles (70%) reported having performed at least one evaluation. An additional 16% claimed to have one planned in the future. This encouraging finding is, however, challenged by the diverse culture and language of respondents.

According to the Survey, most blended finance vehicles have identified a team or unit in charge of monitoring and evaluation as part of the line management structure. On one side, this is very positive and appropriate for ongoing performance management. On the other, this configuration is less convenient to ensure that evaluations, whether internally conducted or externally commissioned, are shielded by purely financial priorities. The next Survey edition could benefit from considering the two functions separately. It could also further investigate where the funding for M&E comes from and what is the most appropriate governance mechanism for such function(s).

The most common practice amongst Survey respondents is to share reports only with internal management or investors. While this is extremely useful to foster internal uptake of the evaluator’s conclusions, it does not contribute to augmenting public knowledge. Many vehicles, mostly funds, prefer to integrate evaluation results in their external communication. This indirect and fragmented dissemination may hamper the credibility of the overall evaluation, especially when the report is not fully disclosed. Indeed, only one in four evaluation reports is made publicly available.

(Winckler Andersen et al., 2019[4]) suggest that "a systematic review of existing evidence with a focus on achieved results by various blended finance instruments would be an important contribution to the further discussions on the potential role and relevance of blended finance for the achievement of the SDGs." This will only be possible if all blended finance actors, both asset owners and management, progressively commit to building a public body of evidence, which implies not only performing more and more robust evaluations, but also sharing them more widely, to the benefit of all interested parties.

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