CORE CONCEPTS IN BLENDED FINANCE: ASSESSMENT OF USES AND IMPLICATIONS FOR EVALUATION

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Abstract

This paper presents findings from research on how blended finance actors use and define different key concepts, and what implications these understandings have for evaluators. By increasing awareness of key terms and their use, the paper can contribute to facilitating the evaluation process, simplifying the communication of findings and results, and ease collaboration between different actors. The target audiences are the monitoring and evaluation departments of bilateral donors, multilateral development banks (MDBs), development finance institutions (DFIs), international financial institutions (IFIs), impact investors, and private foundations interested in blended finance. The paper is divided into two parts. Part one outlines the research methodology including the key questions that guided the research. The second section presents the findings from this research. The analysis covers three blended finance related terms that have multiple definitions with important implications for the evaluation process: 1) blended finance; 2) concessionality and mobilisation; and 3) impact. Each section describes common uses and definitions of the terms, and then explores how these differences affect the application of evaluation criteria and evaluation approaches.

Foreword

Achieving the ambitious goals of the 2030 Agenda and the Paris Climate Agreement will require significant additional investment – a financing gap estimated at USD 2.5 trillion a year (UNCTAD, 2014[1]). "Blended finance" has emerged as an option for increasing investment. The Addis Ababa Action Agenda highlighted the potential of blended finance (UN, 2015[2]) and blended finance instruments are being used by an increasing number of both multilateral and bilateral donors (UNCDF, 2018[3]). Some 17 OECD DAC members are now engaging in blended finance and the number of new facilities is growing every year.

However, along with the high level of interest in blended finance, there is some scepticism about the role of blended finance and specifically its development impacts – and there have been calls for improved transparency and accountability (including from the Group of Seven [G7])[1]. In 2017, the OECD's Development Assistance Committee adopted the "Blended Finance Principles". Principle 5 highlights the need to "Monitor blended finance for transparency and results". In its 2018 report, *Making Blending Finance Work for the Sustainable Development Goals* (OECD, 2018[4]) the OECD concluded that there is a need to establish an evidence base for blended finance operations.

Evaluation efforts already underway have met a number of challenges and despite various efforts to measure effectiveness, impact and "development additionality" evaluation practice lags in this field. A number of specific challenges for evaluation stand out in this field of development co-operation – including access to data and complexity. Common terms – such as "private sector", "impact", "additionality", "mobilisation" and "blended finance" itself – are being used in a variety of ways by a multitude of actors, leading to confusion.

These challenges are discussed in a first OECD Development Co-Operation Working Paper published in January 2019 (Winckler Andersen and al., 2019[5]). The paper suggested several areas for further analysis and consideration, including: 1) the absence of a common terminology for evaluation of blended finance; 2) the lack of a joint understanding of different dimensions of additionality – not least of development additionality - and how these should be evaluated; and 3) the need for more clarity on how specific instruments (equity, guarantees, loans, etc.) should be evaluated.

Recognising that it would be beneficial to address these issues across partners – rather than each evaluation having to find its own solution – the OECD's Development Assistance Committee's (DAC) Network on Development Evaluation (EvalNet) created a Working Group on Evaluating Blended Finance in February 2019. The main objective of the Working Group is to contribute to improved evaluation practice in this field by developing a common understanding within EvalNet (and the broader evaluation community) of how to evaluate blended finance operations. Ultimately, the aim is to support more effective blended finance operations in sustainable development.

EvalNet is well placed to take this work forward. It is made up of experts with diverse evaluation experiences and is independent in the field of blended finance. Its mandate is to strengthen evaluation systems and practice.

This study is one of three working papers commissioned by the EvalNet Working Group on Evaluating Blended Finance. The work is overseen by a Co-ordination Group comprising Denmark, Germany, Norway and the OECD Secretariat.

The work is organised into the following three work streams:

1. The development of a shared understanding of the various concepts and terms linked to blended finance and evaluation and their use, including the implications of these different definitions for evaluation and development co-operation.
2. Building on the definitions work, provide more clarity on how to evaluate development additionality or development impact (terms currently used to describe the contribution of blended finance activities to development) and financial additionality.
3. The development of a shared understanding on how to evaluate different blended finance instruments, combinations of such instruments and complementary support, including evaluating unintended effects such as market distortions.

The findings of each work stream will be published as an OECD Working Paper.

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Abbreviations and acronyms

DAC	Development Assistance Committee
DFI	Development Finance Institution
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
ECG	Evaluation Cooperation Group
EIB	European Investment Bank
EU	European Union
GIIN	Global Impact Investment Network
HIPC	Heavily Indebted Poor Country
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institution
LIC	Low-Income country
MDB	Multilateral Development Bank
MIC	Middle-Income country
NGO	Non-governmental Organisation
NORAD	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDM	Private Direct Mobilisation

PIM	Private Indirect Mobilisation
SDG	Sustainable Development Goal
Sida	Swedish International Development Cooperation Agency
SME	Small or Medium-Sized Enterprise
TA	Technical Assistance
UNCDF	United Nations Capital Development Fund
UNPRI	United Nations Principles for Responsible Investment
WEF	World Economic Forum

Executive Summary

Blended finance has emerged as an important tool to help address the funding gap to achieve sustainable development. However, the evidence base underpinning this instrument remains weak, partly due to the fact that the way important terms are defined and used varies significantly. The aim of this study is to create awareness of the core concepts and different definitions of blended finance and the implications of these differences for evaluation. This study identified the following blended finance related terms as having multiple definitions with important implications for the evaluation process: 1) blended finance; 2) concessionality and mobilisation; and 3) impact.

The analysis revealed four distinct models of blended finance currently in use. While all focus on the SDGs as the ultimate goal, they differ in emphasis as regards their objectives and the problem they seek to solve, as well as the mechanisms used to achieve this. In effect, they have different "theories of change". This makes the task of evaluation, particularly theory-based evaluation, difficult. The lack of a common evaluation framework prevents a robust evidence base for the comparative merits of particular approaches in different contexts. The models also produce very different estimates of how much finance is mobilised by blended finance transactions. In addition, there is no agreed method for measuring the degree of financial concessionality used in these transactions and no method at all for measuring non-financial concessionality. From an evaluation perspective, this makes it difficult to assess results such as mobilisation and to determine in a comparative way the importance of concessional inputs in achieving these results.

Finally, while a lack of precision in the use of the term "impact" is not unique to blended finance, it may be especially acute in this field. When many blended finance operations refer to "impact", they are talking about "outputs" or "outcomes" as these terms would be understood by evaluators, and only rarely refer to unintended or negative effects. As a result, insufficient attention has been paid to higher-level outcomes in the results chain, and harmful effects may go undiscovered.

Potential solutions to the issues raised are: 1) to work towards a common set of definitions and usages and evaluate through a common framework; or 2) to accept that different models will continue to be used, evaluate each model in a separate framework and seek to mitigate the problems this will create in building a comparative evidence base.

While some of the challenges identified can be overcome within the evaluation community, many are the result of different perspectives and approaches in the blended finance community. As such, they can only be fully addressed by the owners and operators of blended finance funds and facilities.

1 Understanding the core concepts of blended finance: methodology

The goal of this research is to understand how different key concepts are defined and used by blended finance actors, and what implications these understandings have for evaluators. It is believed that an increased awareness of key terms and their use will facilitate the evaluation process, simplify the communication of findings and results and ease collaboration between different actors.

This research builds on work already undertaken by key standard setters such as the OECD and the Evaluation Cooperation Group (ECG).[2] The target audiences are the monitoring and evaluation (M&E) departments of bilateral donors, multilateral development banks (MDBs), development finance institutions (DFIs), international financial institutions (IFIs), impact investors and private foundations interested in blended finance.

The paper is divided into two parts. Part one outlines the research methodology including the key questions that guided the research. The second section presents the findings from this research, in particular an analysis of the key terms identified and their impact on evaluation.

1.1. Methodological approach

This section describes the research questions that guided this paper, and the approach used to answer these.

To enable a better understanding of the key concepts and definitions related to blended finance and their eventual implications for the evaluation process, it is necessary to answer the following three questions:

1. What are the key terms used relating to blended finance?
2. How is each term defined and how does usage vary across stakeholder groups?
3. What are the evaluation implications of these different terms?

These questions guided the Working Group in their research and this section describes the approach taken in addressing these questions, which principally involved two main data collection activities. Firstly, a review of the literature, documentation and data related to blended finance and secondly, interviews held with relevant stakeholders. The findings were also informed by engagement with stakeholders at the OECD's Private Finance for Sustainable Development conference held in January 2020. A draft of the findings was discussed at an EvalNet workshop in Norway in March 2020, along with a series of consultation rounds and comments on drafts received from members of EvalNet and other international institutions involved in blended finance. The following sections expand on the methodology used.

1.2. Reviewing the literature

This part of the research firstly entailed the development of literature-specific questions and the examination of existing literature reviews, reports identified from these reviews and other grey literature

and relevant databases. The research was complemented by consulting bibliographic databases (e.g. Econlist, Scopus, Google Scholar) using words and phrases related to blended finance, evaluation, and the appropriate research questions. The search was not exhaustive but gave a reasonable overview of the current state of knowledge.

The second step involved generating a glossary of key terms relating to blended finance and evaluation along with their definitions. This was achieved by mining the relevant literature for related terms and concepts, most of which had a single definition or were otherwise uncontroversial. These can be consulted in Annex 1.

Finally, a group of priority terms was identified having either heterogeneous or controversial definitions which could have implications for the evaluation process. These definitions can be grouped into three areas: 1) blended finance; 2) concessionality and mobilisation, and 3) impact. The second section of this paper is organised around these three categories and outlines the differences in definitions and usage. This is followed in each case by a discussion of the resulting implications for evaluation.

1.3. Consultation with stakeholders

The second part of the research entailed a series of stakeholder interviews which were carried out during January and February 2020 (see Box 1.1). Criteria for inclusion of stakeholders included: 1) their importance as a standard-setting agency; 2) their importance as a practitioner as evidenced by market share; 3) having reasonable representativeness across stakeholder groups; and 4) their availability for interview. Interviews followed a semi-structured pattern, with a focus on definitions and implications for evaluation. Additional feedback obtained following comments received and discussion on the draft findings was also included.

In addition to these interviews, preliminary findings were presented at the 2020 Private Sector for Sustainable Development conference held in Paris in January 2020. Furthermore, key stakeholders were engaged in a review process of an earlier draft of this document at a roundtable discussion in Norway and by videoconference in March 2020. A number of further rounds of consultation on drafts were also conducted as discussed above. This allowed the research team to include the perspectives of stakeholders from DEval, Danida, the Dutch Ministry of Foreign Affairs, EBRD, IEG, Norad, Norfund, the OECD and SIDA.

Box 1.1. Stakeholders interviewed for this research

Several stakeholder organisations were interviewed as part of the research undertaking for this paper. The interviews focused on the various definitions of blended finance and the implications for evaluation. The organisations that participated are listed as follows:

- Blended Finance Taskforce
- BNP Paribas
- CDC Group, UK
- Convergence
- European Bank of Reconstruction and Development
- European Commission
- European Investment Bank
- Global Impact Investment Network
- International Finance Corporation
- Norfund
- OECD Development Co-operation Directorate
- Overseas Development Institute
- Oxfam
- Rockefeller Foundation
- USAID

2 Core concepts in blended finance: Definitions and implications for evaluation

The review of the literature and consultation with stakeholders identified the following three specific areas as having a variety of definitions and potential implications for the evaluation process: 1) blended finance; 2) concessionality and mobilisation; and 3) impact. While there are differences in definitions and use of other terms relevant to blended finance, the most important implications for evaluation flow from those in these areas. An exception is "additionality", which also has a number of different definitions resulting in implications for evaluation. This concept is the subject of a parallel paper (Work Stream 2), however, and is therefore not examined in detail here.

The remainder of this section considers each of the three areas, presenting the main definitions used for each of the key terms and identifying the most important differences between them. It concludes by examining the implications of these distinctions for the evaluation process.

2.1. Blended finance

This section examines two aspects of blended finance. First, the term "blended finance" itself, for which a number of different definitions are used. Second, the related question of the rationales or reasons for using blended finance for which there are also important differences in perspective. The third part of the section examines the evaluation implications of the differences identified.

2.1.1. Defining "blended finance"

Convergence identifies 15 working definitions for blended finance, although most of these are variants on one of the following four distinct types.[3]

The OECD (2018b[6]) defines blended finance as: "The strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries." Here "additional finance" refers primarily to commercial finance.

The Development Finance Institutions (DFI) Working Group on Blended Concessional Finance for Private Sector Projects defines "concessional" blended finance as: "Concessional finance from donors or third parties alongside DFI's 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." (DFI Working Group, 2018[7]; Convergence, 2019[8]) considers that: "Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development."

Finally, the European Union uses its own term, "blending", which is distinct from "blended finance". This is defined as follows: "Blending is the strategic use of a limited amount of grants to mobilise financing from

partner financial institutions and the private sector to enhance the development impact of investment projects." (EU, 2015[9])

Many other entities have their own definitions. A non-exhaustive recent list includes the Blended Finance Taskforce (2018[10]), BlueOrchard (2018[11]), Development Initiatives (2016[12]), Eurodad (2014[13]), Global Impact Investment Network (GIIN, 2018[14]) and the UNCDF (2018[3]). There are differences in emphasis, but these largely reflect the focus of the institutions, rather than substantive issues.

As highlighted above, based on their definitions, four distinct models of blended finance have been identified. Table 2.1 presents these models by grouping them according to their inputs and outputs to a transaction. Inputs here refer to the resources used to produce a particular activity or result (i.e. the output). While looking at definitions in terms of inputs and outputs is a useful way of highlighting the differences between them, it is a simplification of the reality – as with all models – as there are other important inputs and outputs involved in blended finance that are not included here.

Table 2.1. Variations in blended finance definitions as inputs and outputs

Definition type	Inputs	Outputs	Institutional source
1	Development finance or non-financial resources from public/philanthropic or private sources	Additional market-rate investment for SDGs from public or private sources	OECD
2	Concessional finance from public/philanthropic or private sources	Additional market-rate investment from DFIs and/or private sources for private sector development and SDGs.	DFI Working Group
3	Catalytic capital from public/philanthropic sources	Additional private investment for SDGs in emerging or frontier markets	Convergence
4	Grant finance from public sources (EU)	Additional investment from IFIs and/or private investors	EU

The first definition in the above table, from the OECD and the one most widely employed, is the broadest with respect to both inputs and outputs. Here, the input is development finance, which includes any financing where the primary purpose is to achieve a development objective. It also includes non-financial inputs having the same goal. The inputs can come from donor agencies of various forms, development finance institutes (DFIs), multilateral development banks (MDBs), philanthropic foundations or (private) impact investors. These inputs are designed to mobilise additional SDG-focused investment from investors which may be private or public, but are most often private and seeking market-level returns. This is the only definition of blended finance that does not require concessional finance as an input.

The definition from the DFI Working Group, in contrast, does require concessional finance as an input to a blended finance transaction. The DFI Working Group's understanding of concessional finance refers to instruments such as debt, equity and guarantees offered at below market rates, but it excludes grants. The DFI model, in contrast to the OECD's definition, considers financing from their own account (provided on commercial terms) as an output. However, the OECD model considers DFI financing to be an input to the transaction which is used to attract further commercial investment. This is clear from the DFI Working Group definition, which refers to DFI financing and private commercial financing as essentially being equivalent and which are attracted by concessional inputs in the same way – i.e. by improving the risk-return characteristics of transactions so that they fall within these institutions' risk tolerance limits.

The Convergence definition specifies "catalytic capital", i.e. investments such as debt, equity or guarantees which accept a disproportionate amount of risk, as the input. This is concessional in that it too is used to "improve the risk-return characteristics of investments", but also includes grants and may come from public or philanthropic sources. Unlike the OECD and the DFI Working Group, the Convergence definition

restricts outputs to private investment only. This is the definition that tends to be favoured by impact investors.

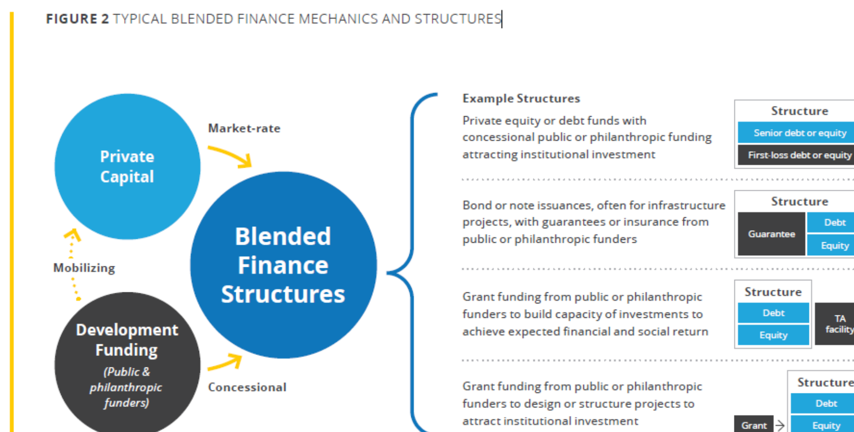
The final definition describes the EU's blending approach, where grant finance from the European Union is combined with loans or other types of investments from international finance institutions (IFIs) or the private sector. To date, the bulk of EU blending operations have involved IFIs, with public (grant) finance leveraging other types of public finance from IFIs, which are often on market terms but can be concessional depending on the intervention and the IFI's policy.

To recap, there are four distinct models of blended finance currently in use:

1. all development-focused finance (and non-financial inputs) leading to additional public or private investment, on commercial terms, supporting SDGs
2. concessional development finance (excluding grants) leading to additional public or private investment, on commercial terms, supporting SDGs
3. concessional development finance (including grants) leading to additional private investment supporting SDGs
4. grant development finance leading to additional public investment, on commercial or near-commercial terms, supporting SDGs.

To illustrate what these differences mean in practice, Figure 2.1 provides some examples of common blended finance structures. In line with the Convergence definition of blended finance, the examples all contain a concessional element. The last of the four shows the simple use of a grant to support project design and help attract institutional investors. The third uses a more flexible Technical Assistance (TA) facility with the goal of enhancing financial and social returns. In both cases, the concessional element is outside the core business of the project itself. Risk-return characteristics may be affected by the concessional inputs. The concessional element is at the design phase in example four and focused on (time-limited) capacity building in the third example. The second example is a direct modification of the commercial elements of a project, where a bond or note is issued, often for infrastructure projects, which is guaranteed by public or philanthropic funds. The first example is of a blended finance equity or debt fund, where the risk and return characteristics of the investment – as seen from the perspective of commercial investors – is modified through concessional finance.

Figure 2.1. Examples of blended finance structures with a concessional element



Source: Convergence (2019[8]), The State of Blended Finance 2019.

This first example shown in Figure 2.1 is a "pooled investment vehicle", or "collective investment vehicle", which, as the names suggest, combines investment from different sources. The WEF (2015[15]) reports that these vehicles are the main conduit for blended finance operations, with Convergence (2019[8]) finding that they account for 74% of blended finance transactions, with 64% of private capital mobilised through or by collective investment vehicles. The OECD (2018a[16]) attributes the importance of pooled vehicles to their ability of a) lowering transaction costs; b) fostering innovation; and c) targeting specific issues or geographies.

Returning to our four blended finance models highlighted in Figure 2.1, it can be agreed that the first two examples fall within the definition of blended finance. The third and fourth examples, however, rely on grant financing which falls outside of the definition of concessional finance used by DFIs. From their perspective, they would not see these mechanisms as "blended concessional finance". Another difference is that DFIs would consider the first example as blended concessional finance even if they themselves provided the senior debt or equity from their own account and there was no private investment. Convergence, however, would not see this as blended finance.

It is clear that these are very different understandings of blended finance. In each case, a set of inputs (along with other factors) leads to a set of outputs, with the combination of the two increasing investment and supporting activities that may advance progress towards the SDGs. The core difference is what counts as an input or output in each model.

2.1.2. Why blended finance? The rationales behind the mechanism

Given that blended finance can mean different things to different people, it is unsurprising that the rationales behind its use also vary. There are key commonalities, however. On the whole, the need for blended finance is generally linked to progressing SDGs.

The OECD (2018a[16]) considers "blended finance as a driver to maximise development outcomes and impact. The development mandate provides the rationale for deploying development finance through blended finance, as an effective and efficient financing approach towards its policy objectives…the SDGs are at the core of how and why official development finance is used in blended finance".

The World Economic Forum (WEF) stresses mobilisation in terms of the rationale behind blended finance, however this is linked to the SDGs, with the primary motivation being "to mobilize additional and external sources of finance for development, to increase the impact of their investment and accelerate progress towards the SDGs." (WEF, 2015[15])

There is agreement on the focus of using blended finance as a tool to increase investment for poverty reduction, sustainable development and other broad goals now enshrined in Agenda 2030 and the SDGs. However, different emphases are placed on the reasons for why current investments are insufficient. For many, market failure is the key issue. For example, the International Finance Corporation (IFC) states that although blended finance is needed because of "externalities, market failures, affordability constraints, or information deficiencies in the market… its use should be limited and concessionality minimized […Blended finance should be] utilized to address transitory challenges in the marketplace, where a push is needed for the private sector to reach a stage where concessional funds are not needed." (IFC, 2018)[17]). The DFI Working Group (2018[7]) takes a similar line, arguing that "the use of blended concessional finance can be justified if it addresses externalities, information asymmetries and/or other institutional and market failures, or affordability constraints…and there is an expectation to arrive at commercial solutions over the medium term." The OECD DAC Blended Finance Principle 2c also explicitly makes this link, stating that blended finance can be deployed "to address market failures".

Related to this, many other stakeholders argue that risk-adjusted returns are insufficient to attract private investors and that blended finance can address this lack. For the GIIN (2018[14]) "catalytic capital is utilized to address risks (perceived or real) facing market-rate investors and preventing them from entering into an

investment. These risks could be associated with the piloting of a new business model or entrance into an unfamiliar market.”

In the context of least-developed countries, the UNCDF (2018[3]) agrees on blended finance’s role in enhancing risk-adjusted returns, but also cites other objectives such as: “sending a broader signal that a project, sector, or market is investable. Through demonstration effects, lessons learned and knowledge sharing, blended finance could support commercial replication over time, inform government-led improvements in policies and regulations, and potentially support the development of local markets, helping to make countries or sectors more attractive to private finance.”

The temporary aspect of this rationale is widely noted, but not always for the same reason. On one hand, blended finance could address market failures or the policy environment, increasing commercial viability and reducing the need for further blended finance in the future. Alternatively, if risks are perceived rather than real, as noted by the GIIN (2018[14]), the blended finance mechanism could serve to highlight this misperception, attracting investment without necessarily changing the underlying risk environment.

In addition to increasing investments towards achieving the SDGs, some see blended finance as having intrinsic benefits as a mechanism. Convergence (2019[8]) notes that: “Blended finance allows organizations with different objectives to invest alongside each other while achieving their own objectives.”

Bringing together different public and private investors in the same transaction can draw on their complementary strengths. For example, donors may contribute a development focus, while private actors can enhance the commercial aspect of investments.

To summarise, blended finance is seen by all as a tool to help accelerate sustainable development. Beyond this the emphasis differs somewhat. Some stress increasing the quantity of investment while others highlight improvements to the nature of this investment – i.e. its potential SDG impact. Often market failure is seen as the principle obstacle to investment to be overcome, but others also highlight the importance of other factors that do not fit within a market failure framework. Finally, some suggest that blended finance brings additional benefits from its ability to bring together, and draw upon, the strengths of different types of public and private investors.

2.1.3. The implications for evaluation

This section explores how the dynamics described above affect evaluation processes and approaches, beginning with an overview of the implications, and then exploring the implications for evaluating the criteria of relevance and coherence.

Overarching implications for evaluation

Most of the differences in understanding of the core concepts of blended finance and the subsequent implications for evaluation can be traced back to the four distinct models of blended finance highlighted above.

These various models of blended finance are substantively different. In each case, the desired outcome (output) is different, and the mechanisms used to achieve these results (inputs) also vary. The method chosen to evaluate the success or otherwise of these approaches should reflect these differences. In addition, when comparing blended finance interventions, it is important to clearly understand the model of blended finance implicated. Otherwise, a like for like comparison cannot be achieved and valid conclusions about the relative merits of the different approaches cannot be drawn.

A useful way of looking at this is through a “theory of change” lens (OECD, Forthcoming[18])While the different models each refer to blended finance as the means to achieve a particular goal, there are differences on what the main obstacles to achieving these goals are (i.e. different causal links and assumptions within the theory of change). Those coming from a private sector development perspective

(e.g. DFIs), stress the need to specify underlying market failure as the justification for using subsidised funds and to avoid distorting markets. Other private actors (e.g. the GIIN) stress the need to boost risk-adjusted returns to attract private investment. For those having a broader development lens (e.g. OECD DAC) the goal is to increase investment, including by addressing market failures. However, their focus also encompasses development interventions where a market failure perspective is less appropriate.

As well as being based on different assumptions, the objectives of blended finance (i.e. its rationale) also differ in emphasis. There is broad agreement that the ultimate objective is to further progress towards the SDGs, principally through increasing investment. What this means in practice, however, varies. In some ways, they have different theories of change, where underlying assumptions and in some cases objectives differ. As theory-based evaluations (a common approach used in development evaluation) are conducted by interrogating the theory of change, using a number of questions and indicators, this leads to a varied evaluation focus. Evidence is gathered on different factors and different effects. As a result, it is difficult to directly compare evaluations of interventions that are based on different underlying logics and their related assumptions.

There would appear to be two ways of addressing this issue. First, efforts could be made to standardise the way that blended finance is defined and understood. This would involve creating a single theory of change which would avoid the evaluation problems described above. In practical terms this seems unlikely, not least as the entities involved are operating on the basis of a theory of change that reflects their own priorities and capabilities. The second option would be to evaluate the different models of blended finance using different frameworks – i.e. based on their particular theory of change – and to build up a robust evidence base within each model. Efforts could be made to increase the comparability of these evidence bases, both through the design of evaluations (using common indicators, etc.) as well as a measure of mapping and syntheses across the models where possible.

The implications for evaluating relevance and coherence criteria

This section will consider the implications of issues discussed above on evaluating the OECD DAC evaluation criteria of relevance and coherence, which are the most pertinent for the issues raised.

Recent OECD guidance (2019[19]) defines relevance as, "The extent to which the intervention objectives and design respond to beneficiaries' global, country, and partner/institution needs, policies, and priorities, and continue to do so if circumstances change". The new guidance adds a criterion of coherence asking how well the intervention fits in to the overall context. This aspect is defined as "the compatibility of the intervention with other interventions in a country, sector or institution". The aim is to better capture "linkages, systems thinking, partnership dynamics and complexity".

Blended finance investments are regularly criticised for their lack of focus on low-income countries (LICs) and less profitable sectors (Benn, Sangaré and Hos, 2017[20]; OECD, 2018a[16]; Development Initiatives, 2016[12]). OECD data show that 70% of private finance mobilised by development actors goes to middle-income countries (MICs) (OECD/UNCDF, 2019[21]). Using their dataset, Convergence (2019[8]) finds that from 2016-2018, 26% of blended finance interventions went to LICs and that this proportion is falling. This may suggest that, overall, blended finance is not sufficiently meeting the relevance criterion in terms of global and country needs. However, there is currently insufficient evidence to draw conclusions about relevance, due to the lack of available data and the lack of consistency and transparency around the rationales and intended results as described above.

This problem is partly the result of the need to offer investors attractive risk-adjusted returns which is often easier to do in MICs than LICs. The potential value of blended finance, however, is that it can compensate private investors if risk-adjusted returns – real or perceived – are insufficient to attract them to more challenging markets. In theory, the degree of concessionality could be increased as much as is needed to

achieve this, but as demonstrated in its review of IFC blended finance projects (IEG, 2020[22]), many of the risks restraining investment are external to the transaction and relate to the wider investment climate.

The fact that the activities of different blended finance actors are based on a different underlying logic makes it difficult to evaluate in a comparable way which blended finance structures, and supporting activities, are likely to work best in different contexts.

This does not mean that evaluations should not consider the question of blended finance focus and design in LICs. For example, the ADE End-Term Review of the EIB-managed Africa-Caribbean-Pacific Investment Facility used detailed portfolio analysis and specific evaluation questions on relevance to assess the extent to which operations focused on the development policies and priorities of the countries or regions in which they were undertaken. This led to a specific conclusion on the (relatively low) use of the investment facility in LICs or other countries in a situation of fragility.

Understanding the extent of this problem and the reasons behind it is a precondition for analysing the relevance of blended finance interventions in lower-income countries. This in turn is a precondition for the development of a robust evidence base on the types of interventions that are most likely to be effective in these country contexts.

The existence of different blended finance models also has implications for evaluating coherence, most notably external coherence. This is the consistency of the intervention with other stakeholders' activities in the same context and includes complementarity, harmonisation, co-ordination and the avoidance of duplication. If actors are using different theories of change, with different assumptions about the issues to be addressed and perhaps different understandings of the objectives being sought, it will be difficult for them to co-ordinate effectively. Evaluators, faced with more than one theory of change, will also find it challenging to assess the degree of potential coherence and thus the intervention's performance. As a consequence, building the evidence base is difficult.

The importance of coherence is recognised by many of the entities involved. For example, achieving "coordination with development partners" was an explicit part of the theory of change of the EIB facility mentioned above. While the evaluation of the facility found that this led to increased co-ordination with the European Union and other development partners, such co-ordination could be impaired in circumstances where different models of blended finance are being used by the actors involved in related interventions.

According to the OECD DAC definition, "relevant" blended finance interventions would direct finance to beneficiary, global, country and partner needs, policies and priorities. This may be interpreted as going to where it is most needed or scarce, or, alternatively, to where it is most likely to achieve its objectives. Judgements about relevance may thus vary widely, depending on the model of blended finance being used, making it difficult to compare relative relevance across the different models.

2.2. Concessionality and mobilisation

Concessionality and mobilisation are two key terms linked to the various definitions of blended finance discussed earlier. These are analysed together as they are linked conceptually and the differences in their definitions and application have related implications for evaluation. The previous section examined the differences in perspective when defining blended finance mechanisms through a simple model of inputs and outputs to the blended finance transaction. This section drills down into two further aspects of these differences: concessionality, which is a characteristic in most of the inputs for the various blended finance models, and mobilisation, one of the most important desired outputs.

2.2.1. Defining "concessionality"

As with the definitions for blended finance, relevant stakeholders also use various definitions for concessionality and its related terms. Some of them are as follows:

The OECD Glossary of Statistical Terms (OECD, 2001[23]) defines concessional loans as offered on "terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these." The definition of official development assistance (ODA) is having a grant element of at least 25%, whereas "concessional resources" are defined as having a grant element of at least 35%. Specificity over the level of concessionality is strongly associated with the need to formally account for bilateral ODA flows (DFID, 2013[24]).

Similarly, the DFI Working Group (2018[7]) defines concessional finance as "finance at pricing or other terms (e.g. maturity, security, ranking) that are below or softer than those available in the market."

Convergence (2019[8]) indicates that concessional capital "which can include grants (100% concessional), debt at below-market rates, or equity with asymmetrical returns, is often used in blended finance deals to draw in private investments."

Other definitions are more specific. For the IMF (2014[25]) a loan's concessionality is a:

> *net present value calculation, measured at the time the loan is extended, that compares the outstanding nominal value of a debt and the future debt-service payments discounted at an interest rate applicable to the currency of the transaction, expressed as a percentage of the nominal value of the debt..[the] concessionality level of bilateral debt (or tied aid) is calculated in a similar manner, but instead of using the nominal value of the debt, the face value of the loan is used—that is, including both the disbursed and undisbursed amounts, and the difference is called the grant element.*

Table 2.2 summarises some of the important features of concessionality where differences in definition or understanding may appear, resulting in possible implications for evaluation. In each case, the feature is identified in the first column, with corresponding rows describing the points of difference or ambiguity in parentheses.

Table 2.2. Features of concessionality and their related perspectives

Feature	Perspectives
Mechanism for delivering concessional inputs	Finance (concessionality may result from interest rate, grace period, tenor, currency, security/risk. Can be measured relative to market benchmarks where available or pricing models where not). Non-finance (TA; project preparation grants are difficult to measure and there is no agreed approach to doing this).
Funding source	Public ODA (To qualify as ODA, the concessional component must come from an official donor and go to an ODA eligible country). Public ODA grant + concessional loan (If grant given separately, loan assessed on stand-alone basis for ODA eligibility based on its degree of concessionality). Concessional loan (can be provided by MDBs with ODA as ultimate source). Impact investor (may provide below market-rate financing). Philanthropy (may provide grant or below market-rate financing)
Beneficiary (for ODA)	Must generally be a privately-owned enterprise or sponsored project (with exceptions). Can be official entity, including same as source institution. Can also see grants blended with already concessional loans from IFIs.
Degree of concessionality	Concessional finance in general use (can be defined as anything below, or substantially below market rates. Can range from positive but concessional to 100% concessional, i.e. grants). Concessional finance for DFIs (this is debt, equity or other financial instruments provided at below the market rate). Concessional finance for ODA eligibility (having at least 25% grant element, or 35% for external borrowing by heavily indebted poor countries [HIPCs]).

Reference rate to assess degree of concessionality	OECD (measured according to 10% blanket reference rate). DFIs/MDBs (measured according to market-specific reference rate, if available, or internal pricing model if not).
Minimum concessionality principle	Degree of concessionality needed to mobilise desired investment but not more (hard to measure accurately and no agreed framework in place to do so).
Temporary nature	Needed while market failure risks are being addressed (level of concessionality should taper over time as market failures/risks reduce, but hard to do this in practice and no agreed framework). Needed to highlight misperceptions of risk (should only be needed for short period with no tapering required over time. May be hard to distinguish between real and perceived risks ex ante).

There is broad agreement that concessionality should be used sparingly (minimum concessionality principle) and that it should be temporary in nature. The DFI Working Group uses five principles to guide its approach to blended finance, two of which refer to concessionality. Principle two stresses the need to minimise the degree of concessionality used, while the third principle requires this to be revisited as projects evolve, with the assumption that the level of concessionality required should fall over time (DFI Working Group, 2018[7]).

The OECD DAC's Blended Finance Principle 2 also stresses the need to minimise the level of concessionality, but within a broader set of principles than the DFI Working Group.

2.2.2. Defining "mobilisation"

Mobilisation in a blended finance context generally refers to the attraction of commercially-oriented finance to a particular investment, more often than not from the private sector. This additional investment is therefore one of the outputs resulting from the development finance (and non-financial) inputs. Related terms are "leverage" and "catalysation". In some contexts, these terms are used interchangeably, in others they have somewhat different meanings, or at least different emphases.

For the WEF (2015[15]) "leverage" is the use of "development finance and philanthropic funds to attract private capital into deals."

The Blended Finance Taskforce (2018[10]) describes the "mobilisation ratio" as "the amount of commercial private financing that has been mobilised by concessionary or development capital through a blended finance structure."

Convergence (2019[8]) defines "leverage ratios" as "the ratio of commercial capital to concessional capital".

Mustapha et al (2014[26]) focuses on the concessional element, seeing "leverage" as "the use of grants to mobilise additional private or public financing for a project."

With respect to climate finance, the Climate Policy Initiative (CPI) defines "private direct mobilisation" as "private finance that is co-financed alongside public finance into the same project, program or fund and which is invested as a direct result of the provision of public finance (or guarantee) to that same project, program or fund." (CPI, 2018[27])

The CPI identifies two other forms of mobilisation: "intermediated-direct private finance mobilisation" refers to public and private investment through a common fund; "indirect private finance mobilisation" refers to investment that happens after a public intervention but is influenced by its example, or demonstration effect.

The IFC (2019[28]) also differentiate between direct and indirect mobilisation, defining "private direct mobilisation" as "financing from a private entity on commercial terms due to the active and direct involvement of an MDB leading to commitment," and "private indirect mobilisation" as "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."

DFIs report mobilisation data using two methodologies, the MDB approach, which forms the basis for the two IFC definitions above, and an earlier framework developed by the OECD. The key differences between the two are, firstly, what qualifies as mobilised finance (e.g. the OECD includes the full value of instruments regardless what proportion is guaranteed, while MDBs only include the proportion that is guaranteed by the instrument – e.g. if only 50% is guaranteed then only this is considered to be mobilised), and secondly, how responsibility for the mobilised funds is allocated between official parties.

Most importantly in the context of this paper, the OECD approach considers funds mobilised by DFIs to be blended finance (see Figure 2.1 above). In the MDB framework, the mobilised funds categorised as "concessional blended finance" are a small subset of the overall mobilised investment. As described above, the framework also distinguishes between "private direct mobilisation" (PDM), where a causal link can be made to an MDB or DFI, and "private indirect mobilisation" (PIM), where there is co-investment in a deal, but no causal claim.

Although DFIs report mobilised funds under both approaches in terms of private investment, it is also clear that from a blended finance perspective they see their own-account funding as itself being "mobilised" by concessional inputs. The Independent Evaluation Group's (IEG) review of IFC's blended finance operations highlighted that IFC's own-account investments are seen in the same way – i.e. concessional funds enabled them to make investments that would otherwise have been outside of their risk tolerance. For example, the IEG outlined the way that blended finance mechanisms can enable a project considered too high-risk for commercial investment (including from IFC's own account) as follows: "…investors like IFC were reluctant to invest in such projects. The subsidy amount was between 2 percent and 5 percent of project costs, indicating that it was close to the minimum needed to catalyse the transaction, including the mobilization of other financiers (official and commercial). (IEG, 2020[22])

To summarise, the great majority of the funds that DFIs report as being mobilised do not qualify as blended finance under the DFI Working Group definition. On the other hand, the OECD consider all this as being mobilised within their blended finance definition. While the OECD see DFI's own financing as an input to mobilising investment, DFIs themselves see their balance sheet investments as outputs mobilised by concessional inputs.

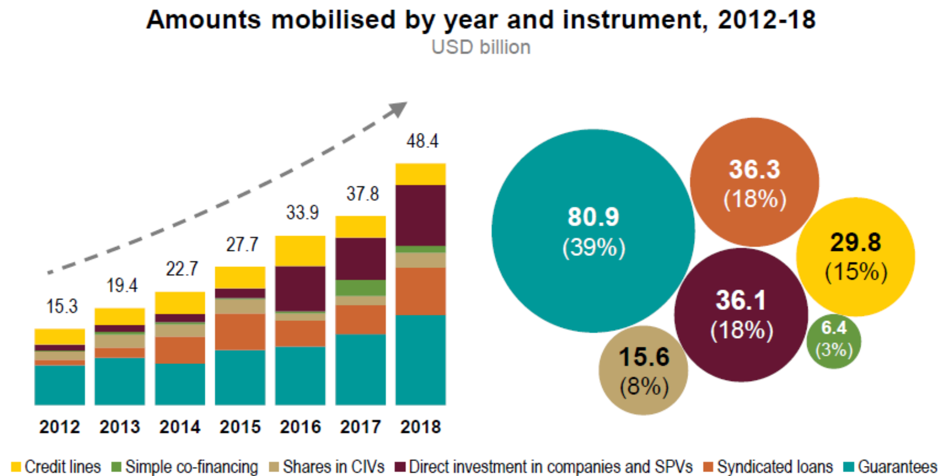
2.2.3. The implications for evaluation

This section looks at how the different definitions and conceptualisations of concessionality and mobilisation affect evaluation. It starts with an overview of the implications and then implications for assessing effectiveness and efficiency criteria specifically.

Overarching implications for evaluation

The most important implications for evaluation stemming from the differences in perspective and definition for the term "mobilisation" are linked to the disparity between the total amounts reported as having been mobilised by blended finance. The figure below shows the amounts of development finance mobilised by the private sector as calculated by the OECD. Using the OECD model of blended finance discussed above, these are considered to be the outputs of blended finance interventions.

Figure 2.2. Amounts mobilised by year and instrument (2012-18)



Source: OECD DAC (2020[29]), Amounts mobilised from the private sector by official development finance interventions 2017-2018.

Taking 2017 as an example, the OECD reports that USD 37.8 billion of private investment was mobilised by official development interventions, with guarantees, direct investments, syndicated loans and credit lines being the most important instruments. By comparison, in the same year, the DFI Working Group (2018[7]) reported that projects worth USD 8.8 billion were funded using blended concessional finance. Of this, USD 1.2 billion was concessional funds together with USD 3.9 billion of DFIs' own-account financing and USD 3.3 billion of private sector investment. Using the DFI definition, where DFI's own-account financing is considered to be mobilised by concessional inputs the total mobilised output reaches USD 7.2 billion. Convergence focus on concessional inputs and commercial outputs, which produces an estimated output in the region of USD 5 billion for a comparable period. EU blending facilities would produce different estimates of mobilised finance, where the concessional inputs are grants and the outputs are loans from IFIs that are mobilised by this input.

These differing amounts are the consequence of the different models of blended finance. They are not more or less accurate, but result from measuring different things. From an evaluation perspective, this complicates the comparative analysis of the effectiveness of mobilisation across the different models. One might directly compare approaches within a model such as that used by the DFI Working Group for concessional blended finance, but this is a different model to that used by the OECD. As both the inputs and the outputs in terms of mobilised funds are different, it is difficult to evaluate these approaches within a common and consistent evaluation framework.

Differences over concessionality complicate this further in three ways. First, most models of blended finance see concessional inputs as an essential part of blended finance transactions. This is not the case with the OECD model, however, with the result that evaluations cannot compare how well these inputs are translated into outputs as the inputs are not the same. Again, this is a direct consequence of the different theories of change employed. As described above by the IFC, concessional inputs are needed to improve the risk-return characteristics of investments bringing them within the risk tolerance of investors, including the IFC itself. For the OECD, this is just one constraint to investment, but not the only one, and non-concessional inputs may be needed to address the other constraints. While both organisations describe these activities as blended finance, the problem they are trying to fix, and therefore the tools that are needed to achieve this (and how these would be evaluated), are not always the same.

The second complicating factor is the degree of concessionality. One solution to the previous issue would be to evaluate blended finance interventions that use concessional inputs separately from those that do not. However, this would require an accurate and agreed upon approach to measuring concessionality. As

described in Table 2.2, there is an agreed approach to measuring concessionality for ODA purposes – i.e. it must have at least a 25% grant-equivalent element. While this provides a minimum threshold for ODA qualification, it does not measure the degree of concessionality beyond that, again having important implications for evaluation. For example, a loan with a 25% or a loan with a 75% grant-equivalent element would qualify as ODA but the effects created per unit of concessional input cannot be evaluated in a comparable way. This has major implications for evaluating efficiency.

The solution to this issue would be to accurately measure the level of concessionality in each transaction. For example, calculating concessionality requires a reference interest rate – i.e. concessional in comparison to what? For the OECD this is fixed at 10%, while the IFC and other DFIs use a bespoke reference rate for different markets, based on comparable market prices or generated by internal models where this is not available. The former ensures a common standard for comparison. While this may be useful for ensuring consistency in ODA calculations, it cannot be an accurate measure of actual concessionality, nor evaluate efficiency. A context-specific rate is potentially more accurate, but may also be subject to the approach used by different agencies, particularly in lower-income countries where market benchmarks may not be available and internal pricing models are used. At present, therefore, there is a trade-off between comparability and accuracy.

Finally, the question of non-financial concessional inputs is an important complicating factor. The IEG review cited earlier also explained that non-financial inputs in terms of advisory services were a crucial element in successful projects, but there is currently no robust and agreed way of measuring these.

> *… the subsidies of blended finance were often dwarfed by the size of advisory services related to these projects. Not all advisory services are a subsidy to the private sector: IFC's work on a green building program was industrywide. Also, some companies covered some costs of advisory services. Their scope and timing can vary from those of investment services. Nevertheless, advisory services contain a strong subsidy element as well given partial, if any, cost recovery. It is challenging but important to have a full cost accounting to get a complete picture of all the subsidies involved in a project. (IEG, 2020[22])*

Given a lack of consistent and agreed upon approaches to measuring financial concessionality and the absence of any approach to measuring non-financial concessionality, it is not possible to capture the level of concessional inputs to blended finance transactions in a comparable way - limiting the potential for evaluating the relative value of concessional resources, including how this is affected by the structure and context of the intervention.

The implications for evaluating effectiveness and efficiency

Amongst the most relevant OECD evaluation criteria linked to the issues discussed on concessionality and mobilisation are those of efficiency and effectiveness.

Efficiency describes the "extent to which the intervention delivers, or is likely to deliver, results in an economic and timely way" (OECD DAC, 2019[30]). In this definition, "economic" means financial and non-financial inputs being converted into outputs, outcomes, and impacts, in the most cost-effective way possible, as compared to feasible alternatives. "Timely" means "within the intended timeframe" or a timeframe reasonably adjusted to the demands of the evolving context and may include operational efficiency.

This creates a challenge when considering whether interventions are "economic" according to the efficiency criterion or not. It is very hard to assess whether different blended finance models deliver results in the most cost-effective way in a context where like-for-like comparison is impossible, both in terms of the results themselves or the inputs intended to generate them. There is disagreement on what comprises the inputs used to achieve these results (concessional vs. non-concessional) and within concessional inputs a lack of agreement on how to measure financial concessionality. In addition, there is currently no framework enabling accurate measurement of non-financial concessionality. Taken together, these factors

constitute an obstacle to evaluating the efficiency of blended finance interventions in a comparable way across the different models. This is compounded by the lack of an accurate or comparable way to measure the cost of the inputs used to achieve particular results.

In conclusion, it is important to note that as well as enabling different forms of blended finance interventions to be compared to each other, evaluations are needed to compare blended finance with other financing mechanisms in terms of their efficiency and effectiveness. For example, in challenging environments, the level of concessionality needed to achieve mobilisation of private investment is likely to be high. At some point, the cost in terms of concessional resources may exceed that of delivering the same results through other means. A rich evidence base created by robust and comparable evaluations is the only way of answering this question.

2.3. Impact

Achieving positive impact is the ultimate goal of all development interventions, including blended finance interventions. Impact is also the final stage in a results chain or theory of change and one of the OECD DAC evaluation criteria. Importantly, unlike other terms used in blended finance and evaluation, it is a non-technical word with a widely understood lay meaning. That being the case, depending on the context in which it is used, the term "impact" can have very different meanings. This has important implications for evaluation in general, but raises particular challenges when evaluating blended finance interventions.

2.3.1. Defining "impact"

Academic and grey literature includes many different working definitions of impact. In development, the evaluation community, donors and non-governmental organisations (NGOs) tend to use the OECD DAC definition: "The extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects." (OECD DAC, 2019[30])

The definition is supplemented by the following note:

> *Impact addresses the ultimate significance and potentially transformative effects of the intervention. It seeks to identify social, environmental and economic effects of the intervention that are longer term or broader in scope than those already captured under the effectiveness criterion. Beyond the immediate results, this criterion seeks to capture the indirect, secondary and potential consequences of the intervention. It does so by examining the holistic and enduring changes in systems or norms, and potential effects on people's well-being, human rights, gender equality, and the environment.*

The definition of impact most widely used by impact investors has a different emphasis and generally aligns with the GIIN definition of "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." (GIIN, 2020[31])

A review of the many definitions of impact used by actors involved in blended finance identified four main areas of difference: 1) whether the phenomenon should be measurable; 2) whether impact requires intentionality from the investor(s); 3) whether change is necessarily seen as positive or beneficial; and 4) whether particular objectives (such as addressing market failures), beneficiary groups or locations are specified.

In addition to measurability of the change, there is variation in the threshold for attributing impact to a particular investment or intervention. Some institutions have high standards for using causal analysis techniques to attribute observed changes, while others do not. In Table 2.3 different institutions are grouped according to whether their definition includes these elements.

Table 2.3. Impact definitions grouped by characteristic and institution

Change is measurable	Change must be positive/beneficial	Intentionality	Reference to specific objective or beneficiaries
OECD, The GIIN, UNPRI, WEF, Blended Finance Taskforce, Confluence Philanthropy, Global Steering Group for Impact Investment (GSG), Monitor Institute, Social Impact Investment Taskforce, The Rockefeller Foundation	The GIIN, WEF, Confluence Philanthropy, Impact Management Project, Impact Investing Hub, UN Global Compact, IFC, Overseas Private Investment Corporation, (OPIC), The Rockefeller Foundation, UK National Advisory Board on Impact Investing, Stanford Social Innovation Review	The GIIN, UNPRI, WEF, Blended Finance Taskforce, Global Steering Group for Impact Investment (GSG), Mission Investors Exchange, Omidyar Network, Monitor Institute, Social Impact Investment Taskforce, The Rockefeller Foundation, UK National Advisory Board on Impact Investing, Green Climate Fund,	OECD, The GIIN, Oxfam, UNPRI, Stanford Social Innovation Review

Among the 19 institutions referenced in the table, there is broad agreement that impacts should be intentional, with 13 of the stakeholders including this aspect in their definition. The majority of institutions (11) also see "impact" as an inherently positive term. Fewer stakeholders state that impacts needs to be measurable, while only a handful specify the type of market, or beneficiaries, e.g. those living in poverty, low-income countries etc.

Returning to the OECD DAC definition, which is the most widely cited and used, a number of distinguishing characteristics can be identified. First, unlike many of the definitions reviewed, it explicitly mentions negative as well as positive impacts, which may be intended or unintended. Second, the definition refers to "higher-level" effects, complemented by the reference to "transformative effects" in the accompanying note.

While some definitions specify the area of intended impact because of their own priorities (e.g. private sector development for DFIs or health effects for interventions focused on the health sector), these are conceptually different from the distinction made by the OECD DAC definition. One way of looking at this is to see "higher level" or "transformative" as a vertical distinction, which concerns positioning in the results chain – i.e. that impact is placed at a higher level than outcomes or outputs captured in effectiveness. The reference to transformative effects supports this view. In contrast, a focus on private sector development or health interventions describes the horizontal area of focus (i.e. at a similar position on the results chain), rather than the vertical position on the results chain associated with these areas of interest.

While blended finance actors such as impact investors describe the change they are trying to create in terms of transformation, there is often a lack of clarity on the nature of the intended transformation or the mechanisms through which they hope to achieve it (Saarinen and Godfrey, 2019[32]). As with the term "impact", the OECD DAC evaluation criteria define and use the term "transformation" to refer to effects at a level on the results chain above outputs and outcomes that involve "enduring changes in systems or norms". In contrast, the term seems to be used in a non-technical sense by others involved in blended finance to simply describe the achievement of statistically significant change (using causal analysis) or meaningfully "moving the dial" on indicators of interest. These changes may be more direct changes in knowledge or behaviour – such as an increase in hand washing – and not the types of "impacts" captured by the OECD DAC definition.

2.3.2. The implications for evaluation

As mentioned, many of the agencies involved in blended finance as well as impact investors use the term impact quite loosely alongside a range of related terms such as "impact investing/measurement/management", "social impact" or "development outcomes/impact/effects". As a result, the distinction between impact and related terms such as output and outcome can be quite blurred (Winckler Andersen et al., 2019[33]).

A lack of precision in the use of the term impact is not unique to blended finance but may be especially acute. Investors are financial experts, not social or environmental scientists with the benefit of the "rich academic and practice-oriented multidisciplinary body of work on impacts in respect of projects and places" (Reeder and Colantonio, 2013[34]). They are also unlikely to be familiar with developments over the last two decades in the field of evaluating international development interventions.

As a result, when blended finance operations refer to "impact", this could refer to a range of phenomena across the results chain used by development agencies, OECD DAC and the evaluation community: outputs, outcomes or impacts.

This has important implications for evaluation. Firstly, when those involved in blended finance operations talk about impact, they have in mind very different things, thus evaluating impact on a like-for-like basis is problematic. If what some blended finance actors call impacts are actually outcomes as understood by the development evaluation community (e.g. expanded or enhanced infrastructure) or even outputs (e.g. additional investment, construction of schools), higher-level effects further up the results chain will not be monitored or evaluated. For example, many DFIs use the term "impact" when referring to direct jobs generated, smallholder farmers supported or loans made by financial institutions to small or medium-sized enterprises (SMEs). Impact investors tend to have similar metrics. These are important effects, but they are not impacts in the sense understood by the evaluation community and as defined in the OECD DAC criteria, which would consider them as "outputs" or "outcomes". Focusing on the early end of the results chain (on outputs and outcomes) is often more straightforward methodologically when determining causal effects.

If these outcomes or outputs are considered as impacts, however, and evaluation efforts focus on how they can be maximised, then little or no resources will be devoted to higher levels on the results chain. When little attention is given in the theory of change to sustainable effects on end beneficiaries or on transformative changes at a wider level[4], the result is often a lack of focus, resources, or a framework for examining results at those levels. Many evaluations limit, for example, the examination of social and environmental effects to ex ante analysis, i.e. without examination of the actual (intended and unintended) effects of the intervention. Examination of such effects typically needs primary or secondary information from independent evaluators conducting field-level work through on-site observations, feedback from end beneficiaries, and/or use of statistical or quantitative data sets. In some cases, the use of more challenging and resource-intensive "impact evaluation" (which despite the name actually focuses on "outcomes") is justified so as to allow learning from innovative interventions. Given the overall lack of solid evidence in the case of blended finance operations, it would make sense to scale up evaluation efforts with such rigorous methods targeting development outcomes. In addition there is a particular lack of evidence on higher-level impacts, possibly as a result of the particular way the term is understood in this field, which needs to be addressed.[5]

In summary, the more development results are central to the theory of change, the more evaluation design, methods, and resources should be dedicated to thoroughly assessing development results.

A second implication is the lack of attention paid to negative or unintended consequences during the evaluation process. If the focus is on capturing positive effects, monitoring and evaluation will only concentrate on the intended beneficiaries of interventions. While this may highlight areas where benefits have not materialised, which is important, it is likely to miss impacts on stakeholders other than the intended beneficiaries, as well as wider environmental, social or economic consequences. Addressing this requires evaluations to take a wider view in terms of the stakeholders potentially affected in a meaningful way.

In practice, many projects funded by blended finance seem to be aiming for effectiveness rather than impact. As noted in DFID (2005[35]) "impact is wider and distinct from effectiveness where the focus is on intended and positive effects." This suggests that stakeholders involved in blended finance operations need to either shift their focus further up the results chain to enable them to clearly link their activities to

impacts, including negative and unintended impacts, or that evaluation efforts should focus more fully on these missing aspects of the results chain.

3 Key findings and conclusions

The purpose of this paper is to help create awareness of the core concepts of blended finance and the differences in their use, including the implications of these differences for evaluation. It is hoped that increased understanding of key terms and the way they are employed will ease the evaluation process as well as the communication of findings and results, and facilitate collaboration between the different stakeholders involved in blended finance operations.

To reach this end, an extensive review of the terms used in the field of blended finance was undertaken, which was complemented by interviews with informed individuals from key institutions involved in blended finance. From this process, three groups of terms were identified as having significant differences in both the way they are defined and used, and which differences could have particular implications for the evaluation process.

First, the term “blended finance” itself was analysed. Second, the two terms “concessionality” and “mobilisation”, which were considered together due to the strong links between them. And finally, the term “impact”, which, while far from unique to blended finance, has important implications resulting from variations in the way it is understood in this context. While other terms exist and can also be used differently, the analysis shows that the differences in understanding related to these three terms have the most significant implications for evaluation. An exception is the term “additionality” which was not examined here as it is the subject of another dedicated work stream and a future paper.

3.1. Key findings on blended finance

While there are a large number of definitions for blended finance, these can be grouped into four different models. All of them are based on a similar logic, where a set of inputs leads to a set of outputs, but there are important differences on what these inputs and outputs include, as highlighted in Table 2.1. The first – and broadest – of these models is based upon the definition of blended finance used by the OECD while the second equates to that developed by the DFI Working Group on Concessional Blended Finance. The third is based upon the Convergence definition and is widely used by impact investors, with the fourth model being that used by the European Union for their blending approach.

The key differences are: 1) all the models except for the first require some form of concessional input to a blended finance transaction; 2) the DFI Working Group model sees DFI’s own account financing as being an output that is enabled by a concessional input. The OECD approach, in contrast, would consider financing by DFIs as an input, as it has a development rational; and 3) while most definitions emphasise the importance of private finance as an output, only the Convergence definition requires this to be the case. In practice the EU blended approach has little or no private contribution, with public (grant) funding enabling SDG-related investment from other official financing institutions operating on a more commercial basis.

In effect, the different models represent different theories of change for what blended finance is trying to achieve, with different causal links preceding these objectives and the assumptions that underpin these links. Most of the implications for evaluation result, directly or indirectly, from these differences.

It is difficult to develop a robust evidence base on what works best in different contexts, as the different approaches cannot be evaluated in the same comparable framework due to these differences in theories of change.

There would appear to be two ways of addressing this issue. First, efforts could be made to standardise the way that blended finance is defined and used. That is, to create a single theory of change which would avoid the evaluation problems described above. In practical terms this seems unlikely, not least as the actors involved are operating on the basis of a theory of change that reflects their own priorities and capabilities. The second option would be to evaluate the different models of blended finance using different frameworks – i.e. based on their particular theory of change – and build up a robust evidence base for each model. Efforts could be made to increase the comparability of these evidence bases, both through the design of evaluations (using common indicators, etc.) and developing possibilities for mapping and syntheses across the models where possible.

3.2. Key findings on concessionality and mobilisation

A second area where definitions vary, and where these differences have important implications for evaluation, is related to the terms “concessionality” and “mobilisation”. Most definitions of blended finance require concessionality as an input, but not all. One way to address this issue would be to evaluate interventions including concessionality separately from those that do not require concessionality.

A problem, however, is that this would necessitate a common approach to measuring concessionality, which is currently lacking. As described in this report, financial concessionality is also measured in different ways (e.g. using different benchmarks), and with differing degrees of precision. In addition, the use of concessional non-financial resources is rarely measured, and there is no framework supporting this possibility.

Taken together this means that it is currently very difficult to accurately *and* comparably measure the amount of concessionality in different interventions and thus to evaluate how relatively effective and efficient these resources are in different contexts. A possible – though potentially difficult – solution would be to agree among blended finance institutions an approach that captures the incremental value of concessional resources, ideally per unit of concessional input.

Mobilising capital towards achieving the SDGs is a key goal of blended finance. Although development finance actors report mobilisation figures under two different frameworks (the OECD and MDB approaches), the most important implications for evaluation result from the different models of blended finance identified. The models yield completely different estimates of mobilised sums. In 2017, for example, the OECD reported that USD 37.8 billion of private investment was mobilised by official development interventions, all of which is seen as blended finance. However, in the same year, the DFI Working Group (2019) reported that USD 7.2 billion of capital (which included financing from their own account) was mobilised by concessional blended finance. Convergence focus on commercial finance, which for the same year, 2017, produced an estimated mobilised output in the region of USD 5 billion.

These differences are the result of basing the calculations on different models of blended finance. They are not more or less accurate but are measuring their output based on different criteria. From an evaluation perspective, this makes it hard to say which approaches are more effective at mobilisation across the different models. It may be possible to directly compare approaches within a model such as that used by the DFI Working Group for concessional blended finance, but this is a different model to that used by the OECD. As with concessionality, the most plausible solution to this would be to evaluate mobilisation separately for each of the different models of blended finance identified.

3.3. Key findings on impact

Unlike the other terms in this report, impact has a non-technical meaning. It also has a very specific OECD DAC definition for evaluation and is the endpoint of the results chain in the theories of change used by the development evaluation community.

Unfortunately, however, the term is also used by different actors to refer to all points between the lay understanding of impact and its most technical definition. Again, this is not unique to blended finance, but in a development context it may be particular acute. Blended finance interventions often involve private investors who are unfamiliar with the technical use of the term impact and often use it when they are really referring to outputs or outcomes as would be understood in an evaluation context.

The implications for evaluation are significant. Firstly, when different entities talk about impact, they are often talking about different things, making it difficult to compare interventions. Secondly, and perhaps more importantly, if outputs or outcomes are considered as impacts, then insufficient (or no) attention will be paid to higher-level effects (i.e. the real impacts). Many interventions rely on ex ante assessments of long-term effects and do not undertake the detailed primary research needed to understand how interventions affect the ultimate beneficiaries, or whether they have wider, transformative effects. Without this understanding blended finance interventions, and the complementary activities that could support them, will not be optimally designed to maximise impacts. It is also essential to examine which effects can be observed in practice following implementation of the intervention.

3.4. Conclusions and next steps

In conclusion, evaluation of blended finance is challenged by the differences in definitions of key concepts, including the rationale for blended finance, how the term blended finance itself is used and the way the terms concessionality, mobilisation and impact are understood.

Rather than seeking to persuade those involved in blended finance to address all of the issues raised in this report, there are a number of areas where the development evaluation community could work together with investors and other stakeholders in a complementary way to fill the knowledge gaps identified (e.g. for higher-level impacts). The results could then be disseminated and used to inform the way blended finance interventions are designed, implemented and evaluated.

However, while some of the evaluation challenges can be overcome within the evaluation community, including with further work of the DAC EvalNet Working Group on Blended Finance, many of the challenges outlined above are the result of differences and divisions within the blended finance community. As such, they can only be fully addressed by the owners and operators of blended finance funds and facilities.

The core question to address is whether it is desirable and feasible to work towards a common understanding of blended finance, within which concepts such as concessionality and mobilisation are understood in the same way and where a common theory of change could be applied and evaluated? If so, the most fundamental problems described in the report would be removed. There would remain significant evidence gaps, but these would be much easier to resolve through evaluations focused around a common theory of change.

If this is not possible, a second-best alternative is to develop separate bodies of evidence for each of the blended finance models that are used, with the evaluation approaches and the evidence base being specific to each model. While this approach may not address all of decision makers' learning and accountability needs on blended finance, it would, nonetheless, at least allow for evaluations to make a useful contribution.

Annexe A. Glossary of complementary terms

This annex presents a glossary of well-defined or mostly uncontroversial terms used in this study, which are complementary to the key terms addressed in this report.

Catalytic capital: Defined as debt, equity, guarantees, and other investments that accept disproportionate risk and/or concessionary returns relative to a conventional investment in order to generate positive impact and enable third-party investment that otherwise would not be possible (Catalytic Capital Consortium, 2019[36]).

Common stock/junior equity: ranked below preferred stock in a liquidation. Dividends tend to be variable and discretionary, but often comes with voting rights.

Crowding in (i.e. mobilisation of finance) is the key objective of blended finance. The term has its roots in analyses of government deficit spending and is an alternative to a crowding out theory, i.e. that increase in economic activity as a result of an investment crowds in the private sector to satisfy increasing consumer needs. The term is not widely used or by referenced by organisations such as the DFI working group and the IFC.

Crowding out: This is an economic theory, popularised in the 1970s where public spending reduces or eliminates private sector spending. There is a large literature exploring the relationship between public and private spending, and the theory remains controversial. Despite misgivings (Arigoman, Gonzalez-Paramo and Roldan, 1997[37]), it remained economic orthodoxy due to substantial empirical support (e.g. Bairam and Ward, (1993[38])). More recent analyses tend to find either neutral or positive relationships between public and private spending (e.g. Dreger and Reimers, (2016[39]); Funashima and Ohtsuka, (2019[40]); Moretti, Steinwender and Van Reenen, (2019[41])). Findings tend to derive from panel studies, which are sensitive to the sample of countries, time periods and methodologies or assumptions used (Arigoman, Gonzalez-Paramo and Roldan, 1997[37]) which may explain variations in empirical evidence.

Deadweight: The amount of change that would have happened anyway, sometimes called “baseline” or “counterfactual” (EVPA, 2018[42]).

Debt: transfers in cash or in kind where legal debt is incurred (e.g. loans[6], bonds and other securities) or could be incurred when certain events occur (e.g. reimbursable grants) (OECD, 2018a[16]). The main difference with equity is that the transfers associated with debt are set at the outset (though these can vary if the debt product is traded on the secondary market).

Derivatives: financial instruments whose value is derived some underlying financial asset, commodity index or predefined variable (OECD, 2018a[16]). The four main types of derivative contract are futures, forwards, options and swaps.

Development impact bond (DIB): a form of Social Impact Bond (SIB) that focuses on the allocation of funding to social programmes that yield effective results. The difference between impact bonds and traditional RBF is the role of the funding, which is typically from the private sector and/or philanthropic institutions. Financing is provided upfront to the service providers with the promise of a return once results are achieved and verified. The difference between a social impact bond or “SIB” and a development impact bond or “DIB” depends on who pays for the outcomes. In a SIB, the outcome payer is a government, while in a DIB, the outcome payer is a donor.

Direct equity: a share in the ownership of a company, which varies in value in line with the valuation of the company.

Economy: In development co-operation, economy is one aspect of the “Three E’s framework” - economy, efficiency, effectiveness – that is widely adopted by donor agencies to conduct evaluation (DFID, 2011[43]). Economy measures whether inputs are being purchased at the appropriate quality and at the right price. In the case of blended finance, this would relate to the cost of structuring a blended finance deal, relative to, for example, providing ODA grants.

First loss capital: as equity, but includes debt structures that absorb first losses.

First loss catalytic capital: as above, but designed to influence the capital structure with the aim of achieving particular impact/development objectives (i.e. the catalytic component) (GIIN, 2013[44]).

First loss equity: occupies the most junior position in a capital structure, absorbing the first losses before other creditors and investors are affected.

Grants: unreciprocated transfers in cash or in kind.

Guarantees: risk-sharing agreements where a guarantor agrees to pay part of or the entire amount due on a loan, equity or other instrument in the event of non-payment by the borrower or loss of value in case of investment.

Halo effect: Borrowers may be more reluctant to default on loans from a multilateral or bilateral development finance institution than would be the case with private investors. Co-investment with these institutions can therefore directly improve the risks of an investment.

Indirect equity: a share in the ownership of a collective investment scheme.

In-kind: non-financial goods or services.

Insurance: similar to guarantees, but where the insurer commits to paying an agreed sum if an event occurs or does not occur, or a particular threshold is reached.

Local currency financing: projects in developing countries tend to generate revenues in local currency, but financing may only be available on suitable terms or tenor in international currencies. This generates a mismatch, where a large currency devaluation can significantly increase debt liabilities in international currencies in the devalued local currency. A solution is to provide financing in domestic currency, which may be supported by donors through guarantees[7], or through the supply of hedging products (TXC, 2017[45]).

Market failures: in lower-income countries market failures tend to be more pronounced than in higher-income countries. Missing or incomplete markets, co-ordination problems, information asymmetries, and externalities may all constrain investment and blended finance can be used to overcome these failures. As countries develop and market failures become less pronounced the need for blended finance should fall over time. While less acute, market failures are also a feature of higher-income markets. To the extent that they are the rationale for blended finance interventions, therefore, some need for these approaches would be expected to persist on an ongoing basis.

Mezzanine finance: usually debt instruments that can convert to equity if the debt is not repaid, but can also include subordinated debt that may not be convertible, as well as preferred /redeemable equity.

Results-based financing (RBF): financing mechanisms where financing is linked and provided after the delivery of pre-agreed and verified results (Abraham, Schmukler and Tessada, 2019[46]). There are many different types of RBF: output-based aid; cash-on-delivery aid; conditional cash transfers; performance-based financing; programme for results financing; results-based climate financing; output-based disbursement (ibid).

Risk-adjusted returns: political and economic risks in developing countries may be higher, or perceived to be higher, than in more mature markets. Investors require returns to compensate for risk and returns in these markets may be considered insufficient relative to alternative, lower-risk investments. SDG-aligned investments are often long term and illiquid (e.g. infrastructure) and reliant on government policy support (e.g. renewable energy). These features compound the risk of investments. Blended finance instruments often reduce investment risk, enhancing risk-adjusted returns. Again, these risks should fall as countries develop, converging on market norms and reducing the level of concessionality needed, ultimately to zero.

Senior debt: a loan or security that takes precedence over other forms of debt and all types of equity investment.

Subordinated/junior debt: a loan or security that ranks below other loans or securities with regard to claims on assets or earnings. Subordinated debt is also known as a junior security or subordinated loan. In the case of borrower default, creditors who own subordinated debt won't be paid out until after senior debt holders are paid in full (Investopedia, 2020[47]).

Value-added: Often used to describe what is additional about blended finance (e.g. the added value of the specific form of finance) (Pereira, 2017[48]).

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Notes

[1] For more information, please see https://g7.gc.ca/en/g7-presidency/themes/investing-growth-works-everyone/g7-ministerial-meeting/co-chairs-summary-g7-joint-development-finance-ministers-meeting/

[2]The ECG is a working group comprising heads of evaluation departments of multilateral development banks (MDBs) who collaborate to develop good practice standards and promote knowledge sharing. Members include the five major MDBs (the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank and the World Bank) along with several international financial institutions (e.g. the European Investment Bank, the International Fund for Agricultural Development, the International Monetary Fund and the Islamic Development Bank). Observers include EvalNet and the United Nations Evaluation Group (UNEG).

[3] Convergence is a global network for blended finance whose membership includes public, private, and philanthropic investors as well as sponsors of transactions and funds. Its aim is to increase private sector investment in developing countries to which end it conducts research, provides data on blended finance and facilitates networking opportunities to promote blended finance.

[4] Examples of intermediate impacts that could contribute towards transformative change (e.g. inclusive, sustainable growth; adaptation and resilience) would be more competitive private and productive sectors, better public services, significant financial sector deepening and increased access to finance, including for smaller enterprises or women entrepreneurs.

[5] A number of evaluations have focused on the higher-level development impacts of blended finance projects. For example, the ADE Evaluation of EU Blending (ADE, 2016[49]) had as one of its main evaluation questions: “To what extent have the projects funded through blending contributed to development outcomes in the infrastructure-related sectors, climate change and private sector development, and in how far have they benefited the poor and disadvantaged groups?”

[6] Loans may be direct between a financial institution and borrower, or syndicated where a consortium of lenders provide the financing. If the latter, one institution is often the lead arranger. In development finance, the IFC B-loan programme is an important example, where the IFC is the lead arranger and other lenders can benefit from the IFC’s credit rating and relative protection from potential default.

[7] As provided by GuarantCo, for example: https://guarantco.com/

Further reading

The following references were also consulted as part of the research and analysis for this paper and although not directly cited in the text may provide an additional and relevant source of material for those interested in further exploring the core concepts of blended finance and their implications on evaluation:

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