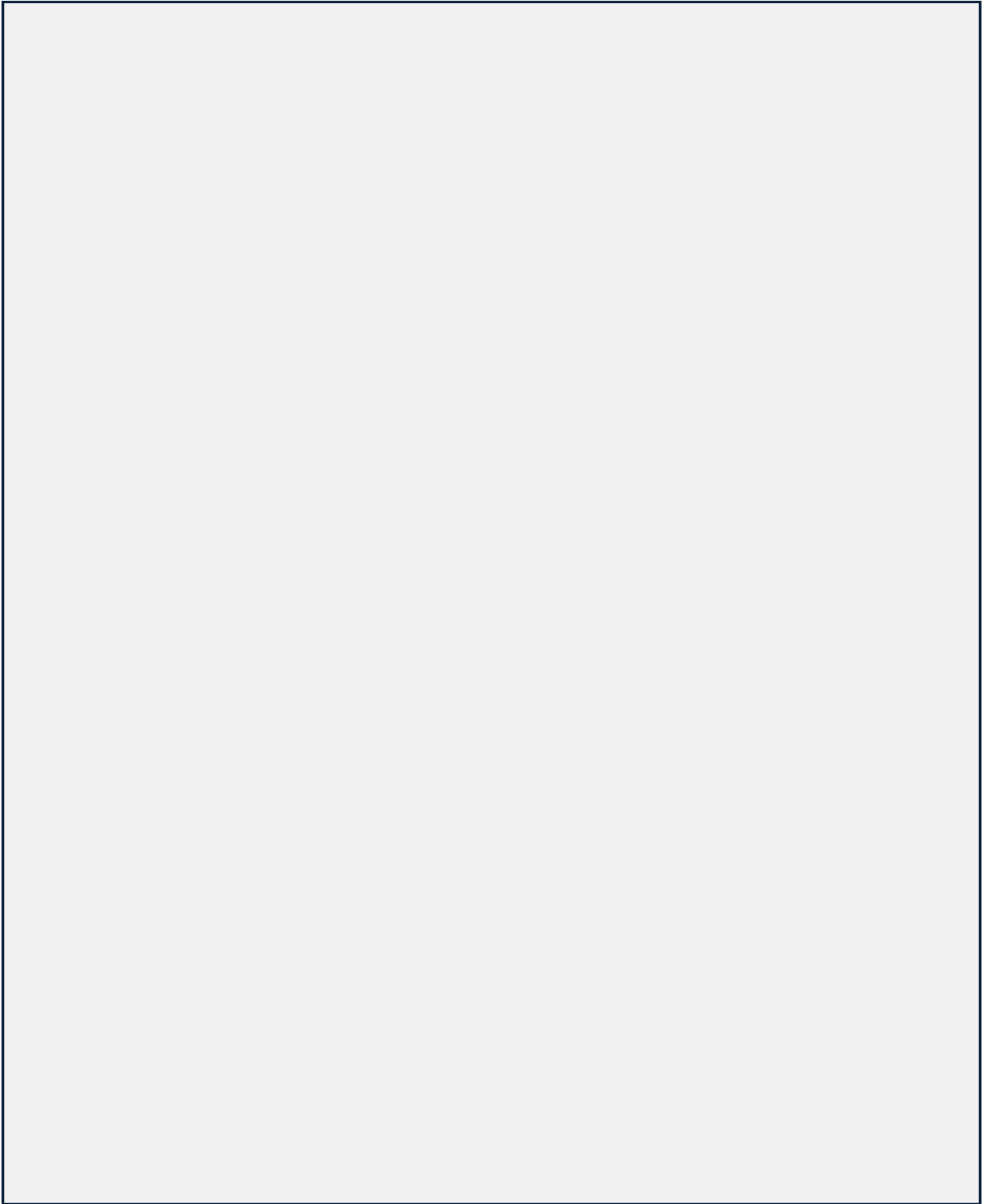


DFI Working Group on Blended Concessional Finance for Private Sector Projects

Joint Report, October 2018 Update





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This report was prepared by a group of Development Finance Institutions (DFIs), composed of the African Development Bank (AfDB), the Asian Development Bank (AsDB), the 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 seeks to unlock untapped investment into sustainable development, especially from the private sector, in the spirit of the “Billions to Trillions” narrative. The increasing use of concessional funds blended with Development Finance Institutions’ (DFIs’) own financing and that of others on commercial terms has brought the DFIs together to help set common standards for implementation and to review the merits and adequacy of existing approaches. The ultimate objective of this work, undertaken in phases, 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 also aims to share and promote the use of such best practices in blended concessional finance implementation by other market players.

The development and agreement on a set of enhanced principles on the operational use of blended concessional finance in private sector operations was 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 **Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations (DFI Enhanced Principles)**. These DFI Enhanced 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. The challenge, as identified in the 2017 report, is to ensure implementation of the DFI Enhanced Principles across DFIs to achieve the stated goals of developing private sector markets, addressing the Sustainable Development Goals (SDGs), and mobilizing private resources.³

This report aims to provide an update on the core outcomes of the third phase of this work conducted in 2018. Over the last year, the members of the DFI Working Group worked to translate the DFI Enhanced Principles into governance arrangements within their institutions, develop relevant data and share knowledge. In particular, the group worked to (i) share updates on improvements in governance arrangements; (ii) explore and test approaches to measure minimum concessionality in projects; (iii) improve the scope and quality of DFI blended concessional finance data and update the data to include 2017 projects; and (iv) share knowledge and experience on the use of blended concessional finance and the importance of proper governance for effective implementation.

Key outcomes of this year’s work are noteworthy progress on the governance around the implementation of the DFI Enhanced Principles, and a better picture on how much, where and how DFIs deployed blended concessional finance.

More specifically, on governance and implementing the DFI Enhanced Principles, DFIs are making progress toward strengthening their decision-making, governance processes and internal capabilities, although progress has depended on each DFI’s mandate, operational model and other circumstances. The DFIs have been integrating the DFI Enhanced Principles into operational procedures, project approval documents and training programs. Likewise, they have been making headway in transparency by strengthening mechanisms for the disclosure of blended concessional finance data. Throughout this process, the working group has played a key role in promoting stocktaking and supporting DFI’s mutual learning, exchanging lessons learned and reviewing emerging good practices. Some donors have also played an important part by incorporating the DFI Enhanced Principles in the organizational set-up of blended concessional

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 IBID, p. 3.

finance funds and facilities established this past year⁴.

This year DFIs strengthened the methodology for collection and analysis of blended concessional finance data by using more refined definitions, accounting methodology and reporting. New data show that **in 2017 DFIs financed projects with a total volume of more than US\$8.8 billion using approximately US\$1.2 billion in concessional funds and about US\$3.9 billion in DFI own-account resources. Private sector finance mobilized for these projects was more than US\$3.3 billion.** Senior debt and equity were the most common concessional instruments used by the reporting DFIs. The predominant sectors were infrastructure (in many cases for climate projects) and banking and finance (in many cases to support SMEs), although “other” sectors, which includes agribusiness, were particularly important in low income countries. Concessional funds were used the most in lower middle-income countries, and at the regional level in Sub-Saharan Africa and Europe & Central Asia.

The projects financed in 2017 illustrate that blended concessional finance is a critical tool to develop private sector markets, foster innovation, and crowd in private finance in some of the most challenging settings. This is evidenced by several blended concessional finance projects committed in 2017 and discussed by the DFIs during the learning exchanges and activities carried out in 2017. These projects include innovative renewable energy projects in frontier countries in Africa and the Pacific, supporting the financing of new technologies in Latin America and the Caribbean and North Africa, innovative projects to mobilize finance for housing, guarantees for financial intermediaries to stimulate SME development, and projects to

develop agribusiness industries in hard-to-finance countries.

The DFIs also made headway in their discussions of concessionality and reviewed several methods currently used by private and public institutions to calculate the level of concessionality in projects. The DFIs determined that several calculation methods are feasible, but that there are clear trade-offs in terms of complexity, accuracy and comparability across institutions. Some DFIs are committed to continue to test or employ these approaches in their own institutions and plan to engage selectively with other DFIs to pilot common approaches and test additional methodologies.

DFIs are committed to furthering the work to optimize the use of concessional resources. The DFI Working Group on Blended Concessional Finance for Private Sector Projects (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 DFI Enhanced Principles, meeting once per year in person (and discussing more frequently, if needed, via conference call/video).
2. Reach out to other DFIs and relevant institutions, including other bilaterals, to extend the adoption of the DFI Enhanced Principles to a wider range of actors.
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.

⁴ For example, the IDA Private Sector Window, the Finland-IFC Blended Finance for Climate Program, the Canada-IFC Blended Climate Finance Program.

II. Introduction and Context

Blended concessional finance for private sector projects is one of the significant tools that Multilateral Development Banks and Development Finance Institutions (collectively, “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.

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 (“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 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 Blended Concessional Finance Principles for DFI Private Sector Operations, 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 DFI Enhanced Principles.

MDB Heads and EDFI Management adopted the DFI Enhanced Principles and agreed to implement them, with each institution to begin within the next year to monitor and ensure adherence to the DFI Enhanced Principles. After the meetings, a [joint report](#)⁷ was released containing the summary of the DFI Enhanced Principles, data on use of blended concessional finance, and case studies.

As also agreed by the MDB Heads and EDFI Management, the DFI Blended Concessional Finance Working Group has remained engaged over the last year 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 Enhanced Principles, **2) updating and improving the scope and quality of the DFI blended concessional finance data**, **3) refining and testing options for calculating the level of concessionality**, and **4) sharing knowledge and experiences and discussing issues** related to implementing the DFI Enhanced Principles. This report summarizes progress in these four areas. The report also contains highlights of DFI blended concessional finance projects in 2017, and reviews coordination with other blended finance working groups.

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.](#)

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

- 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.

III. Governance Frameworks for Implementing the DFI Enhanced Principles for Using Concessional Finance in Private Sector Investment Operations

A key part of this year's DFI Blended Concessional Finance work program was for each DFI to share approaches and experiences in implementing the DFI Enhanced Principles, with a focus on governance frameworks and the work processes. This section summarizes the major themes.

The DFI Enhanced Principles can be monitored in different ways depending on each DFI's specific circumstances, including the type of funding available, the scale of operations, and the nature and characteristics of the DFI. In working group discussions, a feature highlighted by many institutions was the value of an independent check on the use of concessional funds, although the structure around this varies. This might be accomplished through specialized staff or independent advisory bodies. A key feature of good governance that was identified as useful is having strong guidelines that specifically draw on the DFI Enhanced Principles, which are increasingly being integrated into operational procedures and approval documentation.

Overall, DFIs are making significant progress in strengthening their decision-making and governance processes and internal capabilities with respect to blended concessional finance. Many have specialized staff that oversee the use of concessional funds, while several also use dedicated blended concessional finance investment staff to work on financing structures and provide independent perspectives. Some DFIs have created independent blended concessional finance advisory or decision-making committees, while others are looking at possibly creating committees of this type. The DFI Enhanced Principles are being integrated into operational procedures, approval documents and training

programs, and disclosure of blended concessional finance structuring arrangements is being strengthened. While DFIs have already made significant progress along these lines, many are also in the process of reevaluating procedures and expect to further strengthen implementation of the DFI Enhanced Principles. The DFIs will continue to exchange information on the effectiveness and efficiency of various existing and alternative governance structures to improve effectiveness with respect to implementation of the DFI Enhanced Principles.

While each DFI is tailoring its governance approach to its organizational circumstances, all DFIs follow a set of overarching principles, including putting structures in place to manage potential conflict of interest between the DFI's own account finance and concessional finance; introducing checks and balances on the amount of concessional finance used in blended concessional finance transactions; and increasing transparency on blended concessional finance transactions.

Work Teams

Among the DFIs, blended concessional finance operations are managed by staff via one or a combination of several different structures:

1. **Regular operational staff** are responsible for structuring both the concessional finance and any additional DFI own-account finance but follow special policies and independent reviews with respect to the use of concessional donor tranches.
2. **Dedicated blended concessional finance investment staff** manage concessional funds, often for specific donors or for certain sectors and represent blended concessional finance issues in approval committees.
3. A **separate/dedicated blended concessional finance investment unit** with investment staff covers all blended concessional finance investments, possibly with dotted line representatives in different operating departments. Staff in these units are often paid for by donors and may report to management outside of the investment departments.

4. **Dedicated staff in a donor policy/donor management unit** interact with donors and oversee broad policy issues with respect to donor funds. Such a unit is generally not part of operations and supports the operational and/or blended concessional finance staff in 1), 2) or 3) (or are part of 3)) above, when concessional finance is involved.

The purpose of specialized blended concessional finance operational staff as in 2) or 3) above is to minimize perceived or potential conflict of interest, structure and manage blended concessional finance tranches in line with the DFI Enhanced Principles, maintain an independent view on the use of donor funds, and ensure the application of the principle of minimum concessionality⁸. Donor policy staff in 4) provide some of the broad overview and management of donor policy requirements and provide a focus for fund raising and donor interactions.

Governance and Approval Structures

Governance and approval structures need to be able to effectively ensure consistent implementation of the DFI Enhanced Principles, determine whether a rationale for the use of concessional finance is persuasive, and manage potential conflicts of interest between management of DFI own-account resources and concessional funding from donors. Conflicts can arise, for example, in a) determining minimum concessionality, b) appropriately allocating risk and return among investors, and c) cases where projects are not performing well, and restructuring is required.

The main governance and approval structures that have been implemented by various DFIs include:

1. A **separate blended concessional finance committee or separate director-level approval**, with management not in the chain of command of operations, to review and approve decisions and ensure adherence to the DFI Enhanced Principles with respect to

concessional finance tranches throughout the project life cycle.

2. An approval process for the concessional funds **integrated into the normal approval processes** of the DFIs, but with participation of specialized and independent **blended concessional finance investment staff** and/or specialized and independent staff from **donor management units**, to represent the donor points of view and ensure adherence to the DFI Enhanced Principles.
3. A structure like (2) above but with a **technical level blended concessional finance committee**, or a peer review process, that provides independent review and input with respect to minimum concessionality and the use of donor funds, but with all final decisions remaining with the operational management. This type of technical committee may include or be composed of donor representatives.

In considering these various options, DFIs are looking for ways to maintain **independent oversight** and decisions on the use of concessional resources while improving **efficiency**. When establishing separate committees or approvers, DFIs aim for options that **reduce as much as possible duplicative approval** processes via streamlined processes and/or delegated authority or using dedicated committees only for unusual or problem projects or for appeals.

Many DFIs have moved to formally include the assessment of the DFI Enhanced Principles throughout the project cycle, including during early project consideration, appraisal, investment committee decision-making, and board submission. DFI Enhanced Principles are often included now in approval documents and they may be part of the review process either in the specialized blended concessional finance committees or in the combined operations

⁸ There are several technical issues with respect to the calculation of levels of concessionality in each institution. See Annex 3 for a discussion of various approaches and issues.

approval processes. The documentation may include the rationale for blended concessional finance, the source of market failures, evidence supporting the minimum level of concessionality chosen, additionality and mobilization aspects, and/or plans to measure project impact. Some donors also explicitly look at the DFI Enhanced Principles when monitoring the use of their concessional funds.

Improving Staff Training and Internal/External Outreach

Over the last year, more DFIs have developed specific training and resource materials covering the DFI Enhanced Principles (e.g. checklists for investment officers or operation leaders, blended concessional finance document templates, and incorporation of the DFI Enhanced Principles in staff manuals/procedural documents), and some DFIs have also launched periodic training programs for staff on blending and the DFI Enhanced Principles. Other DFIs are in the process of developing new guidelines and tools for staff that will help implement the DFI Enhanced Principles.

Reporting, Disclosure and Results

Most DFIs provide regular reporting to concessional finance donors, which can include use of program resources, project descriptions, and amount financed, and in some cases selective reporting on project structures, investment terms, and periodic monitoring of outcomes. Board reporting may cover similar items on a project basis and may include levels of concessionality, with periodic aggregate reporting on blended concessional finance activities. Public documents generally cover aggregate blended concessional finance amounts, sources and, increasingly, rationale.

Many DFIs have developed systems to assess development impact of all their projects and these have been integrated into respective blended concessional finance processes.

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

The October 2017 report of the DFI Working Group included pilot data on the use of blended concessional finance across the DFIs⁹. A major task of the Phase 3 work program was to update the scope, quality, and representativeness of this data. To do this, the working group focused on the volume data¹⁰, and developed comprehensive definitions of all data items. A detailed methodology was developed and is included in Annex 4 of this report. Blended concessional finance data on DFI private sector projects was gathered for calendar year 2017.

This year's data gathering effort thus represents a significant improvement over the prior year. However, there remain some limitations, e.g. some of the DFI institutions were unable to report on private mobilization volumes, total project costs, and some regional splits because they don't track the necessary data, and some portfolio guarantee volumes were not counted this year¹¹. The DFIs plan to continue to improve the quality of the data each year.

In sum, in 2017 DFIs financed projects with a total volume of more than US\$8.8 billion that utilized blended concessional finance. Private sector finance mobilized for these projects was more

than US\$3.3 billion, concessional funds committed were approximately US\$1.2 billion, and DFI own-account investments in these projects were about US\$3.9 billion. The most common concessional instrument used was senior debt followed by equity, and the predominant sectors were infrastructure (in many cases for climate projects) and banking and finance (in many cases to support SMEs), although "other" sectors, which includes agribusiness, were particularly important in low income countries. Concessional funds were used the most in lower middle-income countries, and regionally in Sub-Saharan Africa and Europe & Central Asia.

Overall Volumes – Key findings

Overall volume results are presented in Figure 1.

- DFIs in 2017 financed a total project volume of over US\$8.8 billion using various blended concessional finance solutions for private sector operations¹².
- This is a relatively small percentage of the total volume of all DFI private sector projects financed every year¹³.
- Private sector finance mobilized for the projects supported by concessional finance was more than US\$3.3 billion¹⁴.
- Concessional commitments of all types (e.g. debt, guarantees, grants, or equity) for these projects was about US\$1.2 billion. The projects also had about US\$3.9 billion of DFI own account regular pricing investments.

⁹ See "[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, pp. 9-12.

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

¹⁰ In 2017 data was gathered on blended concessional finance project volumes, economic rationales for blended concessional finance projects, narratives on recent blended concessional finance projects, and statistics on governance. This year the data work focused on project volumes, which appeared to have the most value.

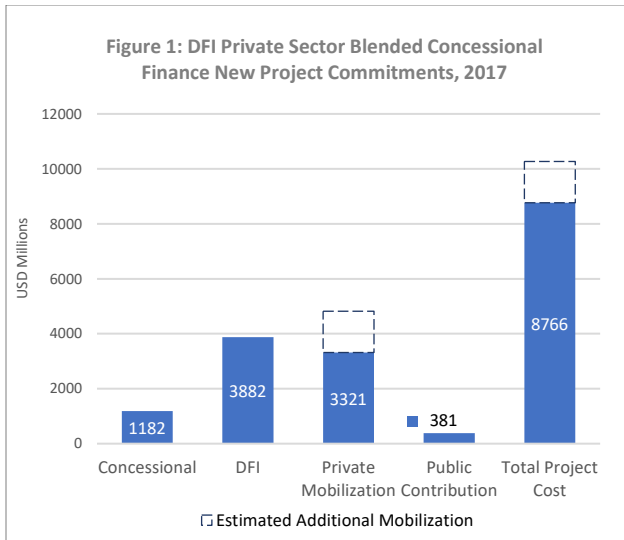
¹¹ Portfolio guarantees are used to provide credit protection to a DFI's exposure to the borrower within a specified programme. The estimated portfolio guarantee amounts for 2017 are \$275 million for combined concessional and DFI own-account financing, so the

gap is relatively minor vs. the equivalent amounts reported by all the DFIs of over \$5 billion. For private sector mobilization and total project cost data that was not reported by some DFIs, the resulting gaps in the aggregate data could be more material, e.g. perhaps 20 percent of the total project cost volumes reported.

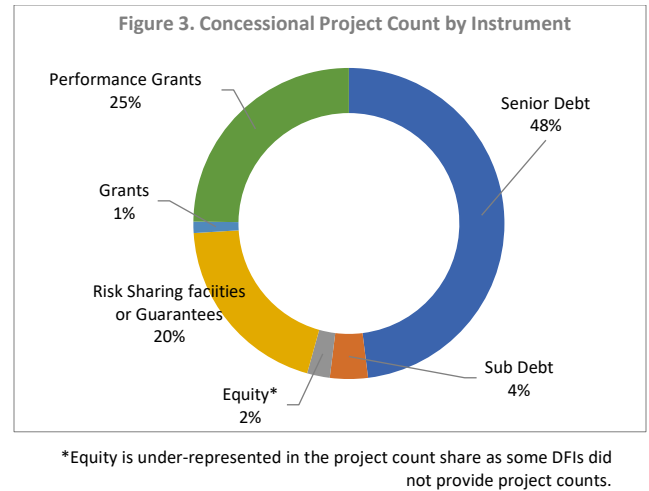
¹² This is undercounted by an estimated \$1-2 billion, see footnote 11.

¹³ The MDB Mobilization Task Force calculated for 2017 over US\$59 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 \$8.6 billion.

¹⁴ This is undercounted by an estimated \$1-2 billion, see footnote 11.



Note: The blue bars in the above graph show the numbers reported by all DFIs, including those that did not report private mobilization or total project cost. The white bar is an estimate of the additional private mobilization and total project cost that was not reported, based on the patterns of the institutions that reported these numbers.



Sectors

Figure 4a shows the amount of concessional finance and DFI own-account commitments in different sectors in 2017. A broad range of sectors are represented, particularly infrastructure and banking and finance. Many infrastructure projects are associated with climate finance, and many banking projects address SMEs. The “other” sector includes agribusiness, health and other projects.

Figure 2 shows the donor concessional commitment volumes for the projects in FY17 broken out by type of instrument.

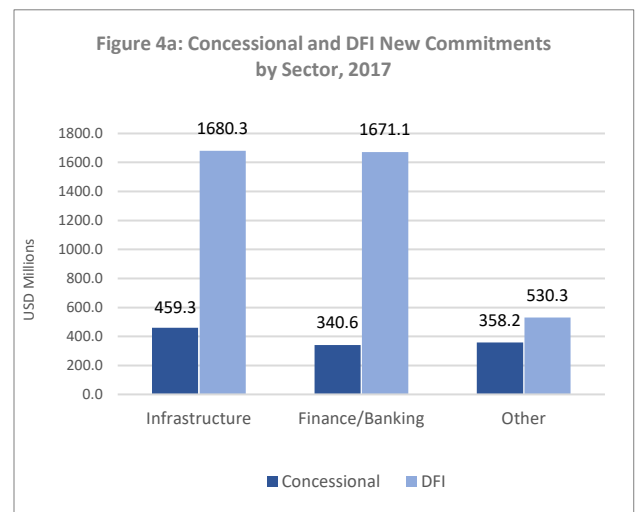
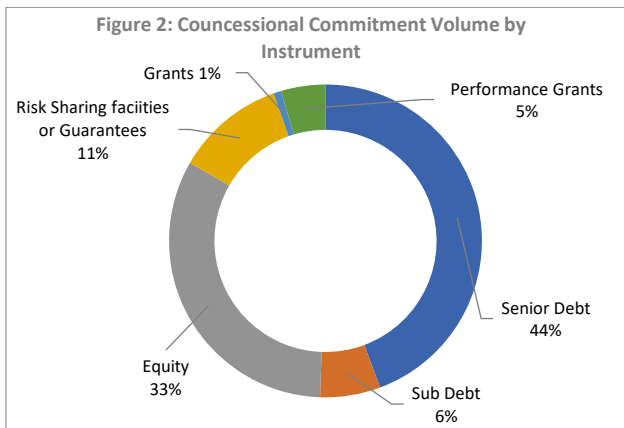


Figure 3 represents the same instrument categories by number of projects. By volume, the largest instrument share was for senior debt (44%) followed by equity (33%). By number of projects, senior debt is also the largest category (48%) while risk-sharing products facilities and performance grants also have significant shares (20% and 25% respectively).¹⁵

Figure 4b shows the sector composition of the total project volume of blended concessional finance projects in 2017 showing the private sector finance mobilized, as well as the DFI own-account finance and the concessional funds provided. The Figure shows the significant private

¹⁵ Note the data in Figure 3 does not include some DFI data where project count was not reported, so the equity numbers are underreported relative to the other numbers.

finance mobilized by the concessional funds in all sectors. Note that for accurate representation of the relative values in this chart, the data only includes those DFIs that were able to report private mobilization and total project cost.

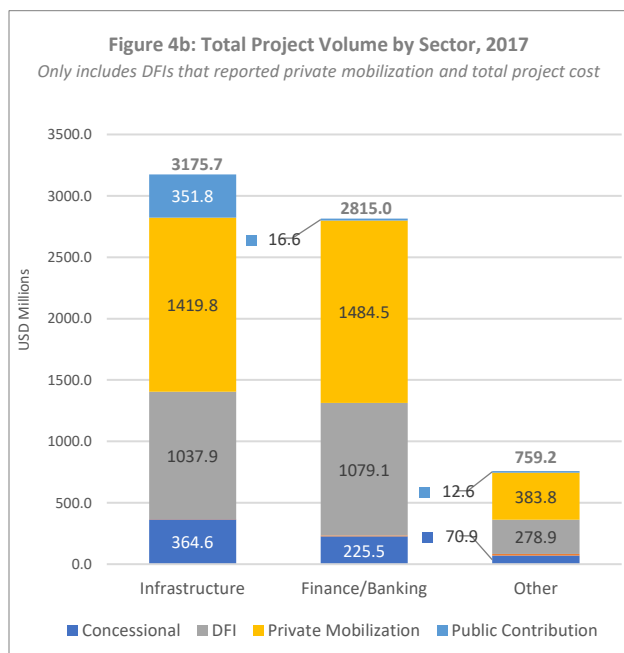
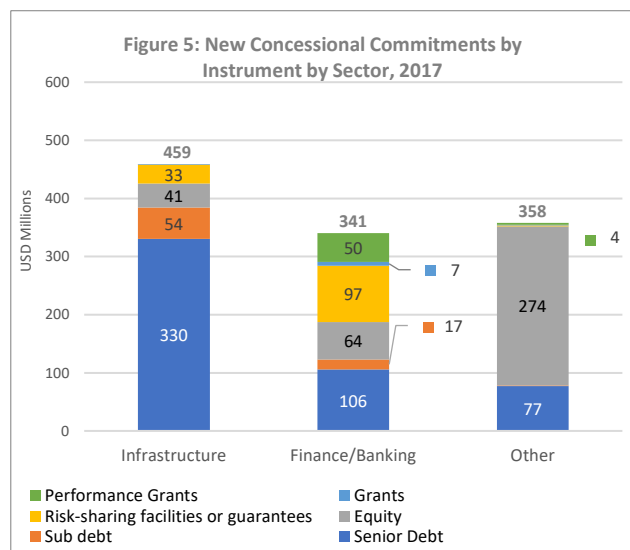


Figure 5 shows the concessional instrument shares in each sector. In infrastructure around 70 percent of all concessional finance commitments in 2017 was senior debt, whereas other instruments, including equity, risk-sharing facilities or guarantees, and performance grants were more prevalent in banking and finance and the other sectors.



Geography

Figure 6a shows for each country income group the amount of concessional funds and the amount of DFI own-account commitments in 2017. The largest share is in lower middle-income countries, but there is also a significant engagement in low income and upper middle-income countries.

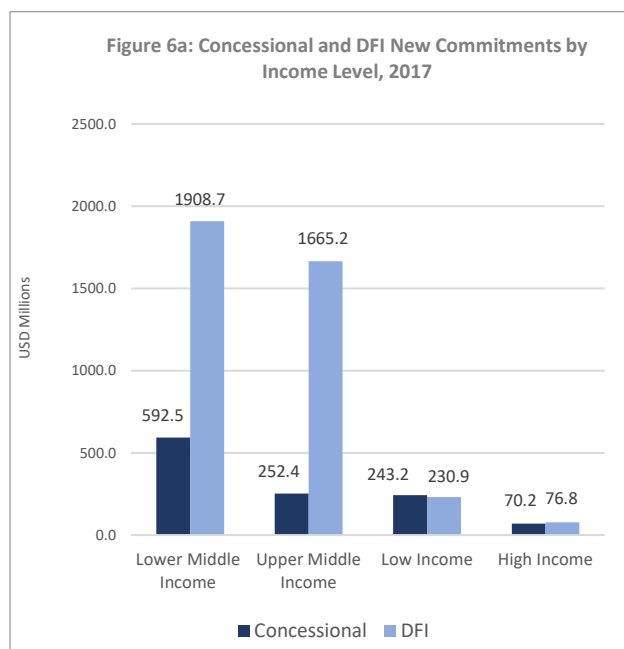


Figure 6b shows the composition by country income group of the total project volume of blended concessional finance projects showing the private sector finance mobilized, as well as the DFI own-account finance and the concessional funds provided. Private mobilization is significant in all the regions. Note that for accurate representation of the relative values in this chart, the data only includes those DFIs that were able to report private mobilization and total project cost.

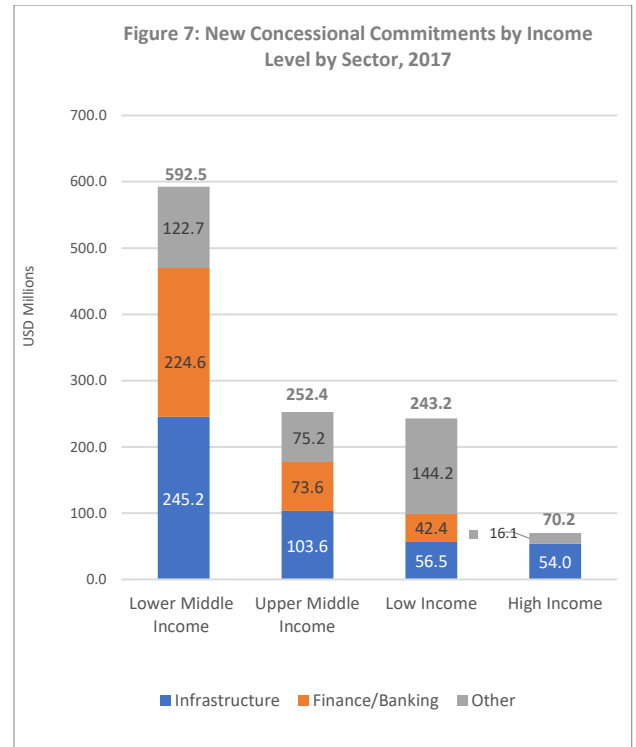
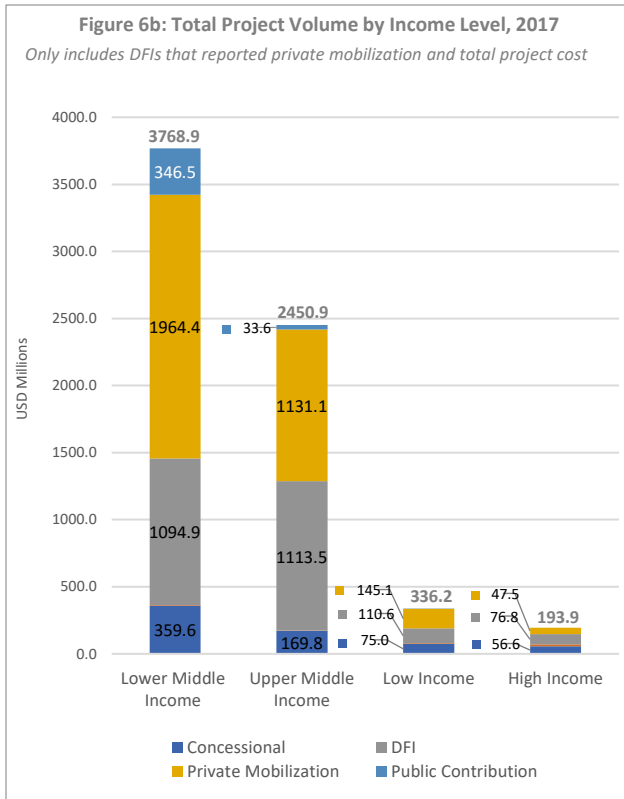
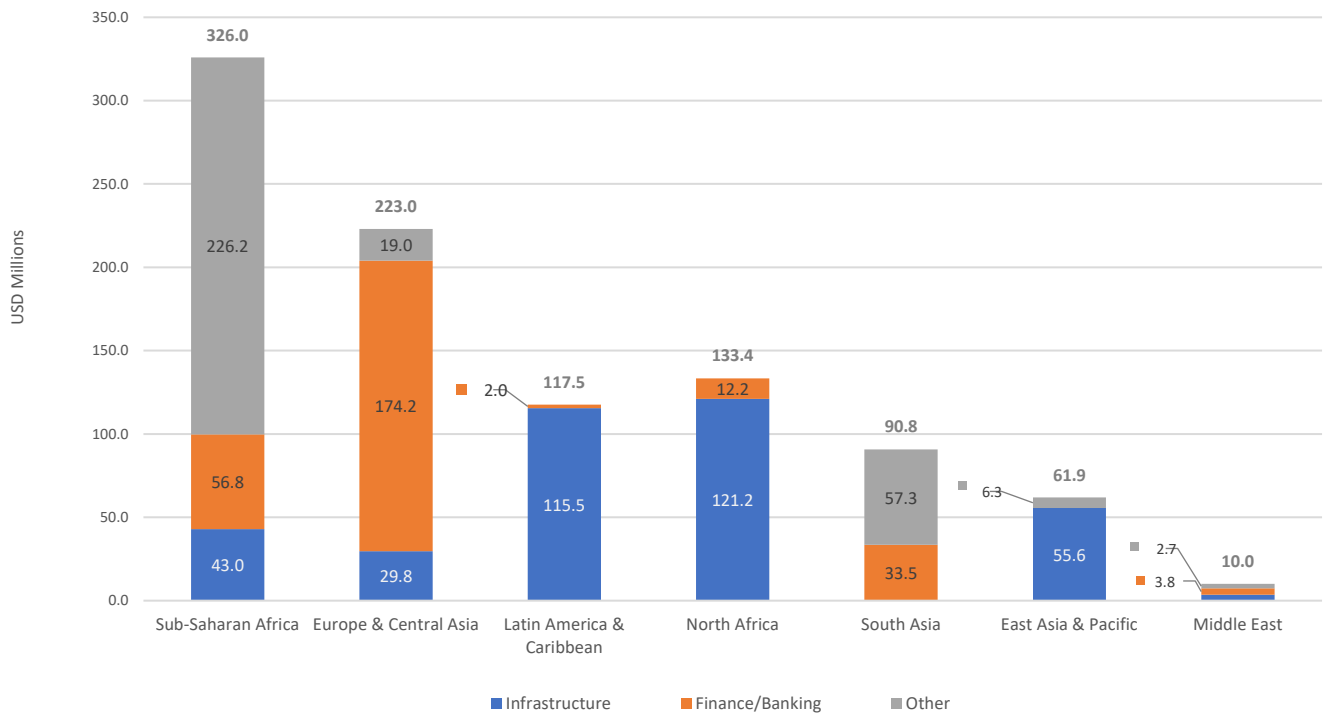


Figure 7 shows the sector make-up of concessional finance by country income group in 2017. Middle income countries show a broad mix of sectors, including infrastructure, finance and banking, and other. Low income countries have a stronger representation from the “other” sectors, which includes agribusiness. The concessional finance in high income countries was mostly for infrastructure (mostly for climate projects).

As shown in Figure 8, concessional finance is used across many regions, with a particularly strong share in Sub-Saharan Africa and Europe & Central Asia¹⁶. Also shown in Figure 8 is the sectoral breakdown of the concessional finance by region. Infrastructure is particularly important in Latin America, North Africa and East Asia and the Pacific. By contrast, in Europe and Central Asia concessional finance in 2017 was mainly in finance and banking.

¹⁶ EU countries are not included in the database. See Annex 4.

Figure 8: New Concessional Commitments by Region by Sector, 2017*



*Note: Only includes DFIs that reported regional sector data

V. Other Working Group Activities

Engagement on Issues with Implementing the DFI Enhanced Principles

In the Phase 3 work program for the DFI Working Group, work item 3 included **sharing experiences and efforts in implementing the Enhanced DFI Blended Concessional Finance Principles** and **reviewing emerging challenges**, to further knowledge and understanding of effective implementation. In undertaking this work, the DFIs discussed a set of “issues” or “problems” that arose when implementing the DFI Enhanced Principles as well as engaging in highly innovative approaches to their implementation. The working group felt that these discussions were quite valuable and proposed that these exchanges be a part of the ongoing activities of the DFI Working Group. Presented below are brief summaries of some of the topics discussed this year.

- **Adherence to DFI Enhanced Principles when other concessional finance providers are involved.** DFIs have encountered projects where concessional finance is being provided from DFIs, donors, or others who have not signed on to the DFI Enhanced Principles and are providing concessional finance without a clear justification or questionable levels of minimum concessionality. DFIs in the working group discussed approaching other DFIs, including other bilaterals and donors, to sign on to the DFI Enhanced Principles and have made plans to follow up with these institutions and stakeholders.
- **Lowering concessionality over time.** Under Principle 3, concessional finance should be time bound, with expectations that future investments in a similar project in a given sector will gradually require lesser levels of concessionality. While some experience exists – for example in reducing incentive payments to partner banks intermediating energy efficiency credit facilities, this type of trend
- **Appropriately handling concessional finance in the context of auctions.** Auctions are increasingly being used throughout the world to procure energy and other infrastructure. The auction process has proven valuable to increase competition and reduce prices, but provides several challenges to DFIs with respect to concessional finance, including how to determine if there is a genuine need for concessional finance, how and when to potentially include concessional finance in the auction process and ensure minimum concessionality, and how to crowd in other financiers in a fair and transparent way when concessional finance is used. The DFI discussions highlighted some of the trade-offs involved in different approaches, e.g. how pre-determined financing including concessionality in low volume and high-risk environments can streamline the bidding process, improve transparency, and improve competition but may also make it difficult to

should be reinforced. Certain types of investments, such as financing for SMEs in high risk countries, may require concessional finance to be provided for a longer period, especially where capital market issues lead to high costs for local currency. It may be that there is ongoing justification for concessional financing, but the principle of minimum concessionality should continue to be tested as part of ongoing management of the project. DFIs identified some specific examples where declining levels of concessionality have been observed, e.g. in the energy sectors in Mexico and Thailand, and discussed the need for comprehensive approaches to market development to promote a gradual phase out of concessionality combined with innovative financial structures to demonstrate that lowering concessionality is possible. Furthermore, although there has been a solid recovery and economic performance in emerging markets in the last decade, concessional finance may play a countercyclical role during a downturn, which could see a reversal in declining concessionality.

demonstrate minimum concessionality and may limit the participation of other financial institutions. Solutions proposed included limiting the extent of pre-arranged financing provided by the DFI (including the concessional portion) to allow others to participate, several DFIs partnering in designing a joint approach to auctions and the use of concessional finance therein, engaging in discussions prior to specific projects to ensure effective and consistent use of concessional resources, and using minimization of concessional finance as a criteria for selection of preferred bidders.

- **Dealing with concessional finance in problem projects (workout situations).** While a significant portion of blended concessional finance projects are relatively recent and thus unlikely to have experienced restructurings, some DFIs are gaining experience with problem projects and have found that there can be difficult issues and potential conflicts regarding concessional finance tranches, especially where the concessional finance tranche is structurally or contractually different (e.g. subordinated to the DFI own-account finance). Potential solutions discussed included having a DFI own-account tranche that is structurally aligned with donor funds, having deferment features with subordinated donor tranches tailored to clear risks that the donor tranche agrees to cover, legal documentation that differentiates own account and donor fund administration, different teams for each workout tranche, and careful consideration when subordinating donors in liquidation.
- **Other issues.** DFIs discussed the differences in structuring blended concessional finance in **low-income countries** compared to middle-income countries (e.g. greater use of subordinated loans, equity, and risk sharing facilities, somewhat higher levels of concessionality and lower leverage, greater

need for advisory services and comprehensive market solutions), and potential ways to address appropriate **pricing and risk modeling** in environments where **data may be quite scarce**, e.g. by using advisory services to improve data availability. Other MDB working groups are also attempting to address data gaps, e.g. the MDB infrastructure cooperation platform. The issue of how **DFI expenses** associated with new blended concessional finance facilities are covered (e.g. via fees or donor payments) was also discussed.

Measuring Levels of Concessionality

A sub-working group of the DFIs has been examining different methods of calculating the level of concessionality in DFI blended concessional finance transactions and has tested several different approaches. The main objective was to help develop evidence on levels of concessionality that could be compared across the portfolio of each institution and, potentially, consider more trends across different institutions. This could help inform the pricing and/or structuring of the concessional finance tranche in a transaction in order to extend the minimum level needed.

Following the review of different methods of calculating levels of concessionality used by private and public organizations, three broad approaches to concessionality calculations were identified (see Annex 3 for details):

1. **DFI estimated commercial price.** Each DFI uses its own internal pricing methodologies to determine the commercial price for financing a project. The commercial price is then used to evaluate the level of concessionality from a third-party donor (or similar¹⁷) concessional financing using various types of discounted cash flow calculations.
2. **Estimated commercial price from a simplified risk framework.** This is like 1 above, but DFIs use simplified risk factors (e.g.

¹⁷ See Annex 4

country risk, amount of collateral) to estimate the commercial price for financing the project, rather than using their own internal pricing methodologies.

3. **Modeling revenues and expected losses.**

DFIs do not estimate commercial pricing at all, but instead use a model to calculate the level of concessionality in a project by comparing the expected revenues from concessional financing to the expected losses and required returns on capital, using a discounted cash flow framework. While estimated commercial pricing is not required, estimates of expected losses for the project are needed.

The DFIs did test scenarios using each of these methodologies, and found that each is feasible, but with various trade-offs. Method 1 (*DFI own commercial price*) is accurate and flexible, and useful for comparisons within an institution, but suffers from a lack of comparability across institutions regarding the commercial pricing used, especially as it may reflect operating costs which can vary widely across DFIs as well as different perceptions of risk and/or risk tolerances in environments where market benchmarks do not exist. Method 2 (*Estimated commercial price from a simplified risk framework*) facilitates comparisons across institutions but is less accurate because of the simplified assumptions used to estimate commercial prices. Method 3 (*Modeling revenues and expected losses*) is accurate and flexible and eliminates the need to have uniform commercial pricing across institutions. However, it is more complex and requires that DFIs assess expected losses in projects and provide assumptions about expected equity returns and operating expenses, which still may be difficult to do in a uniform manner across institutions.

The DFIs agreed to provide a summary of the methodologies and findings in this report (see Annex 3) to help develop potential approaches to determining minimum concessionality. In addition, several DFIs will continue to test or employ these approaches in their own institutions and will engage selectively with other DFIs to pilot common approaches and test additional methodologies.

Highlights of 2017 DFI Blended Concessional Finance Projects

The data on blended concessional finance volumes by DFIs in 2017 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 2017 to highlight, including the rationale for blended concessional finance and the expected impacts. These projects are profiled in detail in Annex 2.

The projects from 2017 include innovative geothermal and hydroelectric energy projects in Indonesia, Chile, and Ecuador; solar projects in Samoa, Cambodia, Mozambique, and Egypt; SME financing (including some women-in business) programs in Gambia, Georgia, Moldova, Ukraine, and Tajikistan; housing finance development in West Africa; agribusiness in the Pacific; and a resource and energy efficiency program in Turkey. The 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 some of the most challenging settings.

VI. Coordination with Other Blended Finance Working Groups

The work of the DFI Blended Concessional Finance Working Group is taking place in the context of a broad examination and significant activity by several groups regarding the role of government and philanthropic funds in helping to mobilize private investment for development. The term “**Blended Finance**” is often used to discuss these interactions at a **comprehensive level**, covering all types of engagements between governments, philanthropic entities, and the private sector.

By contrast, the DFI Blended Concessional Finance Working Group, is focusing **exclusively** on the issues surrounding the use of **concessional finance**, from governments or philanthropic organizations, mixed with commercial finance from either DFIs or the private sector, for use in **private sector projects**. In this context, *concessional finance* refers to finance at pricing or other terms (e.g. maturity, security, ranking) that are below or softer than those available in the market.

The value of a specific working group focusing on the use of *concessional funds* in private sector projects is evidenced by several special issues that arise in connection with use of these concessional resources. Concessional funds can be effective in opening private sector markets in pioneering and/or high-risk areas and in supporting the provision of public goods by the private sector. However, without the market test of commercial-based funding there is a greater potential for misuse or excessive use of these scarce below market funds, e.g. investing more concessional capital than needed, providing subsidies that are captured by the private sector beyond required returns to make the project viable, or distorting markets in ways that may slow the growth of a viable and competitive local private sector. For these reasons, the DFI Blended Concessional

Finance Working Group has been convened to provide guidance and pursue discipline in this area, with an **operational** perspective.

The DFI Blended Concessional Finance Working Group thus complements other working groups and has been closely engaged with the broader conversations on blended finance to ensure its work is relevant and not duplicative. For example:

- The **OECD DAC** defines blended finance more broadly as “*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. *Development finance*, in the context of this definition, includes Official Development Finance, DFI own-account financing, as well as private funds that are governed by a development mandate, e.g. financing provided by philanthropic organizations¹⁸. This broad definition also covers both public and private sector-oriented activities. The OECD has convened stakeholders from government, development institutions, civil society and the private sector to articulate a common narrative for general blended finance operations.
- The **OECD** has been working to develop a **shared value system** and action program which attempts to capture the common values underlying the various approaches to blended finance, including the DFI Enhanced Principles, the **OECD DAC** Blended Finance Principles, and the underlying framework in the Addis Ababa Action Agenda. The DFIs in the working group have provided input to this process.
- The **Blended Finance Taskforce of the Business and Sustainable Development Commission (BSDC)** is a working group with a strong representation of private

¹⁸ See OECD, “OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals,” January 2018, p. 4.

sector investors and banking organizations, as well as DFIs (including from this working group), and foundations. The group produced a report in 2018 called “Better Finance, Better World,” with a program of eight initiatives which aim to unlock private capital for the SDGs.

- DFIs have also engaged with **other groups looking at blended finance**, including the **UN Department of Economic and Social Affairs (DESA)**, that coordinates the UN system on issues related to Financing for Development,

the **Sustainable Development Investment Partnership (SDIP)**, which convenes strategic conversations between public and private sector participants to facilitate solutions in areas such as blended finance, and **Convergence**, which is an independent not-for-profit global platform established with the support of the Canadian Government and other donors, which provides a platform of credible investment opportunities in emerging and frontier markets in blended finance.

VII. Next Steps

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

1. Continue to engage on issues and knowledge-sharing regarding blended concessional finance including implementing the DFI Enhanced Principles, meeting once per year in person (or more frequently, if needed, via conference call/video).
2. Reach out to other DFIs and relevant institutions, including other bilaterals, and donors to adopt and promote the DFI Enhanced Principles.
3. Use the Working Group to provide coordinated DFI input and interactions with other blended

finance-related working groups, such as at the OECD, and the MDB working group on pricing.

4. Continue updating the DFI blended concessional finance data

Continued interactions among the DFIs in the area of blended concessional finance should serve to further enhance the overall effectiveness and discipline within the development institutions, will help to implement the DFI Enhanced Principles, enhance DFI coordination and thought leadership, and can find synergies with other working groups within the multilateral development community (e.g. Pricing and Due Diligence) to promote transparency and overall support efforts to mobilize resources from private sector institutions.

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 resources¹⁹.

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

¹⁹ 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.

no one behind, commitments related to development effectiveness, as well as those related to untying aid.

DFI Enhanced 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 Concessionality	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 asymmetries and/or other institutional 	<ul style="list-style-type: none"> • Apply explicit processes in project analysis to determine minimum concessionality. • Information or data, e.g. of other projects' pricing structures, level of concessionality, amount of donor funds (compared to total project investment or private investment), donor cost per output, and/or investors' market returns may help establish a reference point for blended concessional finance volumes and terms. 	<ul style="list-style-type: none"> • Maintain a high level of scrutiny of the commercial viability of clients. • Reduce demonstrably the level of concessionality 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 	<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

Principle Title	Additionality/Rationale for Using Blended Concessional Finance	Crowding-in and Minimum Concessional	Commercial Sustainability	Reinforcing Markets	Promoting High Standards
	<p>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. 	<ul style="list-style-type: none"> • Structure blended concessional finance operations to address as directly as possible critical gaps in the financing structure and to minimize the need for future, ongoing concessionality. • Size, where possible, the level of concessionality 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>policy, and demonstrably take steps over time to reduce the 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>finance operations, to ensure 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.

Annex 2. 2017 DFI Blended Concessional Finance Project Highlights

The data on blended concessional finance volumes by DFIs in 2017 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 2-3 key projects from 2017 to highlight below, including the rationale for blended concessional finance and the expected impacts. A summary of these projects is included in Chapter V of the main text.

AFRICAN DEVELOPMENT BANK (AfDB)

1. Ghana - Form Ghana Reforestation Project

Project Description. The African Development Bank (AfDB) and Climate Investment Funds' Forest Investment Program (CIF FIP), have signed a US \$24-million loan agreement with Form Ghana Ltd., opening the door to commence the implementation of an innovative Public-Private Partnership for the Restoration of Degraded Forest Reserve through Verified Carbon Standard (VCS) and Forest Stewardship Council (FSC) Certified Plantations. The project will be backed by a US \$10-million concessional loan from the FIP and supplemented by US \$14 million in co-financing from the AfDB. The project is Ghana's first forest sector PPP due to a tripartite Benefit Sharing Agreement signed between GoG through the Forestry Commission of Ghana with Form Ghana acting as project sponsor and traditional land owner.

Ghana's forests, which once covered a third of its 24-million-hectare landmass, have been degraded at an alarming rate by excessive and often illegal logging, slash-and-burn agriculture, mining and quarrying, and fuelwood collection. The project aims to help reverse this trend by restoring and expanding an existing 5,000 ha forest plantation to nearly 12,000 ha of sustainable commercial forest plantation. Importantly, the program will conform to both Forest Stewardship Council and Verified Carbon Standard certification standards.

Use and Rationale for Blended Concessional Finance. Developed under the CIF's competitive set-aside program to engage the private sector, the project is the AfDB's first-ever private sector project in Ghana's critical forest sector. The project creates a new business model that can be replicated by other investors, producing certified wood products that will help meet increasing market demand while avoiding pressure on natural forests. The project through its blended finance element helps catalyze transformational change through up-front investment to support the country's strategy on reducing emissions from deforestation and forest degradation, sustainable management of forests, and enhancing forest carbon stocks.

Expected Impact. Expected outcomes from the project include: net greenhouse gas sequestration potential of around 2.8 million tonnes of carbon dioxide (tCO₂) over 40 years (a long-term average of 70,103 tCO₂ per year); 11,700 hectares of sustainably managed forest plantation with FSC and VCS certification; and 400 direct full-time jobs and 600 direct seasonal jobs. The project includes ensuring that, in this heavily male-dominated industry, 40% of the jobs generated through the project will be held by women.

2. Egypt - Solar Photovoltaic Power Project under the Egyptian Feed-in-Tariff Program Round 2 - Shapoorji Pallonji Energy Egypt

Project Description. Egypt has a total installed capacity of 45,008 MW, 92% of which is thermal (oil and gas), 6% hydro and 2% renewables (wind farms and solar). The Egyptian Electricity Holding Company (EEHC) controls 95% of the generation market, the remaining share being held by three IPPs. Electricity retail tariffs are currently low at EGP 0.66/kWh (USD 0.037/kWh) and the average cost of producing electricity is EGP 1.10/kWh (USD 0.062/kWh), the gap being filled by government subsidies. The GoE has launched a program to phase out energy subsidies and bring the electricity tariff to full cost recovery levels by 2020. Egypt has one of the best solar resources in the world, with daily sunshine averaging 9-11 hours, low humidity, and global horizontal irradiation of around 2230- 2330 kilowatt hour (“kWh”)/m² per year. Nevertheless, installed wind and solar capacity is limited to the 867MW under public ownership. In order to meet the increasing energy demand, diversify the national energy mix, and improve the environmental and climate footprint of the power sector, Egypt has developed an overarching regulatory framework for the development of renewable energy capacity with the aim of securing 20% of its energy generation from renewable sources by 2022. The Government of Egypt (GoE), in September 2014, launched a Feed-in-Tariff (FiT) Program to implement 2,300 MW of Solar PV projects. The Shapoorji Pallonji Project involves the design, construction and operation of a 50 MW solar PV power project to be implemented under the FiT Program Round-2. The AfDB is providing a senior loan of USD 12 million. It has also arranged an additional concessional loan of USD 7 million from the Global Environment Facility (GEF).

Use and Rationale for Blended Concessional Finance. The GEF financing is mobilized within the framework of the "AfDB-PPP Public Private Partnership Program," which was approved by the GEF for implementation by the AfDB in 2012 to promote the scaling up of renewable energy technologies and contribute to the delivery of universal power supply in Africa. The provision of the concessional climate resources provides a competitive blended interest rate that improves the bankability of the Project. It has a positive effect on the project's profitability and its ability to repay, while ensuring an acceptable minimum return to the IPP.

Expected Impact. The Project will increase Egypt's power generation capacity, diversify the energy mix, enable fuel savings and reduce carbon emissions. There are likely to be up to 500 jobs created during the construction phase and up to 30 during operations. The production capacity for the new solar plant is estimated at 131 million kWh/year, enough to serve about 72,000 households.

ASIAN DEVELOPMENT BANK (ADB)

1. Muara Laboh Geothermal Power Project²⁰

Project Description. The project involves the construction and operation of an 80 MW geothermal power project in Sumatra, Indonesia, which commenced development in 2010 and reached financial close in 2017. The project will make use of dual flash geothermal technology to increase the potential resource utilization; technology which has not commonly been used in Indonesia. The project was financed through a limited-recourse, long-term project financing structure, and commercial operations are expected to commence in 2019.

²⁰ Asian Development Bank. *Indonesia: Muara Laboh Geothermal Power Project*. <https://www.adb.org/projects/50156-001/main>

Use and Rationale for Blended Concessional Finance. ADB provided long term concessional debt to the project from its CTF Private Sector Geothermal Energy Program²¹ alongside its own account financing. Following the financing of the Sarulla and Rantau Dedap geothermal projects in Indonesia, this is the third project supported by the program. Blended concessional finance was used to help de-risk these geothermal projects, to boost private sector participation and to provide lessons in structuring and risk sharing for utilization on future projects.

Expected Impact. The project is expected to help demonstrate the viability of large-scale geothermal power projects being developed by independent power producers. By encouraging new geothermal baseload power generation, the project will help displace fossil-fuel-generated power and assist the government's efforts to utilize private sector financing to achieve growth targets. The 80-MW plant is estimated to produce over 600 gigawatt hours of renewable energy per year, reducing Indonesia's carbon emissions by 470,000 tCO₂e per annum. The project will help demonstrate the bankability of a new power purchase agreement for geothermal projects upon which subsequent projects are likely to be financed.

2. Samoa Solar Power Development Project²²

Project Description. This project provided financing to support Samoa's first independent power producer and the expansion of the country's first private sector solar power project (4MW). This project struggled to attract commercial bank financing, and blended finance was critical to the completion of the project. The project commenced operations in Q2 2018.

Use and Rationale for Blended Concessional Finance. Alongside its own financing, ADB provided a long-term concessional loan and preparatory technical assistance grant from the Canadian Climate Fund for the Private Sector in Asia²³. Accessing long-term credit in Pacific countries is often difficult, and additional costs arise from the smaller scale and remoteness of project sites. The lack of long-term credit is particularly challenging for the development of infrastructure projects in the Pacific that have high up-front capital costs and long repayment periods. The project is the first solar power project in Samoa that was successfully developed on a limited recourse basis. Concessional financing support for the project helped to fill a gap in the capital structure and improve the project's financial viability.

Expected Impact. The project is expected to help Samoa lower its dependence on fossil fuels by generating up to 6.1 million kWh of solar power annually for up to 20 years. The project is expected to reduce Samoa's carbon emissions by an estimated 1,644 tCO₂e annually and save an estimated 1.7 million liters of diesel fuel per year. This will help achieve the government's goal of inclusive, sustainable, and environment-friendly growth. With abundant solar resources and dependence on imported diesel fuel, renewable energy in the Pacific has significant potential for replication. Developing innovative models of financing for smaller projects will be critical to scaling up private sector investment and achieving Samoa's ambitious 100% renewable energy target.

²¹ Climate Investment Funds. *Private Sector Geothermal Energy Program*. <https://www.climateinvestmentfunds.org/projects/private-sector-geothermal-energy-program>

²² Asian Development Bank. *Samoa: Solar Power Development*. <https://www.adb.org/projects/49339-001/main>

²³ Asian Development Bank. *Canadian Climate Fund for the Private Sector in Asia*. <https://www.adb.org/site/funds/funds/canadian-climate-fund-for-the-private-sector-in-asia>

3. Cambodia Solar Power Project²⁴

Project Description. The Project involved the construction and operation of Cambodia's first utility-scale solar power project (10MW) and marked a milestone in Cambodia's energy sector in terms of establishing long-term financing for the development of utility-scale solar farms by independent power producers. Commercial operations started in October 2017.

Use and Rationale for Blended Concessional Finance. ADB provided long-term concessional debt financing from the Canadian Fund for the Private Sector in Asia alongside its own financing. Securing long-term debt financing from commercial banks for infrastructure projects in Cambodia remains a challenge due to associated political, legal and regulatory risks, and the nascent state of the local banking sector. ADB's early engagement in the project and expertise in project financing structures helped to catalyze long-term loans from an international commercial bank using a "B Loan" structure²⁵. Through this structure, ADB was able to attract commercial co-financing for the project. The blended concessional finance approach also helped to spread the total loan exposure across a group of lenders, and concessional financing terms helped offset some of the first-mover costs and risks associated with the project.

Expected Impact. The project is helping to improve the reliability and stability of Cambodia's power supply to meet growing demand for power. It is also helping to address an imbalance in power supply between Cambodia's dry and wet seasons originating from hydropower assets. Renewable energy generated by the project is expected to reduce Cambodia's carbon emissions by 9,500 tCO₂e per annum. The project is expected to help open the market for future solar developments by establishing a precedent for private sector led project financing structures. Following signing of the project in June 2017, ADB and the Government of Cambodia agreed to begin working on a 100 MW National Solar Park Program²⁶, which is expected to catalyze further investment.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

1. SME/GENDER: Tajikistan Women in Business Programme

Project Description. Tajikistan has become the latest EBRD country of operations to join the Women in Business programme, which promotes women's entrepreneurship through access to finance and know-how in order to stimulate business growth. The proposed financial package promotes the introduction of innovative MSME financing products via the leading microfinance institution in Tajikistan. EBRD provides senior local currency loans to Tajik financial intermediaries – microcredit deposit-taking organisation BANK ESKHATA, and microcredit deposit-taking organisation IMON INTERNATIONAL – in total, equivalent to USD 2,000,000 (signed in 2017-2018) and disbursing under the EBRD's Tajikistan Women in Business Programme to provide finance to eligible women-led SMEs.

Use and Rationale for Blended Concessional Finance. The loans are complemented by donor-funded concessional support (in form of portfolio guarantees and first loss risk cover) necessary to

²⁴ Asian Development Bank. *Cambodia: Cambodia Solar Power Project*. <https://www.adb.org/projects/50248-001/main>

²⁵ Asian Development Bank. Loan Syndication. <https://www.adb.org/site/private-sector-financing/commercial-cofinancing/loan-syndication>

²⁶ Asian Development Bank. 2017. *National Solar Park Program*. <https://www.adb.org/news/adb-partner-cambodia-launch-national-solar-park-program>

address market failure associated with perceived risk of financial intermediaries towards the untested women-led SMEs segment. Portfolio guarantees under the SME Local Currency Programme (SME LCYP) aim to reduce FX risks and enable EBRD to provide LCY at competitive rates to SMEs and to banks and non-bank FIs for on-lending to SMEs. Each transaction under the SME LCYP is subject to comparing to the relevant benchmark rate, in order to avoid undercutting the local market. In addition, the Tajikistan Women in Business financing facility includes a credit enhancement provided to Partner Financial Institutions (PFIs) in the form of a first-loss risk cover (“FLRC”) for funded sub-loans. The objective of the FLRC is to increase lending and induce PFIs to develop a product dedicated to Women SMEs and to lend to this new segment on a commercial basis in the long-term, thereby supporting women entrepreneurship.

Reinforcing Markets. The programme offers an integrated response addressing critical supply and demand side factors at the core of the women-led SMEs financial gap. Technical assistance is provided to build the capacity of PFIs to address the specific needs of women-led businesses through the internal strengthening of relevant functions and the development of financial and non-financial products tailored to women. The Bank also provides women entrepreneurs with access to mentoring, entrepreneurship training courses, and know-how from local consultants and international experts to grow their businesses.

Expected Impact. In Tajikistan, women-led businesses face additional constraints because of the lack of dedicated financing products and customer service. Women are 3.5 times more likely to borrow from family and friends. Low financial literacy and insufficient business skills also leave women with less exposure to business opportunities and knowledge networks. Under the programme, the EBRD will seek to provide up to \$8m to partner financial institutions for on-lending to women-led businesses. Risk-sharing and technical assistance will seek to make loans more accessible for female entrepreneurs.

2. CLIMATE AND ENERGY/RESOURCE EFFICIENCY: Near Zero Waste in Turkey

Project Description. In 2017, EBRD supported Turkish packaging company Koroza Ambalaj San. ve Tic. A.S., the leading flexible packaging producer in Turkey, with an equity investment. The investment seeks to help the company to implement a long-term value creation strategy, including strategic investments and operational efficiency improvements.

Use and Rationale for Blended Concessional Finance. The project benefited from an energy efficiency audit funded by the EU IPA, to identify opportunities for waste minimisation and resource and energy efficiency in its manufacturing facilities. The audits identified that the introduction of more advanced solvent recovery technology will be cost effective and result in an improved compliance with local and international standards for waste reduction and air pollution. To address the early mover externalities the company faced by introducing a new technology, the concessional loan of US\$ 1 million was provided by the Clean Technology Fund under the Turkey Near Zero Waste (NØW) Facility. This Facility was established by the EBRD in 2015 to encourage the uptake of advanced resource efficiency and waste management technologies in the Turkish industrial sector.

Reinforcing Markets. The NØW Programme aims to mainstream the concept of waste minimisation within a circular economy framework, and of waste valorisation in the Turkish industrial and municipal sectors. Policy dialogue activities to improve the current regulatory framework will be modelled on and may be linked to the work carried out by the Bank in various sectors. Establishing bridges between sector associations, municipalities and the Government, NØW

will address barriers at different levels, ranging from national to municipal to sectoral, and project-specific.

Expected Impact. This project is envisaged to result in a reduction of GHG emissions of 14,600 t CO₂ eq per annum, and a reduction of 2,200 tonnes of virgin solvent consumption per annum. To date, the Facility has generated greenhouse gas emissions reductions of 180,000 t CO₂ eq per annum through five investments in a range of industrial sub-sectors, complemented by extensive policy engagement with the Turkish Government to improve the regulatory framework for waste minimisation in the country. Over time, it is hoped that the Facility will raise awareness of resource efficiency investments at the corporate level, unlock commercially-viable investment opportunities for local banks, and accelerate the uptake of low-carbon and resource-efficient technologies more broadly in the Turkish industrial sector.

EUROPEAN INVESTMENT BANK (EIB)/ EUROPEAN INVESTMENT FUND (EIF)

Deep and Comprehensive Free Trade Area Initiative East Guarantee Facility (Guarantee Facility)²⁷

Project Description. The EU bank promotes the European Union's aspiration to safeguard stability and prosperity in its neighbourhood by building a vibrant private sector. Under the Guarantee Facility, the European Investment Bank (EIB) and the European Investment Fund (EIF) provide portfolio guarantees to financial institutions in Georgia, Moldova, and Ukraine to cover the credit risk of small and medium sized enterprises (SMEs). This way, the EU bank delivers development impact in terms of sustainable growth and jobs at scale: the Facility guarantees a total portfolio of EUR 285 m in loans and other types of debt finance to SMEs in the three countries. On a loan by loan basis, the guarantee covers 70% of the losses on defaulted SME exposure, up to a cap rate of 25% of the portfolio. The financial institutions receiving the guarantee are required to transfer the benefit of the guarantee to the SMEs, which is how the EU bank ensures that the effect trickles down to the beneficiary. The Guarantee Facility attracted proposals from leading financial institutions in Georgia, Ukraine and Moldova during the open call in 2017. By the year-end, EIB and EIF signed guarantee agreements with seven financial institutions – TBC Bank and ProCredit in Georgia, ProCredit in Moldova, Raiffeisen Aval, Oschadbank, Ukrgasbank, and ProCredit in Ukraine.

Use and Rationale for Blended Concessional Finance. The Guarantee Facility exemplifies the unique EU approach to blended finance, combining grants from the European Commission's Neighbourhood Investment Facility (EUR 10m) and EU Support to Ukraine to Re-launch the Economy (EUR 40m) with the financing from the financial institutions toward the total of EUR 285m. The Guarantee Facility also allows other IFIs to extend their support to the financial institutions in the target countries, by improving funding costs of SME lending in addition to reducing credit risk.

Expected Impact. The Guarantee Facility aims to enhance access to finance for SMEs at all stages of development in Georgia, Moldova and Ukraine, and thus contribute to private sector development in the EU neighbourhood. The SME segment is currently underserved by local financial institutions due to stringent lending conditions that in effect diminish the potential for SME growth and expansion. As a result, SMEs from these three countries cannot compete under the Deep and Comprehensive Free Trade Area. Thanks to the Guarantee Facility, financial institutions in Georgia,

²⁷ European Investment Fund: *Deep and Comprehensive Free Trade Area Initiative East Guarantee Facility (DCFTA)*. http://www.eif.org/what_we_do/resources/dcfta/index.htm

Moldova and Ukraine are able to offer finance to SMEs at improved terms: lower collateral requirements and more favourable credit risk margins. Crucially, the Facility also allows the financial institutions to finance SMEs that fall into higher risk classes.

ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR (ICD)

1. Egypt - Scatec Solar Project

Project Description. The project entails the design, construction and operation of six solar projects with a capacity of 50MW in Egypt. This project is envisioned to contribute to the recently introduced renewable energy program of the Government of Egypt, which aims at attracting \$3 Billion in investments. The project was financed through a long-term project financing structure.

Use and Rationale for Blended Concessional Finance. ICD provided long term concessional debt to the project at an amount of \$30 Million. The main objective of ICD in providing blended concessional finance was to help de-risk the project, to provide a contribution to the renewable energy development and carbon reduction agenda of the Government of Egypt.

Expected Impact. The project is expected to help in diversifying Egypt's energy mix and support for expanding Egypt's Renewable Energy generating capacity in light of heavy reliance on imported fossil fuel-generated energy and increasing demand for electricity. In addition, the project will also contribute in the transfer of technical know-how to local contractors and experts through the state of the art operations. Furthermore, the local employment generation and local content production are also expected to be supported through EPC sub-contracting and hiring practices.

2. Gambia - Line of Financing Facility for AGIB

Project Description. This project provided a line of financing facility to Arab Gambian Islamic Bank (AGIB) to help in addressing the access to finance challenges facing the SMEs in the country. AGIB is the only full-fledged Islamic Bank in Gambia, and has been considered as a role model for other banks based on its success in Islamic Finance.

Use and Rationale for Blended Concessional Finance. ICD provided medium-term concessional financing for the institution, which would be extended to SMEs based on a set of pre-agreed conditions. The concerned agreement includes sectorial coverage, minimum and maximum amount of financing allocated per SME, and type of investment projects to be financed.

Expected Impact. This facility is expected to further strengthen the Islamic Finance in the banking sector of Gambia. The Gambian economy is highly dependent on SMEs as a key driver for economic growth, job creation and poverty reduction. It is therefore essential to improve access to financing for local entrepreneurs. The Islamic finance facility provided by ICD for AGIB aims at contributing to address this gap and help SMEs in expanding their operations.

IDB INVEST

1. Adaptive Ecological Flow Management Plan For A Hydroelectric Project In Ecuador

Project Description. IDB Invest supported Hidrowarm S.A. (now called Hidronormandia S.A.) for financing of the construction, operation, and maintenance of a 48.15 MW run-of-river hydroelectric plant in the Upano River Basin in Ecuador, together with an 85-kilometer transmission line to evacuate the power. The project is financed by a \$10 million senior loan from IDB Invest, \$34 million in B Loans mobilized by IDB invest, a \$24 million from co-senior lender FMO, the Dutch development bank, and a \$10 million subordinated blended finance loan funded by the Canadian Climate Fund for the Private Sector in the Americas (C2F) channeled through IDB Invest.

Use and Rationale for Blended Concessional Finance. The contract for the financing of the plant includes the obligation to adhere to a first-in kind adaptive ecological flow management plan, which aims to mitigate the plant's potential negative environmental impact by requiring an increase in the ecological flow to the diverted reach of the river if certain biological thresholds (such as target fish populations) are violated. While the ecological flow management plan makes the plant more sustainable from an environmental impact perspective, it also creates operational risk due to lower energy output that would result from the reduction in water flow for power generation. The subordinated blended finance loan from the C2F is structured to offset that risk.

Expected Impact. The plan will help diversify Ecuador's energy matrix by adding 49.6 MW of renewable energy capacity and generating 349.9 GW/h of clean energy every year. It will reduce dependency on fossil fuels and imports from neighboring countries, while displacing approximately 126,781 tons of carbon dioxide equivalent emissions per year.

2. Derisking Drilling for Geothermal Power in Chile

Project Description. IDB Invest provided support for the development of Cerro Pabellón at a critical stage with a \$30 million loan to Enel Green Power Chile, the company in charge of the project. The loan, funded by the Clean Technology Fund (CTF) channeled through IDB Invest, was used during the exploration phase to drill ten production and reinjection wells, which are the source of geothermal steam that powers the plant to generate clean energy.

Use and Rationale for Blended Concessional Finance. During the drilling of geothermal wells there typically is little or no financing available due to low success rates and elevated levels of technical risk. Using IDB Invest-leveraged CTF funds, we mitigated that risk with an innovative structure where financing can become a grant if the well's drilling success criteria are met. In the Cerro Pabellón case, every well was successful, exceeding their energy generation capacity by more than 35%.

Expected Impact. Cerro Pabellón is the first geothermal plant in Chile and in South America. A project reflecting sustainability and located in the Atacama Desert, the plant is 4,500 meters above sea level and has two power stations with a combined capacity of 50 megawatts. It also reduces carbon-equivalent emissions by about 166,000 tons per year. In addition to being the world's highest-elevation geothermal plant, it has been granted the "Sello de Excelencia" (Seal of Excellence) by Chile's Environment Ministry, allowing it to quantify, reduce and neutralize greenhouse gases through its Huella Chile (Chile Footprint) program.

INTERNATIONAL FINANCE CORPORATION (IFC)

1. Housing Finance in West Africa²⁸

Project Description. IFC provided financing to CRRH, a mortgage financing company serving eight countries in the West African Economic and Monetary Union. The project is helping scale up an emerging market in bonds supporting housing finance in West Africa. Under the project, IFC is purchasing local currency bonds issued by CRRH at longer maturities than the company has been able to issue in recent years, starting with 12 and 15-year tenors, but eventually expecting to reach 20 years. IFC's presence will help pioneer these long maturity local currency bonds for housing finance, help crowd in private sector finance into the market, and over time establish the viability of the long maturity housing bond market for the region. This project is part of a larger comprehensive housing development program in the region involving regional institutions, the World Bank, and other DFIs.

Use and Rationale for Blended Concessional Finance. IFC utilized concessional funds from the IDA Private Sector Window (PSW) to reduce project risks associated with providing local currency financing. IFC does not currently have access to the local CFA Francs at adequate volume, tenor and pricing through normal channels, such as commercial swap markets. The PSW will allow IFC to economically obtain the domestic currency funds and thereby fulfill its role in strengthening the emerging long-term housing finance market. Over time, the long-term bond market should become viable without IFC or PSW participation, with funding coming from local investors, including institutional investors.

Expected Impact. Housing is a major development challenge in the countries of the West Africa Economic and Monetary Union, which face a housing shortage of 3.5 million units. Fewer than 7 percent of households in the region can afford to buy their own home. There are many obstacles to expansion of the mortgage market in West Africa. Banks generally have short term liabilities (deposits) which limit their ability to lend long term, and they have difficulty obtaining external long-term funds in local currency without stronger local capital markets. Currently mortgage financing for housing in West African countries is quite limited, with short tenors (average under 8 years). Greater access to longer tenor mortgages would help increase the affordability and availability of housing and contribute to economic growth and job creation.

2. Mocuba Solar, Mozambique²⁹

Project Description. IFC is providing a debt financing package of \$55 million to build Mozambique's first utility-scale solar PV plant, to be located in one of the least developed areas of the country. The package includes \$19 million of concessional financing from the Climate Investment Funds and a syndicated loan of up to \$17 million from the Emerging Africa Infrastructure Fund. Equity of \$14 million is being provided by Scatec Solar, Norfund, and Mozambique's electricity utility EDM. The project will also receive a \$7 million Viability Gap Funding grant from the Technical Assistance Fund of the Private Infrastructure Development Group (PIDG), a multi-donor funded institution that encourages private investment in infrastructure in emerging markets. The power generated from the 40 MW plant will be delivered to the national grid and sold to EdM, as part of a 25-year power purchase agreement.

²⁸ <https://disclosures.ifc.org/#/projectDetail/SII/40549>

²⁹ <https://disclosures.ifc.org/#/projectDetail/SII/36787>

Use and Rationale for Blended Concessional Finance. While Mozambique has strong solar resources, it is a new technology for a country with no track record of large-scale solar PV investment. The project will face unique challenges linked to the perceived high investment risks and capital costs of a first mover project, as well as the need to execute in the absence of an established supply chain and local EPC contractors. Concessional finance will support an affordable end-user tariff to ensure the project is viable and de-risk the project for financiers over the long term. The project is expected to help demonstrate the viability of solar in Mozambique, where similar solar projects should need less subsidy in the future.

Expected Impact. Severe power deficits hamper economic and social development in Mozambique, particularly in rural areas. The project represents an important step in realizing Mozambique's ambition to address the delivery of sustainable rural electrification and diversify its energy generation portfolio to adapt to the impacts of climate change in its energy sector.

3. National Fisheries Development Ltd, Solomon Islands³⁰

Project Description. IFC and the Global Agriculture and Food Security Program (GAFSP) Private Sector Window are providing loans to National Fisheries Development, Ltd (NFD) to support sustainable tuna production and employment in the Solomon Islands, an FCS country. The loans are to help finance the purchase of new fishing vessels and ensure maintenance of the existing fishing fleet. IFC will also provide advisory services to promote best practices in environmental and social risk management, including improving working conditions. Financing for three vessels has been approved under the program, with loans of \$10 million each from IFC and GAFSP, and additional funding from sponsors and internal cash flow. IFC has also invested in the tuna processing plant run by the sister company (SolTuna), and the World Bank has helped support fishery management in the region.

Use and Rationale for Blended Concessional Finance. Financing in the Solomon Islands is difficult with a limited local banking sector, and the country's small size market and remote location limit the interest of regional banks and investors. The fishing industry also has significant market, operating, environmental and social risks. Without the concessional support from the GAFSP finance, primarily in terms of a below market interest rate, the financing costs to the sponsor would be too high to make the project viable. With the IFC/GAFSP financing support as well as advisory services throughout the supply chain and downstream processing, the industry can be scaled up and important capabilities developed. This should lead to a more efficient, integrated, and sustainable sector that can achieve commercial viability over time.

Expected Impact. The tuna industry is very important for Solomon Islands and accounts for 18% of the country's GDP. NFD's tuna catch in recent years has accounted for around 25% of the commercial tuna catch. The GAFSP/IFC financing will help grow the tuna fishing industry in the country, including the downstream processing and exporting businesses in a sustainable manner, and help the island better integrate into the global economic system. Jobs will be created directly in fishing, shore handling, and provision of supplies and services, and indirectly in tuna processing. Local farmers will be included in the company's internal supply chain and employment for women will be particularly supported via training and jobs in the processing industry at SolTuna. The project will also improve nutrition by increasing the tuna volume available for domestic consumption and increase government tax revenues, and long term, is expected to contribute to the security and equity of the country.

³⁰ <https://disclosures.ifc.org/#/projectDetail/SII/38435>

Annex 3. Measurement of Concessionality, Additional Information

Chapter V of this report summarized the efforts of the sub-working group of the DFIs that has been examining different methods of calculating the level of concessionality in DFI blended concessional finance transactions. The main objective of this exercise has been to pilot methodologies that could be used to compare levels of concessionality across a DFI's portfolio, and potentially across institutions, and help with the evaluation of minimum concessionality. The exercise could also allow the comparison of blended concessional finance volumes across DFIs on a "Full Grant Equivalent" basis, which would better reflect the donor contributions to various types of concessional finance. This annex describes in more detail the methodologies explored, the strengths and weaknesses of each, and the results of tests using actual DFI project data.

The working group defined the *level of concessionality* in a blended concessional finance transaction as the "estimated monetary equivalent of the concessional terms and conditions of the transaction, assessed by the institution extending concessional financing."

The working group reviewed of several methods currently used by international organizations and the private sector to measure the level of concessionality in any given transaction. These can be categorized into three main methodologies, as follows:

1. **Methodology 1. DFI estimated commercial price.** Each DFI would use its own internal pricing methodologies for determining the commercial price for financing a project. The commercial price would then be used to evaluate the level of concessionality from concessional sources using various types of discounted cash flow calculations:
 - In one approach, (**discounted cash flow difference**) the level of concessionality is calculated by taking the projected cash flows from the concessional financing tranche (e.g. the senior debt at below market interest rates), based on the contractual terms (i.e. not factoring in any expected losses or expenses), subtracting this from similar projected cash flows with the commercial terms, and taking the present value of the difference. The discount rate is chosen to approximate the opportunity cost of the funds (e.g. rate that could be achieved if invested in a similar project on commercial terms). The discount rate chosen could in some cases be the estimated commercial price for the financing (based on each DFI's internal methodology).
 - An alternative approach (**discounting the concessional flows**) would calculate the level of concessionality by discounting the projected cash flows from concessional financing, based on the contractual terms, and subtracting this from the original concessional financing principal amount. The discount rate chosen would be the estimated commercial price of the financing, representing the opportunity cost of the funds. This method would be the same as the one above if the discount rate used above was the estimated commercial price. This method is similar to methods currently used by the World Bank and the IMF but modified to reflect private sector pricing.

2. **Methodology 2. Estimated commercial price from a simplified risk framework.** This is like 1 above, but DFIs would use simplified risk factors (e.g. country risk, amount of collateral) to estimate the commercial price for financing the project, rather than using their own internal pricing methodologies. There are two versions of this approach currently being utilized by other international institutions:
 - In the **EU approach**, the commercial price is estimated by a base price (e.g. 5%) adjusted by the financing risk (e.g. adding 1%-10% to the estimated commercial price depending upon a risk rating for the project and an estimate of the level of collateral).
 - In the **OECD approach**, the commercial price is estimated by a base price (e.g. 5%) modified by country risk (e.g. an additional 1% for upper middle-income countries, 2% for lower middle-income countries, and 4% for low income countries). A possible modification of this approach for the private sector is to also adjust the estimated commercial price by the type or level of financing, e.g. increasing the commercial price by a fixed factor for subordination.

3. **Methodology 3. Modelling revenues and expected losses.** This method is based on pricing models used by commercial banks. DFIs would not estimate commercial pricing at all, but instead use a model to calculate the level of concessionality in a project by comparing the expected revenues from concessional financing to the expected losses and required returns on capital, using a discounted cash flow framework. The net present value shows the overall loss from the concessional financing, which is the level of concessionality. While estimated commercial pricing is not required, estimates of expected losses for the project are needed. The calculations can be done in several ways:
 - In one approach, the cash flows each year from the concessional financing are based on the concessional terms adjusted for the level of defaults each year and estimates of the loss given default. A standard loss table from Moody's is used to estimate expected defaults and losses, based on the DFI's estimate of the Moody's risk rating of the project. The cash flows then net out a return on the equity required by the financial institution (with the equity backing based on the Basel III framework), and possibly net out any expenses to originate and supervise the loan. The net cash flows are then discounted. Actual return requirements and expenses may vary for each DFI, but for the purposes of this methodology, an agreement would be needed on amounts to be set for these numbers.
 - Several alternatives are possible with this general methodology in terms of how the costs of funds are handled and how losses are recognized, but the overall results should be similar. There are also alternatives regarding how much origination and supervision expenses should be included in the model as well as whether and how much to include fees charged.

Strengths and weaknesses of the different approaches

The DFIs did test calculations using one version of each of these three above methodologies (the first alternative in each case), and found that each is feasible, but with various trade-offs.

- Method 1 (*DFI own commercial price*) is accurate and flexible, and fine within an institution, but for comparing across institutions suffers from a lack of comparability regarding the commercial pricing used, especially as it may reflect operating costs which can vary widely

across DFIs. In addition, the question of what is considered “commercial” pricing for pioneering or frontier market projects is not straightforward given limited precedent for these kinds of transactions.

- Method 2 (*Estimated commercial price from a simplified risk framework*) facilitates comparisons across institutions but is less accurate because of the simplified assumptions used to estimate commercial prices. In the project tests done, this method using the existing EU risk framework and pricing, provided results which were not consistent with the other two methodologies. The sub-working group concluded that if this method were used, the current pricing matrix would have to be adjusted to better reflect real world pricing.
- Method 3 (*Modeling revenues and expected losses*) is accurate and flexible and eliminates the need to have uniform commercial pricing across institutions. However, it is more complex and requires assumptions about expected equity returns, expected losses for different risk levels, and amount of expenses and fees to include, which may be difficult to do in a uniform manner across institutions, and is quite sensitive to discount rate assumptions.

Conclusions

The DFI Working Group has concluded that all three methodologies are feasible, but the group is not yet ready to agree on a common standard or otherwise conclude that any one methodology is more appropriate than another. The methodologies explored provide a stronger set of tools than previously available to help DFIs assess their financing and facilitate minimum concessionality. These methods will be employed by various DFIs in their own operations, and on a bilateral basis DFIs will be exploring sharing results across institutions to provide a sounder basis for minimum concessionality benchmarks. They will also investigate some additional approaches to calculating the level of concessionality. In addition, more work is required to develop concessionality calculations that are tailored for products other than senior debt, e.g. subordinated debt, equity, guarantees, convertibles, and others.

Annex 4. Data Definitions and Methodology

This annex provides the definitions and methodology for the data on DFI blended concessional finance contained in Chapter IV of 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. Concessionalism 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.³¹ 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)".³²

Source of concessional finance: This report captures concessional finance resources administered by reporting DFIs and provided by various sources e.g. donor governments (through bilateral arrangements or multilateral facilities), philanthropic organizations, sister entities (e.g. IDA for IFC), or DFI own funds when they are explicitly identified for use in concessional activities (e.g. DFI self-funded trust funds for investments or shareholder capitalization that allows for the establishment of windows of less than commercial returns). DFI's normal own-account commercial financings are not considered to be concessional for this exercise.

Private sector operations: The scope of this report is limited to private sector projects - non-sovereign guaranteed. In alignment with the Joint MDB's methodology on private investment mobilization ([Joint-MDBs, 2018](#)³³), 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 entities³⁴.

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.

³¹ The degree of concessionalism 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%.

³² 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.

³³ <http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf>

³⁴ 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 2017.

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.³⁵

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:

³⁵ 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.

SECTORAL BREAKDOWNS DEFINITIONS *(These Categories are mutually exclusive)*

Infrastructure: In alignment with the Joint MDB’s methodology on private investment mobilization ([Joint-MDBs, 2018](#)³⁶) 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.

³⁶ <http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf>

THEMATIC BREAKDOWNS DEFINITIONS³⁷(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](#))³⁸, and the Common Principles agreed with the members of the International Development Finance Club (IDFC).

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

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

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

TECHNICAL ASSISTANCE/ADVISORY SERVICES

In line with the DFI definition of blended concessional finance, for this exercise, Technical Assistance/Advisory Services will not be included in the data on blended concessional finance projects but are reported separately. All unreimbursed project specific TA/AS for DFI private sector projects are included (not just for blended concessional finance projects). The data captured in this report covers unreimbursed resources committed by DFIs for Technical Assistance/Advisory Services directly associated with a private sector financial transaction (e.g. investment loan, equity, guarantee, performance grants, or investment grants) and, thereby, project/client-specific.³⁹ These can cover a broad spectrum of activities directly associated with a project, including feasibility studies and capacity building activities.

The data captured does not include the direct costs (e.g. staff time) associated with the design and management of such services. Data reported reflects the financial commitments made for Technical Assistance/Advisory Services at the time of the formal agreement signed between a given DFI and its client and is thereby independent of the time of commitment of the associated investment.

³⁷ 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.

³⁸ <https://publications.iadb.org/handle/11319/8505>

³⁹ The Joint MDB’s methodology on private investment mobilization ([Joint-MDBs, 2017](#)) defines such services as “direct transaction support”.