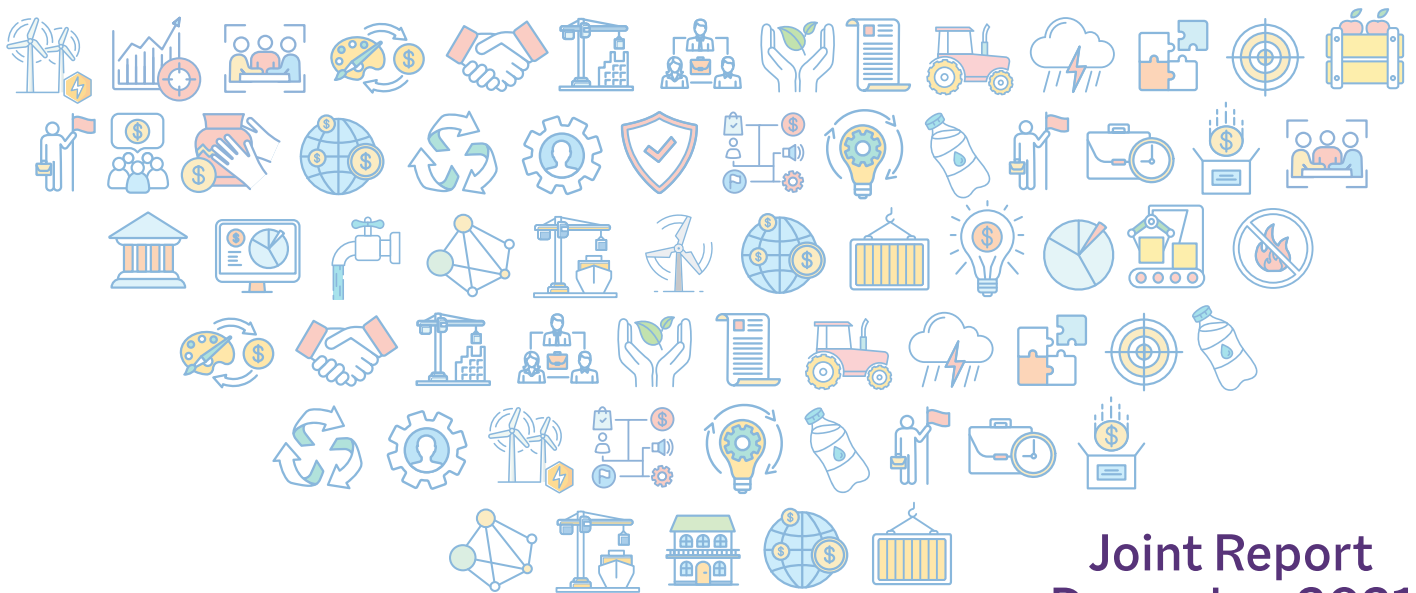


# DFI Working Group on Blended Concessional Finance for Private Sector Projects



Joint Report  
December 2021  
Update



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This report was prepared by a group of Development Finance Institutions (DFIs), composed of the African Development Bank (AfDB), the Asian Development Bank (AsDB), the Asian Infrastructure Investment Bank (AIIB), the European Bank for Reconstruction and Development (EBRD), the Association of European Development Finance Institutions (EDFI), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), the Islamic Corporation for the Development of the Private Sector (ICD), and the International Finance Corporation (IFC). The Association of European Development Finance Institution's (EDFI's) members are BIO (Belgium), BMI (Belgium), CDC (UK), Cofides (Spain), DEG (Germany), Finnfund (Finland), FMO (The Netherlands), IFU (Denmark), Norfund (Norway), OeEB (Austria), Proparco (France), Sifem (Switzerland), Simest/CDP (Italy), Sofid (Portugal), and Swedfund (Sweden).



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# I. Executive Summary

**Blended concessional finance can be used to unlock investment into sustainable development, especially through the private sector.** The increasing use of concessional funds blended with Development Finance Institutions' (DFIs') own financing and that of others on commercial terms has brought DFIs together to 1) develop common standards for the implementation of blended concessional finance projects; 2) provide transparent, comprehensive and consistent data on their blended concessional finance activities; and 3) discuss and review the merits and adequacy of existing approaches to blended concessional finance activities. The ultimate objective of this work, with a distinct focus on private sector operations, is to increase development impact, crowd-in private investments while ensuring minimum concessionality, and enhance trust and transparency for the use of blended concessional finance from DFIs, all without distorting markets. It will also promote the use of best practices in blended concessional finance implementation by other market players.

**The development and implementation of a set of Enhanced Principles on the operational use of blended concessional finance in private sector operations has been a key outcome of the initial phases of this work.** In October 2017,<sup>1</sup> the Multilateral Development Bank (MDB) Heads and European Development Finance Institutions (EDFI) Management approved the **DFI Enhanced Principles**. These Principles strengthened the 2013 *DFI Guidance for Using Investment Concessional Finance in Private Sector Operations*,<sup>2</sup> and remain highly relevant to the use of concessional financing and mobilization of private capital. Since then, the DFIs have focused on implementing the Enhanced Principles in their operations and sharing best practices with respect to their implementation.

**This report provides an update on the core outcomes of this work conducted in 2020.** Over the last year, the members of the DFI working group worked to (i) update the DFI blended concessional finance data to 2020; (ii) share knowledge and experience on the use of blended concessional finance, including updates on program growth, focus areas, innovation, and improvements in governance; and iii) coordinate interactions with other working groups that address blended concessional finance issues.

## DATA UPDATE

In 2020, DFIs financed projects with a total volume of more than \$11.2 billion<sup>3</sup> supported by blended concessional finance. Concessional funds committed to these projects via DFIs were approximately \$1.6 billion. The total volume of private sector finance leveraged was approximately \$3.0 billion, and DFI own-account investments in these projects were about \$5.3 billion. The balance of funds came from other concessional contributions (\$74 million) and contributions from other public sources at commercial rates (\$1.2 billion). The most common concessional instrument committed by DFIs in 2020 was senior debt, comprising 32% of total committed concessional investment volume, followed by equity (19%), risk-

sharing facilities and guarantees (19%), and subordinated debt (12%). The largest sector for DFI concessional commitments was infrastructure (in many cases for climate change-related projects), which was prominent across all country income groups. The banking and finance sector (mostly in support of small and medium enterprises—SMEs) was most prominent in upper and lower middle-income countries, while the “other” sector, which includes agribusiness, health, manufacturing, and services was largely in low and lower middle-income countries. Concessional funds committed by DFIs were used the most in lower middle-income countries and in Sub-Saharan Africa. (See Figure 1).

**FIGURE 1. TOTAL DFI BLENDED CONCESSIONAL FINANCE PROJECT COST BY REGION (\$MILLIONS)**



\*Note: The “Other Africa” region represents volumes in Africa that are not able to be separated into “North Africa” and “Sub-Saharan Africa.”

DFI concessional funds committed in 2020 increased by about 14% from 2019. The total volume of projects financed by blended concessional finance increased by 5%, with private mobilization totaling about \$3 billion (slight reduction from \$3.2 billion in 2019) and public contributions totaling \$1.2 billion (approximately doubled from \$608 million in 2019).<sup>4</sup>

## UPDATE ON PROGRAMS, GOVERNANCE, AND OUTREACH

Several institutions expect a significant increase in their use of blended concessional finance over the next few years, driven by the “building back better” programs, the need to address climate change, greater focus on challenging markets, and growth of blended concessional finance programs and resources. Focus areas are likely to include renewables, green cities, helping farmers, MSMEs, and expanding inclusivity. Several DFIs are integrating their blended concessional finance programs in their overall strategic plans and upstream project development

programs. Many DFIs are also reporting a significant shift to risk mitigation products including risk-sharing facilities, subordinated loans and guarantees. New concessional finance programs are being developed with traditional donors, while new sources of concessional finance are also emerging from foundations and the private sector.

DFIs have recently introduced innovations to increase the scale and efficiency of blended concessional finance programs, particularly “programmatic approaches” that feature frameworks for specific sectors with streamlined approval for sub-projects and concessionality developed at the program level. This allows both efficiency of processing and increased scale and can facilitate broad access to concessional resources by many private firms.

Case studies presented this year highlight support for distributed energy and energy efficiency programs; renewable energy and energy storage; support for farmers, small businesses, and vulnerable populations; and projects addressing healthcare issues in light of the COVID-19 pandemic. Projects also illustrate innovative financing techniques, including first loss structures, open access programs, local currency financing, and use of quasi-equity and subordinated loans.

Progress continues at DFIs on improving governance of blended concessional finance operations and implementing the DFI principles. Efforts include new operating guidelines, strengthened blended finance committees, improvements in data and processes to assess minimum concessionality, and increased staff training. DFIs have also been engaging bilaterally to address issues related to the appropriate levels of concessionality in different sectors. DFIs are improving the ability of external stakeholders to easily access information on blended finance, such as the rationale for blended concessional finance, instruments used, types of concessional capital used, and, in some cases, levels of concessionality. DFIs discussed progress in testing a standardized methodology for measuring concessionality and agreed to continue to share information on this approach on a bilateral basis.

DFIs discussed this year their emerging efforts to assess the overall effectiveness of blended concessional finance programs. Many DFIs have regular results measurement systems for all projects, and these are being used for projects with blended concessional finance. Several DFIs have begun analyzing these results specifically for the portfolio of blended concessional finance projects. DFIs also explored the potential for new methodologies to assess the overall development impact of blended concessional finance programs at the market level.

DFIs discussed their ongoing engagement with other working groups that address blended finance issues, particularly the OECD and the Tri Hita Karana Roadmap for Blended Finance (THK) programs. DFIs will continue contributing to these working groups in a coordinated manner. DFIs have developed criteria for bringing in new members into the DFI working group, including being a DFI with blended concessional programs, subscribing to the DFI Enhanced Principles, and willingness to share data.

DFIs also discussed the governance implications of increasing blended concessional finance use by non-DFI institutions and the growing availability of concessional funds from private

firms. The DFIs will explore ways to engage with the non-DFI implementers of blended concessional finance to encourage the use of the DFI Principles, and will explore governance arrangements related to new private sources of concessional funds to ensure consistency with the development missions of the DFIs and adherence to the Enhanced Principles.

## **NEXT STEPS**

**DFIs are committed to further optimizing the use of concessional resources.** The DFI Working Group will continue with the core activities of updating data, sharing experiences, discussing governance issues, and coordinating interactions with other groups working on blended concessional finance. DFIs will continue engaging with other DFI and non-DFI implementers of blended concessional finance to expand the use of the Enhanced DFI Principles. Some special topics may also be addressed, such as further discussions on appropriate levels of concessionality in different sectors, continued bilateral work on the standard methodology for measuring concessionality, and examination of possible new methodologies to assess the market-level impacts of blended concessional finance.

## II. Introduction and Context

**Blended concessional finance** for private sector projects is one of the most valuable tools that Development Finance Institutions (DFIs) can use, in cooperation with donors and other development partners, to implement the Addis Ababa Action Agenda for financing development, help address the Sustainable Development Goals (SDGs), increase finance and mobilize private capital for important private sector activities, and sustain employment and economic activity negatively affected by the COVID-19 pandemic. Since the agreement on a new sustainable development agenda in Addis Ababa in 2015, there has been substantial growth in international attention to the role of blended concessional finance to promote private sector participation in developing countries and help close the large investment gap that has been identified for reaching the SDGs.

To help ensure the **effective and efficient** use of concessional resources in private sector projects, and **avoid market distortion** or **crowding out** private capital, the MDB Heads and EDFI Management at their October 2016 meetings called for efforts to build on and further strengthen the principles for the use of concessional finance in private sector operations agreed by the DFIs in October 2013.<sup>5</sup>

The **specific definition of blended concessional finance** for the private sector operations of DFIs, adopted by the DFI Working Group on Blended Concessional Finance for Private Sector Projects (heretofore “the DFI working group”) is: *Combining concessional finance from donors or third parties alongside DFIs’ normal own-account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources*

The results of the work carried out in 2017 by the DFI working group<sup>6</sup> were presented to the DFI Private Sector Roundtable and the MDB Heads meeting in October 2017. The key deliverables included **an enhancement of the DFI blended concessional finance principles (Enhanced Principles, see Box 1 and summary in Annex 1) and a presentation of pilot aggregated data** on the use of blended concessional finance across the DFIs. Additional joint discussions across the DFIs on case studies of blended concessional finance projects provided a useful body of evidence to ground the discussion on the Enhanced Principles. MDB Heads and EDFI Management adopted the Enhanced Principles and agreed to implement them. After the meetings, a joint report<sup>7</sup> was released containing the Enhanced Principles summary, data summary, and case study summary.

As also agreed by the MDB Heads and EDFI Management, the DFI Blended Concessional Finance Working Group has remained engaged over the last four years to implement the outstanding recommendations, working in four major areas: 1) **sharing and discussing in detail the governance frameworks** and approaches being put in place to implement the DFI Blended Concessional Finance Principles, 2) **updating and improving the scope and quality of the DFI blended concessional finance data**, 3) **sharing knowledge and experiences**



**and discussing issues** related to implementing the Principles, and 4) **coordinating engagement with other working groups addressing blended finance**. Reports on these activities were published in 2018, 2019, and 2020<sup>8</sup>. This report summarizes progress in 2020, including case studies.

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**BOX 1. ENHANCED BLENDED CONCESSIONAL FINANCE PRINCIPLES FOR DFI PRIVATE SECTOR OPERATIONS (HIGHLIGHTS, SEE ANNEX 1 FOR FULL DESCRIPTION)**

- 1. Rationale for Using Blended Concessional Finance:** DFI support for the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector. Blended concessional finance should address market failures.
- 2. Crowding-in and Minimum Concessionality:** DFI support for the private sector should, to the extent possible, contribute to catalyzing market development and the mobilization of private sector resources and minimize the use of concessional resources.
- 3. Commercial Sustainability:** DFI support for the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must contribute towards the commercial viability of clients. Level of concessionality in a sector should be revisited over time.
- 4. Reinforcing Markets:** DFI support for the private sector should be structured to effectively and efficiently address market failures and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.
- 5. Promoting High Standards:** DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in the areas of corporate governance, environmental impact, social inclusion, transparency, integrity, and disclosure.

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**Note on Definitions of Blended Finance**

The DFI definition of **blended concessional finance** focuses only on situations where contributions from donors or third parties are provided at concessional rates, to be mixed with commercially based finance from DFIs and/or other investors (hence the use of the term “blended concessional finance” in this report instead of just “blended finance.”). Some other international organizations, think tanks, and blended finance working groups include in their definition of blended finance the blending of development funds with commercial finance, where finance from all parties is provided at commercial rates. By this definition a much broader range of DFIs and other institutions’ activities are included, with resulting potential differences in expectations regarding appropriate volumes, mobilization, and geographic focus. While these approaches to defining blended finance can be quite useful on their own terms, the DFIs have felt that there remains a need for a special focus, as in this report, on the use of concessional finance in blending, as: 1) concessional funds are a particularly scarce resource, requiring grant equivalent contributions from governments or other philanthropic institutions, 2) use of concessional resources in blending therefore requires a special rationale beyond other types of development finance, 3) blended concessional finance has a particularly important role to play in difficult markets and the most challenging and pioneering investments, and 4) use of concessional resources presents special governance issues related to the potential for conflicts of interest between commercial and non-commercial financiers.

# III. Analysis of 2020 Private Sector Blended Concessional Finance Data from Development Finance Institutions

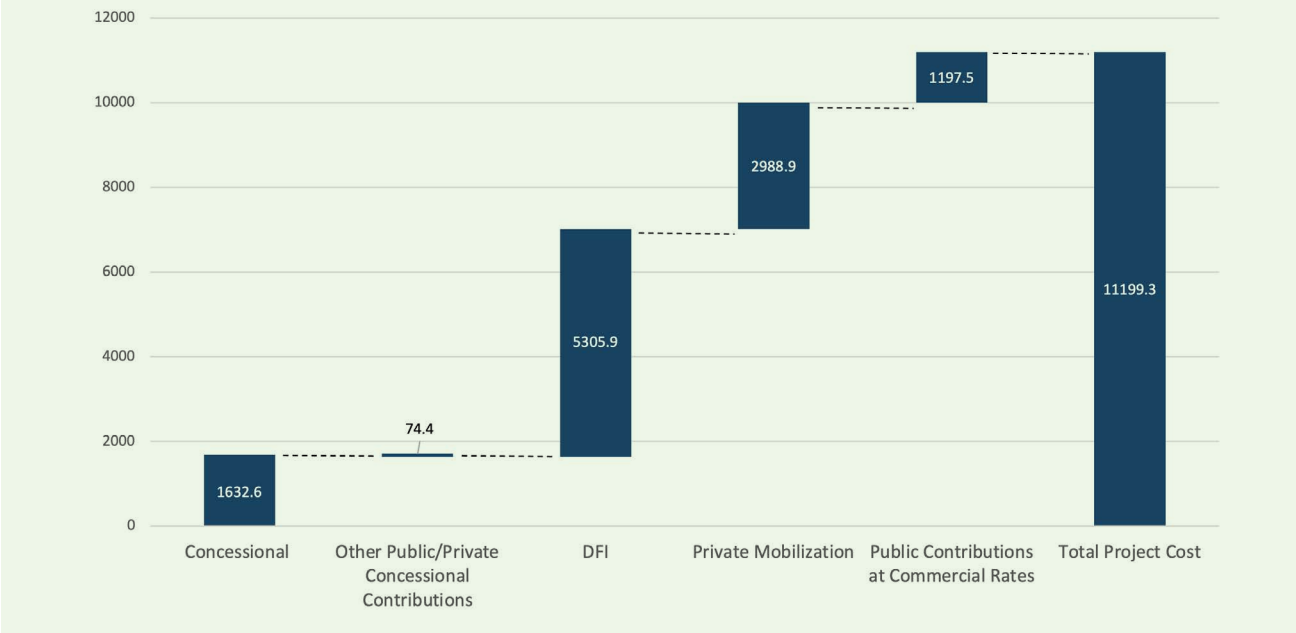
## OVERALL VOLUMES - 2020 KEY FINDINGS

Overall volume results are presented in Figure 2.

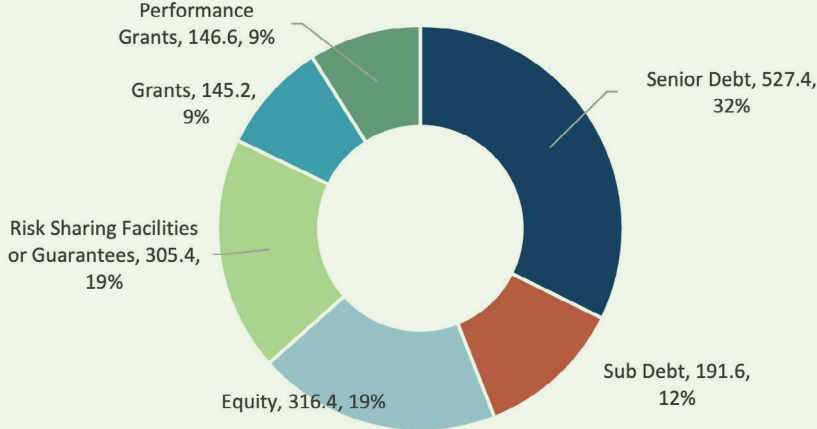
- DFIs in 2020 financed a total project volume of over \$11.2 billion using various blended concession finance solutions for private sector operations.
- This is a relatively small percentage of the total volume of all DFI private sector projects financed every year.<sup>9</sup>
- Private Sector finance leveraged for the projects supported by blended concessional finance was about \$3.0 billion.
- Concessional commitments of all types (e.g., debt, subordinated debt, guarantees, grants, or equity) managed by DFIs for these projects were about \$1.6 billion. The projects also had about \$5.3 billion of DFI own-account commercial financing.

Compared to 2019, the concessional amounts provided by DFIs were slightly higher (\$1.6 billion in 2020 vs. \$1.4 billion in 2019). The amounts leveraged from DFIs and the private sector remained relatively unchanged (\$8.3 billion in 2020, vs. \$8.4 billion in 2019).<sup>10</sup> Public amounts leveraged roughly doubled from last year totaling \$1.2 billion, resulting in a higher

**FIGURE 2. DFI PRIVATE SECTOR BLENDED CONCESSIONAL FINANCE NEW PROJECT COMMITMENTS, 2020 (\$ MILLIONS)**



**FIGURE 3. CONCESSIONAL COMMITMENT VOLUME BY BLENDED CONCESSIONAL FINANCE INSTRUMENT, 2020 (PERCENTAGE)**

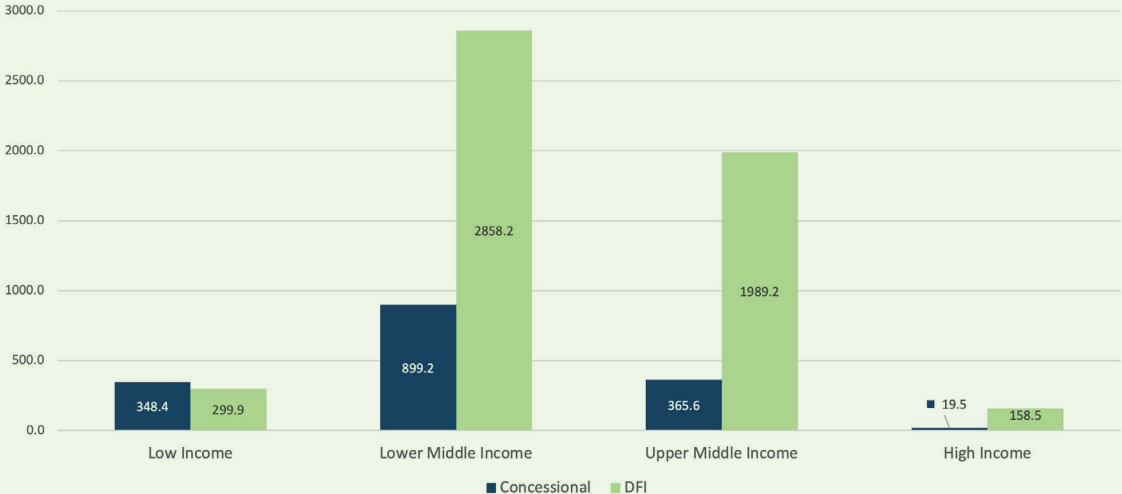


overall total project cost for 2020. The amounts leveraged vary by region, sector, and theme as noted in the following sections. Figure 3 shows the concessional commitment volumes in calendar year 2020 broken down by blended concessional finance instrument. The most prominent blended finance instrument was senior debt (32%). In 2019 senior debt comprised about 45% of total blended concessional finance commitment volume, so we continue to see a gradual shift from senior debt to an increased share of other products.

**GEOGRAPHY**

Figure 4 shows the concessional funds and related DFI own-account commitments in blended concessional finance activities in 2020, broken down by country income level. Similar to previous years, lower middle-income countries had the largest share of concessional funds

**FIGURE 4. CONCESSIONAL AND DFI NEW COMMITMENTS BY COUNTRY INCOME LEVEL, 2020 (\$ MILLIONS)**



and had the largest amount of DFI financing in projects. While there is a slight increase in concessional funds deployed in low-income countries compared to last year, there is also a drop in DFI amounts leveraged in those countries. Reported 2020 activities in upper middle-income countries were primarily under the climate finance theme (see section on themes).

**FIGURE 5. TOTAL PROJECT VOLUME BY INCOME LEVEL, 2020 (\$ MILLIONS)**

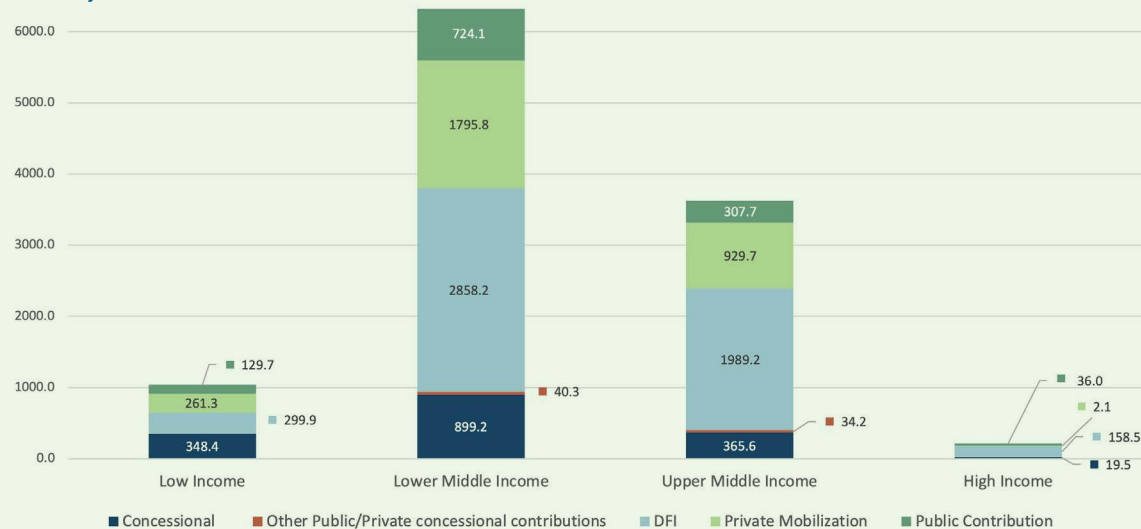


Figure 5 shows the composition of total project volume of blended concessional finance projects, including the concessional funds provided and public/private resources leveraged, broken down by country income level. The amount of private and DFI financing leveraged was highest in lower middle-income countries. Low-income countries had a relatively small amount of private and DFI financing.

**FIGURE 6. TOTAL DFI BLENDED CONCESSIONAL FINANCE PROJECT VOLUME BY REGION, 2020 (\$ MILLIONS)**

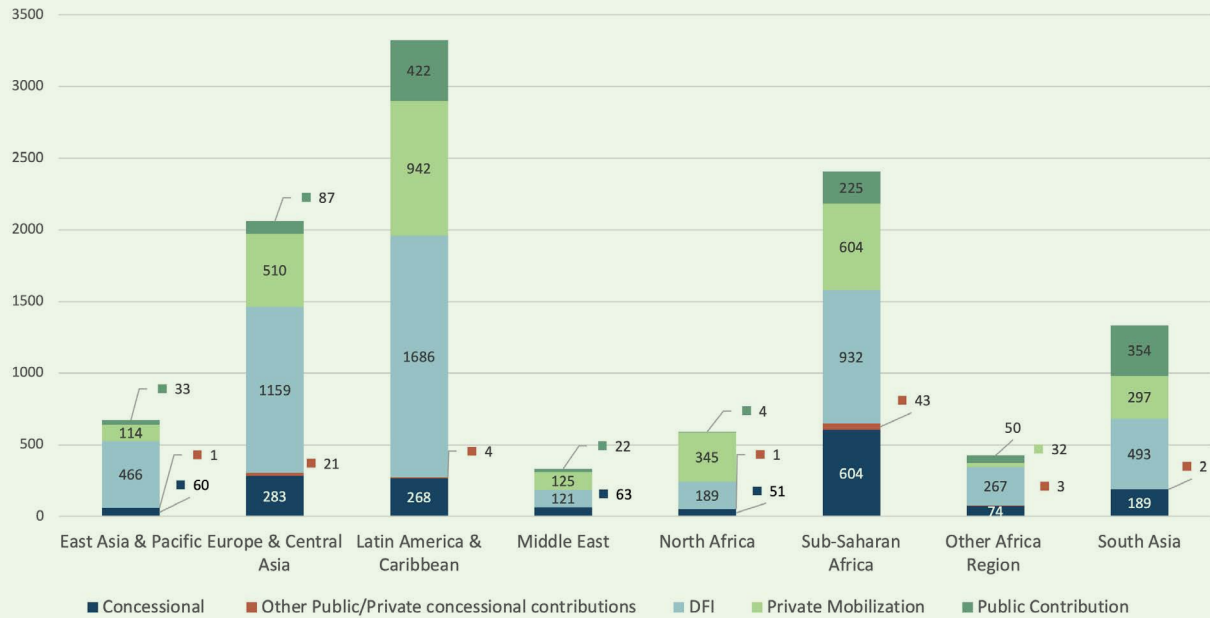


Figure 6 shows the composition of total project volume of blended concessional finance projects by Region. In 2020, Sub-Saharan Africa was the region with largest amount of committed concessional resources. Latin America & the Caribbean, Europe & Central Asia, and South Asia also had a high share of total concessional resources deployed.

## SECTORS

Figure 7 shows the concessional funds and related DFI own-account commitments in blended finance activities in 2020, broken down by sectors.<sup>11</sup> In terms of concessional finance deployed, infrastructure was the largest sector in 2020, while the finance/banking sector showed the highest volume in terms of DFI funds leveraged.

**FIGURE 7. CONCESSIONAL AND DFI NEW COMMITMENTS BY SECTOR, 2020 (\$ MILLIONS)**



Figure 8 shows the composition of total project volume of blended concessional finance projects in 2020 by sector. There was significant DFI and private finance leveraged in all sectors, but the financial sector, often in support of SMEs, showed a higher amount of DFI and private sector amounts relative to concessional funds deployed.

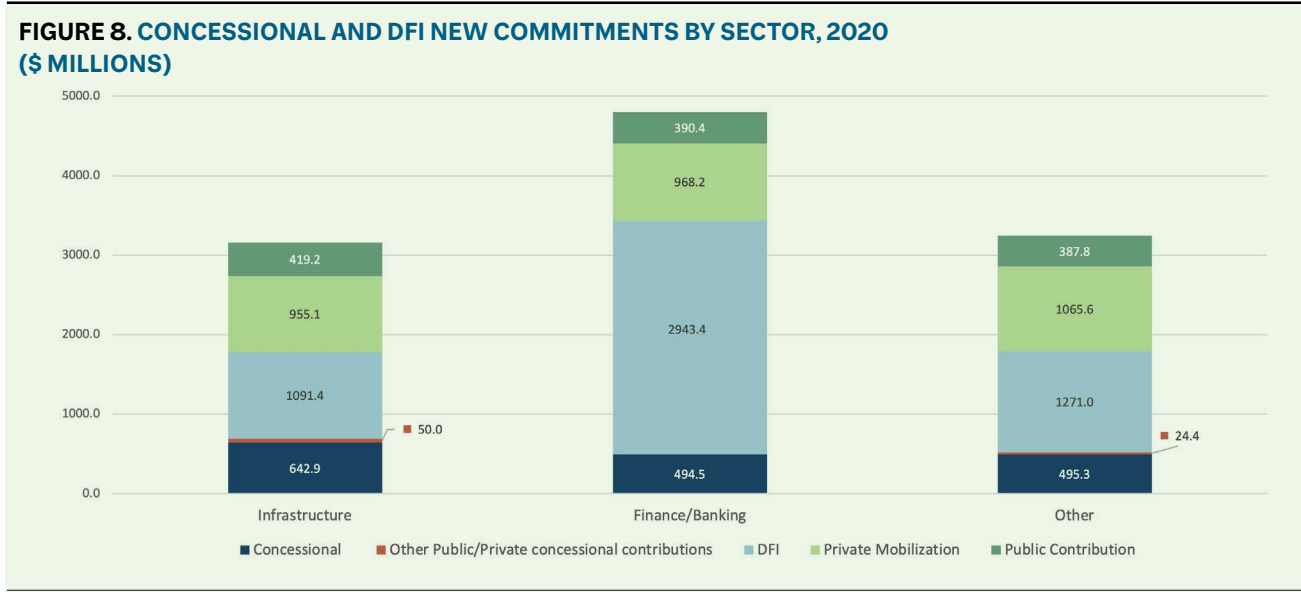
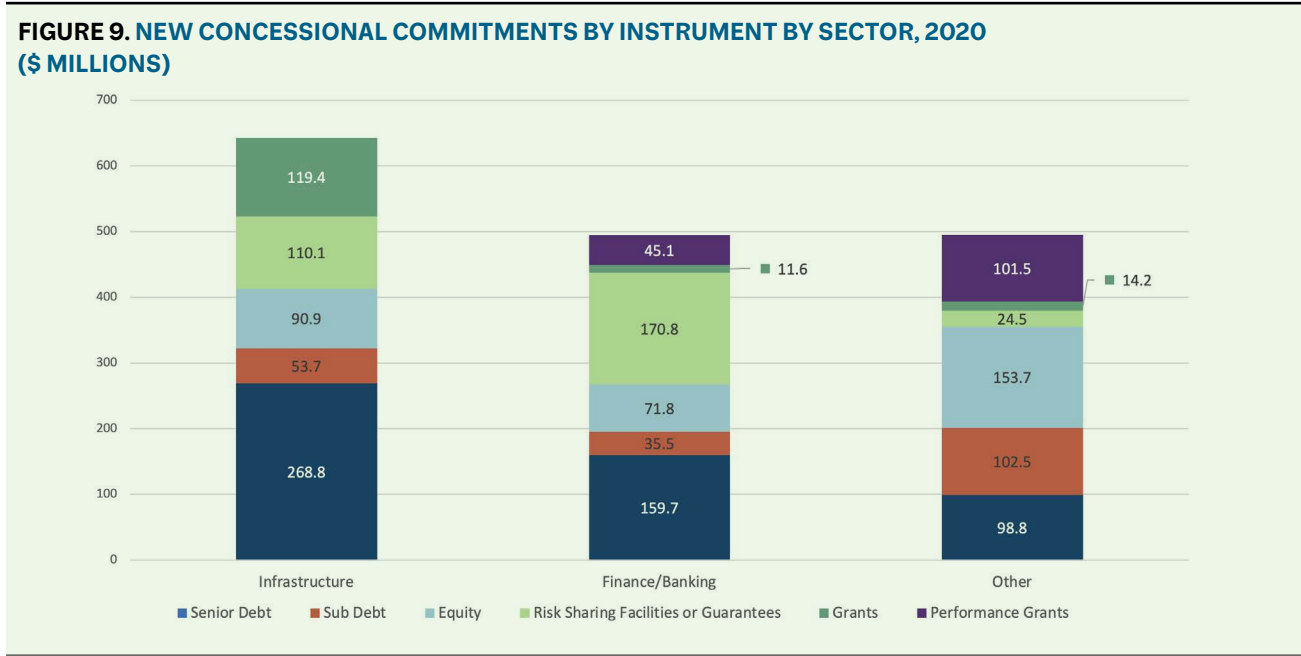


Figure 9 shows new concessional commitments by instrument in 2020 by sector. Senior debt comprised 32% of the total blended concessional finance volume in 2020 and had a significant share in all sectors, particularly in infrastructure and finance/banking. Risk-sharing facilities/guarantees comprised 19% of total blended concessional volume, with the majority deployed in the finance/banking sector, often in support of SMEs. The “other” sector, which includes



significant agribusiness, saw a relatively smaller share of senior debt, while performance grants showed high volumes. There was also a significant share of grants in the infrastructure sector

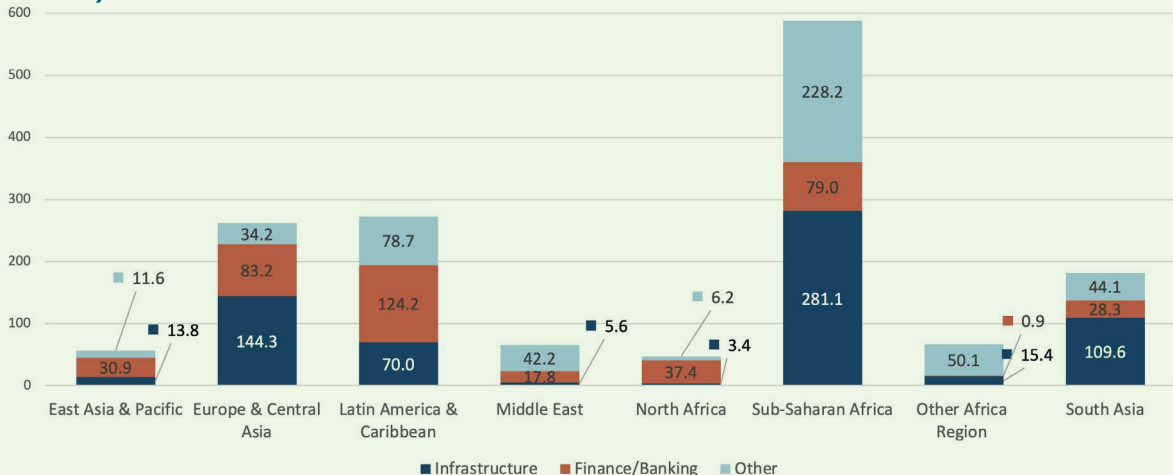
Figure 10 shows the sector compositions of concessional finance by country income level in 2020. Infrastructure had a significant share across income groups, particularly in low-income countries where it comprised more than 70% of total blended concessional volume deployed in that category. Finance/banking comprised a significant share of lower and upper middle-income categories.

**FIGURE 10. NEW CONCESSIONAL COMMITMENTS BY INSTRUMENT BY SECTOR, 2020 (\$ MILLIONS)**



Figure 11 shows new concessional finance commitments by region and sector. The largest share of the blended concessional finance deployed in Sub-Saharan Africa was in infrastructure but there was also a large share of the “other” sector represented, which includes agribusiness. In absolute volumes, finance/banking was most prominent in Latin America & the Caribbean, followed by Europe and Central Asia and Sub-Saharan Africa.

**FIGURE 11. NEW CONCESSIONAL COMMITMENTS BY REGION BY SECTOR, 2020 (\$ MILLIONS)**



## THEMES

Thematic data presents some methodological challenges given differences among DFIs in theme definitions (e.g. for SMEs) and due to overlapping thematic areas (e.g., climate smart agribusiness projects can be classified as both climate finance and/or agribusiness). Notwithstanding these challenges, climate finance remains the most significant thematic area for DFIs in their use of blended concessional finance (similar to previous years). In 2020, blended concessional climate finance volumes were driven by climate-related infrastructure projects, but also include other sectors, such as climate banking and finance. The SME theme has the second largest volume of blended concessional finance for 2020 and had the most DFI and private funds leveraged relative to concessional funds deployed. (1:10, compared to 1:4 in climate, and 1:5 in agribusiness).

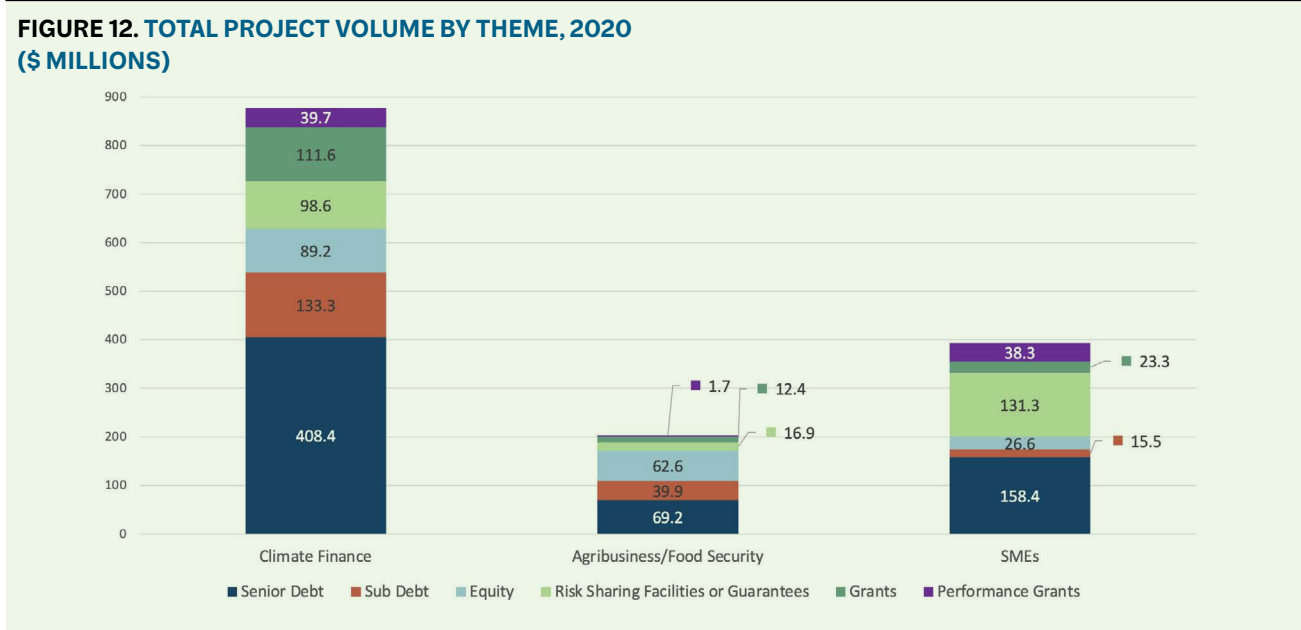
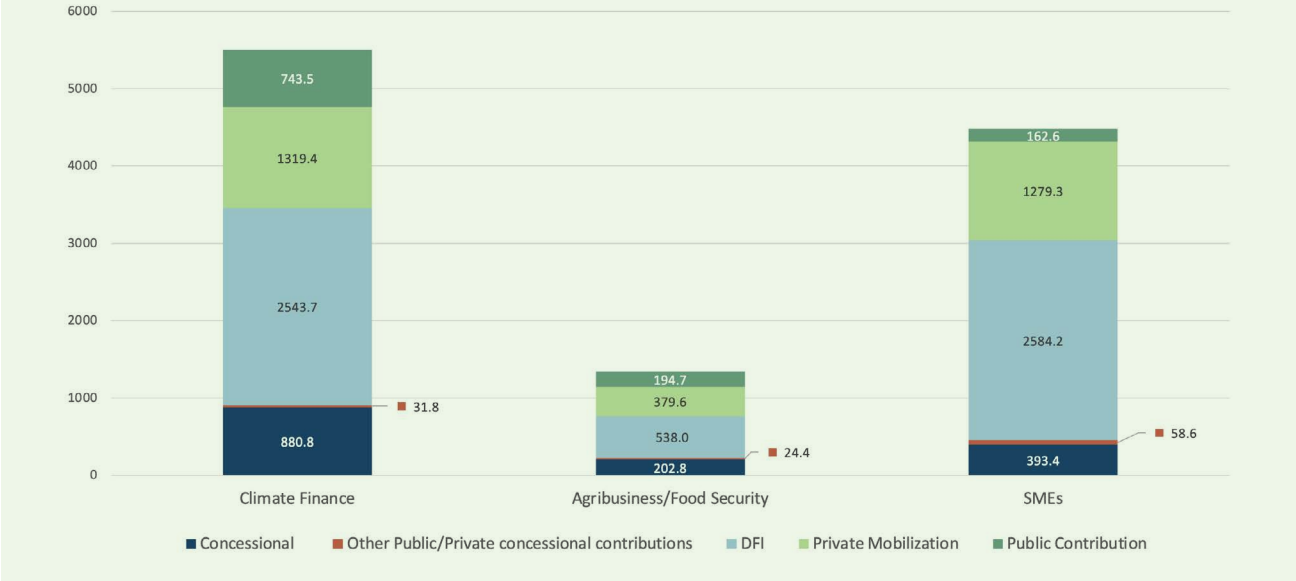




Figure 13 shows new concessional commitments in 2020 by instrument disaggregated by theme. There was a varied mix of instruments, with senior debt being the most significant across all themes. Grants had a significant increase in the climate finance category. As shown in Figure 14, climate finance had a very high share of blended concessional finance volumes in high and upper middle-income countries, but it was also the largest share across all country income groups.

**FIGURE 13. NEW CONCESSIONAL COMMITMENTS BY INSTRUMENT BY THEME, 2020 (\$ MILLIONS)**



**FIGURE 14. NEW CONCESSIONAL COMMITMENTS BY INCOME LEVEL BY THEME, 2020 (\$ MILLIONS)**

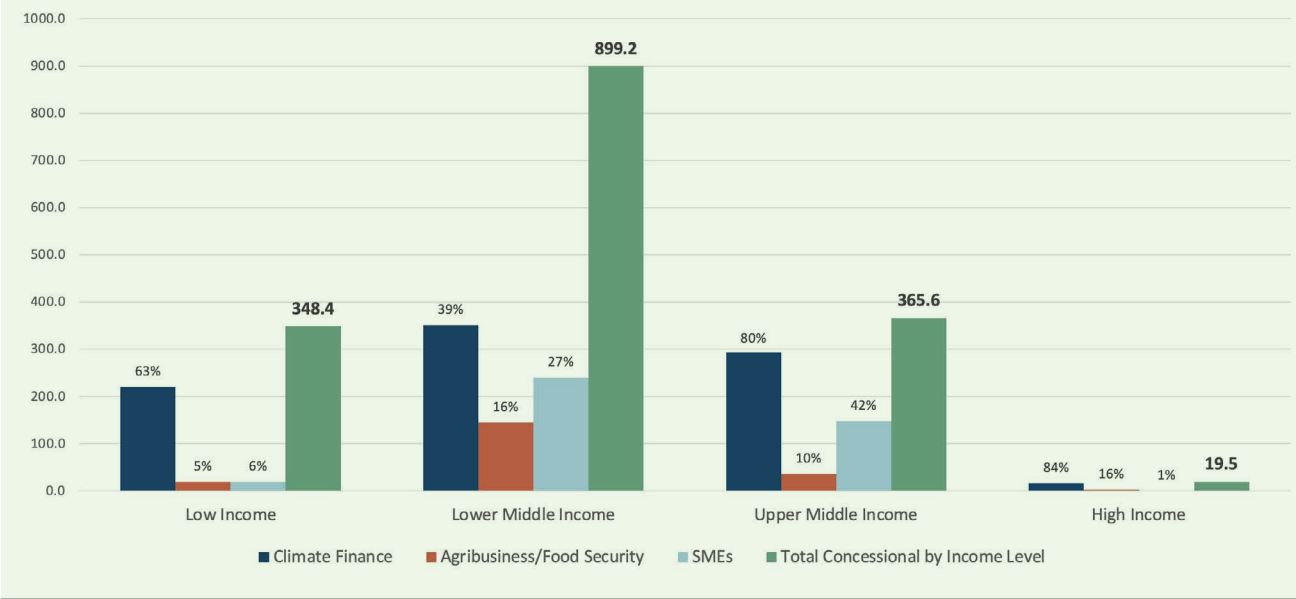
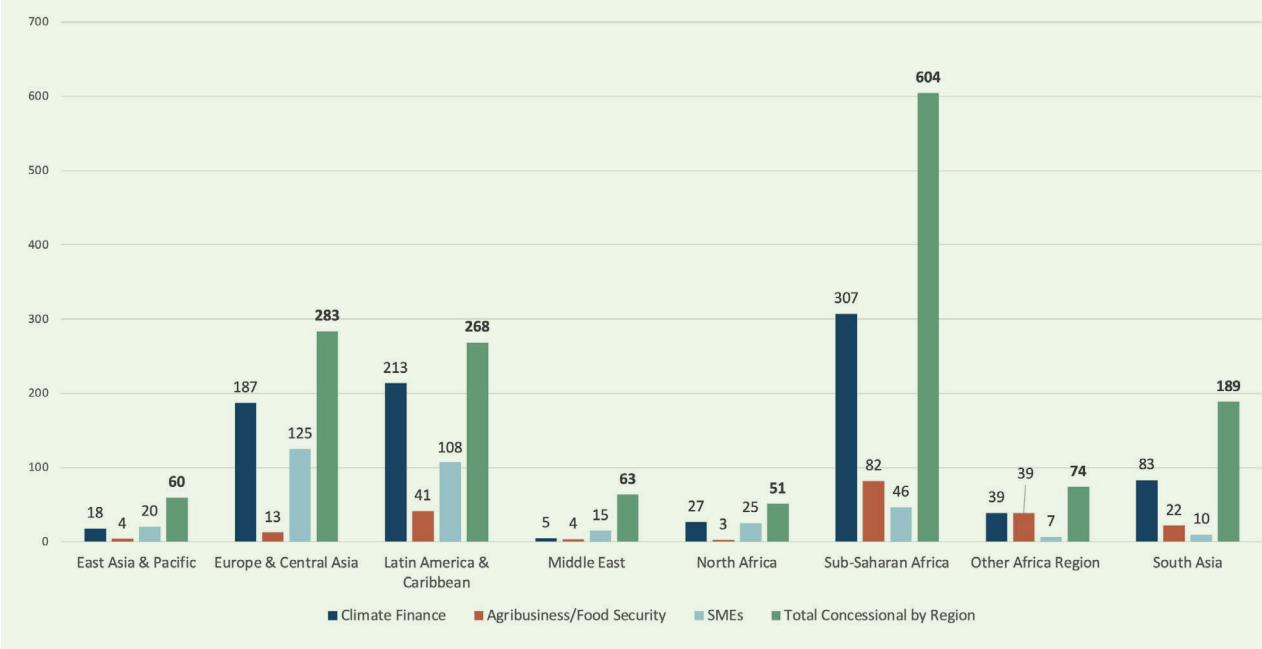


Figure 15 shows concessional commitments by region and by theme. Climate finance had the highest shares in the regions with the most concessional finance. In absolute size, the agribusiness theme was largest in Sub-Saharan Africa, Latin America & the Caribbean, and the other Africa region. SMEs were most prevalent in Europe & Central Asia, Latin America & the Caribbean and Sub-Saharan Africa.

**FIGURE 15. CONCESSIONAL COMMITMENTS BY REGION BY THEME, 2020 (\$ MILLIONS)**

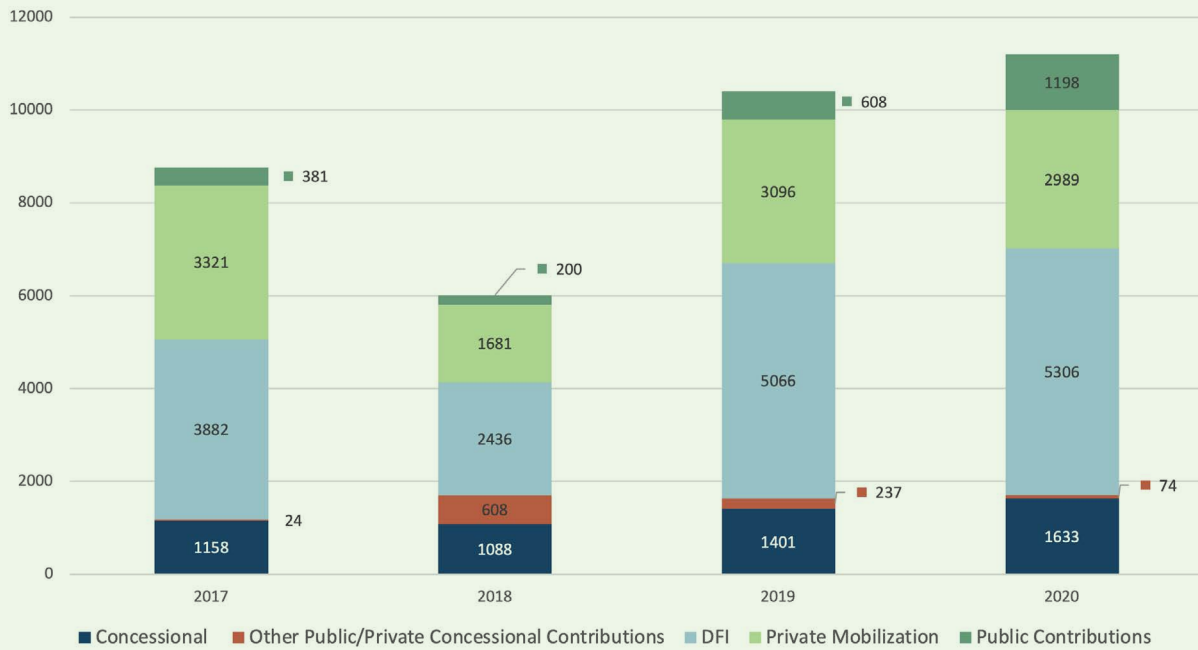


## TRENDS

This is the fifth year that the DFIs have reported data on blended concessional finance. Since the data methodology has been consistent over the last four years, trends can be tracked over this period. In addition, some data from the first report that covered 2014-2016 in aggregate can provide additional comparisons.<sup>12</sup>

Figure 16 shows the overall trends for total project volume in the last four years. Concessional amounts have been gradually increasing over this period and the total amount leveraged by blended concessional finance has also increased, with the exception of a drop in 2018 (note amounts leveraged were somewhat under-reported in 2017 because some DFIs were not yet reporting on private mobilization). Figure 17 highlights the concessional amounts by income category. Overall concessional amounts have been generally increasing, with a continuing emphasis on low income/lower income countries.

**FIGURE 16. DFI PRIVATE SECTOR BLENDED CONCESSIONAL FINANCE PROJECT COMMITMENTS, 2017-2020 (\$ MILLIONS)**



**FIGURE 17. DFI CONCESSIONAL FINANCE, 2014-2020, BY INCOME CATEGORY (\$ MILLIONS)**

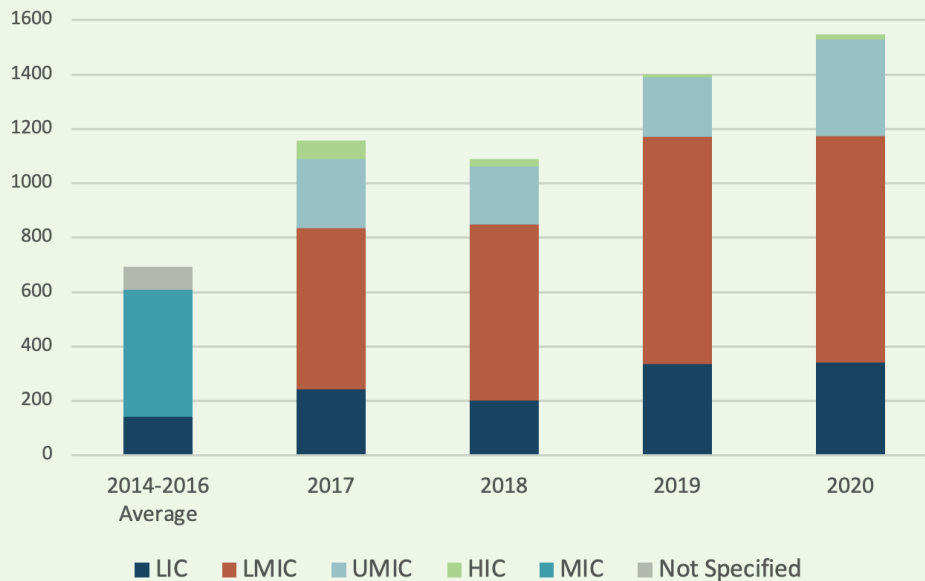


Figure 18 shows the total blended concessional finance project volumes and components by country income category for 2018-2020 (2017 data gaps do not allow for a comparison with 2017). Lower-middle income countries have consistently been the recipient of the most concessional finance as well as the most overall project volume. Concessional volumes have been flat or rising in all income categories (except high income) and total volumes have risen consistently in lower-middle income and upper middle-income countries. In lower-income countries total volumes have varied, due in part to fluctuations in the occurrence of large infrastructure projects in the commitment numbers.

**FIGURE 18. TOTAL PROJECT VOLUME, 2018-2020, BY INCOME CATEGORY (\$ MILLIONS)**

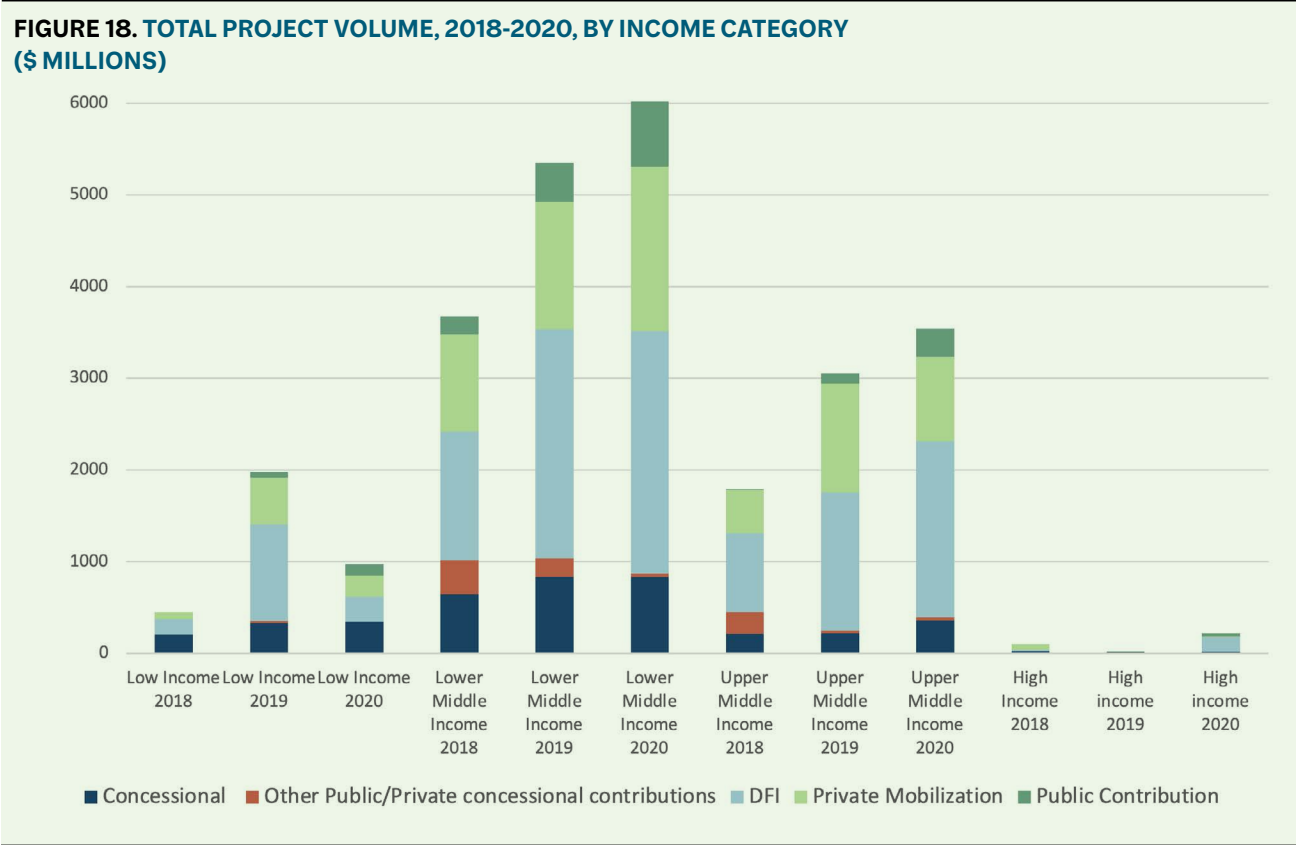


Figure 19 shows the trends in the instrument mix for DFI concessional funds from 2014-2020. The chart shows the decreasing role of senior debt and increasing role of sub-debt, risk-sharing facilities, grants and performance incentives in blended concessional finance projects.

**FIGURE 19. DFI CONCESSIONAL INSTRUMENT MIX, 2014-2020 (PERCENTAGE)**

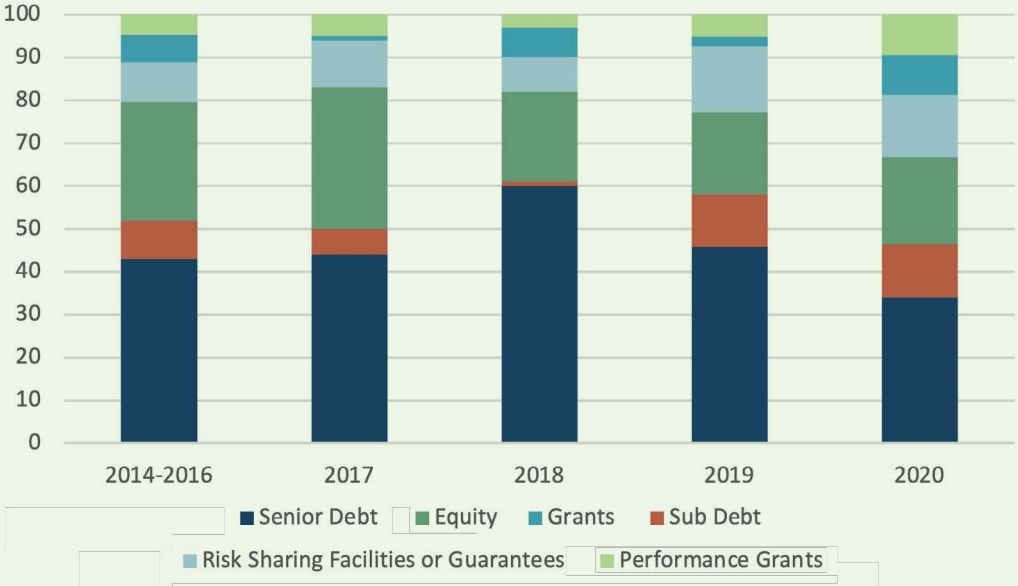
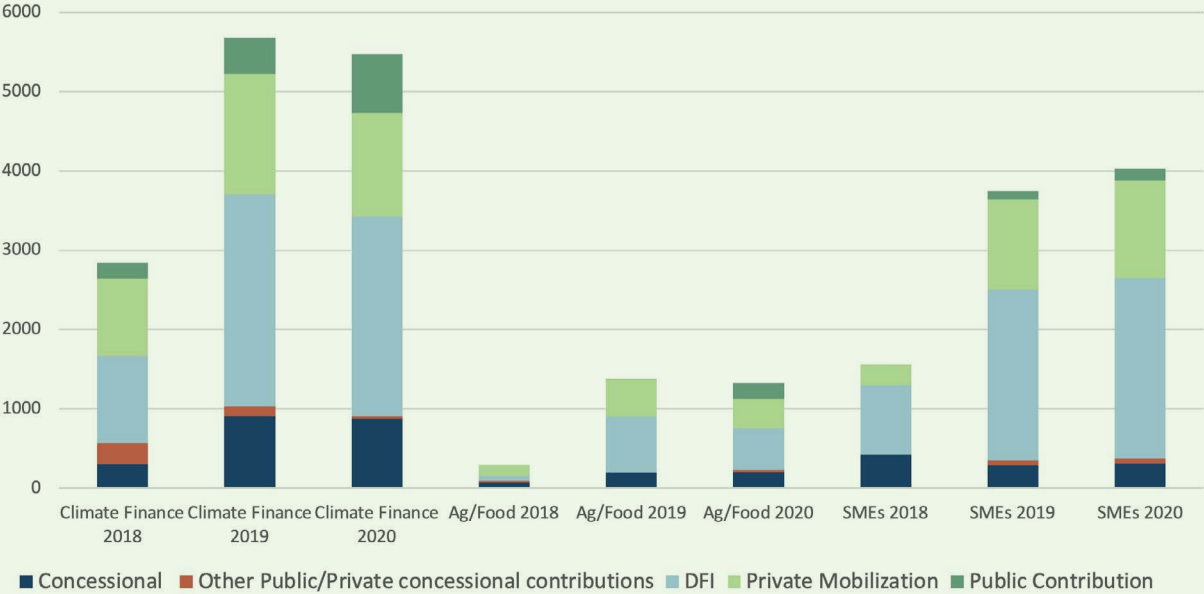


Figure 20 shows the total project volume by theme over the last three years. This year's thematic focus is similar to last year's with a strong presence of climate projects.

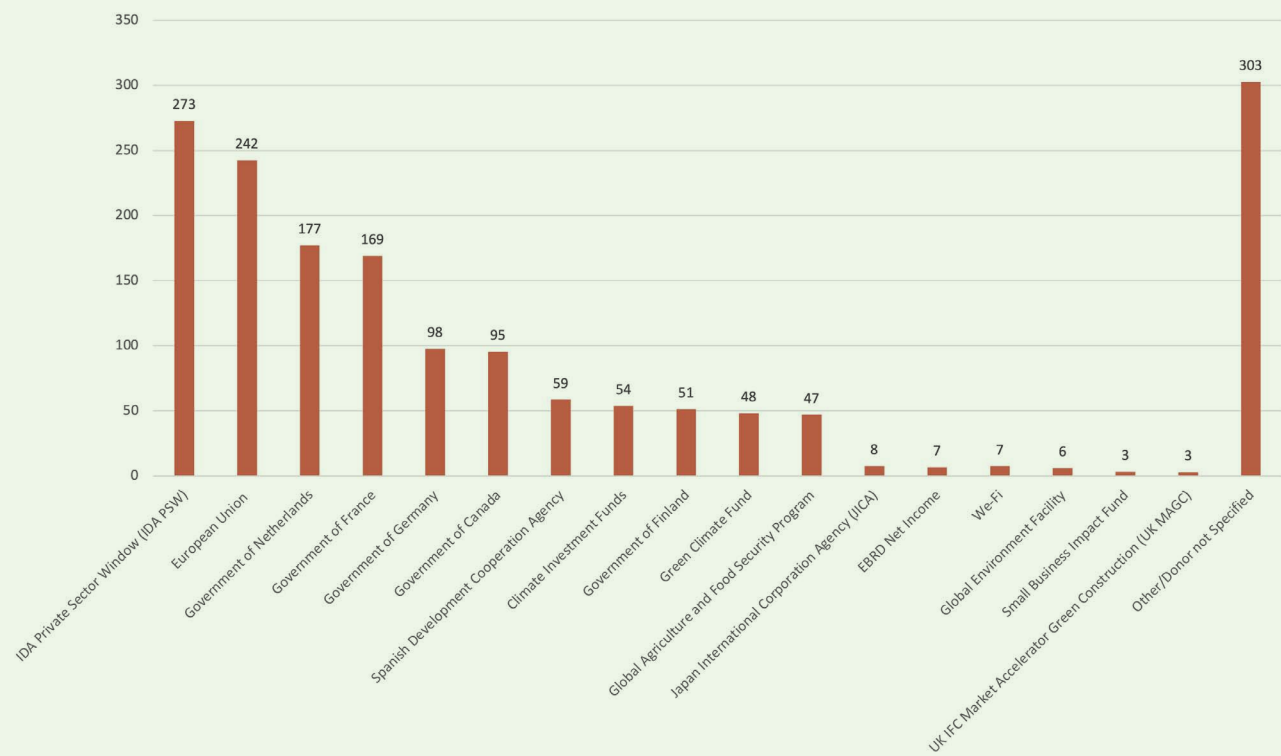
**FIGURE 20. TOTAL PROJECT VOLUME, 2018-2020, BY THEME (\$ MILLIONS)**



## DEVELOPMENT PARTNERS

The concessional contributions of development partners are essential for enabling blended concessional finance transactions. Figure 21 shows the key development partners that supported DFIs' blended concessional finance commitments in 2020. This is the first year where there is full donor data from the reporting DFIs.<sup>13</sup> There was a mix of bilateral and multilateral partners and foundations, providing concessional support through a broad array of instruments, from grants and performance incentives to concessional debt and equity.<sup>14</sup> The four largest development partners for 2020 were the IDA Private Sector Window, European Union, Government of Netherlands, and the Government of France. Other major development partners included Government of Germany, Government of Canada, Spanish Development Cooperation Agency, Climate Investment Funds, Government of Finland, Green Climate Fund, the Global Agriculture and Food Security Program (GAFSP), Japan International Corporation Agency, EBRD Shareholder Special Fund, Women Entrepreneurs Finance Initiative (We-Fi), the Global Environment Facility (the GEF), Small Business Impact Fund, and the UK IFC Market Accelerator Green Construction (UK MAGC). Seven other development partners, including unspecified donors, are captured in the "Other/Donor not specified"<sup>15</sup> category.

**FIGURE 21. CONCESSIONAL COMMITMENTS FOR PRIVATE SECTOR PROJECTS BY DEVELOPMENT PARTNERS (\$MILLIONS)**



## IV. Update on Programs, Governance, and Outreach

In several meetings of the DFI working group in 2021 DFIs discussed the growth and focus areas of their blended concessional finance programs, innovations in implementing these programs at scale, progress in blended concessional finance governance and in implementing the DFI Enhanced Principles, and efforts to engage other working groups and institutions that are addressing issues related to blended concessional finance. This chapter presents highlights from these discussions.

**Program growth and outlook.** Although as discussed in the previous chapter, the volume of new DFI blended concessional finance commitments increased in 2020 from previous years, this reflects a diverse set of results from different institutions. Some DFIs had large increases in volumes, reflecting the demands to address the COVID-19 crisis as well as the introduction of new programs and resources utilizing concessional funds. Other DFIs had flat or reduced volumes reflecting the global market difficulties due to the pandemic, limited availability of concessional resources for specific areas and, in some cases, a refocusing of available development institution resources toward public projects.

Looking forward, 2021 could also reflect mixed results across institutions. However, the longer-term outlook for several institutions is for a significant increase in the use of blended concessional finance, driven by trends such as the “building back better” programs that will need blended concessional finance at scale, increased efforts to address climate change, a greater focus on more challenging markets, and significant growth of blended concessional finance programs and resources.

**Sectoral and geographic focus areas and strategic fit.** DFIs primarily are focusing on using blended concessional finance for projects related to energy and climate change (including renewables, green cities, and energy access), low-income and fragile countries, agribusiness and forestry (including connections to farmers), MSMEs and entrepreneurs, and expanding inclusivity including for women and youth. Blended concessional finance is expected to be very important for the “building back better” stage of the COVID response, and in digitization going forward.

An important emerging trend is a greater integration of DFI blended concessional finance project development with the overall strategic plans of the DFIs. For example, the EDFI institutions are moving toward more strategic collaboration with the EU, using strategic funding frameworks, and with management coordination among the EDFI members. In addition, IFC, EBRD, and EIB are increasing the alignment of blended concessional finance activities with the upstream project development activities of their operating groups.

**Changes in product focus, shift to risk mitigation and expanded scope of product offerings.** Many DFIs are reporting a significant shift to risk-mitigation products in their blended concessional finance operations. This includes a greater focus on risk-sharing facilities, subordinated loans, and guarantees. Part of this shift is being facilitated by donors, such

as the EU which has developed an expanded program of guarantees and is also being driven in some cases by an increasing focus on mobilization.

Different DFIs are also expanding the scope of their blended concessional finance product offerings, including new facilities targeted at high-risk projects, expanded engagement with financial intermediaries, increased use of equity, and increased use of portfolio guarantees. There are also new DFIs with blended concessional finance as part of their operations, such as FinDev (Canada).

**Increased availability of concessional finance and new sources.** DFIs continue to increase the available concessional resources from traditional sources of concessional finance, including via new funds supported by government donors that target renewable energy, refugees, and other investments, and through increases and replenishments of existing facilities. Some important examples: the continuation of the IDA-IFC-MIGA Private Sector Window, a new Asian Development Fund Private Sector Window launched by AsDB in 2020, and the European Fund for Sustainable Development providing a significant new window for guarantees.

New sources of concessional finance are also emerging from foundations and the private sector. For example, IFC is partnering on a distributed energy fund with a foundation, FMO is working with insurance companies on blended concessional finance, AIIB has started to engage with philanthropic funds from foundations and a major corporation, and the AsDB is launching a grant-based innovation fund with two major financial institutions.<sup>16</sup>

**Project highlights.** Annex 2 of this report presents case studies from the DFIs that highlight recent activities with blended concessional finance in various sectors. One set of projects show innovative uses of blended concessional finance for climate-smart investments, such as expanding distributed energy, developing innovative renewable energy projects, and promoting energy efficiency. Examples include:

- Distributed or mini-grid power programs in Haiti and Nigeria, and rural electrification in East Africa.
- Utility-scale solar power in Armenia.
- Wind power with energy storage in Thailand.
- Accelerated phase out of coal power in Chile.
- Programs to further energy efficiency investments by SMEs and by cities.

Another group of cases highlight projects that support farmers, small businesses, and vulnerable populations, in many cases in lower income countries:

- Agribusiness projects supporting smallholder farmers in Malawi and Kenya, and microloans helping farmers in Bolivia.
- Provision of liquidity to maintain SMEs under the financial and market stresses of COVID-19 in Africa and South Asia and to help address the needs of vulnerable populations, including small borrowers and women.



Projects this year also supported improvements in healthcare to help address the COVID-19 pandemic, such as via support of medical equipment purchases by small companies in Africa.

The projects generally used blended concessional finance to overcome barriers to investment related to country risk, technological risk, and market risk and to help build important new markets:

- Demonstrating that new renewable technology projects can be viable in high-risk countries at both utility scale and smaller scale.
- Increasing the incentives for market participants to adopt high-efficiency processes and technologies and phase out old technologies.
- Complementing blended concessional finance projects with technical assistance for regulatory development and capacity building to address important market-level and capacity issues.
- Utilizing innovative financing techniques to address investment constraints, including through first-loss structures, open-access programs, local currency provision or hedging, convertible quasi-equity financing, and use of subordinated loans

**Innovations to scale up programs and increase efficiency.** DFIs have recently implemented innovations to increase the scale and efficiency of blended concessional finance programs. IFC has introduced several “programmatic approaches,” which feature umbrella programs targeted at specific sectors, such as medical equipment, SMEs, microenterprises, low-income households, rural finance, or COVID-19 recovery. Each of these programs has an overall framework for the sector, including expected development impact and available concessional instruments. This allows both efficiency of processing and increased scale and facilitates open access to concessional resources by many private firms. EBRD and EIB have also developed programmatic approaches for different sectors, with frameworks for streamlined approval of sub-projects and concessional instruments developed at the program level. These programs are in areas such as green finance, women in business, recovery from COVID-19, and direct financing of small businesses. Some other innovations developed by DFIs to increase scale and efficiency of blended concessional finance operations include use of hard approval deadlines and enhanced coordination between DFIs with respect to strategic and operational engagement.

**Progress on Governance, Transparency and Access.** DFIs have continued to make progress establishing strong governance frameworks for using blended concessional finance and increasing transparency and access. Recent progress has included:

- *Governance.* Progress in governance processes, decision making, data, incentives, and training:
  - Improved processes to check adherence to the DFI enhanced principles such as updated checklists, operation manuals, and guidelines.
  - Improved blended concessional finance frameworks including a strengthened role of blended finance panels or committees in decision making.

- Improved procedures for calculating grant elements and assessing minimum concessionality.
- Alignment of incentives for development impact via outcome-based pricing.
- Increased training of staff on the DFI enhanced principles for using blended concessional finance.

In addition, DFIs have engaged bilaterally to resolve issues related to the appropriate levels of subsidy in different sectors, including developing a possible framework to identify when the use of subsidies is appropriate in the financing of renewable energy projects.

- *Transparency.* DFIs have been improving disclosure of information on blended concessional finance and facilitating access of this information to the public. For example, since 2019, IFC has publicly disclosed information on the concessional elements of new projects and the AsDB plans to release information on grant elements on projects under its new Asian Development Fund Private Sector Window. DFIs such as IFC and EBRD, have implemented user-friendly websites that allow the public to readily access information on blended concessional finance projects. Other DFIs also now release considerable information on projects using blended concessional finance, such as the rationale for the use of concessional funds, the size of blended financing components, and types of concessional capital used. Some DFIs are looking at options for increasing the transparency of blended concessional finance activities in the future.
- *Access.* The recent expansion of “programmatic approaches” (see discussion above) in some case facilitates the greater availability of concessional funds to many private firms, as the programs are advertised.

**Progress on a standard methodology for calculating level of concessionality.** The DFIs have in previous years considered various options for a standard methodology to assess the “grant equivalent” or concessional component when using concessional funds. This could potentially be used to facilitate benchmarking across institutions (see the 2018 DFI Working Group Update, Annex 3<sup>17</sup>). Over the last three years several of the DFIs have been experimenting using one such standardized approach, based on fixed interest rate spreads for various country income groups and financing products applied to a common base interest rate, comparing the results with existing approaches for measuring concessionality used by each DFI. Findings from these efforts continue to be discussed by the DFIs. Some DFIs have reported a reasonably close match between the standardized approach and existing DFI methodologies. However, others have reported significant divergences in certain cases. The DFIs have agreed to continue sharing results from this work, with the goal of potentially developing a combined database of concessionality benchmarks.

**Assessing results with blended concessional finance.** As blended concessional financing has increased, and earlier projects with concessional finance are approaching maturity, DFIs have begun to develop data on the long-term results of blended concessional finance programs. Many DFIs have established results metric systems for all their projects (not just for those with blended concessional finance), and these systems are being used to also

assess results for projects with blended concessional finance. Some DFIs are also beginning to separate out results achieved specifically for the portfolio of blended concessional finance projects and comparing the results with the overall DFI portfolio. DFIs are also considering other ways to assess the effectiveness of blended concessional finance, such as via measures of leverage, measures of development impact compared to subsidies employed, and examples of graduation from concessional finance to fully commercial finance in different sectors and countries. The DFIs are considering additional research to improve the assessment of the market-level impacts of blended concessional finance.

**Working with other blended finance groups.** The DFIs have over the last year engaged extensively with other blended finance working groups, particularly those organized by the OECD and the THK Blended Finance Platform (originally launched by the Government of Indonesia). These engagements have involved participation in the working groups and periodically making presentations or leading efforts on reports. When reports or surveys have been shared with DFIs by these groups for input or review, the DFIs have discussed the materials together and presented coordinated comments. The DFIs will continue to engage with the OECD and THK groups in a coordinated fashion, as well as periodically providing input to other groups that are addressing blended finance, such as the UN, Global Impact Investing Network, and the World Economic Forum. The DFIs will continue to promote the DFI enhanced Blended Concessional Finance Principles with these groups

**Criteria to join the DFI Blended Concessional Finance Working Group.** The DFIs have received various inquiries from institutions interested in the DFI Working Group, and the DFIs are open to new membership. To organize the future activities of the working group, the DFIs have agreed to the following criteria for new members to join:

1. Be a private sector development institution with a public mandate.
2. Have an active program of projects using blended concessional finance.
3. Subscribe to the DFI Enhanced Blended Finance Principles
4. Be willing to share data for inclusion in the annual DFI report on blended concessional finance.

**Addressing governance challenges in the broader blended concessional finance community.**

The DFIs over the last few years have made significant progress in implementing the DFI Enhanced Blended Concessional Finance Principles and improving blended concessional finance governance. However, a significant amount of donor money for concessional finance is channeled through institutions other than DFIs, particularly through privately managed funds. The DFIs believe that the effectiveness of these organizations would improve if they adopted the DFI Enhanced Blended Concessional Finance Principles, but to date this has not been the case. The DFIs are exploring ways to engage with these other providers of blended concessional finance, to exchange knowledge and experiences and explore ways to align operating principles with those of the DFIs.

Also, as discussed above, new private sources of concessional finance are becoming available for use by the DFIs. While this development is important and welcome, it presents certain governance challenges. Current DFI governance processes with public donors generally encompass a mix of strategic decision-making involving both the donors and the DFIs. As DFIs have begun working with private sources of concessional finance, the issue has arisen as to how much control these new private donors should have in allocating subsidies to specific private sector projects. As the DFIs have adopted strong governance processes and policies reflecting the DFI Enhanced Principles, it may be in the best public interest to have the DFIs take the primary role in decisions regarding subsidy allocation to specific projects when working with private donors. This will be an ongoing area of discussion.

## V. Next Steps

The DFI Blended Concessional Finance Working Group will continue with its core activities of updating DFI blended concessional finance data, sharing experiences in implementing blended concessional finance programs, discussing governance issues and sharing experience implementing the DFI Enhanced Principles, and coordinating interactions with other groups working on blended finance. DFIs will continue engaging with other DFI and non-DFI implementers of blended concessional finance to expand the use of the DFI Enhanced Principles. In addition, some special topics may be addressed including:

- Further discussion among the DFIs of the appropriate use of concessional finance in different situations, including possible work on frameworks for using blended concessional finance in different sectors.
- Continued bilateral work on the standard methodology for calculating a “grant element,” and possibly sharing data, sharing information on each DFIs internal processes to assess a grant element, and discussing ways to improve the standard methodology.
- Examination of possible new methodologies to assess the market level impacts of blended concessional finance.

## ANNEX 1: ENHANCED BLENDED CONCESSIONAL FINANCE PRINCIPLES FOR DFI PRIVATE SECTOR OPERATIONS

Principle Title	Additionality/Rationale for Using Blended Concessional Finance	Crowding-in and Minimum Concessionalality	Commercial Sustainability	Reinforcing Markets	Promoting High Standards
<b>Principle</b>	<i>DFI support of the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector.</i>	<i>DFI support to the private sector should, to the extent possible, contribute to catalysing market development and the mobilization of private sector resources.</i>	<i>DFI support of the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must therefore be expected to contribute towards the commercial viability of their clients.</i>	<i>DFI assistance to the private sector should be structured to effectively and efficiently address market failures and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.</i>	<i>DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in the areas of Corporate Governance, Environmental Impact, Social Inclusion, Transparency, Integrity, and Disclosure</i>
<b>Guidelines</b>	<p>Use blended concessional finance only when there is a relevant case that a specific project or more generally projects in a given sector cannot be structured on a commercial basis (i.e. without the use of blended concessional finance).</p> <p>When projects cannot be structured on a fully commercial basis, the use of blended concessional finance can be justified if it addresses externalities, information asymmetries and/or other institutional and market failures, or affordability constraints that are hindering positive market dynamics, and there is an expectation to arrive at commercial solutions over the medium term.</p> <p>Where projects address both the commercial need and externality, market and institutional failure, or affordability issues discussed above, use of blended concessional finance should, if possible, be prioritized for projects with high developmental impacts.</p> <p>Increase the level of scrutiny of projects commensurate with the underlying risk that concessional resources could lead to market distortion or rent-seeking behaviours.</p>	<p>Apply explicit processes in project analysis to determine minimum concessionalality.</p> <p>Information or data, e.g. of other projects' pricing structures, level of concessionality, amount of donor funds (compared to total project investment or private investment), donor cost per output, and/or investors' market returns may help establish a reference point for blended concessional finance volumes and terms.</p> <p>Structure blended concessional finance operations to address as directly as possible critical gaps in the financing structure and to minimize the need for future, ongoing concessionalality.</p> <p>Size, where possible, the level of concessionality relative to the value of the externality/obstacle identified.</p> <p>To facilitate the crowding-in of private finance, avoid if possible using concessional finance to enhance the risk/return position of a DFIs own funds in a project financing package without extending the benefits to other investors.</p> <p>Increase the scrutiny for the crowding-in effect when the blended concessional finance participation in the financing structure closely resembles, or becomes identical or senior to, commercial investors, including other DFIs investing own funds in private sector projects.</p>	<p>Maintain a high level of scrutiny of the commercial viability of clients.</p> <p>Reduce demonstrably the level of concessionality extended to repeat projects as market failures and/or other obstacles are reduced.</p>	<p>Identify and, where feasible, implement measures to overcome the obstacles identified that are barriers to commercial sustainability.</p> <p>Monitor, where feasible, the obstacle identified as giving rise to the need for blended concessional finance.</p> <p>Introduce, where feasible, market monitoring and coordination among DFIs to leverage experience, coordinate policy, and demonstrably take steps over time to reduce the root causes for requiring blended financing.</p> <p>Structure blended concessional finance to align incentives to accelerate sustainable market development.</p>	<p>Identify and require client adherence to international best practice industry standards or guidance, including the environmental, social and governance standards and other policies and procedures of DFI own-account projects.</p> <p>Ensure a level of independence or oversight within project teams and decision-making bodies managing blended concessional finance operations, to ensure effective and efficient use of concessional resources.</p> <p>Where donors have delegated authority to DFIs for blended concessional financing decisions, DFIs should explicitly monitor adherence to the blended concessional finance principles and guidelines, and as applicable, to donor guidelines.</p> <p>Develop specific disclosure policies for blended concessional finance, tailored to different stakeholders, that balances transparency with appropriate client confidentiality and DFI efficiency.</p>

## ANNEX 2. RECENT DFI BLENDED CONCESSIONAL FINANCE PROJECT HIGHLIGHTS

### ENGIE

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Piloting the acceleration of coal phase-out with voluntary carbon pricing.

#### CHALLENGE

Advent of low-cost solar, wind and battery and other energy storage provide an opportunity to stop new coal assets being built and accelerate the retirement of existing assets. Renewable energy, alongside natural gas and hydro, is eroding the commercial viability of coal assets, especially in older inefficient operations. While the opportunity cost for new non-conventional renewable energy increasingly outweighs fossil-fuel generation, there is still an economic rationale for operating existing fossil-fuel generation, especially where the plants have fully amortized and are used for baseload generation. In Chile, coal fired power plants were still generating 38% of all energy generated in 2018 with 5.45 GW coal-based generation assets up and running.

#### SOLUTION

A tranche of up to US\$ 15 million senior loan from the Clean Technology Fund (CTF) provides a monetization mechanism aimed at incentivizing Engie to accelerate the decommissioning of Units 14 and 15 in Tocopilla and CTM1 and CTM2 in Mejillones. The baseline to calculate the incentive is the volume of avoided CO2 emissions by accelerating the decommissioning of the coal assets ahead of the committed phase-out date and replace them with the Calama Wind Farm to supply an equivalent volume of clean energy.

#### RESULTS

The project provides a financing template to accelerate the phase-out of the coal-based power assets by means of a targeted use of concessional resources and defines a methodology of calculation aligned both with the CDM2 and the Article 6 of the Paris Agreement linking the voluntary phase-out to an additional investment in renewable energy ensuring there is no leakage in the carbon reduction calculation. 5.16 million tons of CO2 are expected to be effectively displaced during the 12-year loan life according to the methodology put in place. Out of them, up to 2.18 million ton of CO2 would be eligible at maturity for credit under the CTF loan for a value of US\$ 6.54 million.

#### INVESTMENT SUMMARY

**CLIENT:**

Engie Energia Chile

**COUNTRY:**

Chile

**FINANCING:**

- DFI: US\$ 110.0 million
- Blended: US\$ 15 million
- Total Project Cost: US\$ 125.0 million

**YEAR:**

2020



## Sigora Haiti Microutility Project

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Promoting private sector oriented innovative business models to tackle the problem of energy access in Haiti.

### CHALLENGE

Haiti's social and economic conditions remain characterized by poverty, inequality and a lack of access to basic public services. It is estimated that 70% to 85% of Haiti's population have no access to electricity. The state-owned electric utility operates one main grid serving Port-au-Prince and nearby communities, and several small regional grids serving other isolated areas, reportedly with poor reliability and quality. The country's current generation mix heavily relies on imported fossil fuels. Private sector development of mini-grids in rural communities powered by renewable energy appears as an alternative to provide clean and affordable energy to this underserved population.

### SOLUTION

The purpose of this transaction is to finance an electrical mini-grid located in Haiti's Northwest. The project will provide 2.9 MW of clean generation capacity, 1.1 MW of battery storage and associated distribution infrastructure, targeting 6,600 connections or an estimated 20,000 individuals, previously with no or intermittent access to electricity. The US\$ 8 million Clean Technology Fund (CTF) loan is structured to address as directly as possible the gap in the project structure and minimize the concessionality.

### RESULTS

The project provides a proof of concept for the financing of mini grids in Haiti on a "quasi" commercial basis and the commercial viability of Sigora's business model, thereby improving the market's ecosystem. The impact of the project expands across a wide range of SDGs<sup>2</sup> providing access to affordable and reliable energy to more than 20,000 individuals in the phase 1 of the project, generating more than 25,000 MWh of renewable energy and offsetting more than 15,000 tons of CO<sub>2</sub> across its lifespan.

### INVESTMENT SUMMARY

**CLIENT:**

Sigora Haiti

**COUNTRY:**

Haiti

**FINANCING:**

- DFI: US\$ 1.5 million
- Blended: US\$ 8.0 million
- Total Project Cost: US\$ 13.8 million

**YEAR:**

2020





## Kulima Risk Sharing Facility

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Provides guarantees for financing agri-food projects integrating smallholder farmers into the value chains in Malawi.

### CHALLENGE

Access to finance in Malawi is particularly constrained for small agricultural firms and manufacturing companies in remote areas, while long-term lending is also in short supply. Only 16% of the population have accounts at a financial institution. Among the factors holding back lending to companies are the limited capacity of banks to assess risks, the lack of credit history for small and new firms, difficulties to get hold of collateral in case of non-repayment, and lengthy court procedures during which the value of collateral decreases or the collateral disappears.

### SOLUTION

The operation will contribute to financial sector development in Malawi and support the provision of longer-term finance to the agri-food sector through: i) the provision of intermediated finance; ii) a partial portfolio guarantee to participating intermediaries to reduce their risk exposure and thereby also the risk-based loan pricing; iii) TA provided to improve intermediary capacities on agri-food sector lending and to support SMEs in developing and implementing investments integrating smallholder farmers into commercial value chains.

### RESULTS

The proposed operation will lead to increased funding available to support the on-lending to private agriculture value chain actors (focused mainly but not exclusively on SMEs), that ensure integration of smallholders in their value chains. The overarching objective is to enable smallholder farmers to increase their value chain integration by engaging in more commercial value-added processes.

### INVESTMENT SUMMARY

**CLIENT:**

Ecobank Malawi LTD

**COUNTRY:**

Malawi

**FINANCING:**

- EIB: EUR 12.5 mn
- EC: EUR 5mn
- Total project cost: EUR 25 mn

**YEAR:**

2020



## Kenya Agriculture Value Chain Facility

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Promote agricultural value chain development with a focus on smallholder farmers.

### CHALLENGE

The agriculture sector in Kenya lacks access to financing at appropriate terms and conditions, in particular in local currency. Taking into account the risk aversion of banks because of specific risks of agriculture value chain projects and hence the relatively high risk pricing charged, and the interest rate cap imposed by the Central Bank, local currency term financing is limited.

### SOLUTION

The EU contribution of EUR 8.6 mn (for the entire EUR 50 mn facility) will be used to reduce the cost of local currency swaps for the participating banks, help the EIB to lend in local currency without pre-engaging the local currency lending limit and hedge the associated foreign exchange risk. Further EUR 0.85m will be used to provide Technical Assistance to Equity Bank to strengthen its capacity under the EIB Facility in agriculture lending over the long-term.

### RESULTS

The EC grant, along with the EIB loan, will enable borrowing banks to provide local currency term funding at rates that allow investments by agriculture final beneficiaries to be feasible and without taking on forex risk. The grant also aims to improve the long-term capacity of borrowing banks to appraise and finance investment projects with linkages to smallholders.

### INVESTMENT SUMMARY

**CLIENT:**

Equity Bank (Kenya) LTD

**COUNTRY:**

Kenya

**FINANCING:**

- EIB: EUR 25 mn
- EC: Up to EUR 10 mn for entire facility
- Total project cost: EUR 50 mn

**YEAR:**

2020



## The triangle business model of Sembrar Sartawi

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Lifting Bolivians out of subsistence farming.

### CHALLENGE

Approximately 35% of Bolivians live below the national poverty line. Poverty is more concentrated in rural areas, affecting women and indigenous communities in particular. Most are dependent on subsistence farming and have only very limited access to markets and financial services. By increasing their access to finance, alongside technology and enhanced agricultural practices, these excluded communities can increase productivity and income, as well as enjoy improved household welfare.

### SOLUTION

FMO, via MASSIF the financial inclusion fund, provided USD 3 million in debt and USD 2 million in equity to the Bolivian lender, Sembrar Sartawi, to provide microloans to people living in rural areas. MASSIF's investment was highly additional because it was a unique offer in the market: it combined debt and equity funding, was long term, with reasonable interest rate, and reducing Sartawi's risks because the loan was in local currency. The investment was also crucial for the implementation of Sartawi's triangle business model: providing microloans alongside technical assistance and market access.

### RESULTS

Sartawi launched a program which complemented dairy farming credit with the provision of agronomic and veterinarian expertise. An evaluation study among ~600 dairy farmers showed that this combination of microloans with technical assistance and market access, caused an increase of 11% in daily milk production and an 16% increase in income. The productivity gains raise the monthly revenue from USD 260 to USD 300 for farmers, allowing them to increase household expenses or reinvest in dairy production. [Read more](#)

### INVESTMENT SUMMARY

#### CLIENT:

Sembrar Sartawi, microfinance institution

#### COUNTRY:

Bolivia

#### FINANCING:

- MASSIF: USD 3 mln debt + 2 mln equity (2013)
- Dutch Fund for Climate and Development: USD 4 mln debt (2021)

#### YEAR:

2013 - 2021



Ministry of Foreign Affairs of the Netherlands

## Simusolar

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EDFI Electrifi invested a total of ~EUR 1.26m to support Simusolar in providing solar-powered water pumps and fishing lights as well as financing mechanisms aimed at enhancing agricultural productivity in rural East Africa.

### CHALLENGE

With more than half of the 56 million Tanzanians being considered as part of the agriculture workforce, the agriculture sector is a major driver for the economy and societal evolution. Representing 30% of the country's GDP, the sector is being re-directed towards a more sustainable and productive pathway. The government is namely giving high priority to irrigation development as part of its national policy frameworks. The irrigation market was estimated at USD 86m in 2019 and is expected to grow.

However, only 3% of farmers currently have access to irrigation technology and most of them still use diesel pumps.

### SOLUTION

EDFI Electrifi investment was provided in the form of a convertible loan instrument which is effectively a medium-term loan investment that could be converted eventually into equity.

The advantage of such quasi-equity instrument is that it (i) capitalises the balance sheet of the company, helping it to reach profitability, while (ii) avoiding early dilution of the founders to keep them incentivised.

Convertible notes are often used to bridge a company between funding rounds and for very early stage companies with negative earnings that can show solid track record yet.

### RESULTS

Simusolar diverse mix of productive equipment solutions and services are adapted to the farmers' needs, improving their productivity and sustainable fishing methods and therefore increasing their revenues. Solar water pumps replace diesel pumps and enable better irrigation systems, allowing farmers to increase yields, farm year round, and in some cases increase the area irrigated (60 Decibel study). The fishing lights used by fishermen around Lake Victoria replace the use of kerosene lanterns and contribute to the reduction of greenhouse gas emissions.

The company is expected to reach 27,640 beneficiaries by 2023 and to contribute to the avoidance of 27,294 tCO<sub>2</sub>.

### INVESTMENT SUMMARY

**CLIENT:**

Simusolar

**COUNTRY:**

Tanzania

**FINANCING:**

• USD 1.5m convertible note

**YEAR:**

2021



## Masrik-1 Solar Power Plant

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Financing of the construction and operation of a 55 MW greenfield solar power plant in the Masrik district of Armenia – the first utility scale solar power plant in the Caucasus.

### CHALLENGE

Armenia is faced with the challenge of meeting a growing demand for electricity in a sustainable, reliable and affordable manner. At the moment, this growth is met mostly by relying on imported gas. In light of this dependence, as well as the need for investments in the country's generation capacity and a strong solar potential in the context of declining technological costs, the Government initiated this project as a way to introduce a cost-effective renewable energy source in Armenia.

However, given that the solar auction mechanism in the country was still untested, the level of uncertainty for investors was high and the market not yet liquid. In addition, the regulatory framework for renewables is at the early stages of its development and environmental externalities are currently not reflected in energy prices in Armenia. Therefore, as a first auction project, private sector interest in financing was expected to be limited.

### SOLUTION

Blended finance, in the form of an EU investment grant and a concessional loan by IFC, was used to address first-mover externalities and support the construction of the plant. Without the use of blended concessional finance, the project would not have materialized.

The project serves as a catalyst and path opener. As more solar plants are developed and operational using the existing renewables law support mechanisms and confidence in these instruments is built up, more private investors will enter the market and develop projects without the need of concessional financing.

In addition, EBRD and IFC continue to work extensively with the Government of Armenia to improve the regulatory framework and facilitate the implementation of renewable energy auctions in the country.

### RESULTS

The project is the first competitively tendered solar power plant in the Caucasus and expected to become a benchmark for future auctions and pave the way for the development of other solar plants in the region. It realized a clear demonstration effect for private sector participation and government support of solar energy.

The solar power plant will have a large scale impact in the context of Armenia as it will add (i) 1.5% of the annual national electricity generation, (ii) 2.1% of the annual national internal electricity consumption, (ii) and 1.8% of the country's total available installed capacity (based on 2018 data)

The plant will generate on average 118,298 MWh of electricity per year, resulting in reduced/avoided carbon emissions of over 40,000 tons of CO<sub>2</sub> per year. This is comparable to half of the annual electricity consumption of Gyumri, the second-largest city of Armenia, highlighting the important contribution of the plant to Armenia's climate change agenda.

### INVESTMENT SUMMARY

#### CLIENT:

CJSC FRV Masrik, a special purpose entity established to develop, build and operate the solar power plant.

#### COUNTRY:

Armenia

#### FINANCING:

- EBRD: USD 17.7 million
- IFC: USD 17.7 million
- EU Investment Grant: EUR 3.0 million
- Total Project Cost: USD 50 million

#### YEAR:

2020



## Green Value Chain Programme in Morocco

A green credit line programme targeting SMEs for capex investments in climate change mitigation and adaptation projects across specific value chains and sub-sectors in Morocco.

### INVESTMENT SUMMARY

#### CLIENT:

Participating Financial Institutions (PFIs)

#### COUNTRY:

Morocco

#### FINANCING:

- EBRD: EUR 62.25 million
- Green Climate Fund (GCF) Co-Financing: EUR 16.75 million
- EU incentive grants: EUR 6 million
- Total programme amount: EUR 90 million.

#### YEAR:

2019 - 2024



### CHALLENGE

In Morocco, small- and medium-sized businesses continue to lag behind in terms of investments in resource efficient technologies and climate change mitigation and adaptation projects. Such investments can contribute not only to enhancing the competitiveness of SMEs and boosting their export potential but also to reducing GHG emissions and enhancing the country's energy security.

Despite this potential, there is a lack of medium- to longer-term finance available from local banks for such investments. Identified market barriers include (i) limited awareness of climate change mitigation and adaptation investment opportunities, (ii) higher perceived risks, (iii) the absence of stringent regulations and appropriate pricing (e.g. water tariffs) and (iv) lengthy payback periods to the investor who does not directly benefit from all of the avoided external costs but the overall impact is beneficial and desirable.

To address these market barriers, EBRD has developed a green credit line programme that blends the Bank's own-account commercial resources with concessional financing from the Green Climate Fund (GCF) and the EU. It also includes technical assistance funded by the Republic of Korea..

### SOLUTION

Under this new Green Value Chain Programme, EBRD extends financing to Participating Financial Institutions (PFIs) for on-lending to local SMEs and private mid-size corporates for capex investments in climate change mitigation and adaptation projects. It also supports these firms to move from low value-added to high value-added production in terms of know-how and skills as well as link to more advanced aggregators for more competitive and increasingly export-oriented value chains.

The programme includes incentive grants to sub-borrowers which will enable SMEs to invest in high-performing and

environmentally friendly technologies. The grants address the entrenched behaviour of sub-borrowers by rewarding first-movers and mitigating the high cost of technologies at an early market stage. The programme also entails concessional loans to Moroccan PFIs which will help them expand their green finance initiatives and develop new products.

In addition, the programme offers technical assistance to ensure that the SME's green investments are properly assessed and implemented and that the facility reaches both female and male entrepreneurs.

### RESULTS

To date, EBRD has signed four loans totaling EUR 63 million with local PFIs under the programme, two in 2019 and two in 2020.

The on-lending to SMEs in sectors such as agribusiness, manufacturing and services, logistics and distribution, has enabled investments that promote the transition to a sustainable, more competitive and low-carbon economy in Morocco. Projects to date have reduced energy consumption and GHG emissions substantially and accelerated the market penetration of green and innovative technologies.

As of 31 August 2021, the portfolio of the programme consists of EUR 6.3 million financing of over 25 projects with an average project eligible financing size of EUR 251,000. As a result, through these 25 projects, a total of 58,766.88 GJ/year in primary energy use will be avoided and GHG emissions will be reduced by 3,939.91 tonnes/year.

Furthermore, the projects have helped develop the internal capacity of PFIs to design and launch products aimed at financing energy performance improvements on a commercial and sustainable basis.

Additional information on individual sub-projects under the programme is available here: <https://ebrdgeff.com/morocco/the-programme/the-facility/>

## BlueOrchard COVID-19 Emerging and Frontier Market Fund

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The Fund will provide much-needed loan finance to financial institutions across CDC's African and South Asian markets which are facing strained liquidity due to the impact of COVID-19.

### CHALLENGE

- MFIs provide **critical access** to financial services for low-income and vulnerable populations across CDC's markets
- Strained liquidity due to COVID-19 has jeopardised their sustainability and capacity to continue lending

### SOLUTION

- CDC's existing relationship with BlueOrchard, confidence in the GP and their compelling strategy enabled an **agile response**. Our conviction contributed to fund raising momentum and mobilisation in an environment of unprecedented uncertainty. In addition, CDC introduced a provider of first loss capital (FSDA) which was key to **mobilising investors**
- CDC led in legal negotiations and due diligence, bringing our **experience with other blended finance structures** to bear in setting up the fund for success

### RESULTS

- CDC ensured intentionality of deeper reach for impact to the most vulnerable populations from the Fund, with...
  - (i) Relatively small ticket sizes enable targeting a variety of financial institutions to achieve enhanced impact
  - (ii) Focused investment across CDC's geographies as well as guaranteeing an increased allocation to African Financial Institutions
  - (iii) Commitment to gender-smart investing via the 2x Challenge (min. 64% of the Fund's ultimate beneficiaries will be women)
  - (iv) Implementation of ESG and BI best-practices including client protection principles
  - (v) Prescribed use of funds (i.e. for on-lending rather than refinancing)

### INVESTMENT SUMMARY

#### CLIENT:

Blue Orchard

#### COUNTRY:

Pan-emerging markets. CDC capital will only be invested in Africa and South Asia

#### FINANCING:

- \$35 million commitment, blended finance, contributed to fund, anchor investor at first closing

#### YEAR:

2020



## East and West Africa: Africa Medical Equipment Facility

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Increasing financing available to SME healthcare providers in East and West Africa for purchasing medical equipment.

### CHALLENGE

Small- and medium-sized healthcare companies in East and West Africa often face difficulties when trying to access financing for the purchase or lease of equipment. Financing may not be available, or the terms may not be appropriate for the company. At the same time, equipment manufacturers may be unfamiliar with the market and unsure about the financing risk, limiting their ability to sell equipment in these countries.

### SOLUTION

The Africa Medical Equipment Facility is designed to bridge the gap between healthcare businesses seeking medical equipment and financial institutions and equipment manufacturers. Risk-sharing facilities, developed through partner banks, will provide healthcare businesses with necessary financing to acquire advanced equipment from manufacturers that have signed on to the facility. The facility includes an advisory services program to help small healthcare businesses improve their medical equipment procurement processes, financial management and business planning. It will also help participating financial institutions strengthen credit underwriting skills for the healthcare sector, strengthening the relationship equipment manufacturers will have with their customers.

PSW and GFF support in the form of a first loss guarantee enables IFC to extend risk-sharing facilities to the most challenging markets including conflict affected countries. Without the Blended Concessional Finance Co-Investment, IFC will not be able to provide guarantees to the PFIs at a price that allows the PFIs in turn to provide access to finance to the health SMEs at a viable cost. Estimated subsidy is 5.2% of the facility size.

### RESULTS

IFC expects the facility to provide a total of \$300 million in financing. For manufacturers, the risk sharing facility offers the opportunity to improve their clients' access to financing for needed equipment sales in what is a fragmented market.

Through a demonstration channel, PFIs' expansion of their healthcare SME loan portfolios will demonstrate to the wider market in the Program's Countries that Healthcare SMEs form an attractive market segment. The Program is expected to increase the market's competitiveness as other FIs in the countries increase their lending to this market segment. There is also potential for the program to lead to more loans and leasing by OEMs and equipment distributors. The program is also expected to support the promulgation of technologies in healthcare in Africa.

### INVESTMENT SUMMARY

#### CLIENT:

Partner financial institutions (PFIs), open access facility

#### COUNTRY:

East and West Africa

#### FINANCING:

- IFC: Up to \$150 million RSF. First phase \$100 million.
- DA PSW: Up to \$18 million first loss guarantee (phase 1)
- Global Financing Facility for Women, Children and Adolescents (GFF): Up to \$6 million first loss guarantee (phase 1)

#### YEAR:

2020 - 2021





## Nigeria: Daystar Power

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Solar hybrid solutions to replace expensive diesel power

### CHALLENGE

Many commercial and industrial customers (“C&I”) are receiving poor supply from the country’s grid infrastructure and/or heavily reliant on diesel for generation. Daybreak’s business model is to achieve energy cost savings for its C&I customers primarily via the displacement of diesel generation with solar and battery-based solutions.

### SOLUTION

Daybreak Power Solutions provides clean, competitive and reliable solar hybrid solutions. Daybreak is seeking to raise US\$40 million to fund its Phase 1 program (30MWp). FC as implementing entity of the Canada-IFC Renewable Energy Program for Africa is expected to provide up to US\$10 million in the form of a concessionally-priced subordinated loan. In addition, the proposed IFC LCY C Loan will be provided through cross-currency swaps with IDA through the IDA19 PSW LCF. Through this solution, IFC will be able to provide its long-term funding in local currency at a rate the project can sustain. The blended concessional finance facilities support the scale up of a solar C&I business model which would otherwise not be achievable due to its limited track record in Nigeria and the high perception of risk from commercial lenders, resulting in a limited availability of long-term financing for such projects in Nigeria. The de-risking provided by the subordinated loans is needed for the Company to be able to attract senior debt to complete the financing package for Phases 2 and 3 and be able to scale up the business.. The level of concessionality (i.e., “subsidy”) provided by both blended concessional finance facilities is estimated to be up to 11% of the total Project cost of US\$40 million.

### RESULTS

The Project is expected to increase reliability and affordability of electricity for C&I customers facing unstable supply. By expanding alternative reliable power solutions provided cost effectively to C&I customers, the project also supports growth and job creation in the Nigerian economy. The proposed investment will result in GHG emission savings in electricity generation, from the switch to solar PV from more carbon intensive fuels. Emissions savings are estimated at 32,700 tons of CO2 per annum. At a market level, the project contributes to the decarbonization of the power sector in Nigeria by supporting the achievement of scale in deploying solar PV to C&I consumers. The project supports the expansion of a pioneer in the C&I solar distributed generation industry that helps to establish a track record for solar as an alternative to carbon-intensive energy sources. It also provides market signals that help to unlock some bottlenecks faced by solar PV distributed generation, including perceptions on reliability and cost of the solution.

### INVESTMENT SUMMARY

#### CLIENT:

Daybreak Power Solutions

#### COUNTRY:

Nigeria

#### FINANCING:

- IFC: \$10 million C loan supported by the IDA PSW Local Currency Facility
- PSW: \$10 million subordinated loan from the Canada-IFC Renewable Energy Program for Africa
- Shareholders’ equity of \$20 million

#### YEAR:

2021



## Southern Thailand Wind Power and Battery Energy Storage Project

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The first private sector initiative in Thailand to integrate utility-scale wind power generation with a battery energy storage system.

### CHALLENGE

Global electricity storage deployment is increasing rapidly. However, in Southeast Asia, the lack of pilot projects and a lag in regulatory regimes has prevented more widespread commercial deployment of battery storage technology seen in other parts of the world. Renewable energy is expected to contribute 15%-20% of Thailand's total energy production by 2036, up from the current 10%, and growth in storage is expected to rise.

### SOLUTION

ADB's blended finance offering (OCR & CTF) will provide long term financing to the Lomligor Company Limited for a 10MW wind power project with an integrated 1.88 MWh pilot battery energy storage system. The participation of a concessional loan from the CTF was needed to improve the bankability and financial viability of the project.

### RESULTS

The project aims to demonstrate the viability of integrating wind power with battery energy storage Thailand. As Thailand increases the share of intermittent renewable energy sources (e.g., solar and wind), battery energy storage will become an important technology to underpin the grid, providing services such as load shifting, frequency support, voltage support, ramping support, peak shaving, and transmission deferral.

### INVESTMENT SUMMARY

**CLIENT:**

Lomligor Company Limited

**COUNTRY:**

Thailand

**FINANCING:**

- ADB: THB 235 million CTF: \$4.75 million
- Total Project Cost: THB 818 million (~USD 26.8 million)

**YEAR:**

2020



## ANNEX 3. DATA DEFINITIONS AND METHODOLOGY

This annex provides the definitions and methodology for the data on DFI blended concessional finance contained in this report.

**Blended finance:** The scope of the data presented in this report is limited to blended concessional finance operations defined in (IFC et al. 2017) as the combination of concessional finance from donors or third parties alongside DFIs' normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources.

**Concessional finance:** This report accounts for resources extended at concessional terms i.e., building on the OECD definition, extended on terms and/or conditions that are more favorable than those available from the market. Concessional finance can be achieved through one or a combination of the following: (i) interest rates below those available on the market; (ii) maturity, grace period, security, rank or back-weighted repayment profile that would not be accepted/extended by a commercial financial institution; and/or (iii) by providing financing to borrower/recipients not otherwise served by commercial financing.<sup>19</sup> The relevant market reference is determined by each DFI through own practices e.g. market observations, or elicitation, with due consideration of the credit risk and quality of both the borrower and the lender.

In the context of this report, concessional finance resources provided by donors for DFIs' blended concessional finance transactions can refer to those qualifying as either "Official Development Assistance (ODA)" and/or "Other Official Flows (OOF)".<sup>20</sup>

**Source of concessional finance:** This report only captures concessional finance resources administered by reporting DFIs and provided by various sources e.g. donor governments (through bilateral arrangements or multilateral facilities), philanthropic organizations, sister entities (e.g. IDA for IFC), or DFI own funds when they are explicitly identified for use in concessional activities (e.g. DFI self-funded trust funds for investments or

shareholder capitalization that allows for the establishment of windows of less than commercial returns). DFI's normal own-account commercial financings are not considered to be concessional for this exercise.

**Private sector operations:** The scope of this report is limited to private sector projects — non-sovereign guaranteed. In alignment with the Joint MDB's methodology on private investment mobilization (Joint-MDBs, 2018<sup>21</sup>), a private entity is any legal entity that is (a) carrying out or established for business purposes, and (b) financially and managerially autonomous from national or local government. Public entities such as State-Owned Enterprises that are organized with financial and managerial autonomy are counted as private entities.<sup>22</sup>

**Private investment mobilization:** This report captures and reports "total private mobilization" that the Joint MDB's methodology on private investment mobilization (Joint-MDBs, 2018) defines as the sum of "private direct mobilization" and "private indirect mobilization", namely:

- "Private direct mobilization": financing from a private entity on commercial terms due to the active and direct involvement of an MDB leading to commitment. It refers to private co-financing and does not include sponsor financing.
- "Private indirect mobilization": financing from private entities provided in connection with a specific activity for which an MDB is providing financing, where no MDB is playing an active or direct role that leads to the commitment of the private entity's finance. Private indirect mobilization includes sponsor financing, if the sponsor qualifies as a private entity.

**Reporting period:** This report covers the calendar year 2020; some project examples are more recent (2021).

**Point of reporting:** Data reported reflects financial commitments at the time of financial/non-financial agreement signature (or Board approval if this is not available) and is therefore based on ex-ante estimations. No revisions will be issued in cases where a project's scope changes later to either increase or decrease blended concessional financing.

**Geographical coverage:** The countries covered includes countries on the World Bank Group list (all income categories) excluding all European Union countries.

**Regional sub-groups:** this report provides data broken down by:

- The income-level of the country where the private recipient/borrower is officially registered. The classification used — low-income, lower-middle income, upper-middle income, and high income — is the World Bank Group’s classification by income level in the relevant reference year (2020).
- The regional grouping where the private recipient/borrower is officially registered (see World Bank classification).

**Instrument types:** the types of financial instruments used to report commitments of concessional resources arranged by the reporting DFIs cover the following: loans (senior and sub-ordinated), risk-sharing facilities and guarantees, equity, grants (including investment grants but excluding performance-based grants), and performance-based grants.<sup>23</sup>

**Other data elements:**

- Total project cost (total investment from all sources – private, public, concessional and non-concessional).
- DFI own-account contributions (all types),
- Total private investment mobilization (see definition above, including both private direct mobilization and private indirect mobilization reported as a total, but not including any concessional finance),
- Other own-account contributions from DFIs jointly participating in a given transaction (from DFI within the Working Group or other development bank),
- Other contributions from public and/or private organizations provided at concessional terms,
- Other public contributions

**Avoiding double counting:** Double counting issues for this exercise will only occur in the rare situations where two DFIs are both bringing in concessional finance to the same project, and both are reporting data. In most cases where only one reporting DFI is bringing in concessional finance, that DFI will report fully on all the data elements for the project, as there is no double counting issue. In cases where two DFIs are bringing in concessional finance and both are reporting data, the following rules will be used:

- Each DFI reports their own donor funds mobilized and their own account DFI contribution. Each DFI does not report the other reporting DFI own account contribution or the other reporting DFI donor funds mobilized.
- For private mobilization, each DFI reports on its own “Private Direct Mobilization”, part of the total private investment mobilization, see definition above. Each DFI does not report on the private direct mobilization of the other.
- For all other data elements (i.e. private indirect mobilization, other DFI funds not reporting separately, other contributions provided at concessional terms not being reported separately, and other public contributions), the MDB mobilization allocation methodology will be used: report these amounts according to the DFI own account finance as a percent of all DFI own account finance from the two reporting DFIs (e.g. if DFI A brings in \$20 million of own account finance and DFI B brings in \$30 million of own account finance, DFI A will report 40%  $[20/(20+30)]$  of the private indirect mobilization, and DFI B will report 60%). The total project cost will be the sum of all data elements.
- To facilitate with the identification of projects with potential for double-counting, each DFI will provide, for internal use of the working group, a project list including project name and country for all projects being reported.

## Accounting for Portfolio Guarantees

- Starting in 2018, underlying investments supported via a Portfolio Guarantee are being accounted and reported.<sup>24</sup>
- For this report, Portfolio guarantees are defined as a blended finance instrument where donor funds are used to provide credit protection/guarantees for lending or risk-sharing programs that cover several partner financial institutions (PFIs) and other clients (SMEs). The blended finance is applied at the program level rather than at each individual transaction, and the concessionality results from taking higher risks or costs uncompensated for by higher returns.
- Portfolio Guarantees are captured separately by reporting DFIs to ensure proper accounting throughout their investment period. For 2018 and 2019 these amounts were reported separately from the other aggregate numbers. For 2020, the amounts are incorporated into the main aggregate reporting.
- Portfolio Guarantees are accounted for in each year based on the commitments made to clients from the guarantee program each year. The concessional amount is a pro-rated percent of the program commitment for the year based on an estimate of the percent of the program covered by the portfolio guarantee when the program is fully disbursed. The DFI amount is the annual program commitment net of the calculated concessional amount. This approach should generally provide a good representation of the portfolio guarantee coverage over time but may underreport the concessional amounts in certain cases if a program never fully disburses.

## SECTORAL BREAKDOWNS DEFINITIONS

*(These Categories are mutually exclusive)*

**Infrastructure:** In alignment with the Joint MDB's methodology on private investment mobilization<sup>25</sup>) this report defines infrastructure as underlying physical foundation or civil works (including integral and/or

dedicated equipment) that support economic and social development. Sectors classified as infrastructure cover the following: energy (electricity generation, transmission, and distribution), water and waste management (water and sanitation, solid waste, irrigation, flood control), transport (roads, ports, airports, urban transport, railway, fluvial and maritime transport), telecommunications, IT within infrastructure sectors, and social infrastructure (schools, hospitals, etc.). The definition excludes captive infrastructure reserved for the sole use of a firm.

**Finance/Banking:** Encompasses activities in Financial Markets, Funds, and Trade Finance, including the following sub-sectors:

- Commercial Banking (General, Housing Finance, Microfinance, Trade, Risk management, Rural Finance, SME, Consumer Finance, Distressed Assets, Trade and Supply Chain, Digital Finance, etc.)
- Capital Markets
- Insurance & Pension funds
- Non-Bank Financial institutions (not including supplier finance via e.g. agribusinesses)
- Funds (Venture Capital, Growth Equity Fund, etc.)

**Other:** This category encompasses all projects that are not Infrastructure or Finance/Banking.

## THEMATIC BREAKDOWNS DEFINITIONS<sup>26</sup>

*(These categories are not mutually exclusive)*

**Climate Finance:** Climate finance refers to resources committed to projects and activities that mitigate climate change and/or support adaptation to climate change impacts. More specifically, data reported as “climate finance” in this report refers to projects qualifying as such according to the Joint-MDB methodology for tracking and reporting mitigation and/or adaptation finance (Joint-MDBs, 2017)<sup>27</sup>, and the Common Principles agreed with the members of the International Development Finance Club (IDFC).

**Agribusiness/Food Security:** Theme that encompasses activities in the financing and development of production, processing, and handling of agricultural and food products, including the following secondary sub-sectors:

- Production: e.g. crop production, livestock and animal husbandry/production, fisheries. This would include financing extended to inputs providers e.g. seeds or fertilizers
- Processing/manufacturing: e.g. food and beverage manufacturing
- Warehousing & storage equipment and/or facilities
- Agribusiness finance/value chain finance are also included

**SMEs:** The definition of “SMEs”, used by various DFIs is typically based on the amount of annual sales, asset values, and/or number of employees, and may vary depending on the specific market context and related level of development. Hence, for SMEs each DFI reported blended concessional finance volume data based on the relevant definition applicable to their operations. SME volumes also include credit lines and other investments in financial intermediaries specifically targeted to support SME finance

## **TECHNICAL ASSISTANCE/ADVISORY SERVICES**

In line with the DFI definition of blended concessional finance, for this exercise, Technical Assistance/Advisory Services is not included in the data on blended concessional finance projects.



## GLOSSARY

**Blended Concessional finance for private sector operations of DFIs.** Combining concessional finance from donors or third parties alongside DFIs' normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources.<sup>18</sup>

**Commercial financing.** Commercial financing is defined as financing at market interest rates (or market equivalent if there is no market rate).

**Concessional financing.** Concessional financing is financing below market rates (or with maturity, grace period, security or rank offered on soft terms without being priced according to the market), keeping in mind that in many situations where blended concessional finance is likely to play a role, there is no real market rate and market rate proxies tend to be based on individual practices. Investment and performance grants are included in concessional financing. (See Annex 3 for additional detailed information on the definition of Concessional finance in the context of the DFI data gathering exercise).

**Private sector investment operations of the DFIs.** In this paper this refers to the non-sovereign operations of the DFIs.

**Externalities.** Project impacts that are not captured in the returns to private investors.

**Information asymmetries.** Market operations where different participants have different levels of information, e.g. when sellers are more knowledgeable about their products than buyers.

**Market failures.** Market operations that are inconsistent with the assumptions of perfect markets, e.g. perfect information, extensive competition, no externalities, rational behavior, and alignment of interests between market agents.

**SDGs.** “Sustainable Development Goals.” The international development goals agreed under the auspices of the UN for achievement by 2030.

**DFIs.** Development Finance Institutions. The group of multilateral and bilateral development institutions that focus on private sector investments.

**OECD Blended Finance Definition.** The strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries, with ‘additional finance’ referring primarily to commercial finance. The focus lies on the mobilization of commercial finance which is not currently being directed towards development-related investments. All relevant, higher level, commitments made by DAC Members in relation to development co-operation apply to blended finance in the same way as to other financing approaches. These include, amongst others, commitments on official development assistance (ODA) financing targets, the commitment on leaving no one behind, commitments related to development effectiveness, as well as those related to untying aid.

**Enhanced DFI Principles or DFI Principles.** The set of principles for the use of blended concessional finance in private sector projects agreed by the DFIs in October 2017, summarized in Annex 1, and covered in the report, “DFI Working Group on Blended Concessional Finance for Private Sector Projects”, Summary Report, October 2017. <https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/>

## ENDNOTES

- 1 DFI Working Group on Blended Concessional Finance for Private Sector Projects, Summary Report, October 2017. [https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations\\_Summary+R....pdf?MOD=AJPERES&CVID=npes1Dq](https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES&CVID=npes1Dq)
- 2 Private Sector Development Institutions Roundtable: DFI Guidance for Using Investment Concessional Finance in Private Sector Operations. March 12, 2013. <https://www.ebrd.com/downloads/news/roundtable.pdf>
- 3 All figures in US Dollars.
- 4 These numbers include portfolio guarantee data for both years.
- 5 Private Sector Development Institutions Roundtable: DFI Guidance for Using Investment Concessional Finance in Private Sector Operations. March 12, 2013. <https://www.ebrd.com/downloads/news/roundtable.pdf>
- 6 This working group consists of EBRD, IFC, AsDB, IDBG, AfDB, EIB, ICD, AIIB and EDFI.
- 7 DFI Working Group on Blended Concessional Finance for Private Sector Projects, Summary Report, October 2017. [https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations\\_Summary+R....pdf?MOD=AJPERES&CVID=npes1Dq](https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES&CVID=npes1Dq)
- 8 See “DFI Working Group on Blended Concessional Finance for Private Sector Projects” Joint Report, Updates for October 2018, October 2019, and December 2020: [https://www.ifc.org/wps/wcm/connect/3aaf1c1a-11a8-4f21-bf26-e76e1a6bc912/201810\\_DFI-Blended-Finance-Report.pdf?MOD=AJPERES&CVID=mpvbN7c](https://www.ifc.org/wps/wcm/connect/3aaf1c1a-11a8-4f21-bf26-e76e1a6bc912/201810_DFI-Blended-Finance-Report.pdf?MOD=AJPERES&CVID=mpvbN7c) <https://www.ifc.org/wps/wcm/connect/73a2918d-5c46-42ef-af31-5199adea17c0/DFI+Blended+Concessional+Finance+Working+Group+Joint+Report+%28October+2019%29+v1.3+Report+.pdf?MOD=AJPERES&CVID=mUEEcSN> <https://www.ifc.org/wps/wcm/connect/cdd65b83-f128-4046-a919-38507141ead5/202012-DFI-BCF-Joint-Report.pdf?MOD=AJPERES&CVID=npTbunN>
- 9 Based on latest MDB Mobilization Task Force report (2019), DFIs deploy over \$63.6 billion per year of private sector mobilization in low- and middle-income countries. If concessional amounts, DFI, and public contributions are included, the total project volume for DFIs could be closer to \$100 billion. This compares to \$11.2 billion total project cost for blended concessional finance activities reported in 2020 by DFIs.
- 10 Portfolio guarantees are blended finance instruments where donor funds are used to provide credit protection/guarantees for lending or risk-sharing programs that cover several partner financial institutions (PFIs) and other clients (SMEs). The blended finance is applied at the program level rather than at each individual transaction. Portfolio guarantees were reported separately in previous versions of this report but are included this year in the main data (see Annex 3 on Methodology). For this paragraph, last year (2019) data has been adjusted to include portfolio guarantees from that year so that appropriate comparisons can be made with the 2020 data.
- 1 Sectors tracked include infrastructure, finance and banking, and other. The “other” sector covers a range of sub-sectors including agribusiness, health, manufacturing, and services.
- 12 Note this section does not include portfolio guarantees in the data for 2020 to ensure comparability to previous years.
- 13 In previous reports, this chart has included amounts for DFIs that reported this data, which was approximately 50% in 2019.
- 14 In this data gathering exercise, the funds from bilateral and multi-lateral donors are mutually exclusive.
- 15 Other donors include the Global SME Facility, the Women Entrepreneurs Opportunity Facility (WEOF), the Women in Business Program, the United States Government, the Italian Government, the Western Balkans Joint Fund, and the Eastern Europe Energy Efficiency and Environment Partnership.
- 16 <https://www.goldmansachs.com/media-relations/press-releases/2021/climate-innovation-fund-launch-25million-funding.html>
- 17 DFI Working Group on Blended Concessional Finance for Private Sector Projects Joint Report, October 2018 Update, Annex 3. [https://www.ifc.org/wps/wcm/connect/3aaf1c1a-11a8-4f21-bf26-e76e1a6bc912/201810\\_DFI-Blended-Finance-Report.pdf?MOD=AJPERES&CVID=npes1Wr](https://www.ifc.org/wps/wcm/connect/3aaf1c1a-11a8-4f21-bf26-e76e1a6bc912/201810_DFI-Blended-Finance-Report.pdf?MOD=AJPERES&CVID=npes1Wr)
- 18 Note some of the EDFIs manage government concessional finance for investment in private sector projects but without also investing their own funds. These activities are included in the definition.
- 19 The degree of concessionality of a given instrument is measured by its “grant element”. For instance, a loan offered at market terms has a grant element of zero percent while a grant would have a grant element of 100%.
- 20 The reference definition of ODA and OOF is available on the OECD Glossary of Key Terms and Concepts. As example, a loan with a grant element of at least 25 per cent would qualify as ODA; if lower as OOF.
- 21 <http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrinInvest-Mob-Draft-Ref-Guide-Master-June2018-v4.pdf>
- 22 Companies with a sovereign guarantee are not counted as private operations for this exercise.
- 23 For risk sharing facilities, the donor amount would be the donor first loss amount, the DFI amount would be the DFI risk sharing amount less the donor first loss amount. For guarantees, the donor amount is the guarantee amount. Donor first loss or partial guarantees in all cases should be netted when reporting others contributions. For donor performance grants, data reported assume maximum utilization.
- 24 Portfolio guarantees were included as a footnote in previous reports.
- 25 <http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrinInvest-Mob-Draft-Ref-Guide-Master-June2018-v4.pdf>
- 26 Blended concessional finance can be extended for more than one ‘thematic’ purpose e.g. climate resilient agriculture. Hence, thematic data allocation is not-mutually exclusive.
- 27 <https://publications.iadb.org/handle/11319/8505>