Annex. Principles of blended finance

The OECD DAC blended finance principles for unlocking commercial finance for the SDGs:

Principle 1: Anchor blended finance use to a development rationale

- Use development finance in blended finance as a driver to maximize development outcomes and impact
- Define development objectives and expected results as the basis for deploying development finance
- Demonstrate a commitment to high quality

Principle 2: Design blended finance to increase the mobilization of commercial finance

- Ensure additionality for crowding in commercial finance
- Seek leverage based on context and conditions
- Deploy blended finance to address market failures, while minimizing the use of concessionality
- Focus on commercial sustainability

Principle 3: Tailor blended finance to the local context

- Support local development priorities
- Ensure the consistency of blended finance with the aim of local financial market development
- Use blended finance alongside efforts to promote a sound enabling environment

Principle 4: Focus on effective partnering for blended finance

- Enable each party to engage on the basis of its mandate and obligation, while respecting the other's mandate
- Allocate risks in a targeted, balanced and sustainable manner
- Aim for scalability

Principle 5: Monitor blended finance for transparency and results

- 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

Source: OECD, 2020

Enhanced blended concessional finance principles for DFI private sector operations:

- **Rationale for using blended concessional finance:** DFI support for the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector. Blended concessional finance should address market failures.

- **Crowding-in and minimum concessionality:** DFI support for the private sector should, to the extent possible, contribute to catalysing market development and the mobilization of private sector resources and minimize the use of concessional resources.

- **Commercial sustainability:** DFI support for the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must contribute towards the commercial viability of clients. The level of concessionality in a sector should be revisited over time.

- **Reinforcing markets:** DFI support for the private sector should be structured to effectively and efficiently address market failures and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.

- **Promoting high standards:** DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in the areas of corporate governance, environmental impact, social inclusion, transparency, integrity and disclosure.

Source: DFI Working Group on Blended Concessional Finance for Private Sector Projects, 2023