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

Intergovernmental Expert Group on Financing for Development

8-10 November 2017

JAVIER PEREIRA

jphdez@gmail.com

THE VIEWS EXPRESSED ARE THOSE OF THE AUTHOR AND DO NOT NECESSARILY REFLECT THE VIEWS OF UNCTAD.
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
   Constraints 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