

Blended Finance at IFC

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

WHAT IS BLENDED FINANCE?

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

WHY USE BLENDED FINANCE?

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

WHAT INSTRUMENTS DOES IFC USE TO IMPLEMENT BLENDED FINANCE?

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



Blended Finance Principles

IFC uses a disciplined, targeted, and strategic approach in its use of Blended Finance, by applying the following four key principles:

MOVE BEYOND WHAT IFC WOULD USUALLY BRING TO A DEVELOPMENT CHALLENGE

Consider early stage projects in strategic sectors in emerging markets and developing economies, where we target specific barriers (risk and cost) and market failures that inhibit private sector investments.

AVOID MARKET DISTORTION

Provide the minimum concessional funding needed in the financing package to catalyze private sector investments. Maximize the leverage of private sector financing by “crowding-in” capital and allowing the private sector to bear appropriate types and levels of risks.

LEAD TO SUSTAINABILITY

Be selective about using Blended Finance in areas that do not require long-term support. Apply Blended Finance to a sector until a commercial track record is established. Complement with IFC advisory services whenever possible to broaden the development impact in the market.

UPHOLD TRANSPARENCY AND STRONG GOVERNANCE

Use concessional funding with the same standard of care that IFC would apply in the use of its resources. Separate team and senior management committee managing and approving the donor-funded co-investment

WHAT IS IFC DOING IN BLENDED FINANCE?

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

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IFC's Partnerships in Blended Finance

GOVERNMENTS

Australia

Canada

Japan

The Netherlands

United Kingdom

United States

ORGANIZATIONS

Goldman Sachs Foundation

MULTI-DONOR PARTNERS

Climate Investment Funds

Green Climate Fund

Global Environment Facility

