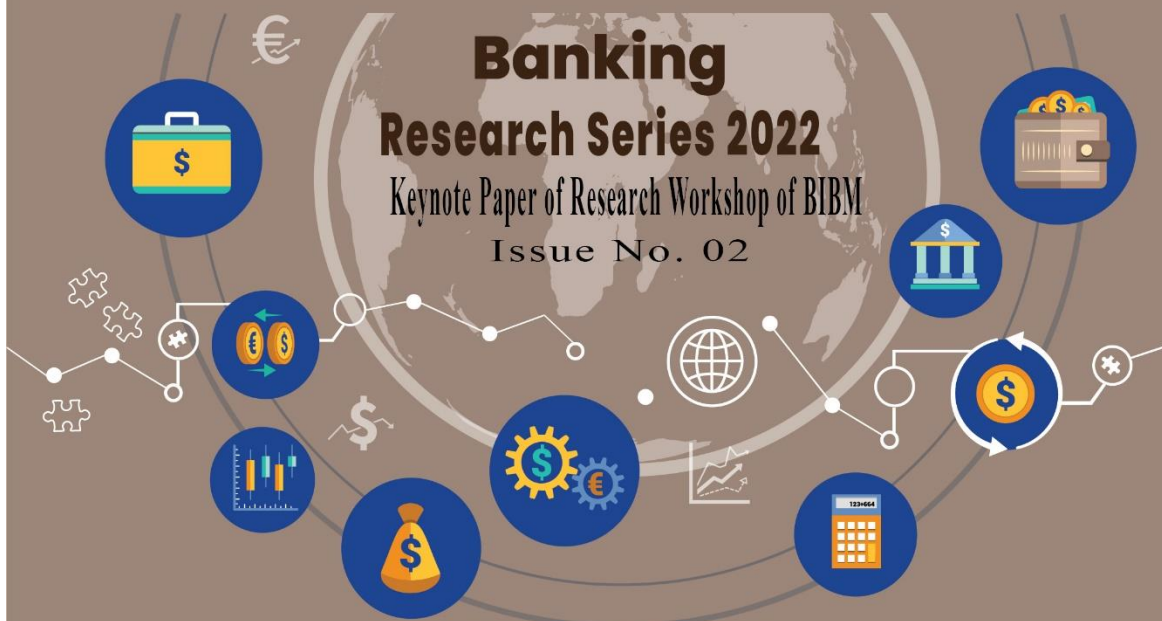


Blended Finance : A New Modality for PPP

Banking Research Series 2022

Keynote Paper of Research Workshop of BIBM
Issue No. 02



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Blended Finance : A New Modality for PPP

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Forewords

As part of the ongoing dissemination of BIBM research outputs, this research workshop contains the results and findings of the research paper titled “Blended Finance: A New Modality for Public Private Partnership (PPP)”. Blended finance is a strategic development finance for mobilization of additional finance towards sustainable development in developing countries. Although a few academic researches have been done, policymakers have recently shown considerable interest of development financing opportunities called “blended finance” that pools public and private resources and expertise. In the context of Bangladesh, a few studies have been found on blended finance as a new modality for PPP. The study aims to present the global and Bangladesh scenario of blended finance and to identify the obstacles along with probable solution of this new modality for PPP. The paper has reviewed the numerous cases of blended finance in Bangladesh.

This paper has been finalized after incorporating the valuable comments and suggestions of the distinguished panelists, participants of different banks and the academicians joined in the workshop held on this topic.

It gives me immense pleasure to publish and distribute this research paper to the policymakers, practitioners, academics and common readers. I hope this will be a useful treasure of knowledge to understand as well as overcome the challenges of blending finance in the country.

Dr. Md. Akhtaruzzaman

Director General

Acknowledgment

To prepare a research workshop paper, it is not only the joint efforts of research team, but also the contribution of multiple stakeholders. No doubt, it was an inordinate challenge to demeanor these study since the focal point of the study is almost new in Bangladesh context since very few researches were conducted in this area in the near past. Under this context, completing this initiative became conceivable due to the guidance and collaboration of certain stakeholders. We are highly indebted to researchers, international development institutions, donor organizations, and think-tank institutions for providing treasured information that helped the research team to design the appropriate structure of the study.

We are always grateful to Dr. Barkat-e-Khuda Sir, Dr. Muzaffar Ahmad Chair Professor of BIBM for his unremitting direction to enhance the quality of research and capacity development of the faculty members of BIBM. Our sincere thanks go to our very learned panelists; Mr. Md. Ahsan Ullah, Supernumerary Professor of BIBM; Mr. Md. Ali Hossain Prodhania, Supernumerary Professor of BIBM; Mr. S.M. Mainuddin Chowdhury, Additional Managing Director, Shahjalal Islami Bank Ltd; and Mr. A. K. M. Abdullah, Senior Financial Sector Specialist, South Asia Finance and Private Sector, The World Bank, for their valuable comments that will be very useful to enrich the contents and quality of the paper.

Under the dynamic headship, encouragement, and guidance of the Director General of BIBM, Dr. Md. Aktharuzzaman, it was conceivable to undertake and complete the study within the Academic Calendar. We are also thankful to Dr. Md. Shahid Ullah, Associate Professor and Associate Editor for his Valuable Comments.

Research team is highly appreciative to Economic Relations Department, Ministry of Finance, Government of the People's Republic of Bangladesh, and World Bank for publishing the relevant data and research periodicals that supported the team in preparing the paper.

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Table of Contents

List of Acronyms	i
Executive Summary	iv
1.0 Introduction	1
1.1 Background of the Study	1
1.2 Objectives of the Study	3
1.3 Research Methodology	4
1.4 Literature Review	4
2.0 The Conceptual Framework and Guiding Principles of Blended Finance	7
2.1 The Guiding Principles of Blended Finance	7
2.2 Key Characteristics of Blended Finance	8
2.3 How does Blending Work?	8
2.4 Conceptual Framework of Blended Finance	9
3.0 Global Scenario of Blended Finance	10
3.1 Alignment between Blended Finance Transactions and the SDGs	11
3.2 Overall Blended Finance Market	12
3.3 Sources of Blended Finance Flows	13
3.4 Proportions of Closed Transactions by Regions	14
3.5 Top Countries for Blended Finance	15
3.6 Income Level of Blended Finance's destinations	16
3.7 Sectors and Sub-Sectors	17
4.0 Bangladesh Scenario of Blended Finance	18
4.1 Financial Flows in Bangladesh	18
4.2 Foreign Assistance Disbursement by Economic Sector	20
4.3 Foreign Assistance by Source	21
5.0 Case Studies on Blended Finance: Bangladesh Perspective	23
6.0 Challenges of Blended Finance Mechanisms and Issues for Discussion	29
6.1 Governance and Methodological Challenges	29
6.2 Project Risk	29
6.3 Transparency and Accountability	30
6.4 Financialization or Neo-Liberalization	30
6.5 Identification, Prioritization, and Selection of Development Problem	30
6.6 Fund Mobilization	31
6.7 Lack of Innovative Financial Modeling	31

6.8 Red Tape Barriers	31
7.0 Concluding Remarks	31
References	33
Appendices	36

List of Figures

Figure: 1 Estimated Investment Gap in Some Key SDG Sectors, 2015 – 2030	2
Figure: 2 Total Needs, Increased Tax Revenue, and Extra funding required for low income developing countries in 2030	3
Figure: 3 Component of Blended Finance	7
Figure: 4 Conceptual Framework of Blended Finance	9
Figure: 5 Typical Blended Finance Mechanisms and Structure	11
Figure: 6 Alignment between Blended Finance Transactions and the SDGs	12
Figure: 7 Overall Blended Finance Market (2010 to September 2021)	13
Figure: 8 Sources of Blended Finance Flows	14
Figure: 9 Proportion of Closed Transactions by Region	15
Figure: 10 Top Countries for Blended Finance	16
Figure: 11 Income Level	16
Figure: 12 Sectoral and Sub-Sectoral Allocations of Blended Finance	17
Figure: 13 Foreign Assistance in Bangladesh at a Glance	19
Figure: 14 Disbursements of 20 Major Development Partners	22

List of Tables

Table: 1 Summary of Literature Review	4
Table: 2 Foreign Assistance in Bangladesh at a Glance	18
Table: 3 Foreign Assistance Disbursement by Economic Sector	20
Table: 4 Foreign Assistance by Source	21

List of Acronyms

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
AECL	Adroit Environment Consultants
AFD	Agence Francaise de Developpement
AIMS	Aid Information Management System
ASA	Association for Social Advancement
BB	Bangladesh Bank
BPDB	Bangladesh Power Development Board
BSDC	Business and Sustainable Development Commission
CDC	Canada Development Corporation
DAC	Development Assistant Committee
DEG	Deutsche Investitions- und Entwicklungsgesellschaft (German Investment Corporation)
DESWAP	Dhaka Environmentally Sustainable Water Supply Project
DFAT	Australian Department of Foreign Affairs and Trade
DFC	Development Finance Corporation
DFI	Development Finance Institutions
DOE	Department of Environment
DPFR	Development Policy Forum Round Table
DWASA	The Dhaka Water Supply and Sewerage Authority
EIB	European Investment Bank
ERD	Economic Relations Department
EU	European Union
FDI	Foreign Direct Investment
FMO	Dutch Development Bank
GE	General Electric
GEF	Global Environment Facility
GIZ	German Agency for International Cooperation
GoB	Government of Bangladesh
GPOBA	Global Partnership on Output based Aid
GUK	Gono Unnoyon Kendro
IDA	World Bank's International Development Assistance
IDB	Islamic Development Bank
IDCOL	Infrastructure Development Company Limited
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IMF	International Monetary Fund
IRF	Indonesia Resilience Fund
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
LAC	Latin America and Caribbean
LDC	Least-Developed Country
LEAP	Leading Asia's Private Infrastructure Fund
LIBOR	London Inter-Bank Offer Rate
LNG	Liquefied Natural Gas
MDG	Millennium Development Goal
MFIs	Micro Finance Institutions
MIGA	The Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MSME	Micro, Small, and Medium Enterprise
MUFG Bank	Mitsubishi UFJ Financial Group, Inc
NDF	The National Development Fund
NEXI	Nippon Export and Investment Insurance
NGOs	Non-Governmental Organizations
OBA	Output based Aid
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OFSP	Orange Fleshed Sweet Potato
OPEC	The Organization of the Petroleum Exporting Countries
PDPP	Preliminary Development Project Proforma
PKSF	Palli Karma-Sahayak Foundation
POs	Partner Organizations
PPA	Power Purchase Agreement
PPP	Public-Private Partnership
PPPPPs	Public-Private Partnership for The People and The Planet
RBLPL	Reliance Bangladesh LNG & Power
RERED	Rural Electrification and Renewable Energy Development
SBIIPCL	Summit Bibiyana II Power Company Limited
SDGs	Sustainable Development Goals
SDSN	Sustainable Development Solutions Network
SHSs	Solar Home Systems
SIMC	Summit Industrial and Mercantile Corporation

SSA	Sub-Saharan Africa
SSC	South-South Cooperation
UKAID	United Kingdom Agency for International Development
UN	United Nations
UNCDF	The United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations International Children's Emergency Fund
USAID	US Agency for International Development
USIDFC	United States International Development Finance Corporation
WEF	World Economic Forum
WIR	The World Investment Report

Executive Summary

The need to mobilize private finance is at the heart of international discussions on how to finance the Sustainable Development Goals (SDGs) and move the needle from ‘billions’ of dollars in development aid to ‘trillions’ of dollars in investment (World Bank, 2015). With an estimated SDG financing gap of US\$2.5 trillion a year in developing countries alone (UNCTAD, 2014), the international development community is placing an increasing emphasis on blended finance. Blended finance uses public-sector development finance to spur additional private investment in a bid to generate economic growth and create jobs, thus lifting people out of poverty. The notion of ‘billions to trillions’ (World Bank, 2015), though originally broader in meaning, has become synonymous with the mobilization of private finance for development. However, policy-makers often have lofty aspirations, with limited appreciation of its potential and limitations. The more official development assistance (ODA) is channeled to blended finance, and the more blended finance is scaled up, the more pressing the need for better understanding of its potential to bridge the SDG financing gap.

This study aims to provide hard evidence to inform the discussion on the role of blended finance in plugging the SDG financing gap in developing countries by:

- Reviewing the amounts of private finance mobilized and estimating leverage ratios to assess the scale and potential of blended finance,
- Analyzing the blended-finance landscape of country groups and economic sectors,
- Focusing on low-income countries (LICs), where the need for additional finance is greatest, and identifying factors likely to constrain blended finance’s potential there.

The study examines in detail the investment portfolios of the largest and most important blended-finance actors, which account for more than three quarters of the total private finance mobilized in LICs, according to the OECD. It analyses the most recent period for which comprehensive mobilization data are available. The institutions included are:

- MDBs: IDA, IFC and MIGA
- Regional development banks (RDBs): ADB, AfDB and EIB)
- Bilateral DFIs of developed countries: AFD (France), CDC Group (UK) and OPIC (United States) and its private-sector financing arm – Proparco – and Norfund (Norway).

Blended finance constitutes an impact driven extension of Public-Private Partnerships (PPPs). The novelty in blended finance is the expansion of traditional PPPs by two further “Ps”: People and the Planet (Figure 4). Blended finance is therefore advancement, aligning investors and investment instruments for a common set of financial and impact objectives in line with the guiding principles set by the SDG framework.

The essential idea behind blending is that a grant or grant-like contribution can be used to remove barriers to public or private investments. Common barriers to domestic and international investment projects in developing countries include: poorly functioning local financial markets (e.g. lack of capital, expertise in certain areas, etc.); knowledge and capacity gaps (poor understanding of developing countries’ markets and local risks); and political and financial uncertainty (e.g. poor regulatory environment, exchange-rate fluctuations, long time frame for achieving returns, etc.). Some authors consider the risk/return profile of the project another type of barrier; however, it is perhaps best defined not as barrier but rather as the mechanism through which different barriers affect investors’ decisions. For example, political uncertainty increases the risks of a project and thus makes the project implementation less likely in the absence of large returns.

Similarly, an investor’s lack of local knowledge can make it difficult for the investor to assess the risks of a project and can lead conservative investors to overstate those risks. Project costs can also be affected by, for example, the lack of sufficiently developed local financial markets. This usually tends to increase the costs of finance, which leads to an increase in project costs that can erode potential returns.

The use of different types of financial instruments in blending projects results from two different factors linked to the nature of the underlying projects. First, different financial instruments help to tackle a wide range of investment barriers, even if they all ultimately seek to affect the risk/return profile. Table 3 illustrates the most common types of instruments and describes how they can affect the risk/return profile of a project.

Blended Finance : A New Modality for PPP

1. Introduction

1.1 Background of the Study

Since the end of the Second World War with the largest mortality loss ever, the United Nations (UN) has devoted to enhance world peace in various ways including direct or indirect means. Initially established as war-detering multinational institution, nevertheless, the UN entered into a historic scale of global project, the Millennium Development Goal (MDG) as a way to strengthen global peace by reducing income gap between developed countries and undeveloped countries. Integrating more group intelligence and financial resources, the 15-year project seemed to be more successful than any other development projects conducted in the 20th century.

In September 2015, the United Nations General Assembly established a vision for 2030 by adopting the 17 Sustainable Development Goals (SDGs). The SDGs are a comprehensive set of objectives that aim to globally end poverty, ensure that basic needs of all people are fulfilled, and to protect the planet and the environment. The 17 Goals have been linked with 169 measurable targets, and if all are reached, the 2030 Agenda would see a just, peaceful and sustainable world free of poverty, hunger and discrimination. However, there is currently an annual shortfall of US\$2.5 trillion fund in developing countries (despite the combined amount of private capital flows, personal remittances, official development assistance (ODA) and private grants), which could work against achieving the SDGs in these countries.

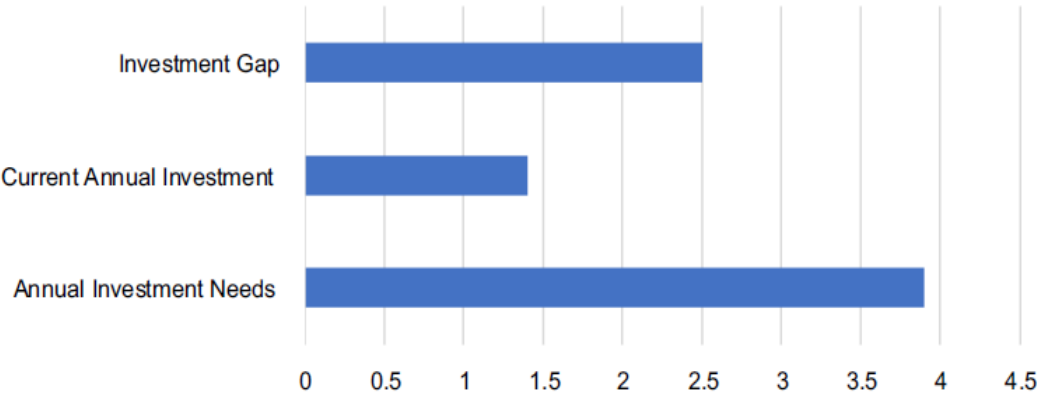
Blended finance has proven to be a possible solution to this problem. Blended finance has quickly become a key instrument to catalyze investments towards the SDGs. It enhances the concept of partnership between the public and private sector by maximizing synergies and leveraging the contributions of these two groups of investors, while setting clear impact targets in terms of improving people's lives, and the planet they live in. Consequently, blended finance is increasingly being recognized by the international development community as one of the ways to solve this financial disparity. The clear fit between the "new" funding structure of blended finance products and the mission pursued by its sponsors brings an impact dimension into financial space. This unique relationship contributes to the realization of the SDGs.

“Blending” in development finance has been on the rise since 2008, as a result of the financial crisis and the abrupt lack of liquidity for many private sector investors. A considerable amount of literature has been published on blended finance since then. However, even after 15 years, there is no uniform understanding and definitions of blended finance vary across sectors and actors. Stakeholders such as the Organization for Economic Co-operation and Development (OECD) and **Convergence**, a global networking platform for blended finance, have led the way in establishing and standardizing a comprehensive understanding of the terminology and framework in the emerging blended-finance field.

Blended finance is a strategic development finance for mobilization of additional finance towards sustainable development in developing countries. Understanding the indispensable role of ODA in financing the SDGs, the international community acknowledged the need for significant additional development finance – and accorded a prominent place to private sector participation. The vision underpinning the 2030 Agenda is broad and ambitious, calling for an equally broad and ambitious financing strategy.

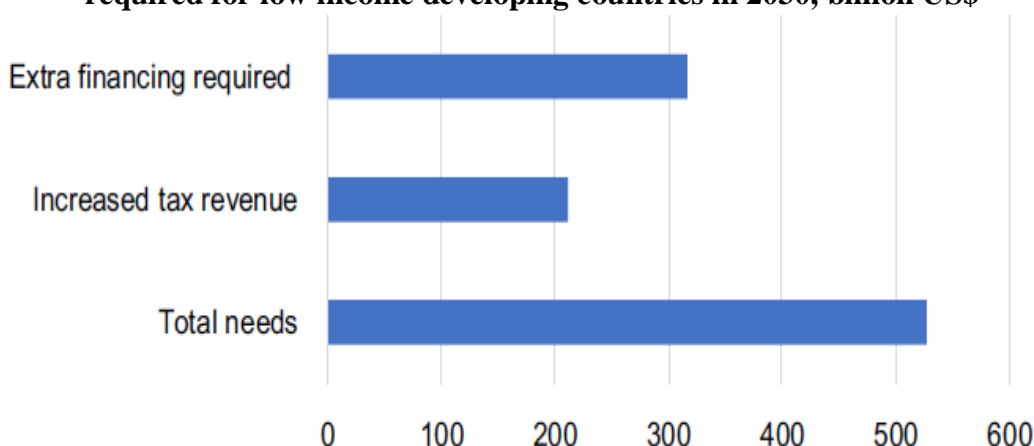
Although little academic research has been done, policymakers have recently shown considerable interest in a class of development financing opportunities called “blended finance” that pools public and private resources and expertise. Blended finance incorporates a large portfolio of potential instruments, including instruments provided by development finance institutions to leverage private finance (e.g. loans, equity investments, guarantees, etc.), as well as traditional public–private partnerships (PPPs).....need to indicate unit of dollar, is it trillion or billion

Figure: 1 Estimated Investment Gap in Some Key SDG Sectors, 2015 – 2030, per annum



Source: UNCTAD (2014), World Investment Report 2014

Figure: 2 Total Needs, Increased Tax Revenue, and Extra funding required for low income developing countries in 2030, billion US\$



Source: IMF (2019)

The development project needs both human and financial resources, just like any other project. In reality, the SDG project may be the biggest global initiative to advance global development in 15 years, needing more financial resources than any other initiative, or over US\$3.9 trillion annually (see Figure 1). The US\$2.5 trillion should be funded, according to widespread consensus, through sources other than traditional ODA, namely the private sector (see Figure 2), which yet operates under its own profit motivation and risk and return principle. ODA is crucial for developing nations, but since it is so little, it may be strategically exploited to draw in additional funding [DPFR, 2015].

Even if public funding played a key part in the MDG project, which, for example, targeted poor nations or their governments, private funding is anticipated to take centre stage in the SDG stage since it contributes to the continued growth initiatives of both undeveloped and developed countries. In other words, economic growth is now becoming a powerful driver of a robust private sector. To expand and benefit their local environment and communities, businesses require finance where private sector participation as a blended finance component would be an important strategy. (<https://www.edfi.eu/about-dfis/what-is-a-dfi/>).

1.2 Objectives of the Study

In recent years, the phrase "blending" has gained popularity in the development finance industry. It often occurs in conjunction with other financial terminology, such as "leveraging." However, there is significant ambiguity about what it really implies and, therefore, how it functions and helps to realise certain development goals. Additionally, there is a dearth of information and evidence about blending

initiatives, which may be partially attributed to the absence of a shared vocabulary and understanding of blending. This report intends to contribute to the building of a common and specific language of blending. Therefore, the key objectives of this study are:

- i. To discuss the conceptual framework of blended finance.
- ii. To examine the current status of blended finance in Global Scenario.
- iii. To examine the current status of blended finance in Bangladesh Context.
- iv. To investigate the prospects and challenges of implementing the concept of blended finance in Bangladesh Context.

1.3 Research Methodology

As already mentioned in the previous section, there is lack of significant data and evidence on blended finance both home and abroad. In spite of that, some secondary data were used from World Bank, OECD, UNCTAD, BB database. To develop the blended finance framework, the research team heavily depended on extensive review of literature on blended finance. In addition, some case studies on blended financing in Bangladesh were also discussed briefly in the study.

1.4 Literature Review

Table: 1 Summary of Literature Review

Years	Authors/Institutions	Findings
2021	Convergence	<i>Blended finance uses public or philanthropic catalytic resources to boost private sector investment in developing nations to achieve the SDGs. Blended finance lets organisations with multiple goals (financial return, social impact, or both) invest together.</i>
2019	Quak	<i>Blended financing may include concessional (lower interest, longer duration) and non-concessional funding. Non-concessional investors lend money at market rate or subsidised rate. Other funding includes syndicated loans and credit lines.</i>
2017	Pereira	In recent time blended finance - a new and evolving concept in development finance -

		has become a trending term for accomplishing the SDGs in developing countries
2016	Klein	“In general, blended finance connotes a combination of public and private finance, which may or may not involve a form of subsidy”
2016	IFC	“Blended finance is an approach that can be used to enable the private sector to invest where it would not otherwise be possible. The idea is to mix concessional funds typically from donor partners with those of commercial development institutions and private investors in a risk-sharing arrangement, with aligned incentives to make sure official assistance can be leveraged as much as possible with private capital”
2016	Development Initiatives	Blended finance “refers to a combination of resources, either from official public sources (governments and/or DFIs) or philanthropic actors with capital from other sources (either official public or private actors)”
2015	OECD/WEF	“Blended finance refers to “the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and Frontier markets”
2015	European Commission	<p>“Blending is an instrument for achieving [European Union] external policy objectives, complementary to other aid modalities and pursuing the relevant regional national and</p> <p>overarching policy priorities. The principle of the mechanism is to combine EU grants with loans or equity from public and private financiers.”</p>

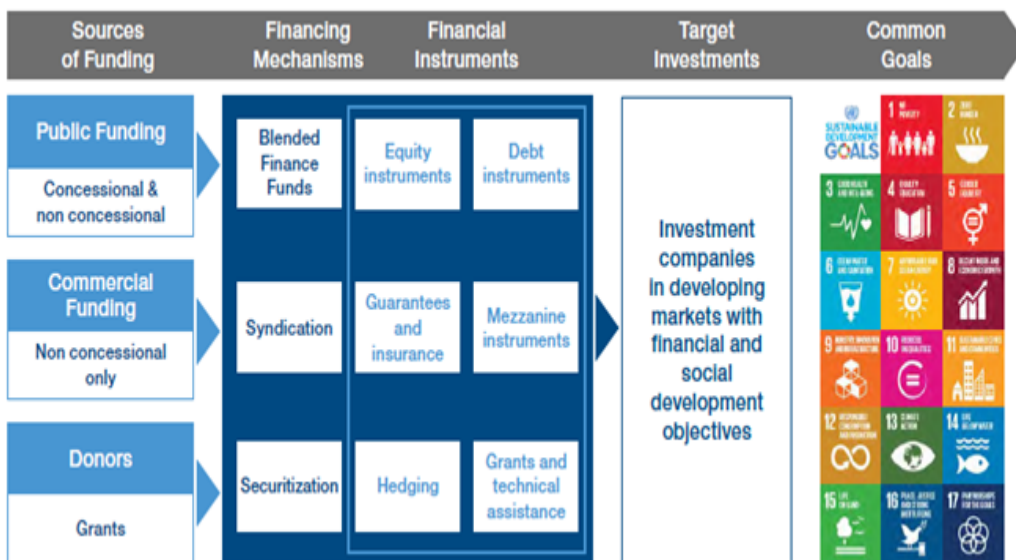
2015	UN	Blended finance “combines concessional public finance with non-concessional private finance and expertise from the public and private sector”
2015	Commons Consultant	In blended finance, “the public aid agencies invest alongside private institutional investors in commercially sustainable private sector projects in developing countries”
2015	Charles Kenny	practical ways in which blending financial sources helped attract capital flows for infrastructure development in Addis and how particular factors can be replicated elsewhere.
2015	Michael Elliot	<i>Blended Finance’s potential gap in providing the poorest countries as well as the potential issues with transparency and accountability surrounding the metrics.</i>
2014	Mustapha et.al	<i>“Blended finance is defined as the complementary use of grants (or grant-equivalent instruments) and non-grant financing from private and/or public sources to provide financing on terms that would make projects financially viable and/or financially sustainable”</i>
2013	Eurodad	“Blending’ is a mechanism that links a grant element, provided by official development assistance (ODA), with loans from publicly owned institutions or commercial lenders”
2011	European Think Tank Group	“Blending as carried out by the EU facilities mixes loans and grants. It entails a combination of market (or concessional) loans with grant (or grant equivalent) components which may be in various forms”

Source: Author’s Own Compilation

2. The Conceptual Framework and Guiding Principles of Blended Finance

2.1 The Guiding Principles of Blended Finance

Figure: 3 Component of Blended Finance



Donor governments, development co-operation agencies, philanthropies, and other stakeholders may design and execute transparent blended financing schemes using the Blended financing Principles and Guidance. The Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals were approved at the 2017 OECD Development Assistance Committee High-Level Meeting. The Principles have affected policy debates in the UN, EU, World Economic Forum, G20, and G7. The Principles were created in collaboration with worldwide blended finance efforts. The DFI Enhanced Principles on Blended Concessional Finance for Private Sector Projects address operational blended finance issues from the standpoint of implementing institutions. The **Business & Sustainable Development Commission** has sought business sector input. The Policy Principles represent the development mission of DAC donors and the policies and mechanisms under their political authority. They want to use blended finance to meet the financial requirements for sustainable development as outlined in the Addis Ababa Action Agenda (AAAA) by mobilising commercial money and boosting impact. Given its scarcity, concessional development funding must be used carefully in mixed arrangements. Additionally, structural changes and minimising competitive distortions are needed. The guiding principles of Blended

Finance developed by OECD and the 5Ps of Blended Finance in given appendix 1 and 2.

Blended finance constitutes an impact driven extension of Public-Private Partnerships (PPPs). The novelty in blended finance is the expansion of traditional PPPs by two further “Ps”: People and the Planet (Appendix 2). Blended finance is therefore an advancement, aligning investors and investment instruments for a common set of financial and impact objectives in line with the guiding principles set by the SDG framework.

2.2 Key Characteristics of Blended Finance

Blending has several definitions. As mentioned above, funders and organisations have different meanings, which affects implementation. From our examination of the following mixing characteristics:

- i. Leveraging development finance and philanthropy to attract private investments to developing and frontier economies.
- ii. Grants or grant-equivalent financing paired with non-concessional finance [loans] to offer additional funding at below-market rates or longer maturities than the market.
- iii. Public-private funding instruments for private sector initiatives.
- iv. Concessional ODA investments in private sector initiatives.
- v. An ODA grant-lending system.
- vi. Combining grants and non-grant finance from commercial and governmental sources to make initiatives financially feasible and sustainable.

2.3 How does Blending Work?

Blending removes obstacles to public or private investments by using grants or grant-like contributions. Poorly functioning local financial markets, knowledge and capacity gaps, and political and financial uncertainty are common barriers to domestic and international investment projects in developing countries. The project's risk/return profile is another barrier, although it may be better characterised as the process through which diverse barriers impact investors' choices. Political uncertainty raises project risks, making project execution less probable without big rewards.

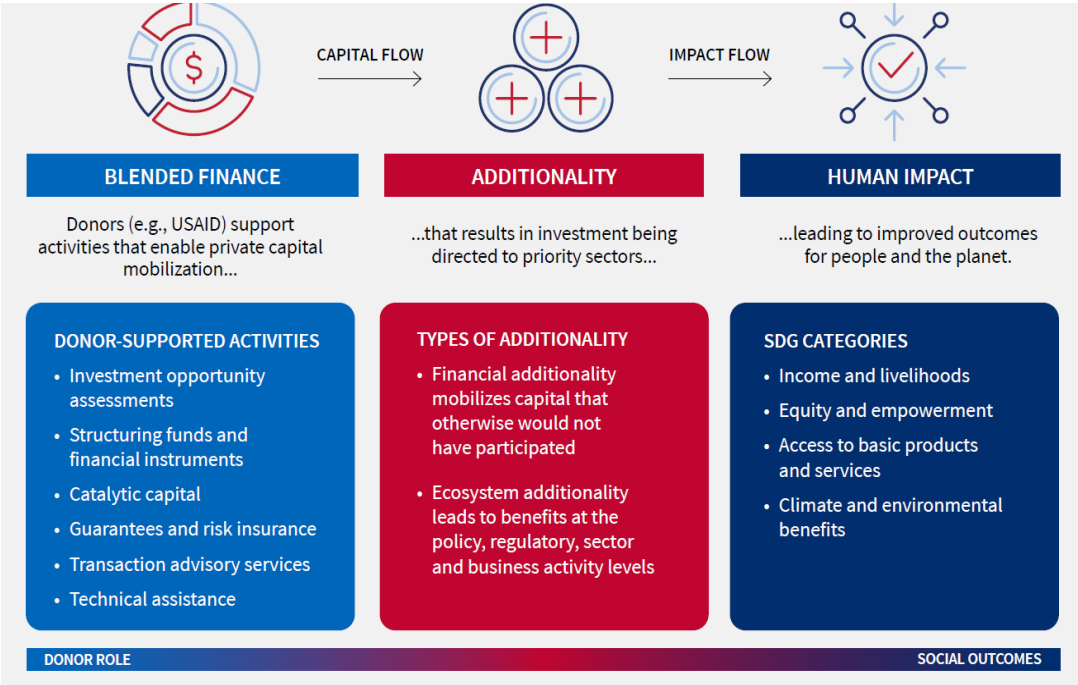
Lack of local expertise may also make it hard for investors to gauge project risks, leading conservative investors to exaggerate them. Lack of local financial markets might effect project costs. This raises funding costs, which raises project expenses and lowers returns.

Blending projects uses distinct financial instruments due to two project-related characteristics. First, financial instruments assist overcome several investing obstacles, even though they all aim to change the risk/return profile. Appendix 3 shows how typical instruments impact project risk/return.

2.4 Conceptual Framework of Blended Finance

As illustrated in the Blended Finance definition, donors can play a unique role in facilitating transactions by engaging in a set of donor-supported activities which enable private investment, and in some cases, more effective engagement from development finance institutions (DFIs). Donors choose to deploy a specific donor-supported activity or combination of activities based on the level of risk and/or investment return expectations that private sector investors and/or DFIs want to take on in less developed sectors or markets.

Figure 4: Conceptual Framework of Blended Finance



Source: USAID

The conceptual framework of blended finance can be explained but not confined into Figure 5. The components of the framework differ based on the nature, size, volume, complexity of the project; modus operandi of donor organizations, participating institutions, and most importantly the regulations of the country where the project would be undertaken.

The conceptual framework showcases how USAID supported blended finance activities can create additionality and lead to human impact. USAID has garnered extensive experience in mobilizing capital for development and through a wide range of donor-supported activities, leveraging programs like USAID INVEST to help mobilize over \$200 million in private investment. The above conceptual framework expands on these considerations and supports the blended finance practice at USAID. The key purpose of the framework is to highlight the linkages between donor supported activities and outcomes in the form of additionality and human impact. Following the framework from left to right in the summary below, USAID utilizes donor supported activities to mobilize private capital. *The deployment of blended finance creates a pathway to additionality that ultimately leads to human impact.* An elaborated conceptual framework is given in appendix 4. By showing a holistic perspective of blended finance, this framework supports USAID in several ways:

- Identifies activities that USAID can support to facilitate blended finance that represent a unique value add of bi-lateral donors compared to other actors within the blended finance ecosystem: USAID staff reported that the framework supports their work by outlining the “discrete list of USAID activities” and bringing clarity to “the role that USAID can play” in supporting blended finance transactions.
- Expands the blended finance conversation to include non-financial outcomes: USAID staff reported that the framework presents an opportunity to evaluate blended finance opportunities beyond financial leverage and expectations of high leverage ratios. The framework shows the different potential types of additionality and helps evaluate where donor engagement is most needed and impactful.

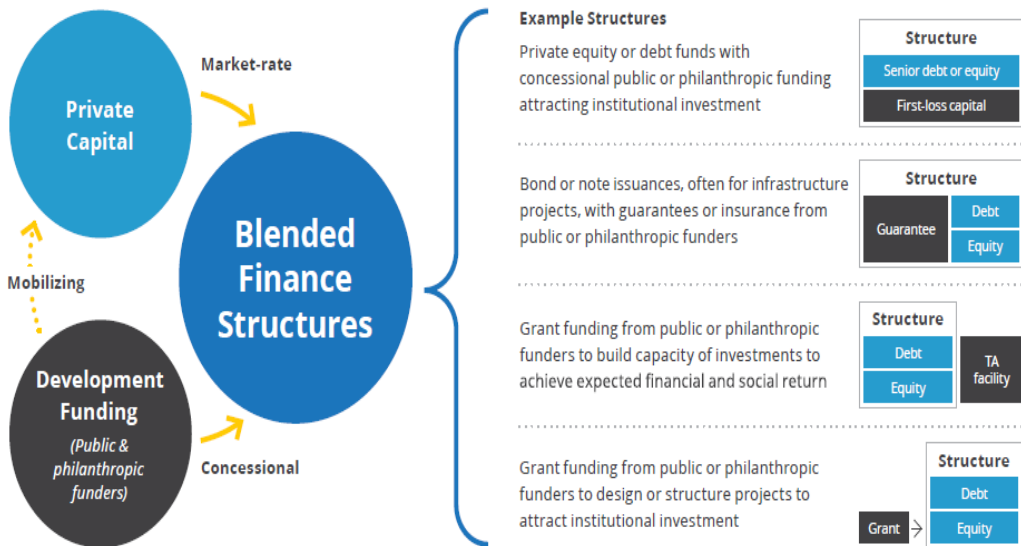
3. Global Scenario of Blended Finance

Blended finance is a structuring approach. It is not an investment approach, instrument, or end solution. Figure 6 highlights four common blended finance structures:

- i. Public or philanthropic investors provide funds on below-market terms within the capital structure to lower the overall cost of capital or to provide an additional layer of protection to private investors.
- ii. Public or philanthropic investors provide credit enhancement through guarantees or insurance on below-market terms.

- iii. The transaction is associated with a grant funded technical assistance facility that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact.
- iv. Transaction design or preparation is grant funded (including project preparation or design stage grants).

Figure 5: Typical Blended Finance Mechanisms and Structure

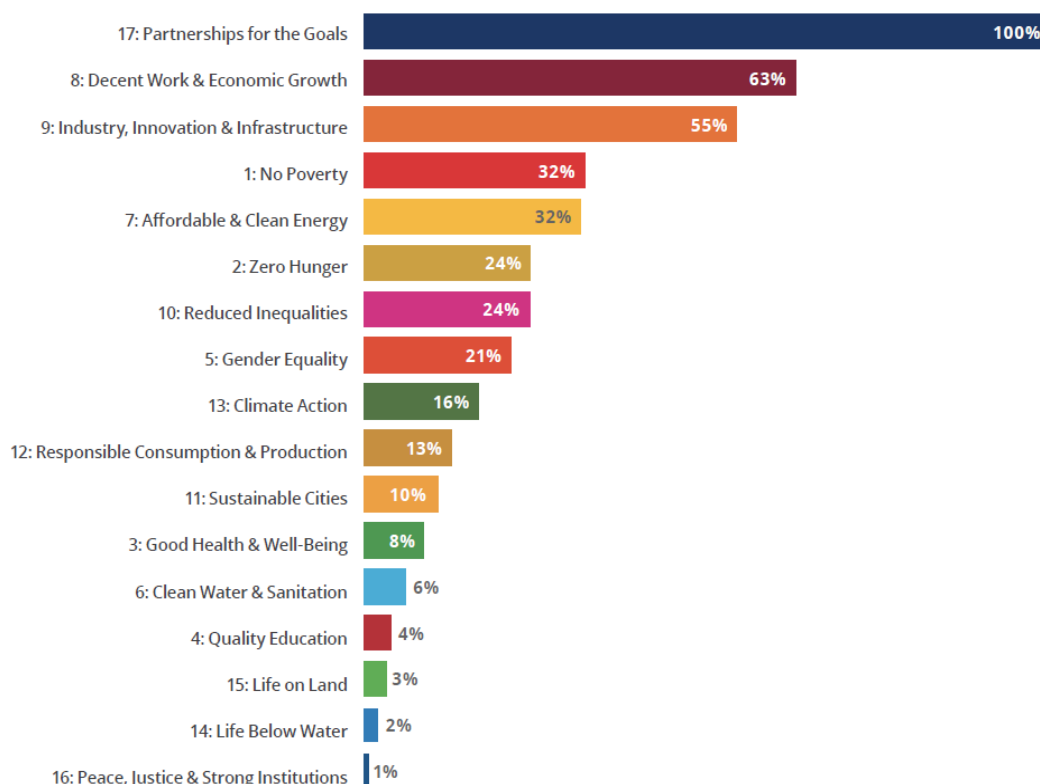


Source: *Convergence: The State of Blended Finance (2021)*

3.1 Alignment between Blended Finance Transactions and the SDGs

Blended financing only addresses investible SDG goals. The Sustainable Development Solutions Network (SDSN), a UN programme, estimates that investment can provide half the financing needed to accomplish the SDGs in underdeveloped countries. *Blended finance aligns with Goal 8 (Decent Work and Economic Growth) and Goal 13 (Climate Action) but not Goal 16 (Peace, Justice, and Strong Institutions).*

Figure 6: Alignment between Blended Finance Transactions and the SDGs (2018-2020)



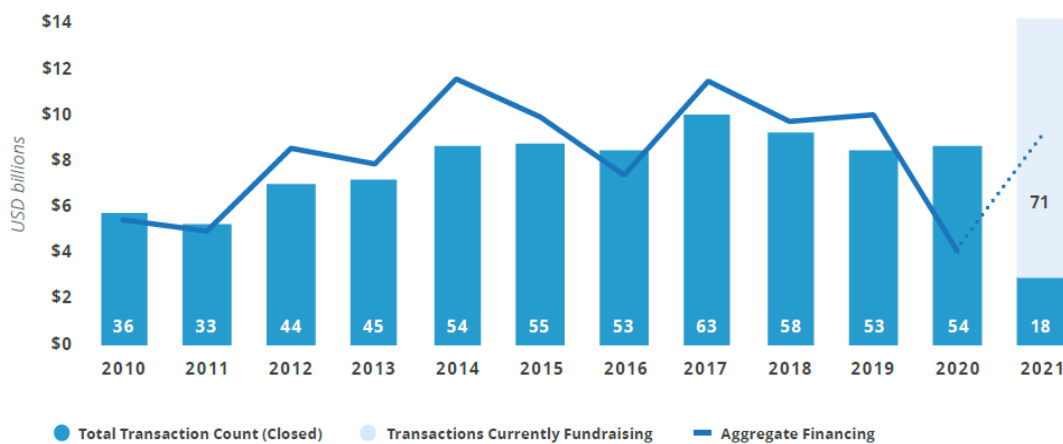
Source: Convergence: The State of Blended Finance (2021)

3.2 Overall Blended Finance Market

The *Convergence's* State of Blended Finance (2021) study analyses approximately 680 closed blended finance transactions, encompassing over 5300 individual investments dispersed by over 1450 investors. Since 2015, composite financial flows have reached slightly over \$160 billion, or \$9 billion annually. Over this time, 55 blended financing deals have concluded annually. The first-half 2021 blended deal count is 18. The worldwide financial system was affected by the COVID-19 pandemic, including the blended finance market. The World Investment Report (WIR) 2021 reported that worldwide FDI declined by one-third to \$1 trillion, significantly below the low point hit following the global financial crisis a decade earlier. The IMF expects developing countries to have a longer FDI recession than

developed economies. The amount of blended transactions concluded in 2020 followed yearly market patterns, however blended finance flows were 50% lower than in 2019 (~\$4.5 billion). Donors and private investors may be shifting to safeguard and aid their programmes and portfolios during the epidemic.

Figure: 7 Overall Blended Finance Market (2010 to September 2021)

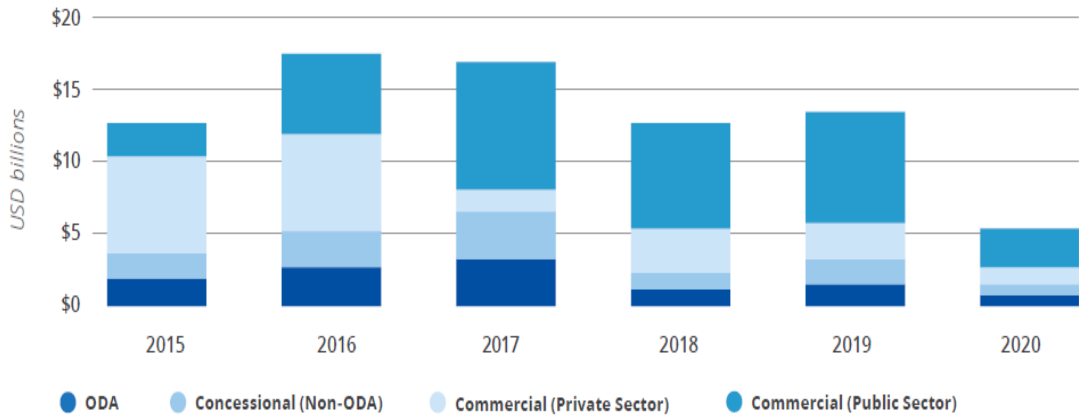


Source: The World Investment Report (2021)

3.3 Sources of Blended Finance Flows

With the Decade of Action already upon us, coupled with the real and long-term impacts of COVID-19 on global development, blended finance actors must do more to scale up financing. The provision of concessional finance has remained relatively unchanged year-on-year, including both ODA and other concessional funding types (including non-ODA donor funding and philanthropic capital). Concessional finance must be used more efficiently to mobilize private capital at scale. As expected, private sector financing towards blended finance transactions was lower than previous years, representing \$1.1 billion, compared to \$2.2 billion in 2019. Current levels of blended capital flows will not reach the “billions to trillions” in financing needed to achieve the SDGs by 2030.

Figure: 8 Sources of Blended Finance Flows



Source: The World Investment Report (2021)

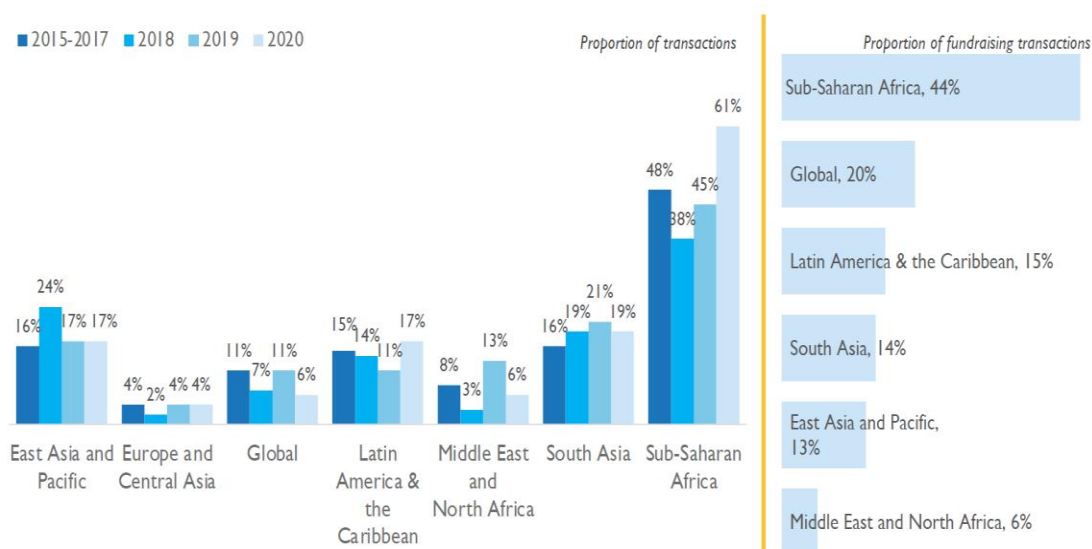
3.4 Proportions of Closed Transactions by Regions

Sub-Saharan Africa has historically represented the largest proportion of blended finance activity by region, on a transaction count basis, if not a dollar value basis. This trend has continued in recent years. Almost two-thirds (61%) of blended finance transactions in 2020 targeted Sub-Saharan Africa (SSA), a significant increase compared to previous years.

Asia has emerged as an increasingly important destination for blended capital. In 2020, Asia (i.e., East Asia and the Pacific and South Asia) accounted for 36% of blended transactions. Examining the data further reveals an uptick in both funds (8% of regional transactions in 2018 vs. 33% in 2020) and companies (increasing from 18% of regional transactions in 2018 to 28% in 2020). The data aligns closely with the results from the OECD's 2020 Funds and Facilities Survey, which found that 36% of blended vehicles had a geographic focus that included Asia.

Convergence in it's The State of Blended Finance (2020) report noted that 35% of transactions in its fundraising pipeline had investment mandates focused on Latin America and the Caribbean (LAC), signaling renewed interest in the region. Nearly 50% of these deals reached financial close in 2020, resulting in an increase in market activity in the region compared to previous years (17% of transactions targeted LAC in 2020). LAC remains an area of interest for blended finance practitioners; 15% of our fundraising deals target the region. However, given the sharp effects of the pandemic on Latin American and island economies, it will be particularly interesting to monitor how blended finance proponents navigate the new market conditions.

Figure: 9 Proportion of Closed Transactions by Region

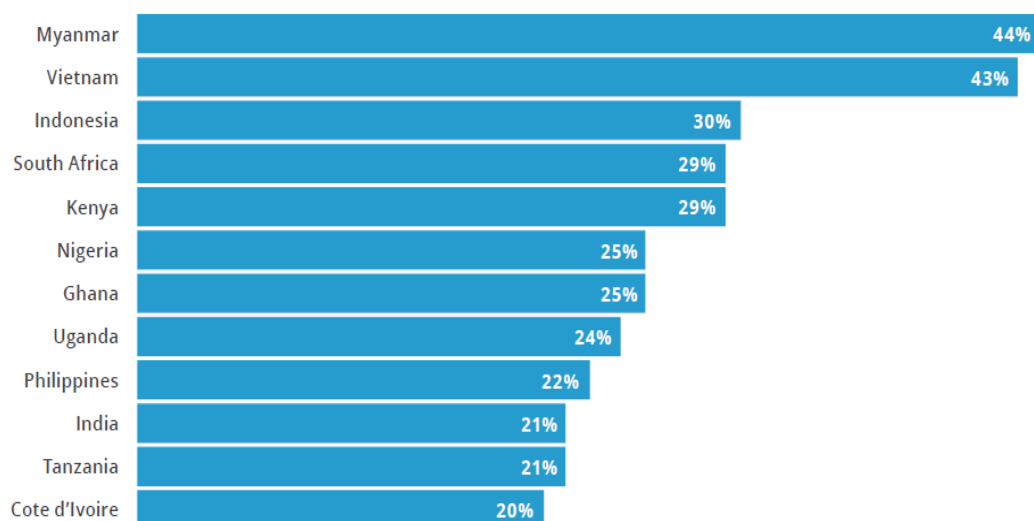


Source: *Convergence: The State of Blended Finance (2021)*

3.5 Top Countries for Blended Finance

As noted previously, there has been an uptick in blended finance activity in countries in the East Asia and Pacific region; especially in **Vietnam, Myanmar and Indonesia**. Since 2018, all three countries have been targeted by 30% or more of blended transactions, and all are present in the top ten league table over that timespan (with 8, 11, and 10 transactions, respectively). Notable transactions include Bayfront Infrastructure Capital's US\$455 million warehousing facility, a securitization program bundling infrastructure loans originated in Vietnam and Indonesia, backed by a guarantee from the Singapore Ministry of Finance. Other examples include the Indonesia Resilience Fund (IRF), launched in 2020 to support Indonesia's healthcare sector in response to the COVID-19 pandemic. The Fund, which achieved first close in 2021, is supported by several public investors, including the United States Agency for International Development (USAID), the United States International Development Finance Corporation (USIDFC), and the Australian Department of Foreign Affairs and Trade (DFAT), as well as private investors. However, with investments in Myanmar paused as a result of the civil unrest in the country, we expect that blended finance activity in this country will not be sustained at current rates.

Figure: 10 Top Countries for Blended Finance

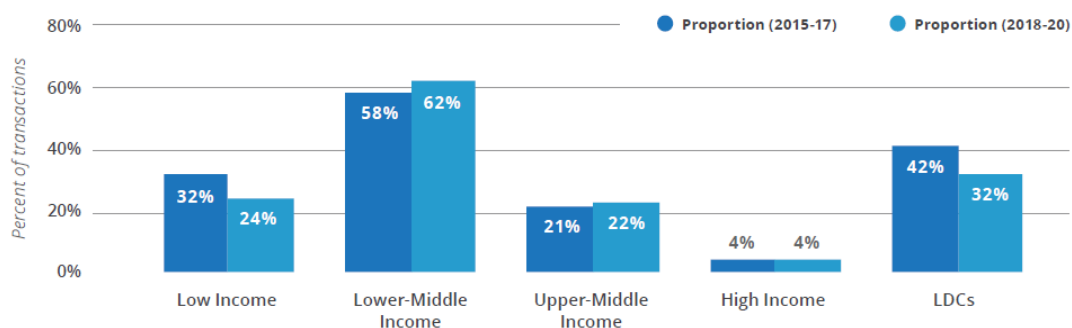


Source: The World Investment Report (2021)

3.6 Income Level of Blended Finance's destinations

In 2018-20, 62% of blended capital flows went to lower-middle income nations. Blended investments in low-income countries dropped from 32% of overall aggregate funding in 2015-17 to 24% in 2018-20. Blended transactions targeting at least one LDC dropped to 32% between 2018 and 2020. Blended financing in LDCs is difficult since concessional funding and commercial investor interest are scarce. The OECD and UNCDF found that blended finance mobilised 7.5% of LDC funding in 2018.

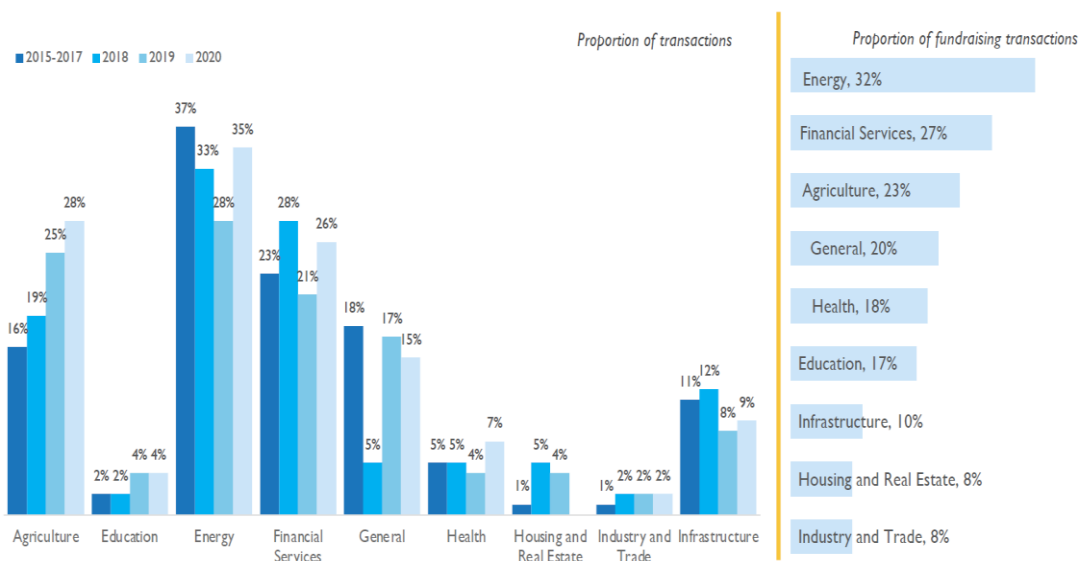
Figure: 11 Income Level



Source: Convergence: The State of Blended Finance (2021)

3.7 Sectors and Sub-Sectors

Figure: 12 Sectoral and Sub-Sectoral Allocations of Blended Finance



Source: Convergence: The State of Blended Finance (2021)

Despite the growth in deal quantity, the median size of farm deals launched during 2018-20 declined to US\$30 million, US\$5 million lower than between 2015-17. This is consistent with blended finance trends, as median transaction sizes declined across all industries during 2018-20 (by ~\$40 million compared to 2015-17). Financial services transactions have averaged 25% of the market since 2018, but total financing flows mobilised to the sector have declined (~\$45 million median deal size between 2018-20 vs. US\$71 million between 2015-17), suggesting a reduced need to use blended finance to mobilise private capital flows to more traditional opportunities in the sector, such as investing via financial institutions. Blended financing in health and education increased somewhat in 2020. Blended mechanisms like the Indonesia Resilience Fund were created to help the healthcare industry during the COVID-19 epidemic. BlueOrchard's COVID-19 Emerging and Frontier Markets MSME Support Fund, funded by IDB Invest, CDC, DFC, JICA, and private investors, closed a second round of \$200 million.

4. Bangladesh Scenario of Blended Finance

The experience in Bangladesh is similar to the rest of the world. Although blended finance has been widely discussed, the Government of Bangladesh (GoB) has not adopted an official working definition of the term. Policy documents, officials from key government institutions, and development agencies tend to use the definition of blended finance that best suits their contexts and purposes. An encouraging fact is that blended finance has recently attracted growing attention from experts, development researchers and policymakers. In this context, government agencies have acknowledged the need for conceptualizing blended finance related issues in the context of Bangladesh.

4.1 Financial Flows in Bangladesh

Since 1971, Bangladesh is heavily depended on foreign assistance. This foreign assistance comes in three different forms: (i) Foreign Aid, (ii) Commodity Aid, and (iii) Project Aid and Budget Support.

**Table: 2 Foreign Assistance in Bangladesh at a Glance
(1971/72 – 2021/2022) (Provisional)**

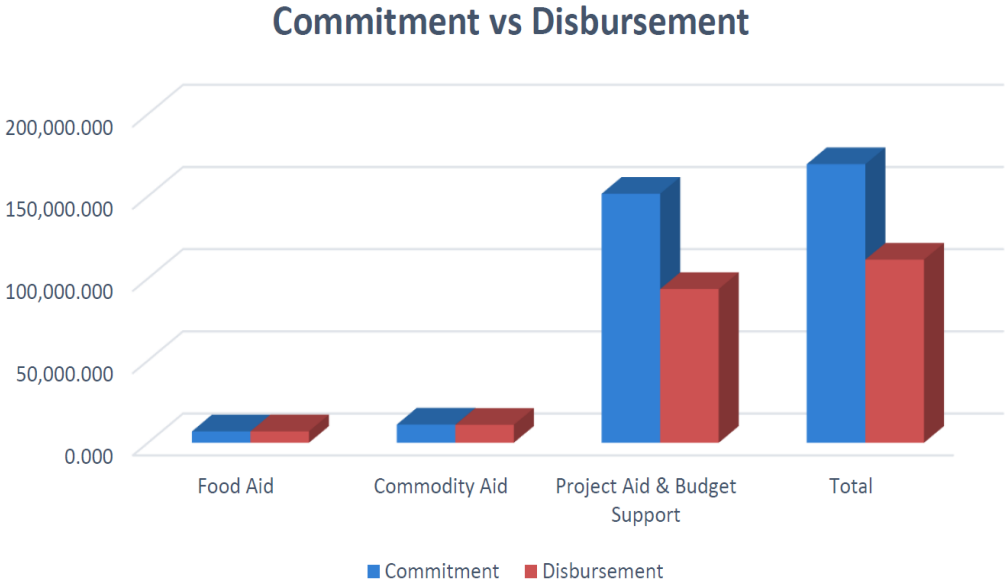
(in million USD)

Purpose	Commitment			Disbursement			Pipeline 1st July 2022
	Grant	Loan	Total	Grant	Loan	Total	
1	2	3	4	5	6	7	8
Food Aid	6,139.312	762.557	6,901.869	6,199.491	762.557	6,962.048	131.040
Commodity Aid	5,696.447	5,376.018	11,072.465	5,650.833	5,257.007	10,907.840	0.000
Project Aid & Budget Support	22,740.571	128,773.933	151,514.504	16,866.255	76,642.389	93,508.644	48,412.111
Total	34,576.33	134,912.51	169,488.84	28,716.58	82,661.95	111,378.53	48,543.151

Source: ERD, Ministry of Finance, GoB

Figure: 13 Foreign Assistance in Bangladesh at a Glance (1971/72 – 2021/2022) (Provisional)

(in million USD)



Source: ERD, Ministry of Finance, GoB

During the early years of independence, Bangladesh received a significant aid flow on food and commodity aid. The volume of these two forms aid became stagnant over time although number of populations significantly increased during this period. Due to the growth of industrialization during this period, the aggregate production of food and commodity also achieved a significant growth. As a result, Bangladesh becomes self-dependent in the production of food and commodity gradually and that could be the possible reason of less demand for food and commodity aid.

On the other hand, the flow of project and budget support increased during the time although it is far behind the commitment level. Throughout the history, Bangladesh is experiencing deficit balance of payment and deficit national budget, but, on the other hand, different Governments undertook several mega infrastructural projects during this period. As a result, the need for compensatory financing facilities for budget and BOP deficit increases as well as project financing in both public and private sectors also increases significantly.

4.2 Foreign Assistance Disbursement by Economic Sector

From 1971 to 1977, Bangladesh relied on handouts. The grant-to-loan ratio remained consistent from 1976-1977 to 1996-1997. Since 1996-1997, loans have dominated ODA. Loan disbursement averaged 83% of projected spending from 2011-2012 to 2015-2016, whereas grants averaged 82% (AIMS database, ERD, n.d.).

Table: 3 Foreign Assistance Disbursement by Economic Sector
(in million US\$)

Sector	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21*
Agriculture	73.3	122.7	215	227.27	210.22	171.4	228.1	222.46	356
Rural Development & Institution	58.8	49.1	49.9	65.84	241.22	202.6	402	310.7	344
Water Resources	73.2	96.6	90	121.35	63.67	65.7	128.4	83.51	79.1
Industries	128.7	321.3	82	27.79	37.34	45.3	73.5	149.8	106.9
Power	556.1	498.9	629	973.09	602.73	1396.9	1009.5	1212.88	2214.3
Oil, Gas & Mineral Resources	54.3	69.8	18.1	38.44	75.03	80.9	203.3	209.85	135.4
Transport	238.7	431.2	282.1	410.14	647.14	1810.8	1097.8	1708.26	1904.6
Communication	57	113.3	96.1	71.02	4.89	8.5	54.5	98.03	49.9
Physical Planning, Water Supply & Housing	141.4	187	301.1	338.1	431.2	496.8	526.6	524.82	457.6
Education & Religion	417.2	352.9	375.1	474.92	468.93	433.2	672.36	268.86	210.1
Sports & Culture	0	0	0	--	1.12	1.1	0.1	0.07	
Health, Population & Family Welfare	224	242.7	177.4	206.15	252.51	202.7	173.6	162.72	291.9
Mass Media	0	0	0	--	0	0	0	-	72.6
Social Welfare, Women Affairs & Youth Dev.	60.9	92.4	66.6	144.34	230.15	210.8	303.1	63.36	294.3
Public Administration	676.3	468.7	622.5	398.82	274.02	266.7	569.6	1449.89	1295.7
Science & Technology	0	0	0	29.05	103.54	954.7	1072.9	886.37	16.9
Labour & Manpower	0	0	0.6	5.41	4.77	7.8	4.6	29.31	111.6
Total	2760.8	3046.8	3005.5	3531.72	3648.47	6355.9	6519.96	7380.89	7940.9

Source: ERD, Ministry of Finance, GoB

Based on the volume of disbursement of foreign assistance by economic sector during 2020-2021, the top ten economic sectors were: Power (2214.3), Transport (1904.6), Public Administration (1295.7), Physical Planning, Water Supply, and Housing (457.6), Agriculture (356), Rural Development and Institutions (344), Social Welfare, Women Affairs, and Youth Development (294.3), Health, Population, and Family Welfare (291.9), Education and Religion (210.1), and Labor and Manpower (111.6).

4.3 Foreign Assistance by Source

The World Bank's International Development Assistance (IDA) was the most important project assistance source during independence. Bangladesh's biggest assistance partner is Japan. Bangladesh has lately taken large loans from global south non-traditional lenders. India has offered three lines of credit worth US\$ 8.0 billion, and China has offered 25.0 billion on a government-to-government basis and 15 billion on a business-to-business basis.

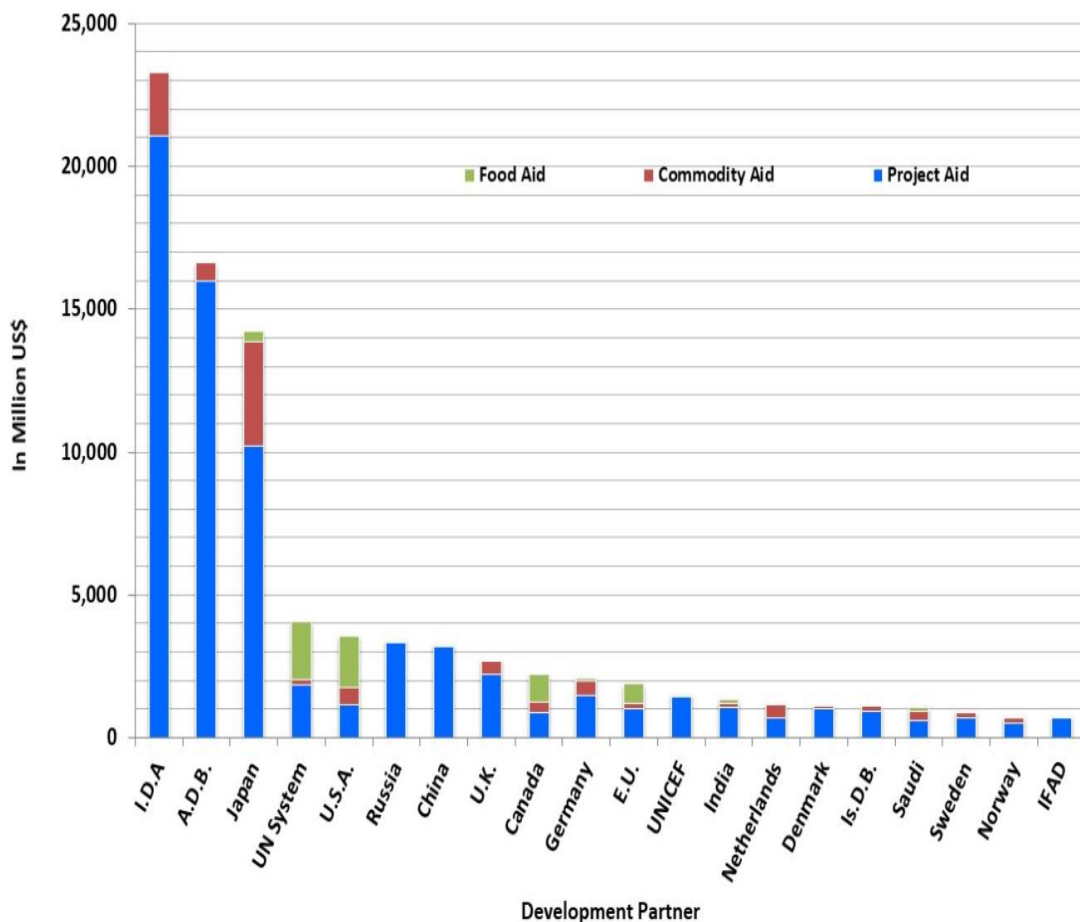
Table 4: Foreign Assistance by Source

(in million US\$)

Country/Agency	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22*
IDA	769.63	936.05	977.89	1157.90	1399.66	1422.65	2030.93	1509.93	764.20	711.76
Japan	348.58	450.78	366.46	553.06	645.71	1544.46	1195.65	1692.91	973.22	1270.41
ADB	752.05	464.68	715.76	813.76	757.11	896.39	1255.02	1706.94	616.88	1849.28
USA	0.00	0.46	1.53	0.00	3.00	1.24	4.88	-	0.00	-
UN Organization**	171.49	26.63	144.76	128.95	103.21	169.96	67.82	98.46	55.91	45.28
Canada	3.52	16.28	13.28	20.51	8.63	8.42	0	-	0.00	-
Germany/Kfw/Giz	68.71	35.34	30.08	60.82	44.81	31.93	14.63	24.06	23.82	15.7
UK	108.95	116.02	79.30	65.44	21.86	31.43	0	-	1.72	-
EC-EU	51.73	51.12	29.74	3.74	43.38	0.00	0	50.64	0.00	-
Netherlands	4.60	6.96	0.93	2.71	12.53	0.00	0	-	0.00	20.72
Saudi Arabia	3.42	6.42	9.76	28.76	29.93	18.24	26.81	6.27	10.43	-
Sweden	11.26	23.97	10.15	0.007	0.00	0.00	0	-	0.00	6.89
Norway	0.00	4.6	2.84	0.00	0.00	0.00	0	-	0.00	-
Denmark	41.42	62.67	29.53	24.16	14.94	15.18	0	-	4.00	-
France	0.00	0.00	0.00	3.34	12.32	68.37	18.44	32.43	3.08	5.32
UNICEF	66.66	16.88	39.16	38.95	46.77	79.59	76.48	61.55	8.04	86.95
India	175.32	123.37	94.00	84.79	80.23	46.92	137.86	136.38	48.29	35.1
Australia	0.00	0.00	0.00	0.00	4.85	0.00	0	-	0.00	120.36
IDB	2.82	76.94	132.92	100.49	39.83	32.96	33.33	39.87	7.08	-
IFAD	17.09	14.28	42.29	51.89	49.08	21.98	27.88	25.01	4.14	29.96
Kuwait	10.65	9.35	7.22	16.62	32.01	18.58	27.68	9.74	14.18	7.06
OPEC	6.31	6.65	10.61	25.90	29.95	15.79	34.56	20.92	6.79	17.68
South Korea	37.841	35.54	55.73	33.23	31.01	6.19	57.61	79.18	103.67	38.41
NDF	0.00	4.6	2.84	0.70	0.08	0.00	0	-	0.00	153.82
China	77.04	472.71	121.23	115.73	36.39	988.66	515.09	408.87	466.88	-
Russia	0.00	0.00	113.91	202.69	92.41	832.82	903.86	854.78	599.82	497.41
Other's***	61.84	126.69	13.83	29.44	137.47	33.79	114.04	623.78	5.00	701.62
Total	2811.00	3084.39	3043.07	3563.59	3677.29	6290.75	6542.57	7381.72	3717.13	285.89

Source: ERD, Ministry of Finance, GoB

Figure: 14 Disbursements of 20 Major Development Partners (1971/72 – 2020/2021) (Provisional)



Source: ERD, Ministry of Finance, GoB

5. Case Studies on Blended Finance: Bangladesh Perspective

Case Study: 1

Name of the Project: Household Investment in Sanitation

Sponsoring Organization: The World Bank

Partnering Organizations: PKSF and ASA

Modality: Debt Financing under Output based Aid (OBA)

A US\$3 million OBA grant from the World Bank helps the two MFIs lend to impoverished families. The funding is directly given to MFIs ASA and PKSF, who utilise their own capital to pre-finance families, blending concessional and commercial credit. PKSF finances home sanitation loans via retail MFIs (partner organisations), whereas ASA lends directly to families. The loans pay pre-certified local construction businesses to build sanitary latrines for households. The programme builds latrines that cost between US\$45 and US\$220, but the subsidy only applies to loans up to US\$128 to prevent affluent people from using it to fund more costly installations. After independent verification of outcomes, the OBA subsidy will be US\$5-16 per family. The subsidy cuts consumers' weekly payments by 11%. Households may stretch material costs across 55 weeks by paying off loans monthly. The partial subsidy increases availability and affordability of higher-quality choices for poor families, making borrowing more appealing and reducing MFI lending risk.

Source: World Bank Group (August 2016)

Case Study: 2

Name of the Project: Off-Grid Electricity for Rural Low-Income Households

Sponsoring Organization: The World Bank

Partnering Organizations: GoB, IDCOL, MFIs, SHSs

Modality: Line of Credit under Output based Aid (OBA)

In 2010, the Global collaboration on Output-Based Aid (GPOBA) joined the collaboration with a US\$13.95 million grant to expand the RERED SHS output-based funding model. In 2015, RERED II received a US\$15 million grant to expand SHS availability to low-income rural families and explore more renewable energy solutions. IDCOL, a government-owned financing corporation, and POs execute the project. IDCOL gives POs a World Bank line of credit to provide rural families

microcredit for SHS investments. Through a network of verified agents, IDCOL offers technical support, PO system maintenance, and installation.

A PO microfinances rural families' SHS purchases. The household pays 10–15% of the system cost up front and repays the remainder (less the OBA subsidy) over two to three years at 12–15% interest. POs may negotiate with renewable energy technology vendors to buy SHS equipment on credit, but they often function as both lender and supplier, which simplifies the process. POs fund SHS purchases and residential installation. Pos may get concessional refinancing from IDCOL for 60–70% of family credit after SHS system implementation. POs get a partial capital subsidy from the OBA grant. The first OBA subsidy for SHS systems up to 135 watt-peak (Wp) was US\$90. GPOBA joined the programme in 2010, lowering the subsidy to US\$50. In 2015, systems under 30 Wp were reduced to US\$20. Pro-poor targeting improved when OBA grant-eligible systems shrank. Due to economies of scale and SHS technical developments, the subsidy was gradually reduced.

Source: World Bank Group (June 2018)

Case Study: 3

Name of the Project: Bibiyana II Gas Power project by Summit Bibiyana II Power Company

Limited (SBIIPCL)

Sponsoring Organization: ADB, IFC, IDB

Partnering Organization: Summit Industrial and Mercantile Corporation (SIMC)

Modality: Direct Financing (Debt) by International Financial Institutions (IFIs) and Equity

between Private Investors

The project company SBIIPCL received a US\$210 million parallel loan from the Asian Development Bank (ADB), the International Finance Corporation (IFC), and the Islamic Development Bank (IDB) at an interest rate of 6-month LIBOR plus 4.4% with an interest rate swap of 2.45%. Summit Industrial and Mercantile Corporation (Pvt.) Limited owns 80% of SBIIPCL (US\$ 72 million) and GE 20% (US\$ 18 million). Project operations are complete. The project requires a 13.5-year debt payback and a 1-year grace period.

The project aims to generate 341 MW of dependable, economical, and efficient energy. The project must follow IFC, ADB, and Bangladesh DoE environmental

and social requirements. BRAC Bank will manage accounting and security while China Northeast Electric Power Engineering & Service Co. Ltd. operates the facility. Local banks pioneered this. The business signed a 22-year power purchase agreement (PPA) to sell all project energy to the state-owned Bangladesh Power Development Board (BPDB). According to an interview with a relevant party, the Bibiyana II project produces the lowest-cost power in Bangladesh, boosting energy security.

Source: Rahman, et.al. "Blended Finance in Bangladesh: A Scoping Paper". Occasional Paper Series No:46; Southern Voice.

Case Study: 4

Name of the Project: Shirajganj Power Project by Sembcorp North-West Power Company

Sponsoring Organizations: IFC, JICA, The Clifford Capital, CDC

Guarantor: MIGA

Partnering Organization: Sembcorp Utilities, North-West Power Generation Company

Modality: Mobilization (Loan Syndication)

Sembcorp North-West Power Company is a public-private collaboration between Sembcorp Utilities and Bangladesh's state-owned North-West Power Generation Company. North-West Company owns 29%. This project is the largest direct foreign investment in Bangladesh in recent years and is projected to attract industry capital. IFC has directly funded US\$73 million and helped mobilise funds from Singapore-based infrastructure project financing company Sembcorp (2016). Clifford Capital loaned US\$103 million and JICA US\$30 million. CDC also donated US\$41.25 million and US\$60 million via IFC's blended financing channel. Three financiers provided US\$300 million for the project. MIGA will cover political risk for the US\$41.25 million CDC tranche. Clifford Capital's MIGA will protect Sembcorp's project equity investment against political risk. These loans have a 14-year repayment schedule and a 2.5-year grace period (typically construction). The IFC component has quarterly LIBOR hedged at 2.35%, while the direct loans were obtained at LIBOR + 4%. Clifford Capital and CDC utilised the 3-month LIBOR, whereas JICA used 2.5% semi-annual. MIGA guarantees political risk for 0.75% per year. Description The 414-MW project will be the second biggest independent power plant. It'll meet Bangladesh's rising power needs. The administration believes the initiative would boost national development.

Source: Rahman, et.al. "Blended Finance in Bangladesh: A Scoping Paper". Occasional Paper Series No: 46; Southern Voice.

Case Study: 5

Name of the Project: Transformative Food Security Project by GUK Inclusive Enterprise Ltd. (A

social enterprise)

Sponsoring Organization: UNCDF

Partnering Organizations: GUK, Banks, Developers

Modality: Debt-Equity

UNCDF's grant of US\$28,235 has unlocked bank loan of US\$19,118 and developer's equity of US\$101,453; ratio of unlocking is 1:4. The investment has created employment opportunities for 5000 contractual farmers (3000 female and 2000 male) of biofortified Orange fleshed Sweet Potato (OFSP). UNCDF has also invested reimbursable grant of US\$45,294 to help create a credit history for the social enterprise to make them bankable for commercial loan in future. A modern storage facility is being set up for storing OFSP within three days of processing from the field. For market promotion of the product, GUK is developing a market value chain by packaging, branding, marketing and distribution through establishing partnership with capital based Mega-shops/online marketing platform; arranging promotional activities like advertisement, mass campaign, nutrition fair etc. to disseminate the message focusing usefulness of OFSP; formation of farmers forum at village level; arranging court-yard meetings with farmers and arranging training for farmers on production of OFSP more efficiently engaging officials from govt. department.

This is a farmer-oriented initiative that will ensure the receiving of fair price for OFSP farmers and remove middlemen. Cost and investment of time of OFSP farmers will reduce by use of improved mechanization during farming, harvesting and post-harvesting. 5% of income from the project will be invested for training of the OFSP farmers so that existing system loss and/or unexpected damage is reduced during gardening, harvesting and post-harvesting. A regular selling hub will be established to prevent post-harvest loss and ensure timely marketing. A testing lab will be set up to ensure quality of crops. Living standard of farmers is expected to be improved by better price they will receive. Estimated increase of income is 25%. OFSP has low glycemic index and possesses antioxidants; consumption of leaves and roots will minimize the risk of diabetes, cancer, and heart disease. Promotion of OFSP will reduce micronutrient deficiency in the community and population at large, particularly as low-cost option for children, pregnant and breastfeeding women, poor rural and urban households.

Source: UNCDF

Case Study: 6

Name of the Project: Reliance Gas Power Plant, Meghnaghat

Sponsoring Organizations: ADB, JBIC, MUFG Bank, Societe Generale Mizuho Bank, Sumitomo

Mitsui Banking Cooperation, NEXI

Partnering Organizations: JERA, Reliance Power

Contractors: Samsung C&T, GE, Baker McKenzie, AECL

Modality: Debt Financing

Reliance Power is building a 745MW LNG-fired combined-cycle power station in Bangladesh alongside JERA. India's biggest FDI in Bangladesh's power industry is the first phase of a 3,000MW gas-based combined-cycle power facility. Its 718MW net production will power 850,000 Bangladeshi dwellings. Reliance Power holds 51% of Reliance Bangladesh LNG & Power (RBLPL), which is developing the project. JERA owns 49%.

JERA is a Tokyo Electric Power Group–Chubu Electric Power Group joint venture in Japan. In July 2020, RBLPL inked a US\$642million credit arrangement with a consortium of banks, including JBIC, MUFG, Societe Generale Mizuho, and Sumitomo Mitsui Bank co-finance. NEXI agreed to insure commercial banks. In July 2020, the Asian Development Bank (ADB) lent RBLPL \$200 million. ADB and LEAP each loaned \$100m.

Source: *The Future Power Technology*, <https://www.power-technology.com/projects/reliance-gas-power-plant-meghnaghat/>

Case Study: 7

Name of the Project: Moheshkhali Floating LNG (MLNG) Terminal

Sponsoring Organizations: Excelerate Energy, IFC, and Petrobangla

Partnering Organizations: CDC Group, DEG, FMO and JICA

Modality: Mobilization, Debt-Equity

Excelerate Energy, IFC, and Petrobangla collaborated on this US\$179.6 million project. The first two had to furnish and arrange terminal finance. IFC helped arrange a US\$125.7 million debt financing package for the project. IFC provided US\$32.8 million, while the remainder came from the CDC Group, DEG, FMO, and JICA (Excelerate Energy, 2017). IFC owns US\$10.8 million and Excelerate

US\$43.1 million in an equity arrangement. Excelerate Energy will develop, operate, and sell the terminal to Petrobangla after 15 years.

Bangladesh's first LNG import facility is crucial to energy security due to the country's depleting natural gas reserves, its main source of primary energy. The project will provide worldwide natural gas. Moheshkhali Floating LNG's 500 MMscf/d regasification capability will provide energy for industrial expansion and create employment. The project will provide natural gas to Petrobangla. Fully integrated turnkey floating LNG station MLNG.

Source: Rahman, et.al. "Blended Finance in Bangladesh: A Scoping Paper". Occasional Paper Series No: 46; Southern Voice.

Case Study: 8

Name of the Project: Gandharbpur Drinking Water Treatment Plant

Sponsoring Organizations: Veolia Environment (50%), SUEZ (50%)

Debt Providers: ADB, AFD, EIB, GoB

Partnering Organization: DESWSP

Modality: Sovereign Concessional Loan

DWASA built a water treatment facility in Dhaka, Bangladesh. A 500 mega litre per day water treatment plant is being built. It involves building a raw water pumping station, reservoir, pipelines, and purifying systems. Design, construction, operation, and maintenance (DBOM) public-private partnership (PPP) is implementing the project. ADB hired Matt MacDonald as project research consultant in February 2013. DBOM contract bids were due January 20, 2015, on September 20, 2014. Two packages will tender the project. Design-build and operation-and-maintenance contracts are the first and second packages. Tender submissions were extended till March 3, 2015 on December 14, 2014. ADB, Agencies Franchise De Development, EIB, and Bangladesh are each contributing US\$250 million. DWASA also needs an EMA for the project. The initiative will monitor and evaluate land purchase and resettlement operations and advise on any compliance problems. Degremont-OTV and VA Tech WABAG Ltd-Technicas Reunidas presented final technical and financial proposals on February 4, 2016. Legal advisor is French Development Agency.

Source: The World Bank Group

Some other blended finance initiatives in Bangladesh are given in appendix 5

6. Challenges of Blended Finance Mechanisms and Issues for Discussion

Blended finance can help bridge the investment gap for the SDGs, but requires a common framework. Delivering the 2030 Agenda and the Paris Agreement will require all sources of finance – development and commercial – to be scaled up. ODA continues to play an indispensable role in financing the SDGs. We need to move from “billions to trillions” to meet the volume of resources needed, well beyond the US\$149.3bn provided as ODA in 2018. Development finance helps unlocking and channeling finance from other sources towards development uses. Although blended finance mechanism has been efficaciously working as a new modality of PPP in Bangladesh since the beginning of the year 2000, in spite of that, the process has been encountering some substantial challenges that are needed to be resolved for the sake of forthcoming growth of the economy and to undertake mega infrastructure projects.

6.1 Governance and Methodological Challenges

There are some key concerns over blended finance with management and organizational challenges that influence how blending operations are monitored and evaluated. It continues with an overview of main evaluation methodologies that could be used for blended finance evaluation and challenges associated with applying them, and it outlines the challenges of assessing additionality. The evaluation may be difficult due to model or data. There are major issues around data availability constraining the analysis of evidence on blended finance. Thirdly, it is not clear that blended finance solutions are regularly adopted on the basis of rigorous analyses of specific market failures and consideration of alternatives. In this context, Government of Bangladesh might think of providing the responsibilities to any financial body in keeping the record (data) of blended finance activities in Bangladesh for ensuring effective monitoring and appropriate evaluation system of blended finance.

6.2 Project Risk

As development project is involved in substantial uncertainty and risk due to long term and demand uncertainty in developing countries. The development community agrees upon the need to address conflict and fragility for global security and sustainable development. In such complex situations, project manager should strive to include multiple actors at various levels of society. Although the use of private investment in fragile contexts may be low, the need to address the huge SDG funding gap makes innovative and flexible financing methods worth

considering. ODA remains critical, but blended finance can help enlarge the total resources available for development. The issue is: Since blended financing is heavily depending on country risk rating, improving country rating is crucial to attract more involvement of other multilateral and bilateral agencies those who are not yet involved in Bangladesh context.

6.3 Transparency and Accountability

It is not easy to get transparency of process, parties involved, contractual obligations in cost or benefit sharing between public and private entities, value forecasting and so on related to blended finance or insurance. Thus, transparency is critical in ensuring public confidence that project managers are applying the highest standards in the use of blended finance. Thus, it is important to publicly disclose the estimated subsidy for each proposed project as well as the justification for why it is necessary. To resolve the issue, Ministry of Finance or PPP Authority could play the role of monitoring authority to ensure the productive utilization of funds as well as maintaining the highest standard in terms of quality by the project manager.

6.4 Financialization or Neo-Liberalization

Some scholars express concerns on the “financialization” and “neo-liberalization” of conservation and development agendas or relate financial instruments such as forest bonds to commodification of nature (Adrian and Spronk, 2019). Others point out that so far, the share of private for-profit investment into conservation is still very small and tends to be overrated due to an excessive use of market framing and jargon (Dempsey and Suarez, 2016). Government of Bangladesh need to ensure that that the donor organizations act only for the better interest of the country and will neither affect the sovereignty nor will impose any undue conditions to the Government avail the financial assistance.

6.5 Identification, Prioritization, and Selection of Development Problem

It deals with the identification, prioritization, and selection of development problem and intervention to address the problem; with a credible estimate of finance gap to implement the intervention (Khatun et, al. 2021) These are critical issues in achieving the expected development outcome using a blended finance framework and require a consultative framework that allows evidence and research-based identification of the development problem, and judicious selection of scalable and commercially viable interventions/projects with a sound underlying theory of change. Setting standard criteria by the Government in identifying, prioritizing and selecting development problem where blended finance would be the best solution.

6.6 Fund Mobilization

The sixth set of challenges focus on the fund mobilization issues, such as, identification of and reaching out to potential donors, private investors and public institutions, socializing the development impact with the commercial viability of the intervention to motivate them and negotiating the size and type of contribution to the mobilized fund (Khatun et.al. 2021). Smart negotiation by the appropriate authority in reaching out to the potential donors and private investors to accelerate the inflows of blended finance in Bangladesh is a critical factor for resolving the challenges of fund mobilization.

6.7 Lack of Innovative Financial Modeling

Next set of challenges is efficient and transparent application of innovative financial modeling and engineering tools to manage financial risks and appropriate policy support to mitigate political and environmental risks that are associated with the choice of intervention. Debt management and debt servicing should be carefully be monitored. The dearth of required technical skills is a major hindrance to address this challenge. Substantial capacity development of human resources needs to be involved in this mega project to accustom with the recent innovative tools of financial modeling and engineering as well as appropriate identification, measurement, and mitigation of financial risk associated with the project.

6.8 Red Tape Barriers

There are substantial evidences in the past that Bangladesh lost several foreign funding in the form of financial assistance, foreign direct investment, technical assistance, project financing, consortium financing due to the long bureaucratic channel or red tape barriers. The donor organizations as well as development partners faced long chain of command from project origination to fund mobilization stage. This bureaucratic channel frustrated them and some of the time they were forced to retrieve their investment proposals. Well and smooth functioning bureaucratic system has to be ensured to accelerate the speed of the process so that more donor organizations and development partners would be attracted.

7. Concluding Remarks

The OECD Development Assistance Committee (DAC) in February 2016 agreed to develop “an inclusive, targeted, results-oriented work program” on blended finance with the following principles: (1) evidence-based: collate evidence and lessons learned on blended finance with a focus on targeting private finance and the use of blended finance across different regions; (2) best practices: develop best

practices for deploying blended finance in key economic systems and sectors, such as sustainable infrastructure, and to address specific issues such as climate change. These mechanisms will provide the much needed recommendations to bring together public and private investors for the use and deployment of blended finance to achieve the SDGs. Mobilizing additional capital that would not otherwise support development outcomes is increasingly required in the deployment of development finance. In this context, blended finance attracts commercial capital towards projects that benefit society while providing financial return to investors. Ensuring that blended finance delivers on its promise. The OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals are a policy tool for all providers of development finance – donor governments, development cooperation agencies, philanthropies and other concerned stakeholders. They build upon already established commitments on ODA targets, leaving no one behind, development effectiveness and aid untying.

Blended finance is a growing, indispensable financial method for development project, in particular for SDG, but not a panacea. The development gaps in low-income markets are huge. Investor appetite cannot be stimulated by de-risking efforts at the project level alone. Transparency, incentive control, sector and macro-level policy reforms and good governance are critical to creating markets that will unlock sustainable private sector investment. For the sake of continuing development of global society in general, blended finance should be monitored and evaluated in order to maximize its potential capacity while limiting their weakness.

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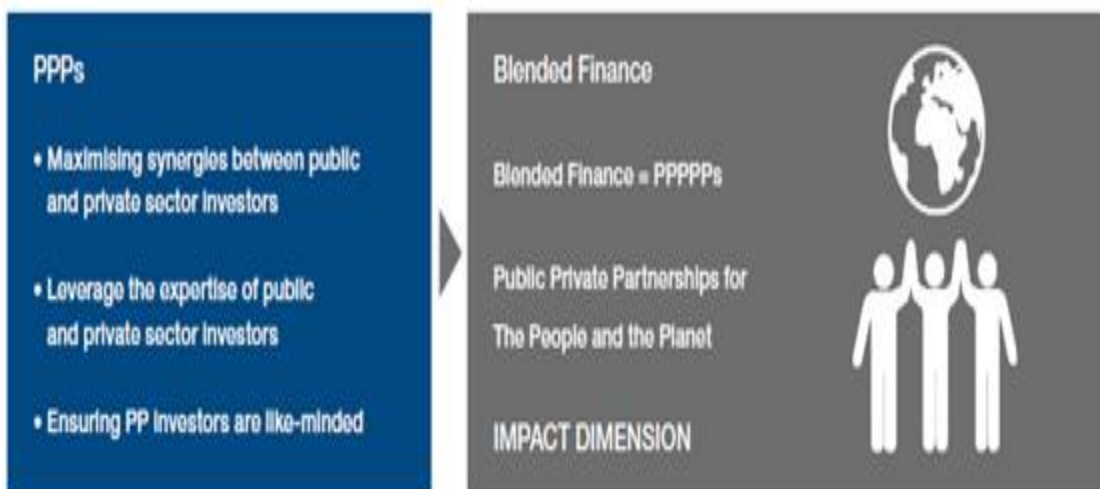
Appendix 1: The Guiding Principles of Blended Finance

Principle: 1	<p><i>Anchor Blended Finance use to a Development Rationale</i></p> <ul style="list-style-type: none"> a. Use blended finance in the development finance as a driver to maximize development outcomes and impact. b. Define development objectives and expected results as the basis for deploying development finance. c. Demonstrate a commitment to high quality.
Principle: 2	<p><i>Design Blended Finance to Increase the Mobilization of Commercial Finance</i></p> <ul style="list-style-type: none"> a. Ensure additionality for crowding in commercial finance. b. Seek leverage based on context and conditions. c. Deploy blended finance to address market failures, while minimizing the use of concessionality. d. Focus on commercial sustainability.
Principle: 3	<p><i>Tailor Blended Finance to Local Context</i></p> <ul style="list-style-type: none"> a. Support local development priorities. b. Ensure consistency of blended finance with the aim of local financial market development. c. Use blended finance alongside efforts to promote a sound enabling environment.
Principle: 4	<p><i>Focus on Effective Partnering for Blended Finance</i></p> <ul style="list-style-type: none"> a. Enable each party to engage on the basis of their mandate and obligation, while respecting the other's mandate. b. Allocate risks in a targeted, balanced and sustainable manner. c. Aim for scalability.

Principle: 5	Monitor Blended Finance for Transparency and Results <ol style="list-style-type: none"> Agree on performance and result metrics from the start. Track financial flows, commercial performance, and development results. Dedicate appropriate resources for monitoring and evaluation. Ensure public transparency and accountability on blended finance operations.
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Source: OECD

Appendix 2: The 5Ps of Blended Finance



Appendix 3: Selected Instruments and the Mechanics of Blending

Instruments	Description: ODA
Investment Grants	These cover specific costs and activities in order to decrease overall project costs and increase chances of success. They are usually part of a larger package and are used mostly to purchase or upgrade existing fixed capital, such as tools or facilities. Some specific forms, such as interest rate subsidies, can help lower the costs of finance resulting from underdeveloped local financial markets.
Technical Assistance	Various uses. It can do the investor's homework, thus lowering the high transaction costs and risks for investors linked to new projects or in uncharted territories. It can also help improve the quality of the project, for example, by funding impact studies, thus increasing the likelihood of success – for instance, a study of the potential increase in project productivity with the provision of a new tractor and storage space to attract private investors.
Loan Guarantees	Protect investors against losses and/or improve the financing costs (government guarantees reduce borrowing costs), e.g. the new equipment attracts private investors, but they still think the risk is too high, so the public sector provides a guarantee of payment should the expected increase of productivity not materialize.
Structured Finance: First Loss Piece	<i>Absorbs risks by making the public entity the first to take losses that may occur should the project incur losses. For instance, a project fails and does not leave enough capital for all the investors to be paid back. The 'first loss' investors (in this case, the public entity) lose their money first.</i>

Equity Investments	Equity investors take a percentage of the ownership of the company or project. The money provides funding for the project, demonstrates viability and provides other comfort for investors (for example, investors could see this as a guarantee of the quality of the project, or of a reduction in risks that the host government might interfere). For instance, the public sector buys 20 percent of a company in the hope that private investors will see this as a sign of confidence and follow suit.
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Source: Adapted from OECD-WEF (2015)

Appendix 4: Elaborated Conceptual Framework of Blended Finance

Blended Finance	Additionality	Human Impact
Donner Supported Activities	Types of Additionality	SDG Categories
Investment opportunity assessments help investors, banks and other sources of financing understand market conditions and identify investment opportunities. These commonly occur early in the design phase and assess a targeted range of priorities such as gathering information on investors operating	Types of Financial Additionality: <i>Innovative financial structures/instruments:</i> Provision of financing (e.g., fund support, loan guarantees) in the form of innovative instruments with non-traditional terms and conditions (e.g., revenue based, moveable asset-based collaterals etc.) that lowers the cost of capital for private investors and addresses risks associated with	<i>Income and livelihoods:</i> Reduce poverty, create inclusive and sustainable economic growth, increase decent work, and promote full and productive employment for all <i>Access to basic products and services:</i> Contribute to healthy lives, inclusive and

<p>or interested in the market and pipeline development.</p> <p>Structuring funds and financial instruments offsets project preparation cost so that its execution appeals to private sector actors and simultaneously offers social/ economic development benefits. Activities include helping structure blended finance funds, investment platforms, and other financial products. Financial support also can be provided to cover legal fees.</p> <p>Catalytic capital improves the risk/return profile for commercial investors by absorbing risk and/or accepting concessionary returns for transactions with projected development outcomes.</p> <p>Guarantees and risk insurance provide credit enhancements and cover part of the risk</p>	<p>investing in unproven geographies or sectors</p> <p>Risk mitigation: Provision of financing that is not available in the market in a way that strengthens creditworthiness, financial soundness, and/or governance of the investee</p> <p>Resource mobilization: Mobilization of financing from private investors, development finance institutions, and/or additional public sources that would not have invested otherwise</p> <p>Types of Ecosystem Additionality:</p> <p>Demonstration effects: Proof of concept/ validation created from innovative blended finance projects that incentivize replication at the fund or project level within or across sectors/regions</p> <p>Sector-wide growth: Strengthening of a previously underdeveloped/overlooked sector through building</p>	<p>equitable education, sustainable management of water and sanitation, and affordable and reliable energy</p> <p>Equity and empowerment: Contribute to full gender equality, empowerment of women and girls, and reduce inequalities for other marginalized or vulnerable populations</p> <p>Climate and environmental benefits: Reduce greenhouse gas emissions, increase climate change adaptation and resilience, protect, or improve ecosystem services and biodiversity on water and land</p>
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<p>in the event of losses or defaults. It may also enhance issuer's credit rating, enabling access to resources on better terms.</p> <p>Transaction advisory services help link capital suppliers to businesses that need investment. Activities such as investor matchmaking, pitch preparation, financial modeling, and deal structuring are used to help businesses become 'investment ready' and raise funding.</p> <p>Technical assistance strengthens the commercial viability of a project at pre or post investment stages by developing the capabilities of fund managers and/or building the strategic and operational capacity of businesses.</p>	<p>capabilities of businesses, funds, and intermediaries</p> <p>Policy or institutional change: Enhancements in policy, institutional, or regulatory practices at the sector or country level</p> <p>Standard setting: Creation of improved policies that advance development finance, including procurement best practices and expertise in environmental, social, and governance standards.</p>	
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Source: USAID

Appendix 5: Some other Blended Finance Initiatives in Bangladesh

Program	Impact Focus	Implementation/ Donor	Launched	Impact Traction
<u>Biniyog Briddhi</u> <i>an impact investment-focused PDPP programme</i>	Employment generation, rural and gender empowerment	Embassy of Switzerland in Bangladesh, Light Castle Partners, Roots of Impact	2020	Disbursed US\$1Million Impact-matching finance commitments to impact enterprises Mobilized US\$200K matching investments from the private sector
<u>Truvalu Enterprises</u> ; <i>prominent advisory partner active in Bangladesh</i>	Agriculture, Gender, and Rural Empowerment	Truvalu Global	2018	Created 312 jobs, of which 43% are females, 77% are youth. Impacted 10,000+ smallholder farmers with 36% female participation and 50% youth involvement.
<u>BRAC OSIRIS Impact Fund</u> ; <i>Impact Investment Fund</i>	Education, Healthcare, Digital Economy	BRACOSIRIS	2022	\$140 Million fund allocated to accelerate market-based development approach
<u>BFP-B</u> ; <i>A challenge fund backed</i>	Financial inclusion	UKAID Bangladesh Bank Nathan Associates	2015-2019	Managed 36 interventions through challenge fund, providing

Program	Impact Focus	Implementation/ Donor	Launched	Impact Traction
<i>by the UKAID</i>				financial services to 180,000 MSMEs, among which 88,150 are new inclusion in the formal financial sector
<u>Syngenta Foundation for Sustainable Agriculture;</u> <i>Development foundation in the agriculture sector</i>	Agriculture, Rural Empowerment, Digital Technology	Syngenta Ag	2001	In Bangladesh, SFSA increased 25% yield of 350,000+ smallholder farmers connected through 350+ farmers' hubs30% female concentration\$182+ household income increase
<u>LCP: Oxfam – Blended Capital;</u> <i>Quasi-equity-based impact investment fund</i>	Agriculture, Rural Empowerment,	Oxfam, Light Castle Partners	2021	Invested US\$20K+ in 15 SMEs through revenue sharing model

Source: “Reimagining Healthcare in Bangladesh through Blended Finance and Impact-Oriented Capital”; LightCastle Analytic Wing (August 30, 2022); LightCastle Partner

Annex: I

Conceptual Framework of Blended Finance

Figure: 16 Facilitating Access to Finance for Household Investment in Sanitation, Bangladesh: Financial Structure (Case Study: 1, Page-24)

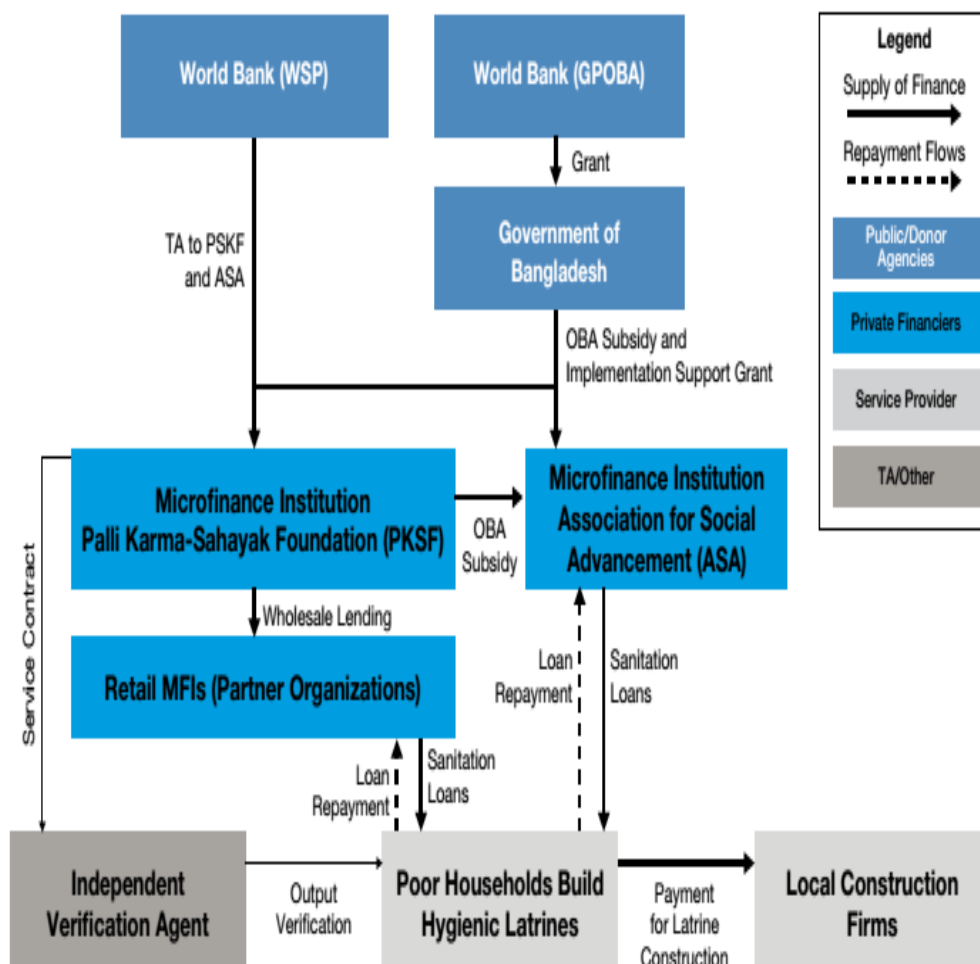
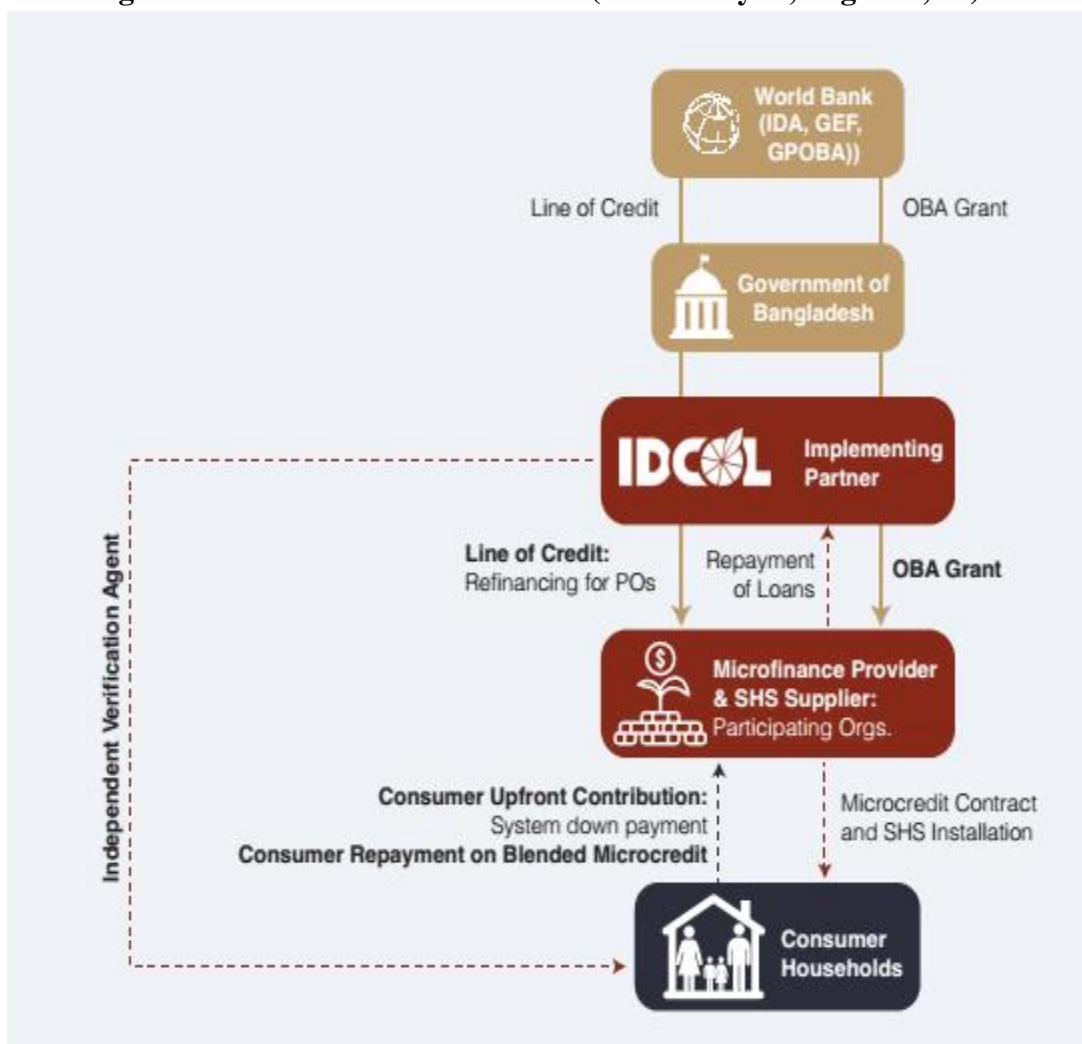


Figure: 17 Financial Flow Structure (Case Study: 2, Page- 24, 25)



Annex: II

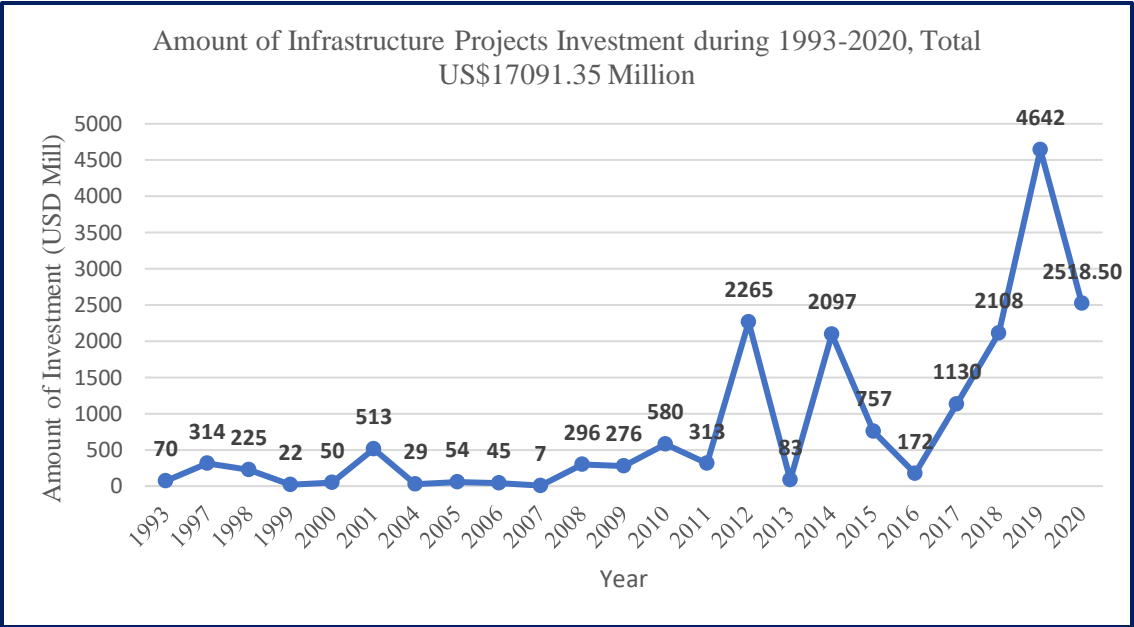
Some Data on Blended Finance Activities in Bangladesh

Table: 9 Year-wise Total Investment in Infrastructure Projects

Year	Year-wise Total Investment (US\$ Million)	Year-wise No. of projects
1993	70.00	1
1997	314.00	1
1998	225.00	2
1999	22.00	1
2000	50.00	1
2001	513.00	3
2004	29.00	1
2005	54.00	2
2006	45.00	4
2007	7.00	1
2008	296.00	12
2009	276.00	7
2010	580.00	9
2011	313.00	8
2012	2265.00	8
2013	83.00	3
2014	2097.00	15
2015	757.00	6
2016	172.00	4
2017	1130.00	8
2018	2108.00	10
2019	4642.00	16
2020	2518.50	12
2021	558.00	1
Total	19125.35	136

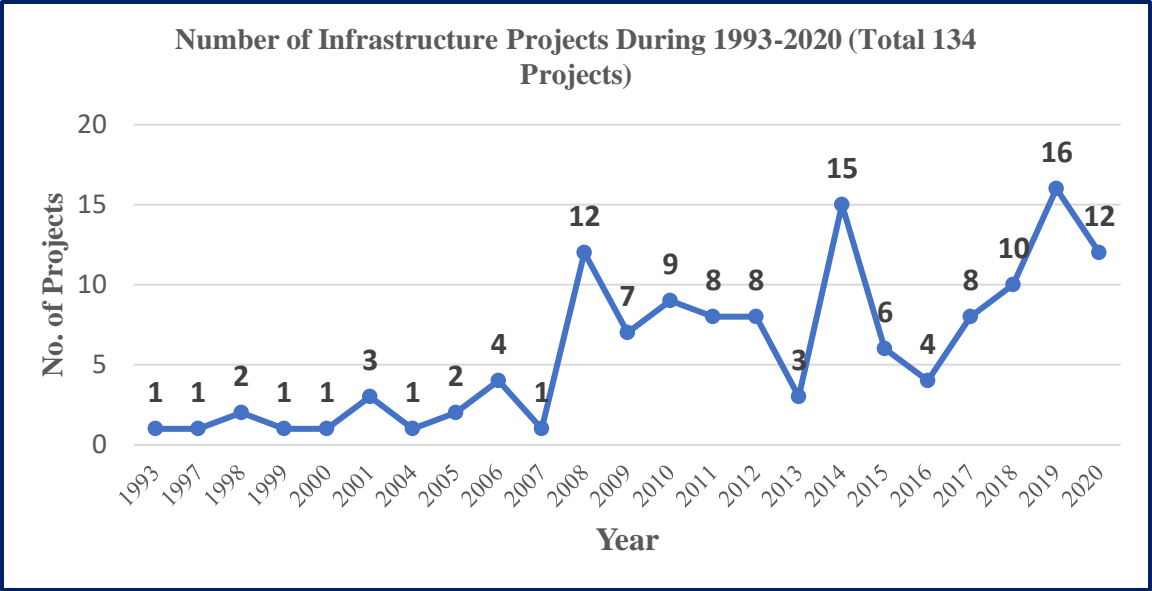
Source: World Bank

Figure: 18 Amount of Infrastructure Projects’ Investment during 1993-2020



Source: World Bank

Figure: 19 Number of Infrastructure Projects during 1993-2020



Source: World Bank

Table: 10 Sectoral Allocations

Sectors	No. of Projects	% of Total	Amount of Investment (US\$ Million)	% of Total
Power & Energy	93	68.38%	10705.81	55.98%
ICT & Telecom	13	9.56%	905.99	4.74%
Ports	8	5.88%	1307.56	6.84%
Waste Mgt. & Water Treatment	7	5.15%	450.05	2.35%
Road, Bridges & Railways	5	3.68%	2332.04	12.19%
Economic Zones	5	3.68%	3141.29	16.42%
Hotels/Tourism	3	2.21%	194.08	1.01%
Healthcare	2	1.47%	88.51	0.46%
Total	136	100.00%	19125.35	100.00%

Source: World Bank

Table: 11 Financing by Multilateral/Bilateral Organizations

Name of Multi/Bilateral Agencies	Financing Amount (US\$ million)	Percentage of Total
ADB	904.80	23.98%
IFC	607.98	16.11%
MIGA	574.80	15.23%
IDA	60.90	1.61%
IDB	120.00	3.18%
OPEC, ICP, CDC & AIIB	236.45	6.27%
FMO, DEG CDB & NEXI	835.49	22.14%
IPFF (WB)	432.61	11.47%
Total	3773.03	100.00%
Financing Instruments	Financing Amount (US\$ million)	Percentage of Total
Loan	2441.25	64.70%
Guarantee	996.50	26.41%
Syndication	133.78	3.55%
Equity/Quasi-Equity	24.50	0.65%
Insurance	177.00	4.69%
Total	3773.03	100.00%

Source: World Bank

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Our best wishes to BIBM.



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