

Blended Finance at IFC

Blended Finance is one of the complementary tools that IFC uses to create markets and bring about development impact

WHAT IS BLENDED FINANCE?

At IFC, Blended Finance refers to a financing package comprised of concessional funding provided by development partners and commercial funding provided by IFC and co-investors. Blended Finance solutions can provide financial support to a high-impact project that would not attract funding on strictly commercial terms because the risks are considered too high and the returns are either unproven or not commensurate with the level of risk.

WHY USE BLENDED FINANCE?

Development projects need different types of capital at various stages of their evolution. A large amount of capital that could be deployed for projects in emerging markets is not flowing because its providers require risk mitigation, facilitation, or partnerships with other capital providers along the risk-capital spectrum. Concessional financing can help to mitigate real or perceived risks which often lead to higher costs, delay, or prevent a transaction from happening. In other words, it can help bridge gaps and address market barriers that prevent private sector development in areas of strategic importance and high development impact.

WHAT INSTRUMENTS DOES IFC USE TO IMPLEMENT BLENDED FINANCE?

- Risk Mitigation/Guarantees
- Concessional Debt (Senior and Mezzanine)
- Equity (Direct Investments and Private Equity)
- Performance-Based Incentives



Blended Concessional Finance Principles

- 1. Additionality & Rationale for Blended Concessional Finance**
Contribution that is beyond what is available, otherwise absent from the market
- 2. Crowding-in and Minimum Concessional**
Contribute to catalyzing market development and mobilization of private sector resources, with concessional not greater than necessary
- 3. Commercial Sustainability**
Impact achieved by each operation should aim to be sustainable and contribute towards commercial viability
- 4. Reinforcing Markets**
Addresses market failures effectively and efficiently and minimizes the risk of market distortion or crowding out private finance
- 5. Promoting High Standards**
Promote adherence to high standards, including in the areas of corporate governance, environmental impact, integrity, transparency, and disclosure

WHAT IS IFC DOING IN BLENDED FINANCE?

- **The Global Agriculture and Food Security Program (GAFSP) Private Sector Window** targets countries with the highest rates of poverty and hunger. It provides long-and short-term loans, credit guarantees and equity to support small-holders and small and medium enterprise (SME) farmers to help improve productivity growth, create and deepen links to markets, and increase capacity and technical skills.
- **Blended Climate Finance** catalyzes investments in renewable energy, energy efficiency, climate-smart agriculture, clean technologies, and adaptation that would otherwise not happen. It enables pioneering investments where private sector investors are concerned about high projects risks, technology costs, or technology risk. The concessional funding from Blended Finance enables projects to demonstrate viability of these projects and paves the way for financing on fully commercial terms.
- **The Global SME Finance Facility** helps to increase access to finance for SMEs in emerging markets by providing financial intermediaries with dedicated SME lending windows and guaranteeing loans made to SMEs using Blended Finance. This includes SMEs in fragile and conflict-affected markets, women-owned businesses, education and healthcare SMEs, and companies in rural markets.
- **The IDA 18 IFC-MIGA Private Sector Window (IDA-PSW)** is a new financing facility for crowding in private sector investment in the lowest-income and post-conflict or fragile environments when a commercial solution is not yet possible or no other IFC or MIGA tool can be used. An allocation of \$2.5 billion from the part of the World Bank that supports the lowest income countries—the International Development Association (IDA)—will enable private sector companies working with IFC or MIGA to take risks at a level commensurate with returns to promote sustainability. The three-year pilot, starting on July 1, 2017, aims to increase private sector capital investments in large-scale infrastructure and public-private partnerships, and across all sectors, such as manufacturing, health and education, SME's, climate finance, and technology. Financial instruments include loans, equity, guarantees, and local currency solutions.

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IFC's Partnerships in Blended Finance

GOVERNMENTS

Australia
Canada
Japan
The Netherlands
United Kingdom
United States

ORGANIZATIONS

Goldman Sachs Foundation

MULTI-DONOR PARTNERS

Climate Investment Funds
Green Climate Fund
Global Environment Facility

