

# Blended Finance instruments: main possibilities and limitations as tools for development finance

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# 1. Background

## 1. Lack of a common definition of blending

- Building on the Addis Ababa Action Agenda: ***“a mechanism that combines concessional public finance (a subsidy in the form of official development assistance or ODA) with non-concessional finance from either public or private sources to incentivise additional finance for development”***

## 2. Lack of a common definition and methodology to estimate additionality

## 3. Limited independent evidence on blending operations conducted to date



Theory based debate where the subject does not always overlap

Constrains and challenges from methodological gaps

## 2. Theory: understanding blended finance

1. Blending is a tool to **address market failures** but there is not necessarily a lot of space or demand for it to operate
  - **public development finance institutions already address some failures**
  - **country framework** is important
2. Important to consider the **opportunity costs**
3. The **limits of leveraging**
  - leveraging and additionality needs to be qualified: financial vs development aspects + public development finance
  - limited evidence that blending consistently leverages additional finance
4. **Principled approach** to blended finance

# 3. Challenges from methodological gaps

1. Addressing **double counting**: different actors participating in a blending project might claim to have leveraged other forms of finance
2. Risk of creating **intended or unintended incentives that could steer blended finance in a given direction or divert ODA** from other uses
  - different approach to measuring concessionality could provide incentives to decrease the number of grants
  - discount rates
3. What is the **right forum** to conduct this discussion?

# 4. Recommendations

## 1. What:

- common definition of blending that avoids unnecessary confusion
- reporting system: public & avoids double counting (ODA and amounts leveraged)
- definition of additionality & methodological framework to evaluate it
- open methodology to estimate the concessionality of blending elements.
- concerted effort to undertake independent evaluations

## 2. How:

- inclusive and open debate involving all stakeholders
- evidence-based approach when dealing with the technical questions