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BLENDED FINANCE

or how to leverage the scaling up of social businesses

What is it? Is it relevant for SDC?

Luca Etter, Program Manager, SDC GI

Savings and Credit Forum, March 3, 2016, Bern

Blended Finance – what is it?

- “...blended finance, [which] **combines concessional public finance with non-concessional private finance and expertise** from the public and private sector, special-purpose vehicles, non-recourse project financing, risk mitigation instruments and pooled funding structures. Blended finance instruments including public-private partnerships **serve to lower investment-specific risks and incentivize additional private sector finance across key development sectors...**”

Addis Ababa Action Agenda, Para 48

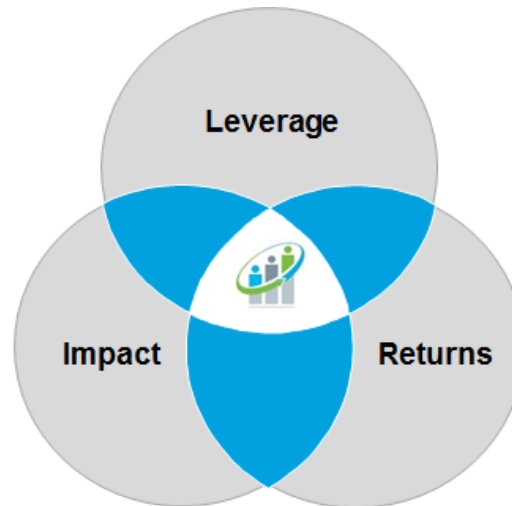
- “The strategic **use of development finance** and [/or] philanthropic funds **to mobilize private capital flows to emerging and frontier markets**, resulting in positive results for both investors and communities. ”

WEF ReDesigning Development Finance Initiative

Blended Finance – what is it?

Leverage:

Use of development finance and philanthropic funds to attract private capital into deals



Impact:

Investments that drive social, environmental and economic progress

Returns:

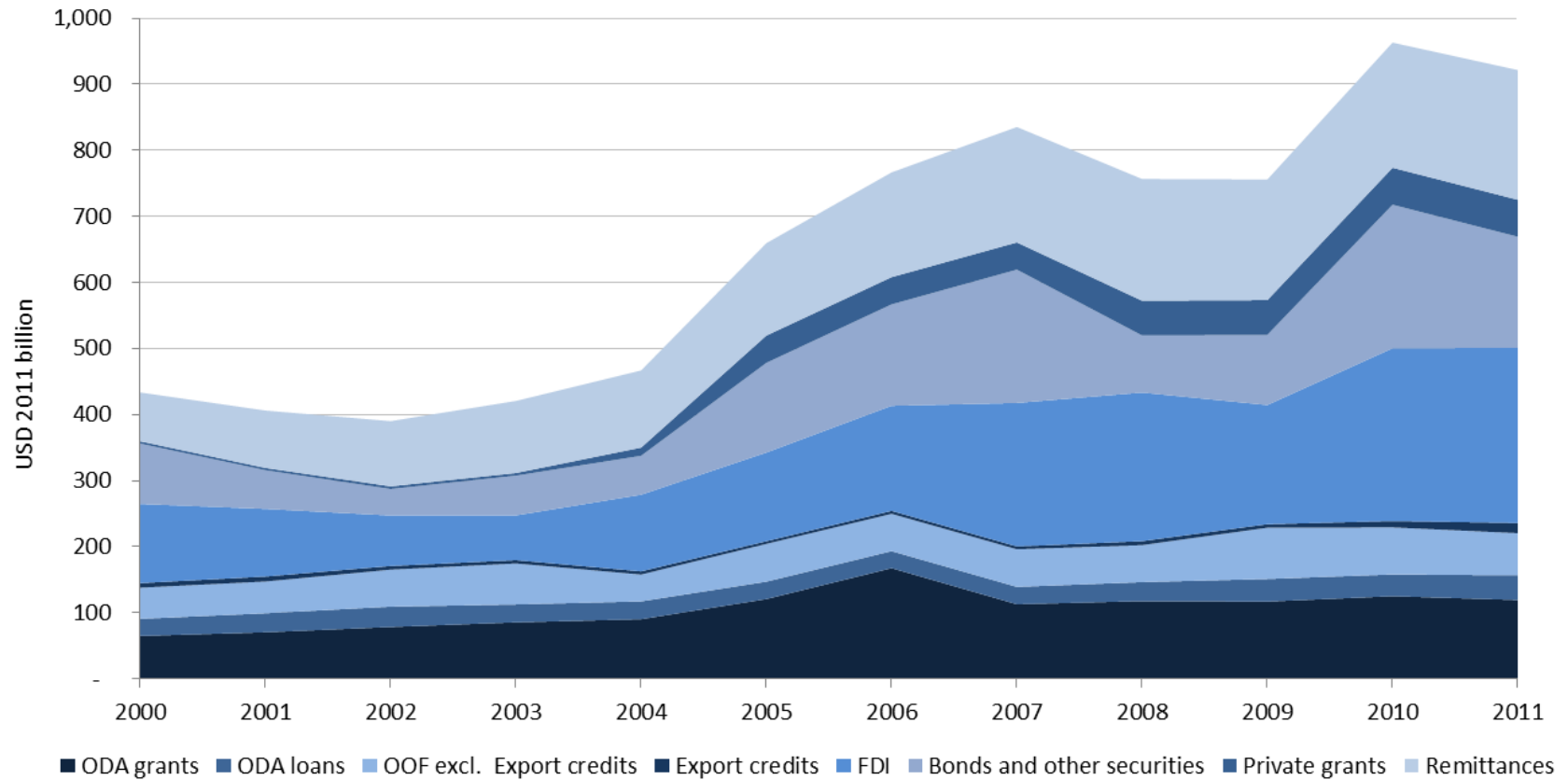
Financial returns for private investors in line with market expectations, based on real and perceived risks

Blended Finance – what is it not?

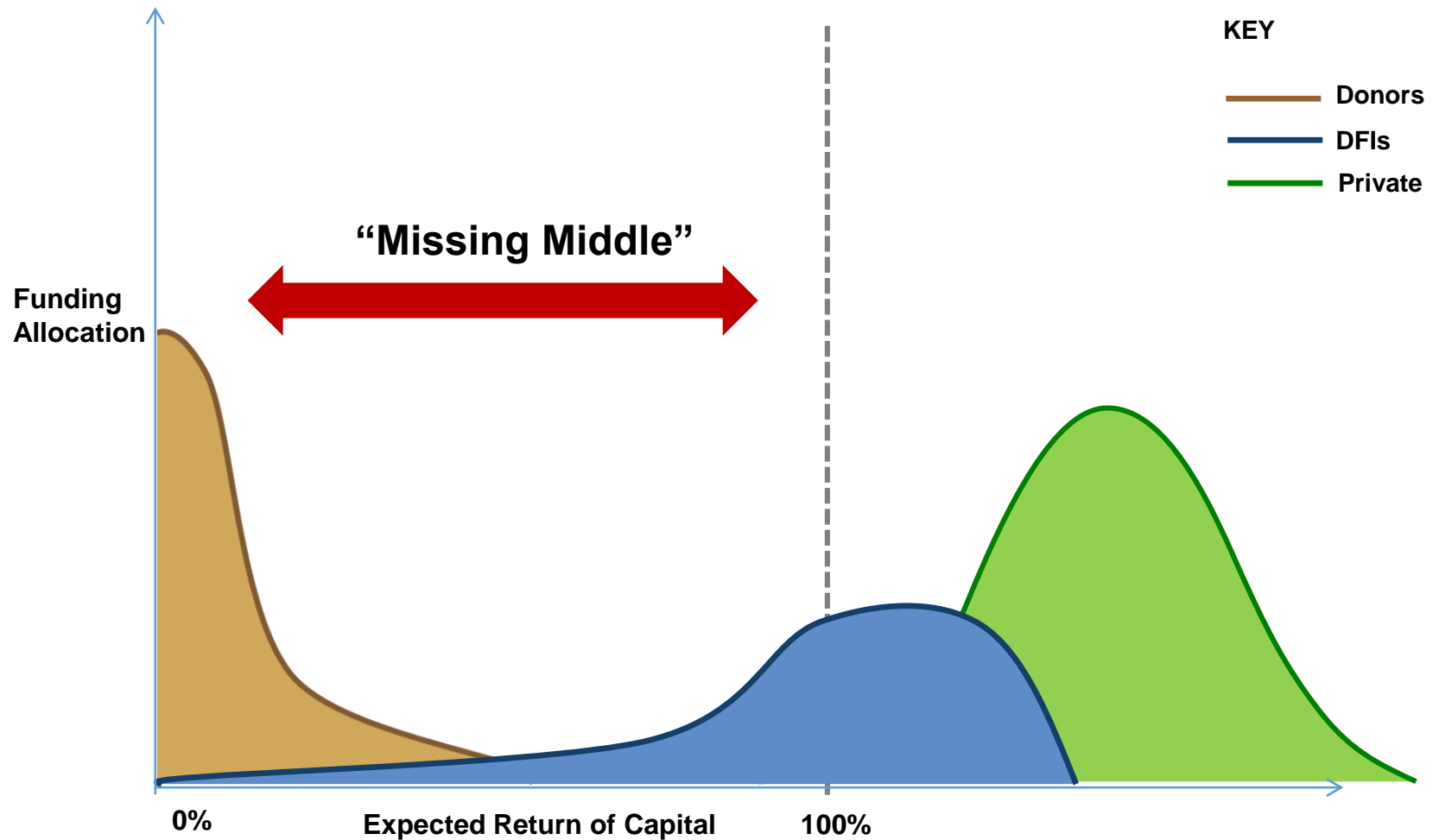
- **Social Impact Investing** – does not require concessional public finance; social impact is intended by all investors.
- **Development Impact Bonds** – financing model that shifts incentives and accountability to results, transfers performance risk to the private sector, and increases efficiency in program implementation.
- **PPPs / PPDPs** – may not always be impact driven, concessional public finance not necessarily involved.
- **Splendid Finance** – wishful thinking...

All these can be Blended Finance mechanisms, but defining elements (impact, leverage, return) are not the same!

Blended Finance – Motivation I



Blended Finance – Motivation II

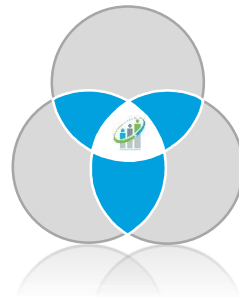


Blended Finance – Instruments

Mitigating Risks

Public investors can mitigate risks for the private sector, including:

- **Improving credit worthiness**
- **Limiting downside loss exposure**
- **Insuring against unforeseen market and catastrophic events**
- **Providing technical assistance and other advisory services**
- **Eliminating funding shortfalls**
- **Encouraging necessary risk taking**
- **Providing support with governments**



Managing Returns

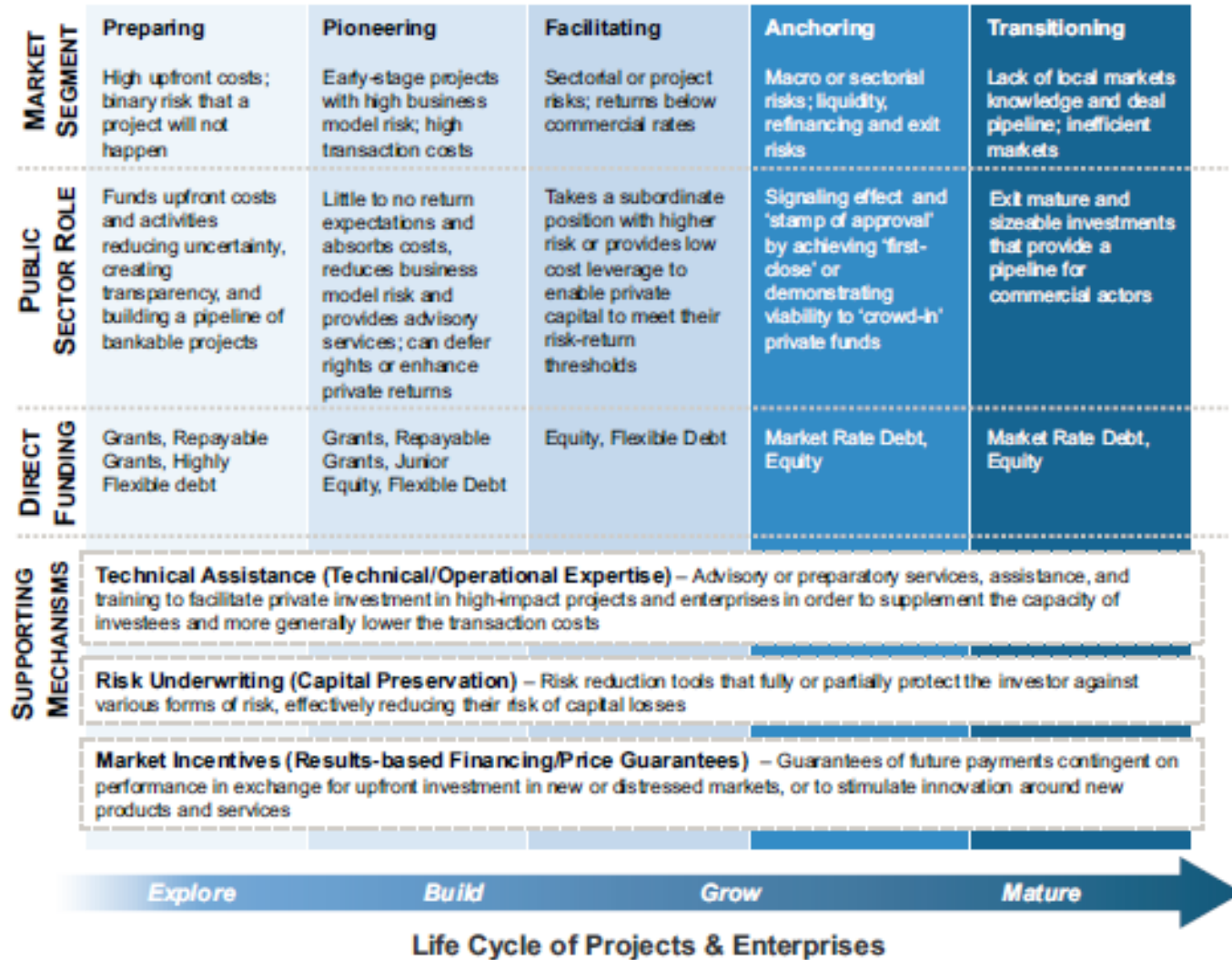
Public investors can also apply mechanisms that enhance returns for the private sector, including:

- **Absorbing transaction and project preparation costs**
- **'Topping-up' returns by sharing or forgoing any returns to public capital**
- **Providing incentives for successful performance outcomes**
- **Providing low cost leverage**
- **Taking subordinate positions**
- **Extending or deferring term provisions**

RISK

RETURN

Blended Finance – Opportunities



Blended Finance – is it for SDC?

Potential Avenues for SDC to engage in Blended Finance:

- Contribute to finance vehicle for social enterprises
- Finance innovation in products and services for the poor through innovation fund
- Leverage investments in financial institutions that serve the poor
- Expand finance instruments to include loans, guarantees, equity investments
- Contribute to policy discussion on global level via multilateral partners (WEF; OECD)

THANK YOU!

