

DFI Working Group on Blended Concessional Finance for Private Sector Projects

Joint Report, October 2019 Update



European
Development
Finance
Institutions



AFRICAN DEVELOPMENT BANK GROUP



For further information, please contact:

- ✚ International Finance Corporation (IFC) - *Chair*
Kruskaia Sierra-Escalante, Senior Manager, Blended Finance, ksierraescalante@ifc.org
- ✚ African Development Bank (AfDB)
Laura Sennett, Senior Officer, Multilateral Affairs Coordination, l.sennett@afdb.org
- ✚ Asian Development Bank (AsDB)
Lesley Bearman Lahm, Head, Interagency and Nonsovereign Operations Unit, llahm@adb.org
- ✚ Asian Infrastructure Investment Bank (AIIB)
Xiao Wang, Economist, xiao.wang@aiib.org
- ✚ European Bank for Reconstruction and Development (EBRD)
Alan Rousso, Managing Director, External Relations and Partnerships, roussoa@ebrd.com
- ✚ European Development Finance Institutions (EDFI)
Soren Andreasen, General Manager, EDFI, soren.andreasen@edfi.eu
- ✚ European Investment Bank (EIB)
Marika Levena, Senior Officer Blended Finance, Mandate Management Department, EIB, m.levena@eib.org
- ✚ Inter-American Development Bank Group (IDBG)
Matthieu Pegon, Head, Blended Finance, matthieup@idbinvest.org
- ✚ Islamic Corporation for the Development of the Private Sector (ICD)
Osman Buyukmutlu, Acting Director, Strategy & Policy Department, obuyukmutlu@isdb.org

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 Asia Infrastructure Investment Bank (AIIB), the European Bank for Reconstruction and Development (EBRD), 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).

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I. Executive Summary

Blended concessional finance can be used to unlock untapped investment into sustainable development, especially from the private sector, in support of the “Billions to Trillions” agenda. The increasing use of concessional funds blended with Development Finance Institutions’ (DFI’s) own financing and that of others on commercial terms has brought the DFIs together to develop common standards for implementation of blended concessional finance projects; provide transparent, comprehensive and consistent data on their blended concessional finance activities; and to 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. It will also share and 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 2017¹, 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*², and remain highly relevant to the use of concessional financing and mobilization of private capital. In 2018 and 2019, the DFIs 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 2019. Over the last year, the members of the DFI working group worked to (i) improve the scope and quality of DFI blended concessional finance data and update the data to 2018; (ii) share knowledge and experience on the use of blended concessional finance, including updates on improvements in governance arrangements with respect to blended concessional finance and the Enhanced Principles; and (iii) coordinate interactions with other working groups that address blended concessional finance issues.

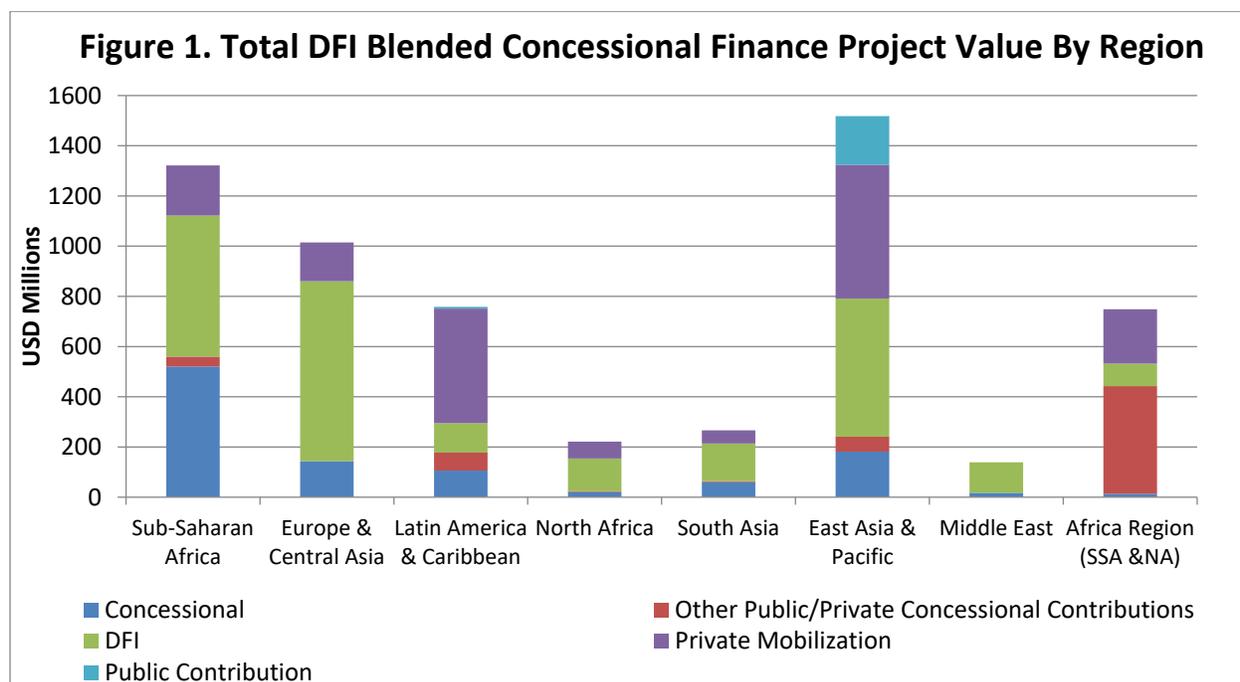
Data Update. This year DFIs were able to build on the past years’ development of a refined methodology for collecting blended concessional finance data to assemble the most complete set of DFI data to date. New data shows that **in 2018 DFIs financed projects with a total volume of more than US\$6 billion using approximately US\$1.1 billion in concessional funds and about US\$2.4 billion in DFI own-account resources. Private sector finance mobilized for these projects was about US\$1.7 billion**³. By volume of

¹ [DFI Working Group on Blended Concessional Finance for Private Sector Projects, October 2017.
https://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES)

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 If portfolio guarantees were included, the concessional funding would have been higher by about \$35 million and DFI financing would have increased by about \$168 million. The total volume of projects would have been higher by at least \$260 million, and private sector mobilization by more than \$60 million (total

operations, senior debt and equity were the most common concessional instruments used by the reporting DFIs, although risk sharing facilities and performance grants were also important in the financial sector⁴. The predominant sectors were infrastructure (in many cases for climate projects) and banking and finance (in many cases to support SMEs). “Other” sectors, which include agribusiness, were also important in low-income and lower middle-income countries, while infrastructure was relatively more important in higher income countries. Concessional funds were used at the highest volumes in lower middle-income countries and regionally in Sub-Saharan Africa (see Figure 1).



Note: This data excludes all EU countries

This year the DFIs for the first time gathered data on the **volume of concessional support from various development partner facilities**. Approximately 50 percent of the development partner support for 2018 blended concessional finance projects were reported. The two largest development partners for 2018 were the European Union and Canada. Other major development partners included Denmark, the Climate Investment Funds, the IDA Private Sector Window, the Global Agriculture and Food Security Program, the Women Entrepreneurs Finance Initiative, the Green Climate Fund, the Global SME Facility, the Global Environment Facility, and Finland. DFIs recognize the importance of the support that development partners provide through a broad array of instruments.

The **projects committed in 2018** illustrate that blended concessional finance is a critical tool to develop private sector markets, foster innovation, and crowd in private finance in the some of the most challenging settings. This is evidenced by several blended concessional finance projects committed in

volume and private sector mobilization for portfolio guarantees is under-reported this year as some DFIs have yet to begin tracking indirect private mobilization for portfolio guarantees).

⁴ As shown in last year’s report, risk-sharing facilities and performance grants also tend to have a higher share when calculations are based on number of project rather than project volume.

2018. These projects include innovative applications of bond finance for solar power and microfinance, early stage equity and special facilities for infrastructure and energy efficiency projects, innovative use of private sector finance to prevent land degradation, new programmatic approaches to finance MSMEs, long term finance for agribusiness, and investments addressing critical issues related to fragility and conflict, such as microfinance for refugees.

Knowledge sharing activities. Topics discussed this year included progress implementing governance arrangements for blended concessional finance, including team structures and oversight processes, technical issues with respect to measuring and benchmarking minimum concessionality, operational options to discover minimum concessionality such as auctions and open offers, and options for public reporting of blended concessional finance activities.

Engaging with other blended finance groups. There has been a very active participation in the five action groups under the OECD coordinated 'Tri Hita Karana Roadmap for Blended Finance' process, with DFIs engaged in each group and leading several of them. Although individual DFIs lead different groups, they represent the DFIs as a whole and the DFI working group is the vehicle for continued discussions of key issues and inputs. DFIs have also been engaged with the Blended Finance Task Force, Convergence, Sustainable Development Investment Partnership (SDIP), the Global Impact Investing Network (GIIN) and other groups focused on or interested in blended finance.

Next Steps. DFIs are committed to furthering the work to optimize the use of concessional resources. The DFI Working Group has recommended the following areas for continued engagement in the next phase:

1. Continue the dialogue and knowledge-sharing on blended concessional finance including implementation of the Enhanced Principles, with a main meeting once per year and additional meetings and conference calls as needed, with other in-person meetings centered around events where the DFIs are likely to attend.
2. Continue to reach out to donor partners (bilateral and multilateral donors, foundations, and others), other DFIs and relevant institutions, including National Development Banks and new bilateral DFIs, to encourage and extend the adoption of the Enhanced Principles to a wider range of actors financing private sector operations.
3. Use the DFI working group to provide coordinated DFI input into discussions with other blended finance-related working groups, such as the OECD, and encourage alignment where appropriate.
4. Continue updating the DFI blended concessional finance data, refining the methodology for collection and analysis, and publishing a joint report annually.

II. Introduction and Context

Blended concessional finance for private sector projects is one of the significant tools that Development Finance Institutions (DFIs) can use, in cooperation with donors and other development partners, to implement the Addis Ababa Action Agenda, increase finance for important private sector activities, help address the Sustainable Development Goals (SDGs), and mobilize private capital. Since the agreement on a new sustainable development agenda in Addis Ababa in 2015, there has been a substantial growth in international attention to the role of blended concessional finance to promote private sector participation in developing countries. Blended concessional finance is one of the important tools that can help close the large investment gap that has been identified for reaching the SDGs and to leverage private investments to this end.

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 2013⁵.

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 group⁶ 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](#)⁷ 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 two years to implement the remaining 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**, and 3) **sharing**

⁵ Private Sector Development Institutions Roundtable: *DFI Guidance for Using Investment Concessional Finance in Private Sector Operations*. March 12, 2013.

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, October 2017](#).

https://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R...pdf?MOD=AJPERES

knowledge and experiences and discussing issues related to implementing the Principles, 4) **coordinating engagement with other working groups addressing blended finance**. A report on these activities in 2018 was released last October⁸, with special coverage of governance issues with respect to Blended Concessional Finance. This report summarizes progress in 2019, including case studies.

Box 1. Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations (Highlights, See Annex 1 for Full Description)

- I. 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.
- II. Crowding-in and Minimum Concessional:** 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.
- III. 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 their clients. Level of concessional in a sector should be revisited over time.
- IV. 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.
- V. 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.

⁸See “DFI Working Group on blended concessional Finance for Private Sector Projects” Joint Report, October 2018 Update. https://www.ifc.org/wps/wcm/connect/3aaf1c1a-11a8-4f21-bf26-e76e1a6bc912/201810_DFI-Blended-Finance-Report.pdf?MOD=AJPERES&CVID=mpvbN7c

III. Analysis of 2018 Private Sector Blended Concessional Finance Data from Development Finance Institutions

This year's data gathering effort represents a significant improvement over the prior year due to nearly 100 percent coverage of the DFIs in the working group on most data elements. In addition, this year the DFIs reported for the first time on the donors contributing concessional resources to support blended concessional finance activities. Annex 3 contains the detailed data methodology, which is largely unchanged from last year, with the exception of additional information on how to handle DFI portfolio guarantees.

In sum, in 2018 DFIs financed projects with a total volume of more than US\$6 billion that utilized blended concessional finance. Private sector finance mobilized for these projects was approximately US\$1.7 billion, concessional funds committed were approximately US\$1.1 billion, and DFI own-account investments in these projects were about US\$2.4 billion⁹. The most common concessional instrument used was senior debt followed by equity, although risk sharing facilities and performance grants were also important in the financial sector. The predominant sectors were infrastructure (in many cases for climate projects) and banking and finance (in many cases to support SMEs). "Other" sectors, which include agribusiness, were also important in low and lower middle-income countries, while infrastructure was relatively more important in higher income countries. Concessional funds were used the most in lower middle-income countries and regionally in Sub-Saharan Africa. Sub-Saharan Africa, SMEs and the financial sector also had higher levels of concessional finance relative to total project cost compared to most other regions and sectors.

Overall Volumes – Key findings

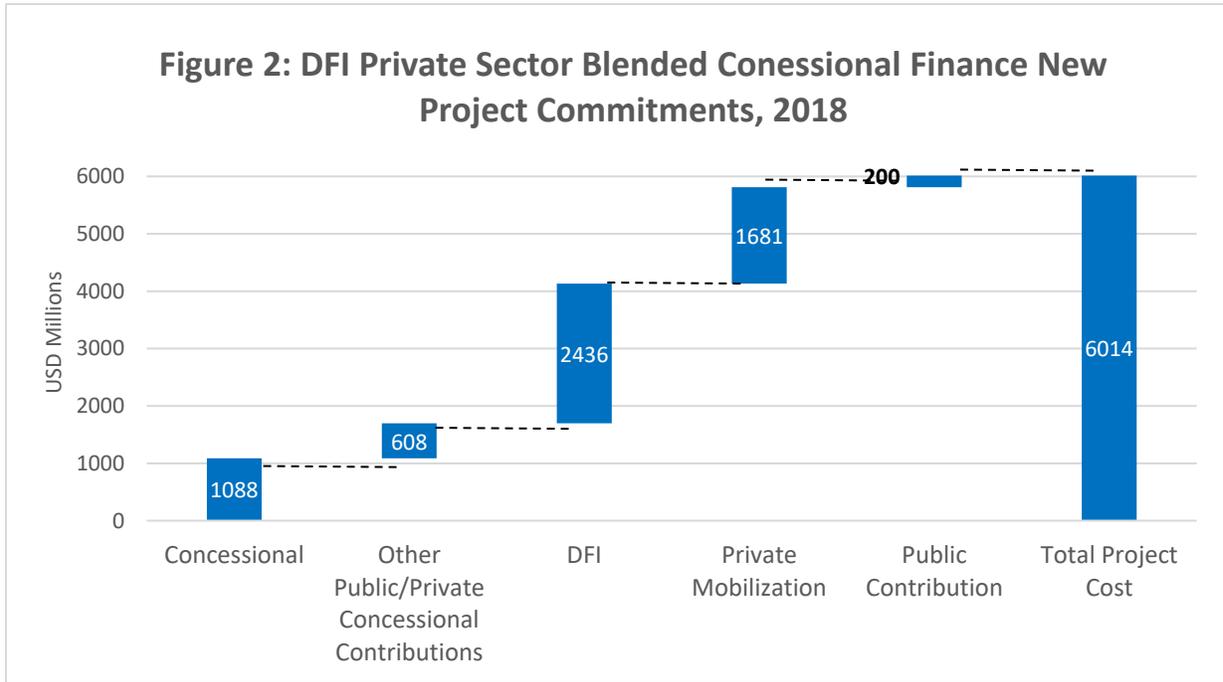
Overall volume results are presented in Figure 2¹⁰.

- DFIs in 2018 financed a total project volume of over US\$6 billion using various blended concessional finance solutions for private sector operations.
- This is a relatively small percentage of the total volume of all DFI private sector projects financed every year¹¹.
- Private sector finance mobilized for the projects supported by concessional finance was about US\$1.7 billion.
- Concessional commitments of all types (e.g. debt, guarantees, grants, or equity) managed by DFIs for these projects was about US\$1.1 billion. The projects also had about US\$2.4 billion of DFI own account regular pricing investments.

⁹If portfolio guarantees were included, the concessional funding would have been higher by about \$35 million and DFI financing would have increased by about \$168 million. The total volume of projects would have been higher by at least \$260 million, and private sector mobilization by more than \$60 million (total volume and private sector mobilization for portfolio guarantees is under-reported this year as some DFIs have yet to begin tracking indirect private mobilization).

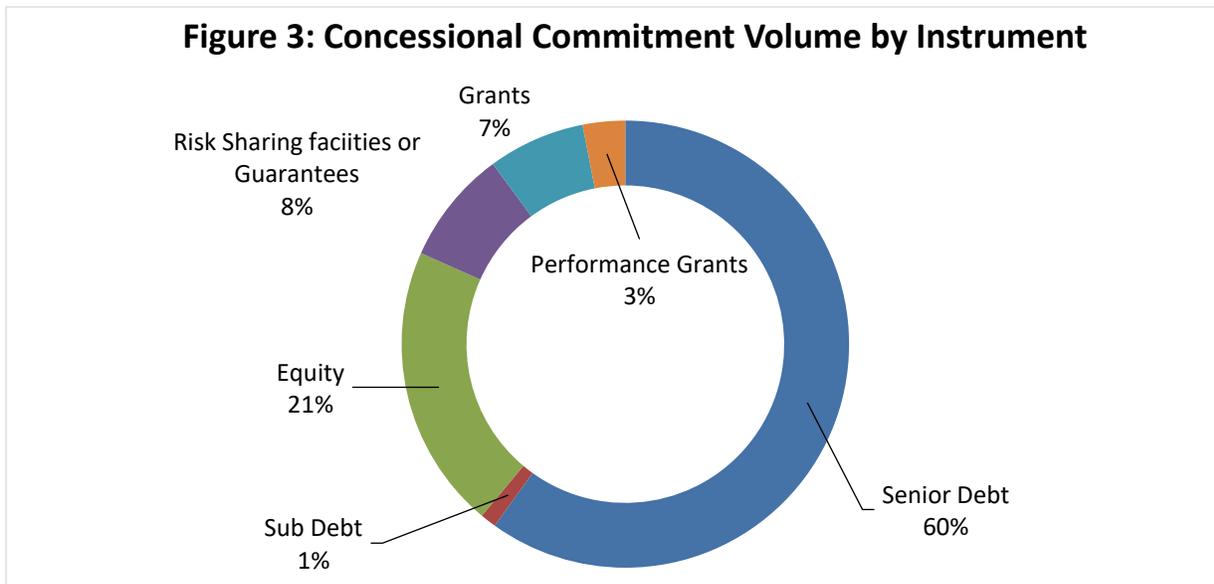
¹⁰ These amounts do not include portfolio guarantees, which are reported separately, and discussed later in this chapter. See footnote above for volume estimates.

¹¹ The MDB Mobilization Task Force calculated for 2018 over US\$69 billion per year of private sector mobilization in low and middle-income countries by DFIs. If this is added to the DFI own account volumes and public contributions, the total project costs could be over US\$100 billion per year. This would be compared to the DFI total project costs supported by blended concessional finance not including high income countries of over \$6 billion.



Compared to data reported last year, the concessional amounts provided by DFIs are about the same (about \$1.1 billion). Amounts mobilized from DFIs and the private sector are somewhat lower, so that total project volume is lower (\$6.1 billion this year compared to over \$8.8 billion last year¹²). However, as discussed ahead, the mobilization varies considerably by region, sector, and theme.

Figure 3 shows the donor concessional commitment volumes for the projects in FY18 broken out by type of instrument. By volume, the largest instrument share was for senior debt (60%) followed by equity (21%) while risk-sharing facilities and performance grants also had significant shares (8% and 7% respectively).



¹² In addition, the total project volume in 2017 was underreported since a number of institutions only reported concessional and DFI amounts.

Geography

Figure 4 shows for each country income group the amount of concessional funds and the related amount of DFI own-account commitments in blended finance activities in 2018. The largest share is in lower middle-income countries, but there is also a significant engagement in low income and upper middle-income countries. This pattern is similar to the results from 2017. The amounts for high income countries are small and almost all for climate finance (see section ahead on themes).

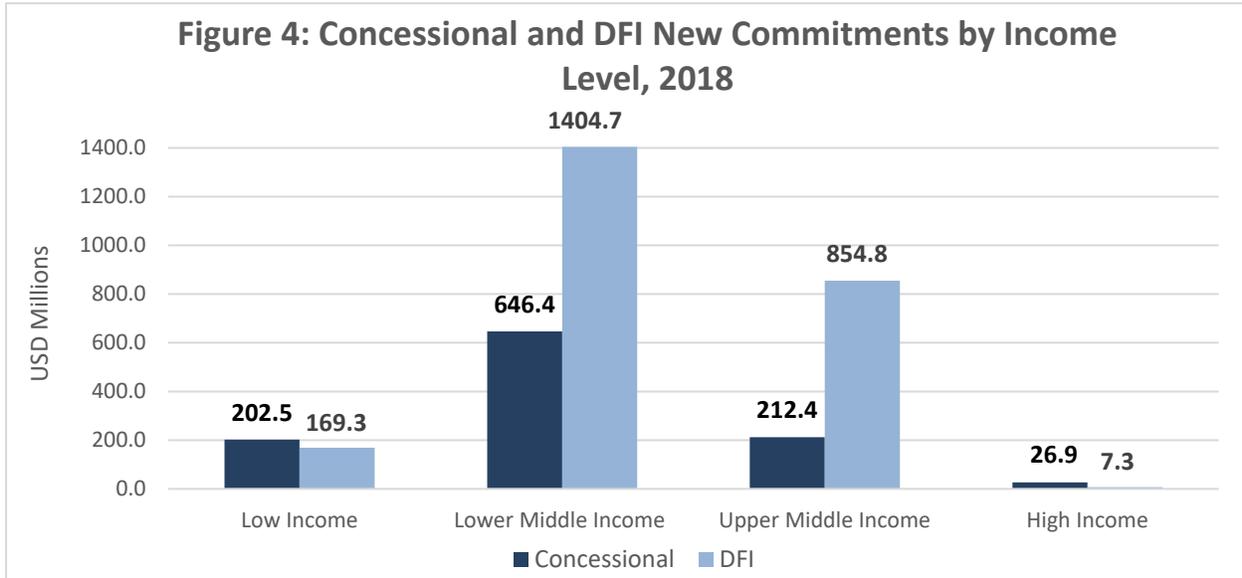


Figure 5 shows the composition by country income group of the total project volume of blended concessional finance projects indicating the private sector finance mobilized as well as the DFI own-account finance and the concessional funds provided. Mobilization of private and DFI funds is significant in all the regions but tends to be lower in low income countries.

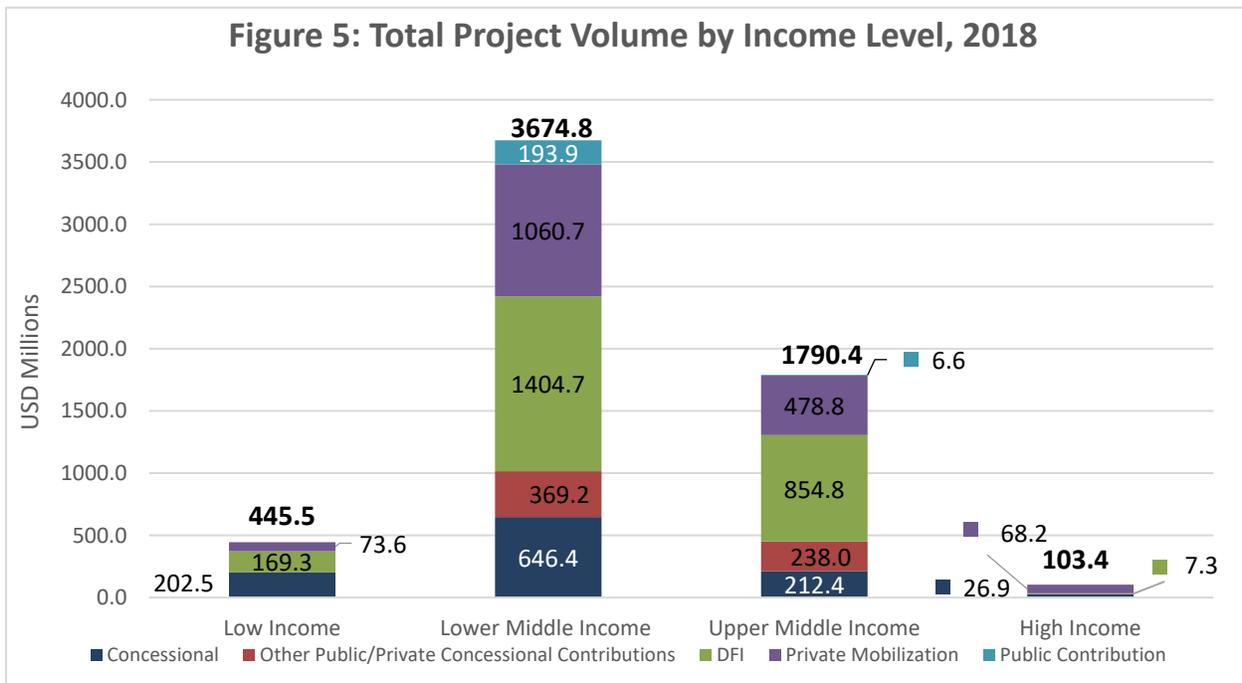
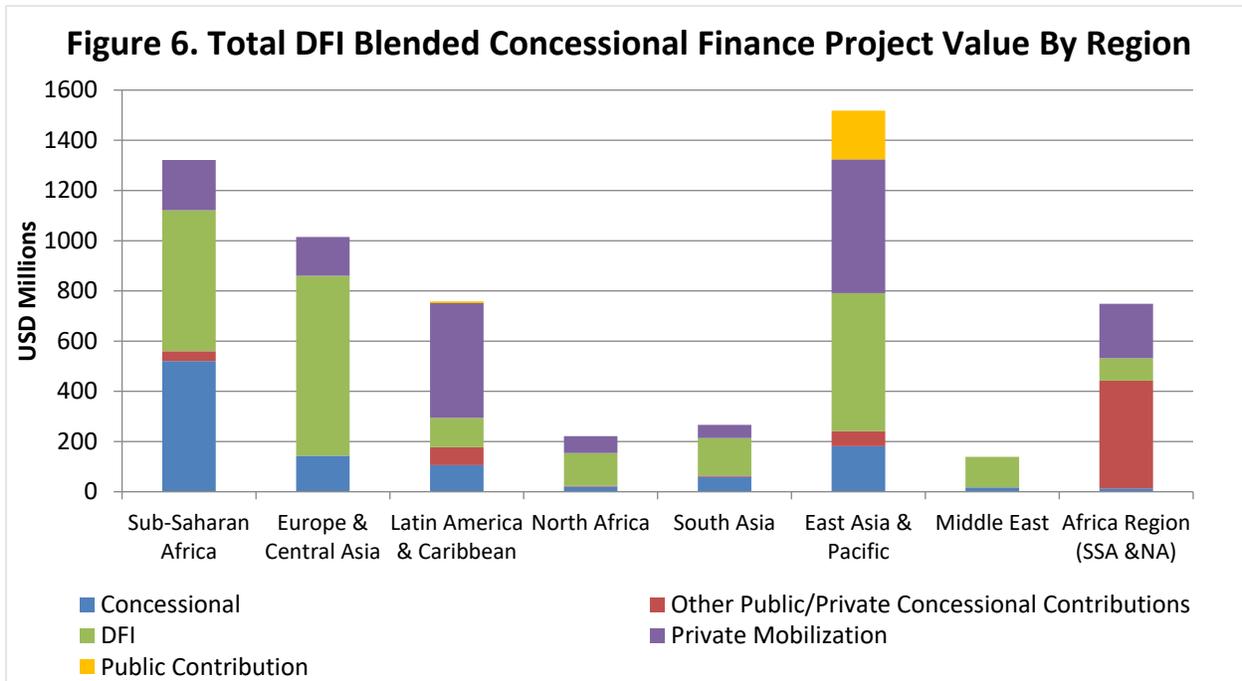


Figure 6 shows the total value of concessional finance projects by region broken out by components of the finance. There is a higher use of concessional relative to the total project size in Sub-Saharan Africa than in most other regions. The availability of this complete regional view is new for 2018.



Note: Africa Region reflects a few projects with large “Other Public/Private Concessional” contributions.

Sectors

Figure 7 shows the amount of DFI managed concessional finance and DFI own-account commitments in different sectors in 2018. A broad range of sectors are represented, particularly infrastructure and banking and finance. The “other” sector includes agribusiness, health, industry and other projects. The financial sector is much more prominent in 2018 projects compared to 2017.

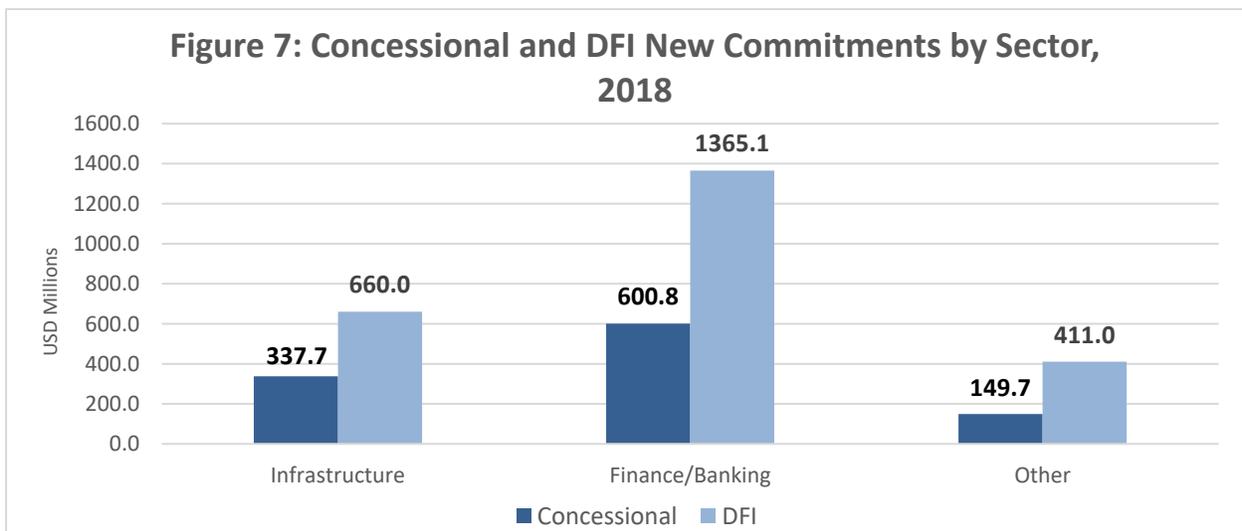


Figure 8 shows the sector composition of the total project volume of blended concessional finance projects in 2018, indicating the private sector finance mobilized¹³, as well as the DFI own-account finance and the concessional funds provided. The Figure shows the significant DFI and private finance mobilized by concessional funds in all sectors, with a relatively higher private sector mobilization in infrastructure.

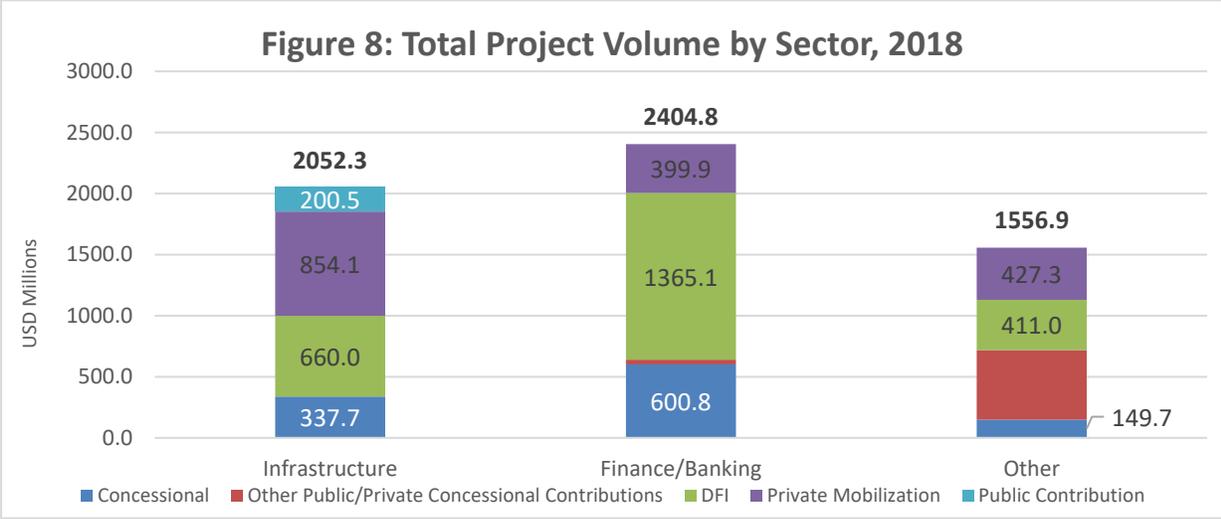
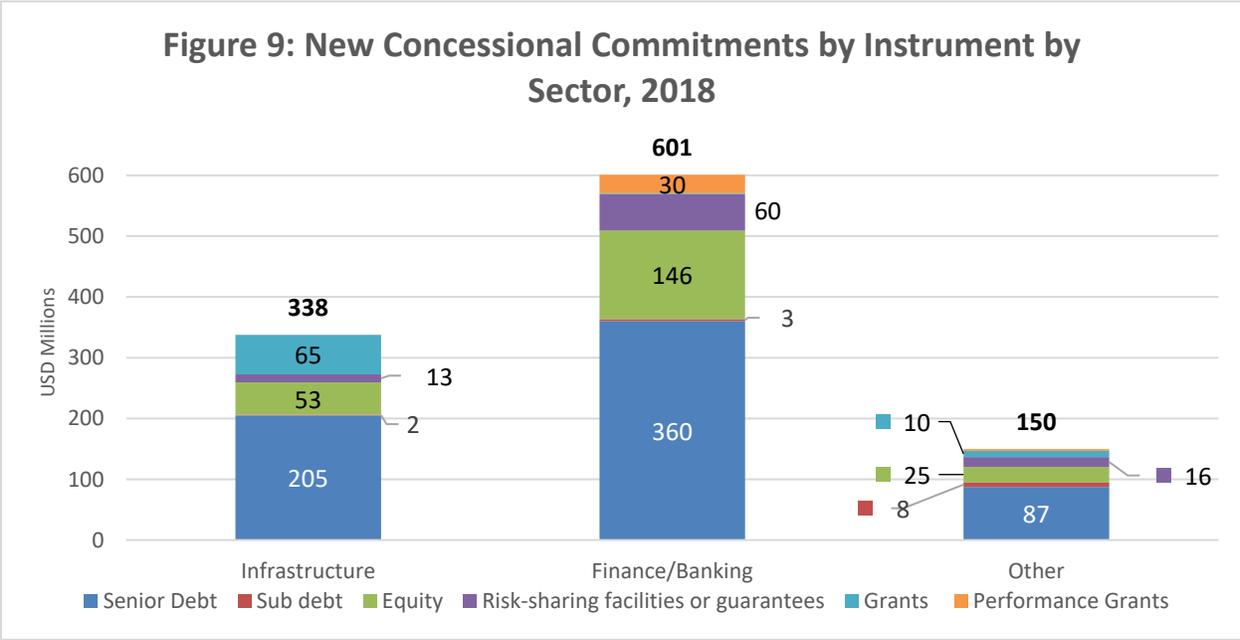
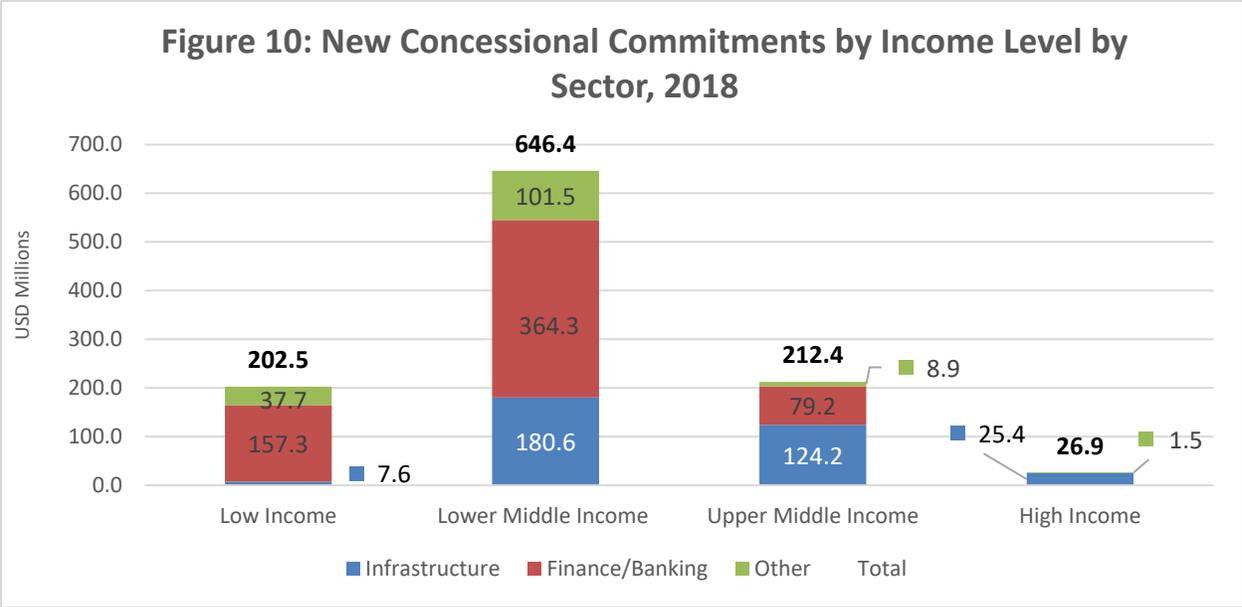


Figure 9 shows the concessional instrument shares in each sector. In all sectors around 60 percent of concessional finance commitments in 2018 were for senior debt and about 20 percent for equity. Risk-sharing facilities or guarantees, and performance grants were also prevalent in banking and finance.

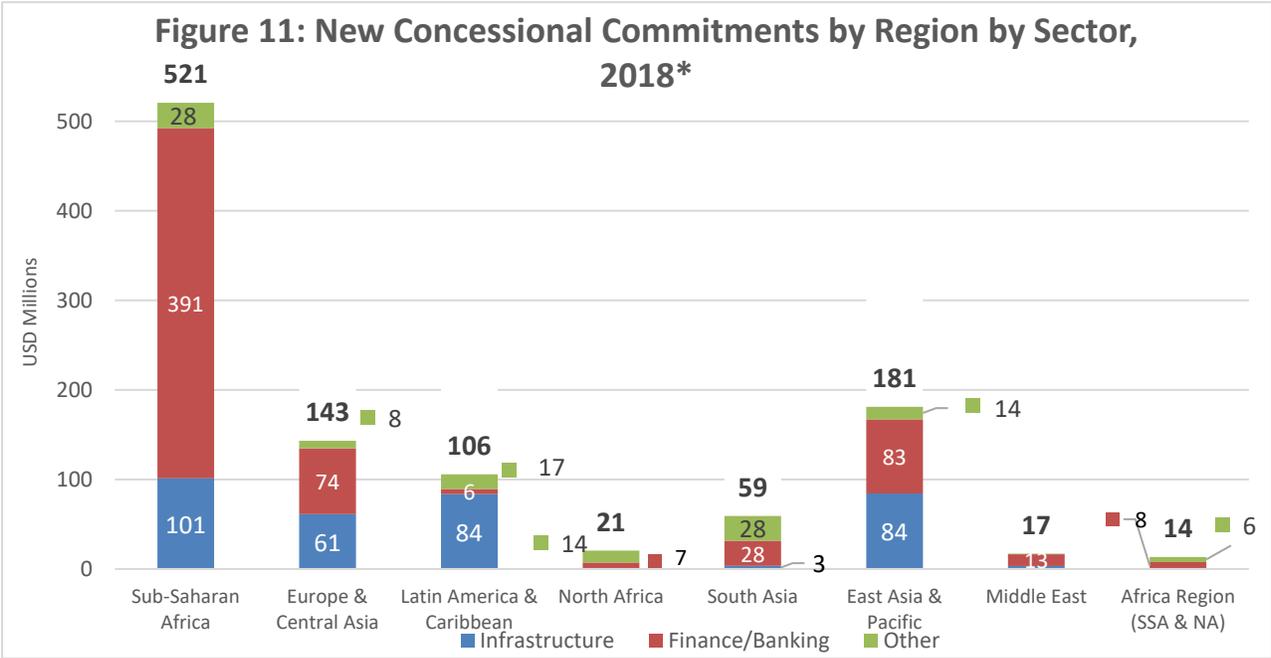


¹³ The amount included as mobilized from the private sector is likely underestimated as some IFIs do not include all partner financial institutions investments and clients' own equity investments in the reported amounts.

Figure 10 shows the sector make-up of concessional finance by country income group in 2018. Lower income countries (lower middle income and low income) have a greater share in the financial sector relative to other income groups, whereas upper middle income and high-income countries have a greater relative representation in infrastructure.



As shown in Figure 11, concessional finance is used across many regions, with a particularly high amount in Sub-Saharan Africa¹⁴. Also shown in Figure 11 is the sectoral breakdown of the concessional finance by region. In general, the main sectors are represented across most regions, but Sub-Saharan Africa has a higher share in the financial sector compared to most other regions.



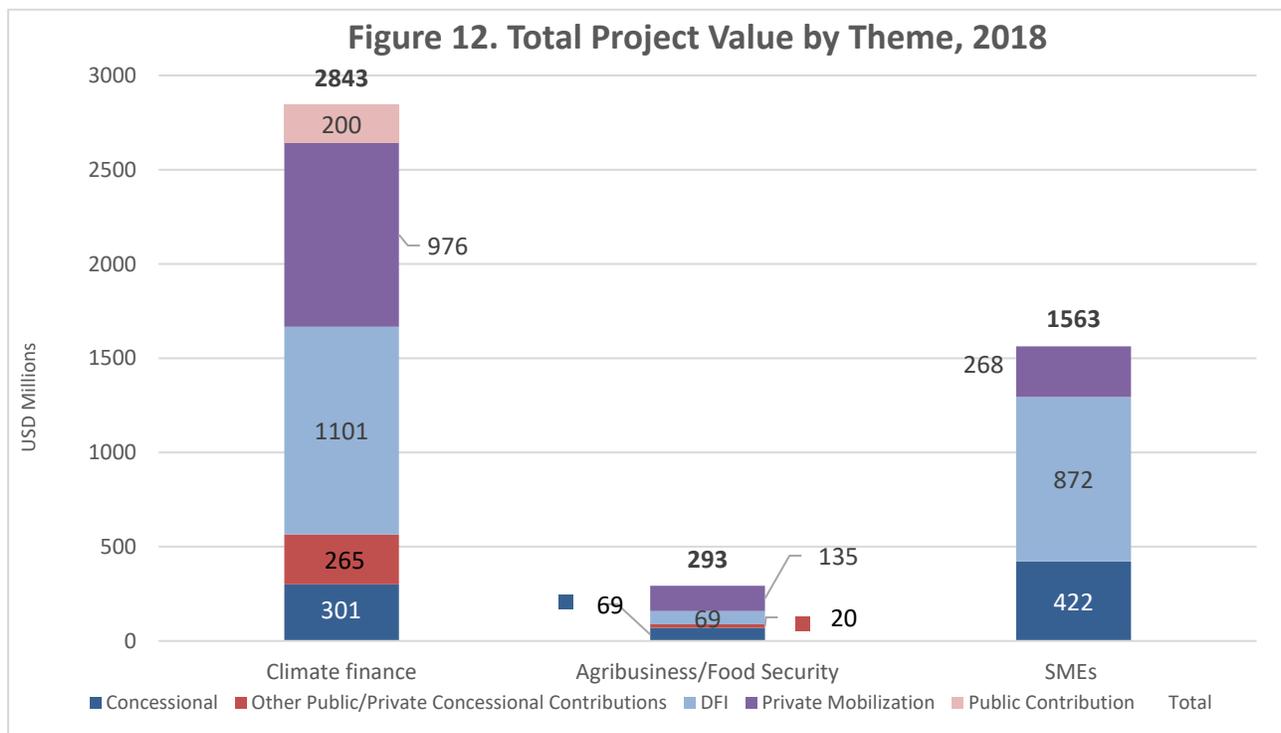
¹⁴ EU countries are not included in the database. See Annex 3.

Themes

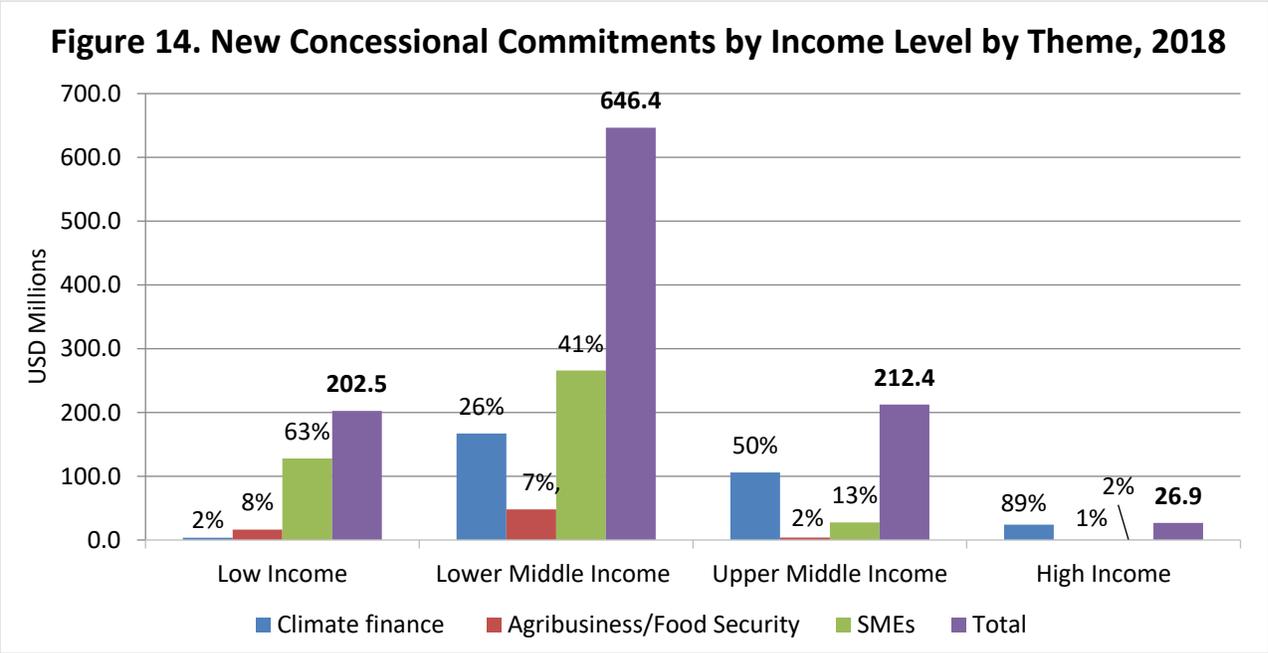
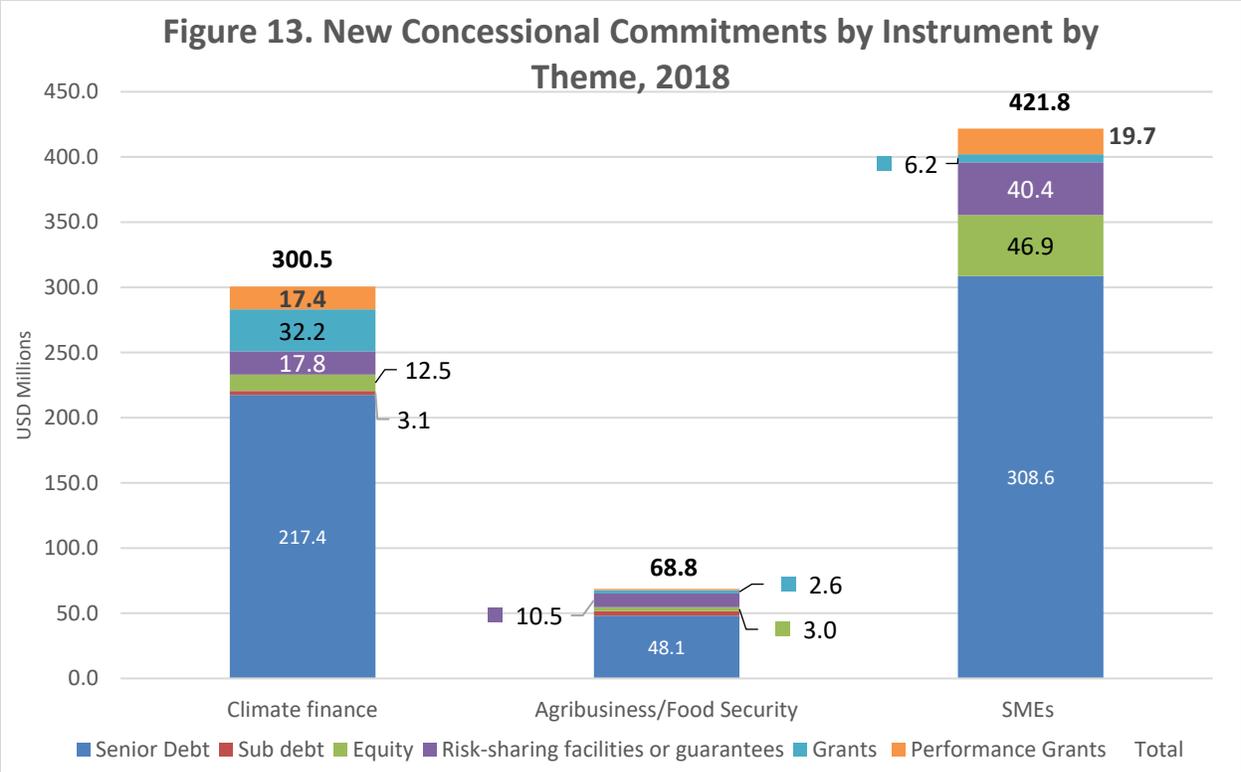
Additional thematic data was collected in 2018. Although from a methodological perspective there are challenges (e.g. theme definitions are not fully aligned and may overlap) there are some interesting observations. Figure 12 shows by theme the total value of blended concessional finance projects and the composition of the finance. Climate finance, SMEs and agribusiness are the themes that were tracked. All have significant volume, but climate finance is the most significant, exceeding volumes in the infrastructure sector -- indicating that climate finance includes both infrastructure and other types of projects (such as energy efficiency). SMEs have the second largest volume. Climate finance and agribusiness tend to provide a higher level of mobilization of private finance per concessional funds provided than is the case with SMEs¹⁵.

Figure 13 shows the instrument breakdown by theme, which indicates a high level of senior debt for climate finance and SMEs, and a more varied mix of instrument types in agribusiness.

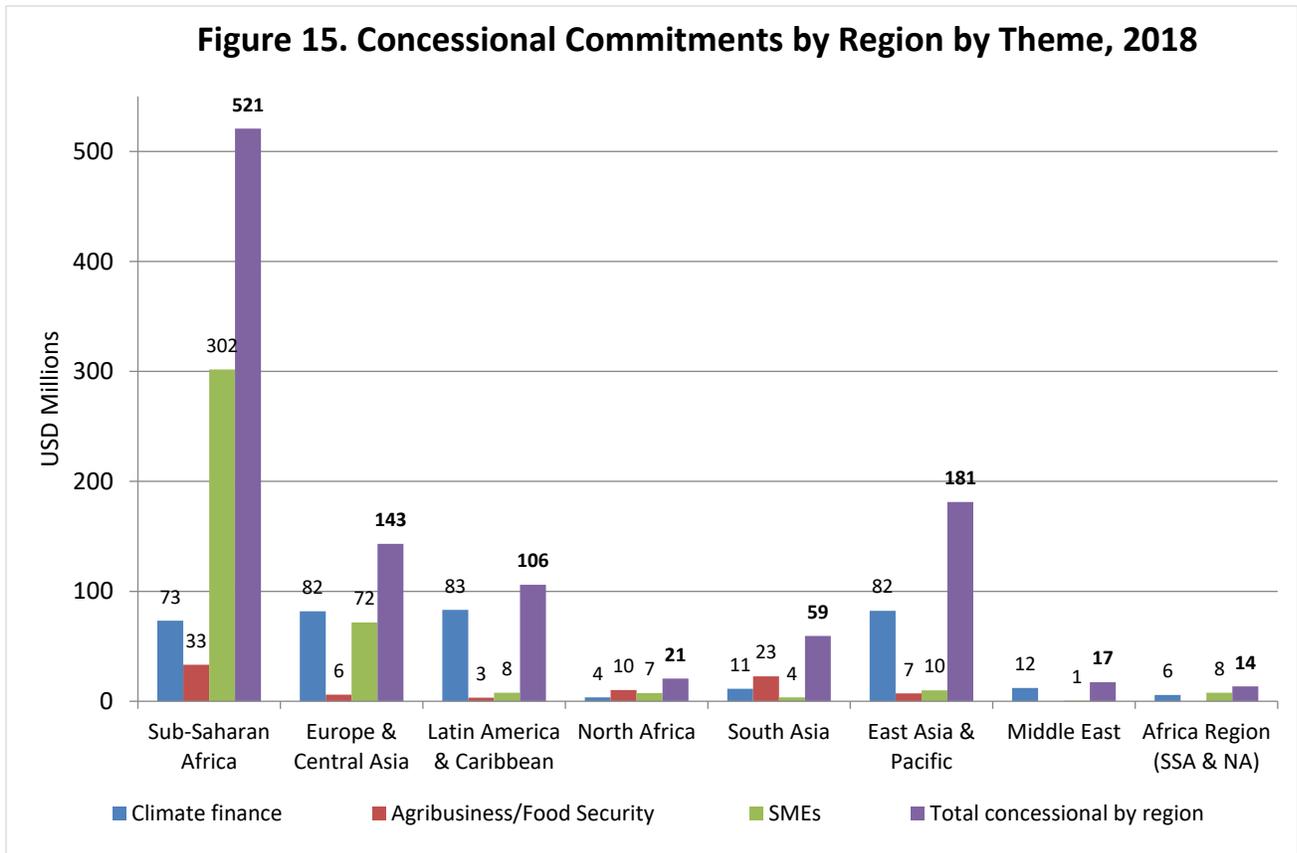
As shown in Figure 14, there is also a higher relative level of climate finance as country income level increases, and a lower level of SME finance.



¹⁵ Private mobilization may be underestimated in SME projects because for some SME projects DFIs do not track the financial intermediary's own investments.



As shown in Figure 15, Sub-Saharan Africa also has a high share of blended concessional finance supporting SMEs, as does Europe and Central Asia.



Portfolio Guarantees

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 concessional results from taking higher risks or costs uncompensated for by higher returns¹⁶.

These programs are becoming more significant for DFI blended concessional finance as they provide some important operating efficiencies and can increase donor leverage. Therefore, the DFIs have agreed to report on these programs this year as part of the data reporting exercise. However, these programs operate differently than conventional blended concessional finance programs, and as these are relatively new to DFIs, work is ongoing to develop an agreed methodology for how to report each

¹⁶ The benefits thereof are ultimately transferred to the final beneficiary.

year regarding concessional funds applied. As a result, the DFIs in 2018 are not including the amounts in the aggregate data but instead are reporting the numbers separately in this section of the report.

In 2018, the DFIs identified five portfolio guarantee programs in their blended concessional finance portfolios. In that year, about \$35 million of donor funded portfolio guarantees¹⁷ were associated with \$168 million of DFI new investment operations. These provided new total project financing of at least \$260 million and more than \$60 million of private sector mobilization¹⁸. The total cumulative nominal value associated with the DFI investments in these funds (not just in 2018) amounted to about \$750 million, with a donor exposure of about \$131 million.

Portfolio guarantees can help to accelerate and promote the development of local currency and capital markets in countries with significant constraints to SME financing. For example, the EBRD SME Local Currency program aims to develop local currency financial intermediation in Eastern Europe and the Caucasus, Central Asia and North Africa. The EIB and EBRD DCFTA SME Direct Support Facility improves access to finance for local SMEs in Georgia, Moldova and Ukraine to enable investment projects consistent with the Deep and Comprehensive Free Trade Area (DCFTA). The IFC Small Loan Guarantee Program provides an efficient platform for risk sharing to help financial intermediaries support small business in IDA and fragile and conflict countries. EBRD also has outstanding guarantees under its Trade Facilitation program that decrease risks associated with cross-border trade and support the development of exporters in the Western Balkans and Central Asia.

An important element for donors in these facilities is fund reutilization, as undrawn commitments can be reallocated until the fund is terminated, which ultimately increases the leverage of donor funds. Some donors also support an integrated approach, where the guarantee facilities are supported by technical assistance for financial intermediaries and SME capacity building, as well as policy engagement to improve domestic financial intermediation.

Development Partners

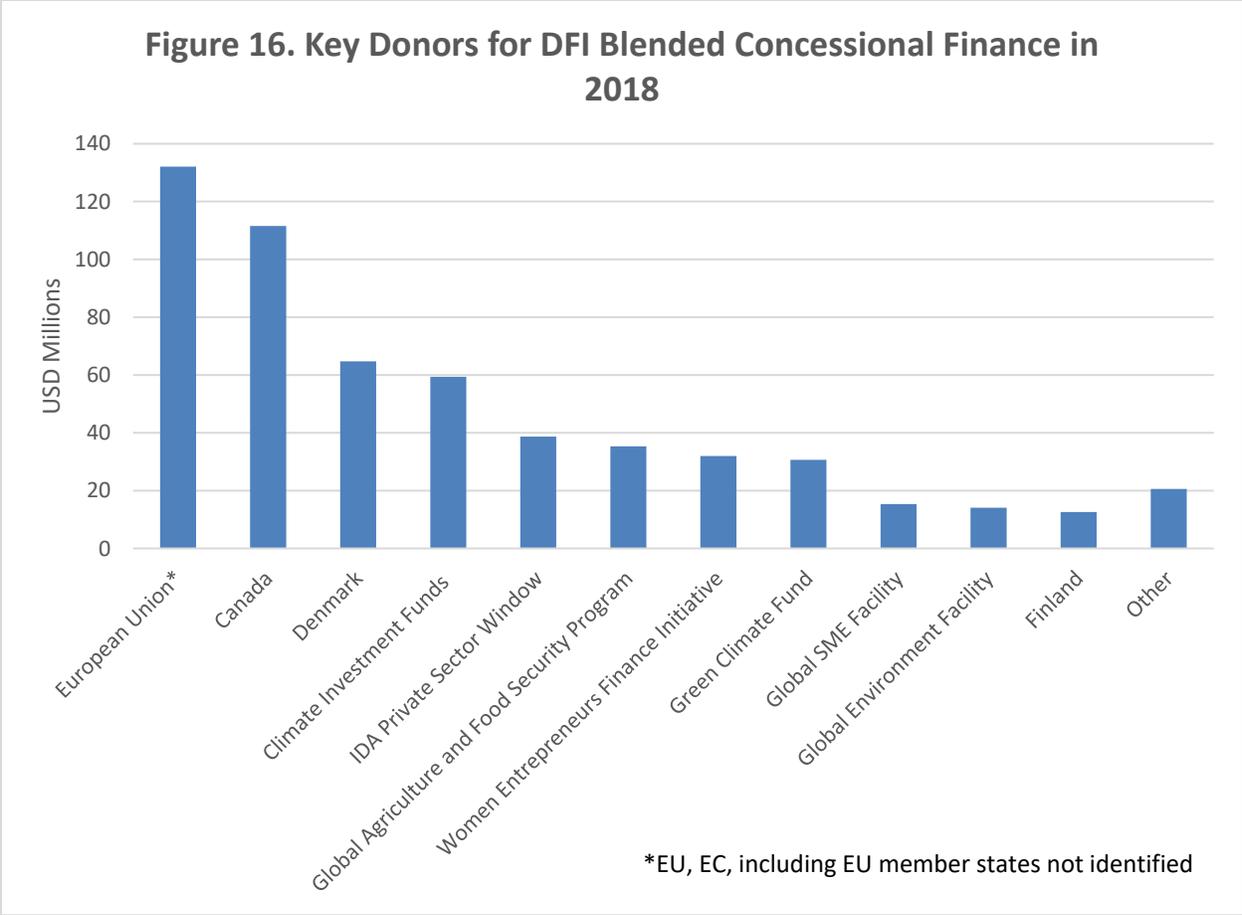
This year the DFIs for the first time gathered data on the **volume of concessional support from various development partner facilities**. Figure 16 shows the major development partners that contributed to the blended concessional finance commitments of DFIs in 2018, of the DFIs that reported this data (about 50 percent of the 2018 development partner contributions have been reported to date). The two largest development partners for 2018 were the European Union and Canada. Other major development partners included Denmark, the Climate Investment Funds, the IDA Private Sector Window, the Global Agriculture and Food Security Program, the Women Entrepreneurs Finance Initiative, the Green Climate Fund, the Global SME Facility, the Global Environment Facility, and Finland. Seven other development partners account for the rest¹⁹. Contributions from the development partners are provided through the use of a broad array of instruments, such as grants and concessional

¹⁷ This is based on the calculation methodology number 1 as discussed under “Portfolio Guarantees” in Annex 3.

¹⁸ Private sector mobilization and total project volume is under-reported for portfolio guarantees as some DFIs have not yet begun tracking indirect private mobilization for portfolio guarantees.

¹⁹ These are: EBRD Financial Intermediary Investment Special Fund, DFI net income allocation for concessional financing, EBRD Small Business Impact Fund, Eastern Europe Energy Efficiency and Environmental Partnership (E5P) Fund, Japan, Kazakhstan, among others.

finance, to be used or “blended” alongside DFIs’ investments, returnable capital, guarantees, and first-loss facilities, among others. These contributions are essential in enabling blended concessional finance transactions to take place.



IV. Other Working Group Activities

Highlights of 2018 DFI Blended Concessional Finance Projects. The data on blended concessional finance volumes by DFIs in 2018 provides an overview of project volumes and sector and geographic focus. To provide some additional context on the blended concessional finance projects, each DFI selected key projects from 2018 to highlight, including information on the challenges addressed and the expected impacts. These projects are profiled in Annex 2.

The projects from 2018 include a number of innovative approaches to private finance for high impact projects in climate, environmental sustainability, and MSME finance. This included pioneering use of bonds to finance solar power and microfinance, early stage equity and innovative facilities to finance on-grid and off-grid renewable energy and energy efficiency programs in Africa, Asia, Europe and other regions, a fund to promote private investment to address land degradation, new programmatic approaches to fund MSMEs, long term financing to support agribusiness development, and investments dealing with critical issues related to fragility and conflict, such as microfinance for refugees, and utility-scale solar power in Afghanistan.

Blended concessional finance was generally used to de-risk pioneering projects in high risk countries and/or projects with new technologies or those addressing under-served segments in society. The projects illustrate that blended concessional finance is a critical tool to develop private sector markets, foster innovation, and crowd in private finance in the some of the most challenging settings.

Updates on Implementing the DFI Enhanced Principles. The DFIs this year reported considerable progress in implementing new approaches to blended concessional finance governance and implementation of the DFI Enhanced Principles. In general, the DFI Principles are now more frequently being explicitly addressed in formal DFI project processes, e.g. with checklists embedded in the formal project decision-making processes, and extensive efforts have been made to provide appropriate independent input and oversight, for instance with dedicated teams or departments or with independent economic department reviews. Staffing of teams that oversee blended finance are also being formalized and refined. Governance processes are still being tested and piloted, especially for some of the EDFI institutions where blended concessional finance is still relatively new.

Knowledge Sharing Discussions. At their annual meeting in July 2019, the DFIs discussed a number of topics related to implementing the blended concessional finance principles, sharing knowledge and experiences. Some of the topics covered included:

- Prioritization of the five principles. DFIs discussed how much they emphasize the different DFI Enhanced Principles when evaluating projects. In general, DFIs focus most on principles one – rationale for using blended concessional finance, and three -- commercial sustainability.
- Tracking minimum concessionality. DFIs have been experimenting with different ways of measuring and monitoring minimum concessionality. Ideas cited included monitoring project debt service cover ratios (DSCR) and internal rates of return (IRR), although some DFIs felt that the IRR was not a precise enough measure to use. Identifying maximum concessionality was also a part of the process for some institutions. Benchmarking levels of embedded subsidy is another option.

- Benchmarking embedded subsidies. IFC presented a pilot program using a simplified methodology for calculating embedded subsidy that could potentially allow DFIs to compare subsidies on projects across institutions. The methodology employs a discount rate based on country income level and type of product used (e.g. senior debt, subordinated debt, equity, etc.). A trial use of the methodology was piloted with 50 IFC projects, where the calculation method was compared to a method based on IFC's own pricing. Although fine tuning is required, the results with the simplified calculation methodology look promising in terms of providing concessionality percentages similar to ones calculated with IFC's own pricing. IFC invited other DFIs on a bilateral basis to join in further testing and refining the methodology.
- Transparency. DFIs take transparency very seriously. At the same time, DFIs have to ensure that client specific commercially sensitive data is duly protected. In light of some stakeholders' calls to enhance transparency, the DFIs discussed potential issues regarding public disclosure of subsidy levels for individual projects. Some DFIs indicated that they already provide this information to their Boards, but not for public release (except on an aggregated basis) though this public disclosure was something being considered. The major potential issue that some DFIs identified was that by releasing individual project subsidy information negotiation of other investments could be more difficult as other clients would expect the same level of subsidy even if it was not appropriate for their projects. This could then potentially make it harder to adhere to the minimum concessionality principle.
- Auctions and open offers. DFIs discussed use of auctions or open offers (providing upfront the amount and terms of the concessional funds to all applicants who meet pre-specified criteria) as a means of transparently providing concessionality. This approach has been successfully used in infrastructure when government concessions are granted and can work well for standardized projects. However, the more projects are unique -- such as in manufacturing, have a limited number of potential sponsors, provide innovations or new types of financing structures, or operate in very fragile environments, the use of auctions could be more difficult. Open offers can yield transparency in terms of subsidies being offered but don't allow for achieving minimum concessionality based on individual project circumstances. Also, experiments with open offers or calls for proposals have in most cases yielded few projects that would be bankable. Overall, it was felt that both auctions and open offers can work in certain cases but cannot be applied in all situations.

Engaging with New Institutions on the Principles. The DFIs are in contact with several organizations, including new bilateral DFIs, about joining the DFI Working Group and/or implementing the DFI Enhanced Principles. In addition, discussions are underway with some of the National Development Banks about considering the adoption and agreeing to implement the DFI Enhanced Principles.

Progress Working with other Blended Finance Groups. DFIs have been engaged with several other blended finance groups, particularly the THK/OECD Blended Finance Program, the Blended Finance Task Force, WEF, Convergence, GIIN, SDIP, and others. These interactions will continue, with coordination by the DFI Blended Concessional Finance Working Group. It was emphasized that in the THK program, although individual DFIs are leading several of the working groups, they are seeking to represent the DFIs as a group.

V. Next Steps

The DFI Working Group has recommended the following areas for continued engagement in the next phase:

1. Continue the dialogue and knowledge-sharing on blended concessional finance including implementation of the Enhanced Principles, with a main meeting once per year and additional meetings and conference calls as needed, with additional in-person meetings centered around other events where the DFIs are likely to attend.
2. Continue to reach out to contributor partners (bilateral and multilateral donors, foundations, and others), other DFIs and relevant institutions, including other bilaterals and National Development Banks, to extend the adoption of the Enhanced Principles to a wider range of actors that provide resources and/or implement blended concessional finance solutions for private sector projects.
3. Use the Working Group to provide coordinated DFI input into discussions with other blended finance-related working groups, such as the OECD, and encourage alignment where appropriate.
4. Continue updating the DFI blended concessional finance data, refining the methodology for collection and analysis, and publishing a joint report annually.

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 resources²⁰.

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 4 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.

²⁰ 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.

DFI Enhanced 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](https://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES)", October 2017. (https://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES)

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 Concessional Finance	Commercial Sustainability	Reinforcing Markets	Promoting High Standards
Principle	<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>
Guidelines	<ul style="list-style-type: none"> • 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). • When projects cannot be structured on a fully commercial basis, the use of blended concessional finance can be justified if it addresses externalities, information 	<ul style="list-style-type: none"> • Apply explicit processes in project analysis to determine minimum concessional finance. • Information or data, e.g. of other projects' pricing structures, level of concessional finance, 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. • Structure blended concessional finance operations to address as 	<ul style="list-style-type: none"> • Maintain a high level of scrutiny of the commercial viability of clients. • Reduce demonstrably the level of concessional finance extended to repeat projects as market failures and/or other obstacles are reduced. 	<ul style="list-style-type: none"> • Identify and, where feasible, implement measures to overcome the obstacles identified that are barriers to commercial sustainability. • Monitor, where feasible, the obstacle identified as giving rise to the need for blended concessional finance. • Introduce, where feasible, market monitoring and coordination among DFIs to leverage experience, coordinate policy, and demonstrably take steps over time to reduce the 	<ul style="list-style-type: none"> • 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. • Ensure a level of independence or oversight within project teams and decision-making bodies managing blended concessional finance operations, to ensure

Principle Title	Additionality/Rationale for Using Blended Concessional Finance	Crowding-in and Minimum Concessional	Commercial Sustainability	Reinforcing Markets	Promoting High Standards
	<p>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> <ul style="list-style-type: none"> • 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. • 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>directly as possible critical gaps in the financing structure and to minimize the need for future, ongoing concessional.</p> <ul style="list-style-type: none"> • Size, where possible, the level of concessional relative to the value of the externality/obstacle identified. • 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. • 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>root causes for requiring blended financing.</p> <ul style="list-style-type: none"> • Structure blended concessional finance to align incentives to accelerate sustainable market development. 	<p>effective and efficient use of concessional resources.</p> <ul style="list-style-type: none"> • 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. • Develop specific disclosure policies for blended concessional finance, tailored to different stakeholders, that balances transparency with appropriate client confidentiality and DFI efficiency.



La Jacinta

Mobilizing institutional investors in the first cross-border solar project bond in Latin America and the Caribbean.

INVESTMENT SUMMARY

Client:
Invenergy Wind Holdings

Country:
Uruguay

Financing:
Blended: \$24 million
Total: \$96 million

Year:
2018



CHALLENGE

La Jacinta is a 50 MW utility scale solar photovoltaic (PV) plant in Uruguay expected to mitigate over 18,000 tons of CO₂e per year.

The project is the first commercial scale solar photovoltaic project in Uruguay under a new 200 MW solar PV program awarding power purchase agreements with Uruguay’s state-owned public utility. At the time of the award (2014), there was limited commercial capital available to finance long-term renewable energy assets in Uruguay.

SOLUTION

IDB Invest financed the construction of the plant, mobilizing financing at tenors that were not available in the market. The financing included a \$25 million blended finance loan from the C2F¹ to improve the financial viability of the project.

Once operating, the project was refinanced in 2018 under IDB Invest’s A/B bond format with the terms of the C2F¹ blended finance loan amended to support the investment grade issue rating.

RESULTS

The transaction marks the first cross-border solar project bond in Latin America crowding-in \$68 million from institutional investors. At 24.5 years, it is the longest dated non-sovereign bond in Uruguay. It deepens the capital markets interest in the nascent Uruguayan non-conventional renewable energy market, which has grown to represent close to 30 percent of the energy generated in the country.



¹: Canadian Climate Fund for the Private Sector in the Americas.

Climate Investor One (CIO)

CIO mobilizes large volumes of private sector capital for renewable energy investments in developing countries to help mitigate the effects of climate change.

INVESTMENT SUMMARY

<p>Client:</p> <p>CLIMATE FUND MANAGERS</p> <p>(fund manager)</p>	<p>Country:</p> <p>Netherlands based, with investment mandate exclusively within developing markets</p>	<p>Financing:</p> <p>Blended: USD ~850 million</p>	<p>Year:</p> <p>Fully operational since 2017 Final close: 21 June 2019</p>
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Challenge	Solution	Results
<p>1. Project development stage is often perceived as too high risk by private sector financiers or simply too challenging for ‘developers’ to access financing from public sector sources.</p> <p>2. Use of debt at construction (project finance) is often burdensome on project timelines, overly complicates project structures and adds project finance specific costs at a time when there is no revenue generated (interest during construction; DSRA, etc.)</p> <p>3. Lack of private sector capital reaching developing markets and entering the climate finance sectors.</p>	<p>1. CIO offers project developers access to early-stage capital through use of a Development Fund, covering a wide range of costs prior to Equity Close.</p> <p>2. CIO replaces debt at construction with an all-equity financing approach through the Construction Equity Fund. Debt is only introduced post-construction through a Refinancing Fund, when projects are operationalized.</p> <p>3. CIO uses strategically positioned donor capital to leverage private sector finance on a 1:4 leverage ratio at Fund level, enabling scalability for maximal impact. CIO also recycles its capital through multiple investment cycles.</p>	<p>CIO contributes directly to 6 UN SDGs:</p>  <p>Upon full deployment of capital, CIO will deliver an estimated ~1,700MW of additional capacity, generating ca. ~5,100GWh per annum of electricity and serve in the region of 13 million people. CIO will avoid an estimated 1.9 million tCO2 per annum, the equivalent of ~400,000 passenger cars removed from the road.</p>

Land Degradation Neutrality Fund

Sustainable land-use activities in developing countries

INVESTMENT SUMMARY

Joint initiative by the United Nations Convention to Combat Desertification (UNCCD) and Mirova-Althelia (Fund Manager)

Region: Latin America, Africa and Asia

Financing:
EIB: USD 45 mn
Total project cost: USD 300 mn

Year: 2018

Challenge	Solution	Results
<p>Stopping land degradation is an essential tool for mitigating climate change. Land Degradation Neutrality (LDN) has emerged as a new policy concept and is included in the UN Sustainable Development Goals (SDG 15-3).</p> <p>Fund is designed to offer financing solutions that are not readily available in the market, providing finance (both debt and equity) and strategic benefits in ways other investors or banks might not (i.e. longer tenors, longer grace periods, more flexible repayment schedules, etc.).</p>	<p>The Fund aims to become a source of transformative capital bringing together public and private investors to fund a triple bottom line project. The Fund will be the first-of-its-kind, investing in sustainable land management and land restoration projects, with the aim of creating awareness and demonstrating the merits of LDN related investments. Given the high risk perception of the underlying investments, generally a higher than acceptable risk profile for many public and private investors, the Fund will have a layered capital structure.</p>	<p>The Fund's activities should have a positive demonstration effect, helping to develop the nascent LDN investment market and ultimately attract capital from more mainstream investors in order to increase the scale of impact. The objective of the Fund is to build a diversified portfolio of around 15 investments, with tickets ranging from USD 10 to 40m, across different sectors and geographies.</p>

Microfund for Women Microfinance Loan

Financing microfinance activities of female entrepreneurs, including Syrian refugees, in Jordan

INVESTMENT SUMMARY

Client: Microfund for Women (MFW)	Country: Jordan	Financing: EIB: USD 5mn Total Project cost: USD 10 mn	Year: 2018
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Challenge	Solution	Results
<p>The microfinance sector plays a vital role in realizing financial inclusion through improving financial access for the vast numbers of unbanked, financially underserved and excluded, primarily women and the low-income segment.</p> <p>In addition, Jordan is one of the countries most affected by the civil war in neighbouring Syria.</p>	<p>MfW is a private non-profit microfinance institution dedicated to empowering the entrepreneurial poor, especially women and including Syrian refugees. The purpose of the loan funded 2/3 by the EIB and 1/3 by the EC (serving as a first loss piece on a portfolio basis) is to provide MfW with a stable medium term source of funding, allowing the MFI to further strengthen its market position, while extending the maturity profile of its funding structure. In addition, EIB is supporting MfW with a technical assistance funded by the EC.</p>	<p>The proposed operation will lead to increased funding available to support the on-lending to micro entrepreneurs in Jordan, in particular women and refugees, which promote the development of a market economy and social inclusion, and hence support an equitable social and economic development.</p>

Kandahar Solar Power Project

Long-term financing to build and operate a 15-megawatt solar power plant in Afghanistan, the nation's first utility scale renewable energy project.

INVESTMENT SUMMARY

Client:

Barakat Kandahar Solar Energy (BKSE)

Country:

Afghanistan

Financing:

ADB: \$4.0 million
CFPSII: \$3.9 million
Total cost: \$18.9 million

Year:

2019

Challenge	Solution	Results
<ul style="list-style-type: none"> • Afghanistan depends heavily on neighboring countries for its energy needs, importing 80% of its power and 97% of its fuel. • Afghanistan's government solicited proposals to design, build, finance, own and operate 30 megawatts of solar in 2016. • BKSE was selected to develop 15 MW. • Long-term dollar-denominated financing is unavailable in Afghanistan, and local commercial bank loans, when available, are extended with high margins and short tenors. • Limited recourse financing is rare. 	<ul style="list-style-type: none"> • ADB was invited to provide project financing to BKSE on terms that enabled the project to move forward. • A concessional loan from the Canadian Climate Fund for the Private Sector in Asia II further bridged the financing gap and enabled financial close. • The concessional loan also helped finance the development and implementation of a corporate social responsibility program and gender action plan. 	<ul style="list-style-type: none"> • The \$3.9 million concessional loan mobilized \$15.1 million in financing from ADB, sponsor's equity, and other donor funds. • As of August 2019, construction has been completed and the project has begun power dispatch to the Kandahar grid. • The asset will contribute to improved energy security and avoid approximately 8,500 tons of carbon emissions annually. • 65 local new jobs were created during construction, and 12 workers will maintain and operate the facility.



Rantau Dedap Geothermal Power Project (Phase 2)

Financing for the construction and operation of a 91-megawatt geothermal power plant in Indonesia, rolling over a concessional loan that provided catalytic exploration financing.

INVESTMENT SUMMARY

Client:

PT Supreme Energy
Rantau Dedap

Country:

Indonesia

Financing:

ADB: \$177.5 m
CTF: \$50.0 m
Others: \$482.4 m
Total cost: \$709.9 m

Year:

2018

Challenge	Solution	Results
<ul style="list-style-type: none"> Indonesia has the largest potential for geothermal energy globally, estimated at almost 30 GW_e. Less than 7% of this potential had been developed as of 2017. The high costs and risks of exploratory drilling required to quantify and characterize a site's potential are among the reasons that inhibit more widespread adoption of geothermal power projects. 	<ul style="list-style-type: none"> In 2014, ADB provided a medium term \$50 million loan funded by the Clean Technology Fund to finance the initial drilling and exploration phase of the Rantau Dedap project (Phase 1). Financing for early stage drilling and exploration is a key barrier for these types of projects. Upon quantification of the geothermal resource, Phase 2 financing was signed in 2018, enabling the project to complete construction. The \$50 million CTF loan was rolled over into Phase 2 of the project, which included a \$177.5 million loan from ADB's own account. 	<ul style="list-style-type: none"> The borrower is constructing a 91 MW geothermal power plant expected to result in net greenhouse gas emission reductions of approximately 400,000 tons carbon dioxide equivalent p.a. The \$50 million CTF concessional loan helped leverage an additional \$660 million in financing from the sponsors, ADB and other lenders. The project is also expected to provide at least 100 jobs once operational. Particular emphasis will be placed on the inclusion of women in its community outreach programs.



African Guarantee Fund for Small and Medium Sized Enterprises Ltd (AGF)

AGF is a pan-African non-bank financial institution, registered as a private limited liability company, whose objective is to boost access to finance for SMEs and stimulate employment creation by providing financial guarantees.

INVESTMENT SUMMARY

Client:

African Guarantee Fund (AGF)

Country:

Regional (domiciled in Mauritius)

Financing:

USD 10m own account
EUR 22m from European Commission

Year:

2018

Challenge	Solution	Results
<p>AGF provides partial financial guarantees of up to 50% on product and portfolio basis to partner financial institutions and support for capacity development of the client financial institutions to help them improve their SME financing capabilities. The guarantees are designed for the purposes of de-risking the financial institutions lending to SMEs and to address the market gap challenges, such as: SME lack of collateral; perception of SME as high risk profile; financial institutions inadequate access to long term funding for on-lending to SMEs; and, lack of credible data by most SMEs which banks can use to fairly assess their creditworthiness.</p>	<p>Providing guarantee instruments to exclusively support SMEs' access to finance, especially bank credit to SMEs, is still perceived high risk. AGF's financing structure incorporates blended capital approach which caters for investors with various risk-return profiles. This includes a first loss tranche from donors, second loss equity tranche from bilateral and multilateral institutions as well as a third loss equity tranche from private investors. The concessional financing from donors in the first loss tranche is aimed at catalyzing more commercial investment into AGF by ensuring increased scale, capital protection and expected return.</p>	<p>AGF's financial guarantees to financial institutions promote sustainable enterprise development by supporting increased access to finance for SMEs, that are a critical source of employment and empowerment for Women & Youth of Africa. Since inception, it has unlocked around USD 1.3 billion of financing to SMEs through financial institutions.</p>



AFRICAN DEVELOPMENT BANK GROUP



Facility for Energy Inclusion (1)

The Facility for Energy Inclusion (FEI) is a **blended finance facility** to provide debt funding to **small-scale projects** - off-grid solar, small scale IPPs and mini-grids – with the objectives of **aggregating capital, structuring bankable projects** and **accelerating their delivery** so as to increase access to clean energy across Africa, while supporting the transition to low-carbon and climate resilient development. FEI is split in two windows with different targets:

<p>Window:</p> 	<p>Client:</p> <p>Lion's Head Global Partners (Fund Manager)</p>	<p>Country:</p> <p>Multinational (domiciled in Mauritius)</p>	<p>Financing:</p> <ul style="list-style-type: none"> AfDB: \$30m (\$20m debt; \$10m equity) Other DFIs: \$10m Donors: \$30m Private sector: \$55m <p>TOTAL: \$125m</p>	<p>Year:</p> <p>2018</p>
Challenges		Solution	Results	
<p>FEI OGEF supports pay-as-you-go system companies and other innovative off-grid energy access distribution companies through lending to corporates and SPVs.</p> <p>For off-grid solar, the market failure arises because of:</p> <ul style="list-style-type: none"> the wariness of perceived/real risk in nascent sectors with innovative technologies and limited track record; the lack of understanding of the business models, including 'pay-as-you-go'; the opportunity cost for local financial institutions of investing in nascent versus better known sectors; the financial and operational constraints faced by banks in terms of servicing the market. <p>Capital with a high-risk appetite is therefore needed to catalyze investment by public and private investors into innovative and emerging technologies and smaller scale projects typically supported by DFIs, Donors and Institutional Investors.</p>		<p>The off-grid window of the FEI targets a fund value in excess of \$130 million out of which 30% will be from donors at concessional rates to lower the cost of funds for OGEF</p> <p>The concessional financing will be provided in the form of first loss equity with returns significantly below rates ordinarily required by commercial equity investors.</p> <p>Blended finance contributions will enable the fund to mobilize \$55m of debt from the private sector and deliver risk adjusted returns to the ordinary equity investors</p>	<p>This will enable the Fund to provide affordable and cost effective working capital to off-grid solar players in hard and local currencies, via a range of debt instruments (including receivables lending, inventory finance, other working capital lending and unsecured corporate debt), while establishing a precedent of commercial viability for investors that may wish to anchor additional similar funds in the OGE sector.</p> <p>Private investors have so far invested in FEI's debt tranche, accounting for 40% of the funds' volume, an above-average share in blended finance structures to date.</p>	

Facility for Energy Inclusion (2)

Window:



Client:

Lion's Head Global Partners (Fund Manager)

Country:

Multinational (domiciled in Mauritius)

Financing:

- AfDB: \$70 m (\$30m in debt; \$40m in equity)
 - Other DFIs: \$40m
 - Donors/Climate Funds: \$60m
 - \$120m debt from private sector
- TOTAL: \$295m**

Year:

2019

Challenges	Solution	Results
<p>FEI On-Grid targets on-grid renewable energy small-scale IPPs, mini-grids and captive power projects by providing long-term debt through project finance structures.</p> <p>Despite the large market opportunity, small-scale renewable energy projects are currently not scaling-up in Africa due to a multitude of factors:</p> <ul style="list-style-type: none"> • limited flow of bankable deals for small-scale IPPs, as suitable PPAs for these deals do not often materialize; • the level of risk involved in IPP financing pushes investors and public sector to focus on larger deals; • the complexity of the financing arrangements is high, and the diligence costs do not reduce with smaller deals; • investors/developers are wary of the lack of readily available debt financing and, hence, do not invest in the first place, knowing that without debt, there is no leverage and thus equity returns are at risk. 	<p>FEI On-Grid will reach a fund value of approximately \$300 million, of which up to 20% is provided by European donors with concessional return requirements.</p> <p>FEI follows a catalytic approach, as the junior equity tranche de-risks an otherwise high risk – high return investment strategy for DFIs and private investors, thereby enabling a first time equity investment by the AfDB and other DFIs into the small-scale energy access segment at affordable return levels and catalyzing additional investment into the debt tranche from private investors.</p>	<p>FEI On-Grid will structure primarily project finance transactions providing senior and mezzanine loans between USD 8 -20 million, in USD, EUR or local currency.</p> <p>FEI On-Grid attracts private sector investment from private investors, currently accounting for 30% of the funds' volume and from local commercial banks through co-financing, thereby building markets and crowding in local commercial lenders who have not lent to renewable energy access companies to date and can provide local currency finance to energy access companies and enable them to build a track record in the local financial market.</p>



HKL Microfinance

First ever local bond issuance in Cambodia, supporting scaling up of microfinance lending.

INVESTMENT SUMMARY

Client:

Haittha Kaksekar Limited
(HKL)

Country:

Cambodia

Financing:

- IFC: \$19.8 million
- IDA Local Currency Facility f/x swap: \$19.8 million
- Total bond: \$30 million

Year:

2018

Challenge	Solution	Results
<ul style="list-style-type: none"> • Strong and fast-growing microfinance sector, however there are gaps in the type of access and use of formal financial services • Also, undeveloped capital market, with an incipient stock market and no domestic bond market limiting funding sources for the financial sector, particularly in local currency (LCY) • Rural borrowers run FX risks as they earn income in KHR yet only have access to USD based loans. • MFIs lack the LCY needed to scale their lending to rural borrowers. 	<ul style="list-style-type: none"> • HKL, the third largest deposit taking MFI in Cambodia will issue the first onshore Local currency (LCY) capital market instrument in the country • Proceeds of the bond will be used to on-lend local currency to rural women borrowers • IFC is an anchor investor for the issue, which will also be purchased by four local institutional investors. • The IDA Local Currency Facility (LCF) will provide an open f/x swap for the IFC funding, covering the f/x risk. • IFC will issue an offshore LCY bond for \$5 million to reduce the IDA swap balance 	<ul style="list-style-type: none"> • IFC anticipates that the Project will directly increase the number of outstanding KHR based loans extended by the client • And also substantially increase the number of KHR based loans to women • The HKL bond issuance will serve as a first step in developing local currency funding and facilitate de-dollarization

InfraV-Gaia in Africa

Helping develop early stage wind energy projects in Africa

INVESTMENT SUMMARY

Client: Gaia Energy	Country: Morocco	Financing: \$3 Million in development capital from each of IFC and the Finland BF Program	Year: 2018
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Challenge	Solution	Results
<ul style="list-style-type: none"> • Lack of adequate energy is a major impediment in Africa’s development. • Wind resources are significantly underutilized in Africa, with an installed wind capacity of 4.9 GW (mostly in South Africa), only 0.9% of global installed wind capacity • Uptake of wind in Africa limited because of high development costs associated with land, low governmental capacity to establish the enabling environment for first-of-a kind IPPs, and high off-taker risks • Lack of private investors willing to invest early stage development capital 	<ul style="list-style-type: none"> • IFC InfraVentures will co-develop with Gaia Energy, a Moroccan renewable energy developer, a joint platform for the development of wind power and other renewable energy projects in North, West and East Africa • Because the pipeline is very early stage and riskier than typical IFC InfraVentures interventions, blended finance will de-risk the project through a disproportionate disbursement during the initial stages 	<ul style="list-style-type: none"> • Increasing power generation capacity in several African countries that face access and reliability constraints • New generation capacity from local resources will help power systems better respond to energy supply shocks • Lower carbon footprints of the power generation systems • Development of the wind energy potential in Africa through the establishment of a pipeline of bankable projects, necessary to mobilize private investors and commercial financing

IFC Small Loan Guarantee Program (Phase I)

Providing a programmatic solution to small business financing

INVESTMENT SUMMARY

Client: Small Loan Guarantee Program	Country: Multiple, particularly difficult markets, IDA and FCS	Financing: Risk Sharing Facility: <ul style="list-style-type: none"> • IFC: \$166 million • IDA PSW: \$50 million first loss • Program: \$333 million 	Year: 2018
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Challenge	Solution	Results
<ul style="list-style-type: none"> • Access to financial services remains an acute constraint for SMEs in emerging markets with financing gap estimated at approximately \$US 5 trillion. • Access to finance for SMEs is constrained by supply-side issues such as asymmetric information about SME performance, high costs of lending, low risk appetite and underdeveloped SME products • Demand-side market failures include lack of collateral, lack of track record, and poor management skills 	<ul style="list-style-type: none"> • SLGP is a programmatic approach to risk mitigation on small loan exposures using a pooled first loss (FL) mechanism. • The Program aims to scale up IFC's ability to take SME risks in difficult markets, particularly IDA/FCS countries, to help expand lending to key under-served populations. • In the risk sharing facility, IFC would take 50% of the credit risk on the respective SME portfolios of up to 20 banks 	<ul style="list-style-type: none"> • The pooled FL will allow IFC to scale up faster, process individual transactions more efficiently and reach more projects in frontier markets. • Phase 1 is expected to reach up to 12,500 SMEs.

Al Sharkiya Sugar Manufacturing (ASSM)

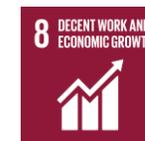
“Mobilizing resources for the mega agribusiness project in Egypt”



INVESTMENT SUMMARY

Client: ASSM	Country: Egypt	Financing: ICD Own Account: \$10 Million Total Project Cost: \$32 Million	Year: 2018
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Challenge	Solution	Results
ASSM is a mega agribusiness project planned to produce up to 1 million tons of sugar per year in Egypt. The main purpose of the project is to address the supply and demand gap in the country. The project was supposed to be completed in September 2016. However, the construction was delayed due to the devaluation in the local currency, and project cost overrun. During this period, there has been very limited commercial capital available to finance such a long-term project in Egypt.	ICD and another financier of the project have extended favorable financing terms for the project at a total amount of \$32Million to be paid in 10 years including a grace period of 36 months. The long-term financing extended by ICD with a long grace period paved the way for the project to generate sufficient cash flows to ensure its financial sustainability. Furthermore, ICD involvement and support also enabled the project to get the support and financing from other project financiers.	The project is one of the biggest industrial projects in Egypt developed over an area of more than 1.5 million sqm. ASSM is expected to contribute to the creation of more than 30,000 jobs, directly and indirectly, across different industries. In addition, the project has contributed to the improvement of living standards of a large number of farmers and to reducing the current 1 million tons sugar deficit in Egypt. Finally, ASSM will help in reducing the imports of raw sugar and increase the export of sugar.



MREK Privatization and Transformation

Business transformation and modernisation of a regional electricity distribution company following its privatisation by a private power utility in Kazakhstan.

INVESTMENT SUMMARY

Client: Mangistauskaya Regional Distribution Company (MREK)	Country: Kazakhstan	Financing: <ul style="list-style-type: none"> • EBRD: KZT 12.3 bn (\$34 million) • GCF loan: KZT 2.1 bn (\$5.3 million) • Total project costs: KZT 28 bn (\$79 million) 	Year: 2018
Challenge	Solution	Results	
<ul style="list-style-type: none"> • Kazakhstan is one of the largest emitters of greenhouse gases (GHG) in Central Asia, with ca. 72% of its electricity generated from coal. • At the same time, Kazakhstan possesses significant renewable energy resources. The Government formulated its commitment calling for an economy-wide reduction in GHG emissions. • Rapid deployment of renewables generation requires substantial investment into grid modernisation. • In line with the legislative requirement, MREK is obliged to connect and maximise the operation of any licensed renewable energy provider. 	<ul style="list-style-type: none"> • EBRD and GCF provide financing to support the development and modernisation of MREK. • The Bank’s financing supported post-privatisation transformation of MREK. The loan proceeds will be used to finance the MREK’s investment programme aimed at modernisation of existing substations and distribution lines, construction of new power lines and installation of SCADA and modern automatic control systems. • GCF loan was used to address the limited grid capacity, creating obstacles for deployment of renewables generation. The concessional funding will be used for the financing of modernisation and strengthening of the MREK’s electricity grid to enhance the integration of renewable energy sources into the electricity grid. 	<p>Overall the investment programme will reduce technical losses from the current level of 6.75% to less than 6.25%. At current level of energy supply to the system, this improvement corresponds to around 12,700 MWh and 11,670 tons CO2 per year.</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div data-bbox="1430 984 1524 1073"> <p>7 AFFORDABLE AND CLEAN ENERGY</p> </div> <div data-bbox="1549 984 1644 1073"> <p>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</p> </div> <div data-bbox="1669 984 1764 1073"> <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> </div> </div> <div style="text-align: right; margin-top: 20px;">   <p>GREEN CLIMATE FUND</p> </div>	

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Western Balkans Green Economy Facility programme (under Regional Energy Efficiency Programme for the Western Balkans – REEP Plus)

Credit Line facility to local partner banks for the residential sector, delivered by EBRD and complemented by technical assistance support and investment incentives.

INVESTMENT SUMMARY

Client: Multiple PFIs	Country: Regional (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, Serbia)	Financing: • EBRD: \$97.3 million • WBIF performance grant: \$19.98 million • TA WBIF and Austria: \$5.8 million	Year: 2016-2023
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Challenge	Solution	Results
<ul style="list-style-type: none"> The region is characterised by a relatively high energy, resource and carbon intensity The following barriers obstruct energy efficiency progress, particularly in the residential sector: <ol style="list-style-type: none"> relatively high early-adoption costs for green solutions low awareness of market participants of the benefits of green investments lack of capacity with energy/resource efficiency technologies lack of effective regulatory frameworks 	<ul style="list-style-type: none"> The REEP Plus is an integrated programme combining policy dialogue, TA, credit lines (WB GEFF), incentives and direct financing to SMEs and municipalities http://www.wb-reep.org/ WB GEFF provides financing to PFIs for on-lending to finance investments to private sector sub-borrowers in the residential sector https://ebrdgeff.com/ WB GEFF is complemented by performance grants to sub-borrowers to incentivise early movers, help address prevailing market barriers and ensure the maximisation of energy efficiency impact from the portfolio of financed sub-projects TA package support PFI capacity building, awareness raising and knowledge transfer on green technologies 	<ul style="list-style-type: none"> Catalysing market for residential energy efficiency investments. At least 29,000 loans to households are expected to be extended by PFIs in 6 countries. Expansion of markets for green technologies. Increase in the market penetration rates of green technologies and materials by 10%. Demonstration of new replicable behaviour and activities: <ul style="list-style-type: none"> Expected annual energy savings: > 68,000 MWh; Expected annual carbon reductions: > 21,250 tonnes CO2 avoided Transfer and dispersion of skills on several levels: PFIs, apartment and home owners and their collectives, intermediaries (producers, vendors and service providers).

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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.²¹ 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)".²²

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, 2018²³), 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 entities²⁴.

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.

²¹ 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%.

²² 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.

²³ <http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf>

²⁴ Companies with a sovereign guarantee are not counted as private operations for this exercise.

- “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 2018.

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 (2017).
- 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.²⁵

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:

²⁵ 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.

- 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 (Still under development)

- Starting in 2018, underlying investments supported via a Portfolio Guarantee are being accounted and reported²⁶.
- 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 these amounts are also reported separately from the other aggregate numbers.
- 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 either 1) 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, or 2) the actual amount of donor exposure during the reporting year beyond the exposure in previous years. For 2018 the first method was used to determine the concessional amounts for portfolio guarantees in the report, due to limitations of available data for the second method. The DFI amount is the annual program commitment net of the calculated concessional amount.

²⁶ Portfolio guarantees were included as a footnote in previous reports.

SECTORAL BREAKDOWNS DEFINITIONS (These Categories are mutually exclusive)

Infrastructure: In alignment with the Joint MDB’s methodology on private investment mobilization ([Joint-MDBs, 2018](#)²⁷) 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 DEFINITIONS²⁸(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](#))²⁹, 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

²⁷ <http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf>

²⁸ 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.

²⁹ <https://publications.iadb.org/handle/11319/8505>

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.