OECD DAC BLENDED FINANCE PRINCIPLE 5 GUIDANCE

Revised Note following public consultation

BETTER POLICIES FOR BETTER LIVES

OECD DAC Blended Finance Principle 5: Monitor blended finance for transparency and results

Guidance Note and Detailed Background Guidance

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Background and Process

In 2017, members of the Development Assistance Committee have officially adopted the OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs. Therein, Principle 5 relates to monitoring blended finance for transparency and results.

This document presents the Guidance Note on Principle 5 along with the Detailed Background Guidance. This document was developed by an OECD team including Irene Basile, Valentina Bellesi, Priscilla Boiardi, Weronika Garbacz and Esme Stout. This Guidance Note benefited from the Senior Strategic Review of Nancy Lee, Senior Policy Fellow at the Center for Global Development and Christian Novak, Professor of Practice at McGill University - Institute for the Study of International Development.

This Guidance Note was developed through a participatory process and has benefited from comprehensive feedback from DAC Blended Finance Actors, MDBs/DFIs, private sector entities, philanthropy and civil society representatives during a physical workshop on 30 January 2020 during the OECD Private Finance for Sustainable Development Days, a virtual workshop on 27 May 2020, as well as bilateral and small-group discussions and interviews. A public online consultation process was also conducted to reflect the experience of the broad development finance community, experts, practitioners, civil society organisations (CSOs) and other relevant stakeholders. The online consultation on the Guidance Notes lasted from 15 April until 10 July 2020. This document reflects the comments and feedback received during the consultation process.

As blended finance is still a relatively new tool in the development co-operation toolkit and as the blended finance environment is rapidly changing, new practices and approaches can develop quickly. The Detailed Guidance Note will thus be updated accordingly in the future. It should be noted that the guide should not be seen as a replacement for effective due diligence, although it should assist in ensuring key elements are identified.

Guidance Note on Principle 5

1. Introduction

1.1. Policy guidance and background

1. The OECD DAC Blended Finance Principles provide good practice in designing and implementing blended finance approaches. The five principles for blended finance each target a specific area of blended finance relevant to DAC members:

- Principle 1: Anchor blended finance use to a development rationale
- Principle 2: Design blended finance to increase the mobilisation of commercial finance
- Principle 3: Tailor blended finance to local context
- Principle 4: Focus on effective partnering for blended finance
- Principle 5: Monitor blended finance for transparency and results

2. **The OECD DAC Blended Finance Principle 5 pertains to the monitoring of blended finance for transparency and results.** Certain policy implications of Principle 5 have in part already been explored in a OECD Development Co-operation working paper on blended finance evaluation (Winckler Andersen et al., 2019[1]).

3. **Transparency should not be seen as an end goal in itself, but rather an enabler of accountability, learning and trust.**

4. **Increased transparency can lead to strengthened** trust among blended finance players, which include a wide variety of stakeholders, from the public and private sector, in both donor and partner countries, which might not be traditionally used to working together.

5. **Transparency also leads to stronger accountability towards stakeholders.** Accountability should be conceived both upstream, i.e. towards stakeholders (donor governments, finance providers, asset managers, etc.), and downstream, i.e. towards the local actors that the blended finance transaction, as a development cooperation tool, intends to serve. As blended finance often involves the use of scarce concessional resources, oftentimes managed by private actors, the bar on accountability requirements needs to remain high.

6. As blended finance is still a relatively young tool in the development co-operation landscape, **fostering learning and knowledge sharing** is key to assess when and how blended finance should be deployed.

2. Principle 5: Monitor blended finance for transparency and results

2.1. 5A Agree on performance and results metrics from the start

Adopting a theory of change for a blended finance mechanism as a whole

7. In order to ensure blended finance is used effectively as a development co-operation tool, the first step for donors, both logically and chronologically, is to agree from the outset on expected development objectives and results and how they will be achieved, with all stakeholders involved. Before entering a blended finance operation, all actors should clearly understand and articulate how the particular investment is expected to lead to outputs, outcomes, and eventually development impact. A more comprehensive application of a theory of change, particularly at outcome and impact level, would allow for identifying more transformative effects of blended finance.

8. Currently, financial intermediaries often fail to establish a clear theory of change that allows tracking of cause and effect between their investments and development objectives. Ideally, this would entail jointly identifying the causal links, mechanisms and assumptions at play.

9. The good practice of developing a theory of change along the different levels of results permeated through the practice of several financial intermediaries (Basile, Bellesi and Singh, 2020[2]). For instance, the theory of change developed by the Private Infrastructure Development Group (PIDG) clearly separates output and outcome indicators from the final intended impact (improved livelihoods) (PIDG, 2018[3]). Similarly, the theory of change adopted by Frontclear distinguishes outputs (strengthened bank staff), outcome (expanded market access for local counterparts) and impacts (improvements in real economy triggered by increased counterparty lending) (Frontclear, 2015[4]).

Reaching an initial agreement on reporting for development results, using a common set of key performance indicators

10. Fragmentation of reporting practices remains a challenge for both public authorities looking for comparability across financial intermediaries, as well as private actors who need to meet varying reporting requirements. At present, there is too much variation in the way that key concepts, such as additionality and impact are used, which renders comparison extremely difficult. Given the lack of common vocabulary among development finance actors, it is possible that while organisations managing blended finance operations claim to measure impact, they may sometimes conflate it with outcome or even output (Basile, Bellesi and Singh, 2020[2]).

11. Harmonisation becomes particularly important in the measurement of blended finance initiatives, compared to other development co-operation modalities, as blending involves a variety of entities with more diverse legal settings: public administration, development and commercial banks, pension funds, insurance companies, and local financial institutions. Agreement on performance metrics should adapt diverse corporate structures and incentives coexisting within the same framework. It would also serve to

mitigate the side effects (namely false competition and duplication) of each actor attempting to claim their own additionality, by looking at the blended finance operation as a whole (OECD and DANIDA, 2018[5]). Such harmonisation initiatives among blended finance actors already exist. For instance, in 2013, 25 international financial institutions agreed to work towards harmonising their development result indicators to reduce variations in data and the reporting burden on clients, and to facilitate learning, through the Harmonized Indicators for Private Sector Operations (HIPSO) initiative (HIPSO, 2020[6]). Another notable example is the Global Impact Investing Networking IRIS+ tool, which offers a catalogue of empirical metrics to monitor and measure impact. However, despite these attempts, widespread agreement on performance metrics has become urgent and crucial to avoid fragmentation and, potentially, poor data (IRIS+ System, 2020[7]).

12. Whenever possible, such common sets of indicators should be used. When, instead, own indicators are used, transparency needs to be ensured on the methodology applied to build such indicators. Own sets of indicators should also be built in a way that allows for comparability. In both cases, indicators need to be useful to measure progress towards the investment targets and, more broadly, to the SDGs.

Adopting a common monitoring and evaluation framework

13. Besides agreeing on what to measure in terms of development results (i.e. which indicators underlie which objectives), it is crucial for DAC members to be clear on how results will be measured, in terms of the data collection, quality control and assurance processes that need to be put in place by their financial intermediaries.

14. Evaluation plans should be thoroughly negotiated and agreed upon by all actors engaged in a blended finance operation, including financial intermediaries, such as DFIs and asset managers, as well as, whenever possible, with intended beneficiary groups. This includes defining roles and responsibilities for all actors for data collection, with due considerations for reporting burdens. In line with the Kampala Principles for Effective Private Sector Engagement in Development Co-operation, local actors should be part of both design and implementation efforts, as well as monitoring and evaluation of development interventions (GPEDC, 2019[8]).

2.2. 5B Track financial flows, commercial performance, and development results

Ensuring more financial transparency, while avoiding the pitfalls

15. In order to assess the effectiveness and efficiency of blended finance operations, the financial and development performance of all parties should be assessed against predefined and agreed upon metrics. This encapsulates not only financial flows and commercial returns, but also results achieved against development objectives. As blended finance involves public funding aimed at supporting sustainable development, there is a need to prioritise development on a par with financial results. Civil Society Organisations (CSOs) and other blended finance stakeholders, such as partner countries, have for a long time indicated the lack of transparency in blended finance operations and other private sector interventions. As outlined above, the transparency deficit owes in large part to the myriad legal and organisational obligations of actors involved in blended finance. It can also stem from the lack of capacity in some organisations to collect data and measure impact, as well as lack of dedicated budget to monitoring and evaluation. Insufficient oversight over blended finance initiatives may expose public sector funding to potential criticism. In September 2018 DAC members agreed to define methodologies for measuring the amounts mobilised from the private sector by official development finance interventions (DAC Working Party on Development Finance Statistics, 2018[9]). Still, DAC members need to ensure that these methods are embedded and transparency on measurement ensured in all blended financial

operations they support. Collectively, DAC members need to actively encourage all financial intermediaries, including the private sector arm of multilateral and bilateral DFIs, to adhere to this common transparency standard,.

16. Transparency also entails some risks, which should be properly acknowledged by all stakeholders and mitigated. A potential obstacle to enhancing transparency of blended finance transactions pertains to the claims of commercial confidentiality of information, especially by private actors. To some extent, this may be an unfounded argument, as real trade secrets are generally not inscribed in contractual agreements or financial flows (OECD and DANIDA, 2018[5]). The International Aid Transparency Initiative (IATI) standards, for instance, have made allowances for sensitive reporting situations including, inter alia, commercial information.

17. One way of ensuring transparency of results without compromising commercial confidentiality is to share data and information on the impact achieved by a certain project or investee, without disclosing commercially sensitive data, such as revenues or sales. In certain cases, development impact is so deeply rooted in the business model that sharing impact data might equal sharing confidential information. In such cases, aggregating and/or anonymising data can be a solution, although this should be seen more as an exception than a rule, and should be accompanied by a transparent explanation of the choice made. Although aggregating data can prove effective in protecting confidential information, measurement practices need to be harmonised to be able to aggregate in a meaningful way across projects or investees. Another option to protect confidential information is to exclude some or all details of an activity in order to protect those involved.

18. Best practice involving the tracking of development performance should distinguish between sources of information, including their provenance and any potential associated bias. For instance, too little development performance data is collected ex post or taking into account the voice of end beneficiaries. Moreover, it is important to reiterate the need for both qualitative and quantitative information, as diverse and complementary sources enable the emergence of more robust evidence base through triangulation.

2.3. 5C Dedicate appropriate resources for monitoring and evaluation

19. Adequate systems should be put in place to allow the monitoring and evaluation of the development interventions supported through blended finance.

20. Resource constraint as a bottleneck when it comes to transparency in blended finance operations was identified in the Tri Hita Kirana (THK) Transparency Working Group paper (THK Transparency Working Group, 2020[10]). Similarly, the Global Impact Investing Network's found that 25% of impact investors did not have the resources to hire wholly dedicated Impact Management and Measurement (IMM) staff (GIIN, 2017[6]). More recently, over 50% of the surveyed impact investors indicated that the supply of professionals with IMM skills is insufficient (Mudaliar et al., 2019[7]). Most importantly, only a small proportion of their IMM capacity is supported through donor funding (16%).

21. It is important to highlight that the allocation of development aid often comes with a provision to dedicate a percentage of the total budget to monitoring and evaluation. Similarly, DAC members could require a dedicated budget to be ring-fenced for monitoring and evaluation, when making a blended finance operation.

22. Increased clarity would be beneficial on the respective roles of (ex-ante) impact assessment, Economic, Social and Government (ESG) due diligence, monitoring and (ex-post) evaluations. Each of these functions fulfils a different role. DAC members can foster linkages between key market enablers that are responsible for ESG certifications, IMM and evaluation in order to promote mutual understanding and cross-fertilisation among these professions (Boiardi, 2020[11])

23. Due to resource constraints donors could consider applying differentiated approaches to the monitoring and evaluation of blended finance operations. This could entail establishing monitoring requirements for all blended finance transactions, as well as more robust and sophisticated evaluation requirements for operations geared towards larger transformative impact, or operations in high-risk environment, with high learning potential.

2.4. 5D Ensure public transparency and accountability on blended finance operations

Establishing the enabling conditions for transparency

24. Information on the implementation and results of blended finance activities should be made publicly available and easily accessible to relevant stakeholders, reflecting transparency standards applied to other forms of development finance in line with the Busan Principles of Effective Development Co-operation (OECD, 2011[11]). Besides accountability, external communication on blended finance performance is instrumental in mobilising further commercial capital, by improving the availability of market information and the quality of risk assessment for the efficient pricing of investments.

25. The international commitment to transparency is rooted in the Sustainable Development Goals (SDGs). The SDGs call for increasing transparency and improving access to information, and point out that not fulfilling these two demands would undermine development progress. While enshrined specifically in SDG 16, transparency is a cross-cutting issue across all SDGs (United Nations, 2015[12]). The commitment of G7 members towards the implementation of this particular principle is also enshrined in the Charlevoix Commitment on Innovative Financing for Development (G7, 2018[13]).

26. Furthermore, DAC members are bound to the body of principles and norms they have agreed upon and that should be equally incorporated in their blended finance operations, as they form an integral part of development co-operation policy. These include, for instance, the Busan Principles of Effective Development Co-operation (OECD, 2011[11]), the OECD Guiding Principles on Managing for Sustainable Development Results (OECD, 2019[14]), the Evaluation Criteria (OECD/DAC Network on Development Evaluation, 2019[15]), Evaluation Quality Standards (OECD DAC, 2010[16]). In particular, the OECD-DAC evaluation criteria - relevance, effectiveness, efficiency, impact and sustainability - are extensively used when evaluating projects and programmes in the development field, providing a common language and standard for judgement. The OECD DAC evaluation criteria have been recently revisited to better align with the 2030 Agenda, following an extensive process of stakeholder consultation (see Box 1 below).

Box 1. Better Criteria for Better Evaluation

OECD/DAC Network on Development Evaluation (EvalNET)'s Revised Evaluation Criteria: Definitions and Principles for Use

The DAC first laid out the evaluation criteria (relevance, effectiveness, efficiency, impact and sustainability) in the 1991 OECD DAC Principles for Evaluation of Development Assistance, and later defined the terms in the 2002 Glossary of Key Terms in Evaluation and Results Based Management. In 2019 the DAC approved an updated set of definitions and principles for each of the evaluation criteria:

- **Relevance:** *Is the intervention doing the right things?*
  Relevance is "the extent to which the intervention objectives and design respond to beneficiaries', global, country, and partner/institution needs, policies, and priorities, and continue to do so if circumstances change".

- **Coherence**: *How well does the intervention fit?*
  Coherence is "the compatibility of the intervention with other interventions in a country, sector or institution".

- **Effectiveness**: *Is the intervention achieving its objectives?*
  Effectiveness is "the extent to which the intervention achieved, or is expected to achieve, its objectives, and its results, including any differential results across groups".

- **Efficiency**: *Howe well are resources being used?*
  Efficiency is "the extent to which the intervention delivers, or is likely to deliver, results in an economic and timely way".

- **Impact**: *What difference does the intervention make?*
  Impact is "the extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects".

- **Sustainability**: *Will the benefits last?*
  Sustainability is "the extent to which the net benefits of the intervention continue, or are likely to continue".

Source: (OECD/DAC Network on Development Evaluation, 2019[15]), Better Criteria for Better Evaluation, https://www.oecd.org/dac/evaluation/revised-evaluation-criteria-dec-2019.pdf

27. Improving transparency can help build trust, strengthen the case for blended finance transactions, and reduce existing information asymmetries to encourage more private investment in developing countries.

28. The process of monitoring and evaluation of blended finance should be independent in its function from the decision-making, delivery and management processes. Impartiality contributes to the credibility of evaluation and the avoidance of bias in findings, analyses and conclusions. It also provides legitimacy to evaluation and reduces the potential for conflicts of interest.

Enabling policy learning through accumulation of evidence and lessons learnt from monitoring and evaluation

29. DAC members should apply the same standard to evaluations of blended finance operations as they do for more traditional development co-operation modalities. In particular, they should actively encourage financial intermediaries to apply such standards by ensuring the same rigour in terms of conducting evaluations and publishing their findings. DAC members should strive to share all evaluations performed by their bilateral DFIs and private financial intermediaries in the OECD DAC Evaluation Resource Centre (DEReC) (OECD, 2020[17]). An indirect and fragmented dissemination of evaluation findings and lessons learnt may hamper the credibility of the overall evaluation, especially when the underlying report is not fully disclosed.

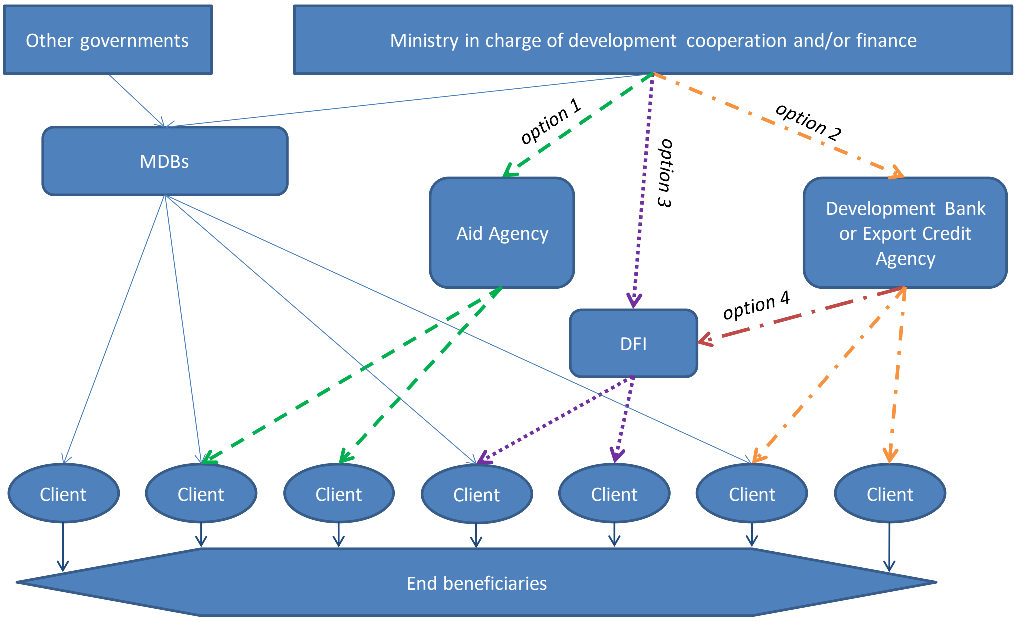
30. Blended finance is a relatively new approach in development co-operation and rapidly gaining attention among policy makers, in OECD and developing countries alike. Against this background, the production and dissemination of evidence is critical to understanding the relevance and effectiveness of blended finance.

Detailed Background Guidance

2. Implementation and accountability channels for blended finance

31. When deploying blended finance, donors can use different channels to crowd in finance from commercial sources. The delegation of blended finance to specialised intermediaries carries implications for the availability and quality of information provided on development results. As illustrated in Figure 2, DAC members can channel their funds through several actors. These include NGOs and philanthropic organizations, MDBs/DFIs, national development banks, government agencies and private sector intermediaries. These are each able to directly provide a financing instrument to the ultimate investee but can also make use of a third party financial intermediary for deploying financial resources. Alternatively, DAC members can also directly implement a project and provide a financing instrument thereby directly interacting with the ultimate investee. A donor may also set up a government facility replacing the distribution function of another financial intermediary or allocate financial resources to a private sector commercial financial intermediary directly without a step in between. The choice of channel depends on various factors, including the type and scale of development outcomes sought, the intermediary's expertise and track record, the type of financial instrument deployed, as well as context-specific drivers (target sector, geography, stage in the project cycle etc.).

Figure 1. Complex governance patterns affect monitoring and evaluation

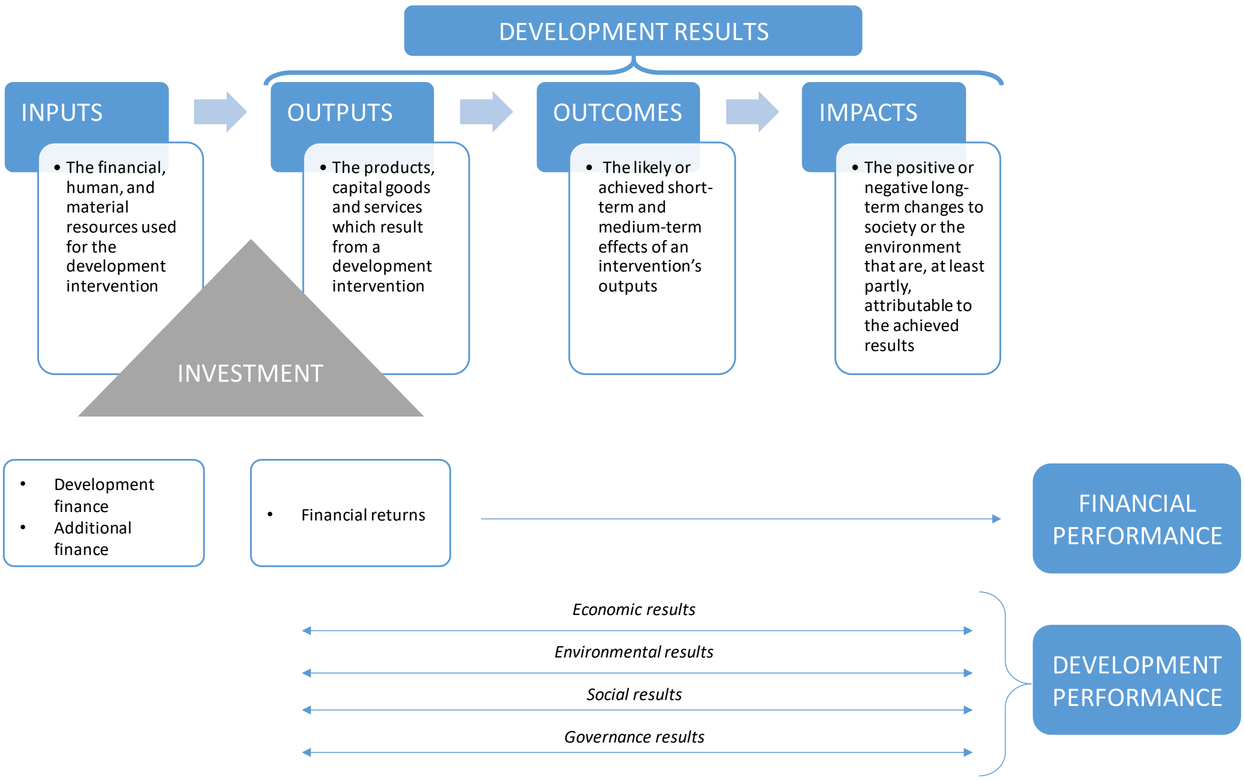


Source: (Winckler Andersen et al., 2019[1])

32. Typically, the robustness of monitoring and evaluation culture and practices increases when moving upwards along the accountability lines represented in Figure 2. As the blended finance delivery chain grows longer, it becomes more difficult for a government to exercise its steering and control functions over its private sector arm(s). Moreover, the diversity of players involved brings along wide heterogeneity in their learning and accountability culture. Institutional and organisational factors will deeply influence monitoring and evaluation practice, including in terms of language, capacity, and degree of independence.

33. The Glossary adopted by the OECD DAC EvalNet has permeated through the practice of several financial intermediaries, but has not been universally implemented (OECD, 2002[18]). The results chain is visualised below, where definitions are marginally adapted to the investment logic, rather than a generic development intervention. Many blended finance players do not subscribe to the definition of impact outlined by the OECD[1], thereby conflating outputs and outcomes with impact.[2]

Figure 2. Financial and development performance along the results chain



Source: Adapted from OECD (2002), OECD DAC Glossary of Key Terms in Evaluation and Results Based Management

[1] According to the revised evaluation criteria by the OECD/DAC Network on Development Evaluation, impact is defined as "the extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects". http://www.oecd.org/dac/evaluation/revised-evaluation-criteria-dec-2019.pdf

[2] Please note that, following the revision of the OECD DAC Evaluation criteria in 2019, a second edition of the Glossary is being produced and will serve as a useful reference point as it defines many terms used in the document – including intervention, results, output, outcome, and objective (OECD/DAC Network on Development Evaluation, 2019[15]).

3. Principle 5: Monitor blended finance for transparency and results

34. To ensure accountability on the appropriate use and value for money of development finance, blended finance operations should be monitored on the basis of clear results frameworks, measuring, reporting on and communicating on financial flows, commercial returns, as well as development results.

35. To facilitate practical use for DAC members and other blended finance actors, the guidance is structured around the four sub-principles, as follows:

- Agree on performance and results 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.

36. Through this Principle, DAC members hence strive to establish the necessary governance and feedback loop that will ultimately enable policy learning and public accountability of blended finance.

37. Achievement of the 2030 Agenda for Sustainable Development rests on a three-pillar approach: (i) **mobilisation** (i.e. leveraging additional financial resources for sustainable development through mechanisms to mitigate investment risks and encourage commercial finance providers), (ii) **alignment** (i.e. ensuring that finance is directed towards sustainable development) and (iii) **impact** (ensuring a positive, measurable effect on sustainable development). Broadly, blended finance falls under the first of these, as it involves mobilising private and commercial finance towards developing countries. However, with a decade left to achieve these global commitments, international attention is increasingly turning towards the impact of investments like blended finance initiatives.

3.1. 5A Agree on performance and results metrics from the start

3.1.1. Adopting a theory of change for the blended finance mechanism as a whole

38. Before entering a blended finance operation, DAC members should first and foremost assess whether blended finance is the most effective way to achieve a desired development impact. All actors should clearly understand and articulate how the particular investment is expected to lead to outputs, outcomes, and eventually development impact. This should include the measurement of impacts before (ex ante) investments are carried out, throughout the duration of the investment (ongoing) and evaluating (ex post) the outcomes of completed investments (Lemma, 2015[4]). Currently, where ex ante impact estimations exist, financial intermediaries often fail to establish a clear theory of change that allows tracking of cause and effect between their investments and development objectives. Ideally, this would entail jointly identifying the causal links, mechanisms and assumptions at play, particularly at outcome and impact levels.

39. Historically, DFIs have only tended to report and evaluate a relatively limited number of concrete development impacts. Typically, these can be categorised into the following: employment effects, government revenue impacts, consumer reach and environmental impact. International institutions such as AfDB, IFC, EIB and CDC tended to view employment creation as a priority objective and use it as a key indicator to measure development impact (Lemma, 2015[4]). Other important direct contributions include skills development, environmental and social outcomes, the provision of valuable goods and services, and tax revenues in developing countries.[3] However, there is now emerging evidence that DFIs can and should measure impact more broadly and across multiple dimensions, particularly on issues which pertain to the SDGs (cf. sub-principle 5D). For instance, gender-disaggregated impact results data should be made available.

40. Moreover, while some blended finance investments directly target poor households, individuals and businesses, others indirectly target poverty reduction, through their contribution to market creation or changes in the market in ways that benefit the poor. Many blended finance providers, both public and private, lack credible and practical means to identify whether poor beneficiaries profit (or suffer losses) from proposed and selected investments, and, if so, how much blended finance impacts poverty reduction and the aim to leave no one behind. To address this challenge, the Tri Hita Karana (THK) Impact Working Group developed practical guidance, through a checklist, for the assessment of the impact of blended finance on the poor. The checklist offers a set of questions and screening considerations for the *ex-ante* assessment of the expected impact on the poor, as well as what can and should be measured in *ex-post* assessment of the actual impact (see Box 2 below).

[3] https://www.edfi.eu/about-dfis/impact/

Box 2. A Checklist for assessing the impact of blended finance on the poor

The Tri Hita Karana Roadmap for Blended Finance Impact Working Group

Issue	Assessing benefits: ex ante	Measuring impact: ex post
Access	Will the poor have access to the benefits of the investment?	Characteristics of beneficiaries of the investment by: income level (<$1,000, >$1,000), sources of income, gender, education, urban/rural, family situation, business/farm size, etc.
	Will the investment deliver new access to goods and services that increase the well-being of the poor?	Numbers of poor newly accessing beneficial products like financial services, electricity, water, sanitation, appliances, health services, the internet, etc.
	Will the investment improve the quality of a product or service consumed by the poor?	Numbers of first time access to beneficial products like electricity or water for a defined amount of uninterrupted service or with a defined improvement in quality
	Will poor producers be given new access to value chains and markets that deliver greater revenue?	Numbers of poor producers newly selling in a formal market, an export market, a higher value market, at a higher unit price, etc.
	Will the investment help increase educational levels of the poor?	Number of poor newly accessing a school and number of poor having a higher school qualification
Affordability	Will the investment increase the affordability of key goods and services that raise the productivity and well-being of poor households?	Number of affordable products provided by the investment, such as housing or scholarships
	Will the investment increase the affordability of productive inputs used by poor producers?	Number of affordable key productive inputs used by farms or businesses owned by the poor
Income and wealth benefits	Will the investment create jobs that can be accessed by the poor? Will the jobs be directly or indirectly related to the investment?	New businesses accessed by the poor
	Will the jobs be in the formal sector?	Formal jobs for the poor supported
	Will the jobs increase labour income for the poor?	Increased labor income for the poor
	Will the jobs be secure and decrease seasonality?	Reduced job seasonality or insecurity for the poor and type of jobs supported (full time, part time, seasonal)
	Will the investment add value to assets held by the poor?	Change in value of assets (e.g., land, livestock, financial assets, inventories) held by the poor
	Will the investment generate higher revenues, sales, turnover, or profit for poor producers?	Increased revenue, sales, turnover, or profit for poor producers
	Will the investment reduce indebtedness of the poor?	Changes in poor household, business, and farm debt levels
Basic needs and vulnerabilities	Will the investment reduce food insecurity for the poor?	Food insecurity as measured by food consumption patterns for the poor
	Will the investment generate significant improvements in the health or human capital of poor beneficiaries?	Health indicators and skills indicators for poor beneficiaries
	Will the investment reduce the vulnerability of the poor to negative shocks (related to weather or climate change, natural disasters, health, macroeconomic instability)?	Access by the poor to financial services, including insurance, credit and savings products; Access by the poor to climate resilient production techniques; Shifts in production or consumption by the poor to reduce vulnerability to climate change or other shocks
Empowerment and capacity building	Will the investment help poor producers achieve greater market power and receive a larger share of the value in a given market (e.g., through a fair trade or organic certification)?	Share of production by the poor sold in certified markets; Share of production by the poor sold through formalized producer groups
	Will the investment help the poor establish a formal identity for access to financial and other services?	Access by the poor to digital and other formal identity verification
	Will the investment provide market information that strengthens the competitiveness or efficiency of the poor?	Access by the poor to information on market conditions, e.g., product prices, input costs, weather
	Will the investment help formalize economic activity	Indicators of formalization of jobs for poor beneficiaries

	in which the poor participate?	Indicators of formalization of businesses owned by the poor
	Will the investment strengthen the management or finances of producer groups for poor producers?	Indicators of producer group financial and governance performance
	Will the poor be included as decision-makers in investment design and implementation?	Defined and quantified roles for the poor in investment design and implementation
	Will the investment conform to international recognized standards that protect poor consumers or producers (e.g., ILO, UN, or IFC standards)?	Internationally recognized labor and social standards protecting poor producers or consumers under the investment
	Will the data privacy of poor clients of financial institutions or service providers be protected?	Standards for data privacy protection for poor beneficiaries
Market building and finance mobilisation	Will the investment introduce a new product or service or asset (e.g., savings product) previously unavailable to the poor?	Numbers of poor accessing new products, services, or assets Type of new products/ services tailored to the poor
	Will the investment introduce a new business model that better serves the poor?	Successful launch of a sustainable business model innovation with demonstrable benefits for the poor
	Will the investment likely affect the behavior of other market actors in ways that expand and strengthen the market outside the scope of the investment?	Adoption by other market actors of business models or technologies beneficial for the poor; Increased private investment by other market actors demonstrably linked to the investment; Increased sourcing from poor producers demonstrably linked to the investment; Changes in market product pricing beneficial to the poor demonstrably linked to the investment.
	Will the investment mobilise additional private finance for poor regions (such as urban slum areas, informal settlements or last-mile rural locations, etc.) within a country?	Indicators of increased private investment in poor regions that can be demonstrably linked to the investment
	Will the investment mobilize additional private finance for a low-income country?	Indicators of increased private investment in a low-income country that can be demonstrably linked to the investment

Note: Please find the alignment of the THK Checklist for assessing the impact of blended finance on the poor with the IRIS 5.1 Metrics here: (Tri Hita Karana Impact Working Group and IRIS, 2020[19]), https://www.convergence.finance/resource/130rL4Lfni0rq7dIhyVwZd/view

Source: (Tri Hita Karana Impact Working Group, 2020[20]), A Checklist for Assessing the Impact of Blended Finance on the Poor, https://www.convergence.finance/resource/2aJpvJCc7Q5SubVL1lhQhX/view

41. At present, the one modality in development finance which requires clear agreement on ex-ante development indicators linked to financial disbursement is pay-for-results mechanisms. Such mechanisms entail a process whereby the parties define the result up front, agree on the baseline, work out how confident the organisation is in delivering the result, and specify the expectation and payment in the contract (OECD, 2019[3]). The contractual element, which brings proportionality between verified results and release of funding, places so-called “impact bonds” at the extreme end of the scale in terms of prior agreement on performance metrics. They hence represent the ultimate example of how linkage between financial flows, expected outcomes and development objectives can be formalised.

42. Despite an increasing uptake of ex-ante methodologies to estimate expected development results by both DFIs and impact investors, there remains an acute lack of harmonisation and guidance on how to put these into practice. In 2013, 25 international financial institutions agreed to work towards harmonising their development result indicators to reduce variations in data and the reporting burden on clients, and to facilitate learning, through the Harmonized Indicators for Private Sector Operations (HIPSO) initiative (HIPSO, 2020[6]).Another notable example is the Global Impact Investing Networking IRIS+ tool, which offers a catalogue of empirical metrics to monitor and measure impact (IRIS+ System, 2020[7]). Despite these attempts, widespread agreement on performance metrics has become urgent and crucial to avoid fragmentation and, potentially, poor data quality.

43. Besides agreeing on what to measure (i.e. which indicators underlying which objectives), it is crucial for DAC members to understand how to do it in terms of data collection and assurance process to be put in place by their financial intermediaries. Private asset managers, like BlueOrchard, have defined tailored approaches to assessing and mitigating negative or enhancing positive social and environmental impacts across their investments. These proprietary tools may range from pre-investment ESG screening to adaptive impact management throughout the investment cycle. The pursuit of system-level objectives, such as financial market creation or private sector development, may require certain amount of statistical modelling to inform investment allocation. However, the process of impact measurement and management should also embrace qualitative data, as a way to capture complementary information that cannot otherwise be measured and to better contextualise the interpretation of quantitative figures (cf. more on sub-principle 5D).

44. Adopting a theory of change, without prejudice to the possibility of running a counterfactual, which is often perceived as the golden standard to determine whether reported outcomes would have occurred without the investment, attempts to mitigate this challenge. This is further strengthened by a robust understanding among DAC members of how the observed outcomes occurred, as indicated above.

Box 3. Impact measurement tools by bilateral and multilateral DFI

The most visible tools in this space have been conceived by multilateral and bilateral DFIs. For instance, the Anticipated Impact Measurement and Monitoring (AIMM) system, introduced in 2018, enables IFC to rate the expected development impact before investment decisions. In particular, the estimation of economy-wide, indirect and induced effects relies on value added and employment multipliers developed by the IFC Modelling team. In the future, AIMM is expected to incorporate end-to-end results measurement for real-time monitoring and ex-post evaluation.

The Transition Impact Monitoring System (TIMS) used at the EBRD links the objectives of individual investments with concrete and measurable benchmarks and specific timings.

The Private Infrastructure Development Group (PIDG) established an internal management tool for tracking the expected qualitative and quantitative impact of all projects in the pipeline, as well as the activities (discussions, visits, baselines, evaluations) undertaken by the PIDG Development Impact team for support and verification (PIDG, 2018[7]). This feeds into a publicly available database (data.pidg.org) that provides development impact information on all of the projects having reached financial close and beyond.

The German DEG's Development Effectiveness Rating system enables a mapping of the causal links from inputs to outputs and impacts. Another investment-screening tool, the CDC Development Impact Grid, scores investment based on two factors: the difficulty in investing in the proposed country and the propensity of investments in the relevant business sector to generate employment.

In parallel, considerable efforts by European DFIs to streamline their economic modelling of indirect impacts might lead to more uptake in the future. The Joint Impact Model launched by FMO, CDC Group and Proparco represents an important step towards aligning institutional approaches, while at the same time harmonising methodology, model and input data. Through input-output modelling, JIM estimates the expected indirect impacts on the local economy in terms of value added (salaries, taxes, profits), employment (job creation for women and for youth) and GHG emissions (CO_2 emissions). The initiative is particularly praiseworthy as the concerned DFIs have decided to make the tool publicly available for a wider group of users. By using the same data sources, the tool also offers some cross-institution comparability to inform investment decisions.

3.1.2. Reaching an initial agreement on reporting for development results

45. While monitoring and evaluation processes must, to some extent, be tailored to the corporate culture and specific investment priorities, fragmentation remains a problem for public authorities looking for comparability across financial intermediaries. At present, there is too much variation in the way that key concepts, such as additionality and impact are used, which renders comparison extremely difficult [reference]. Given the lack of common vocabulary among development finance actors, it is possible that while managing organisations claim to measure impact, they may be conflating it with outcome or even output (Basile, Bellesi and Singh, 2020[2]).

46. It is hence crucial that DAC members agree, at least on the policy level, on a common development impact framework. In as far as possible, this should be grounded on the already well-established commitments, building on the OECD DAC Glossary of Key Terms in Evaluation and Results Based Management (OECD, 2002[18]), the Guiding Principles on Managing for Sustainable Development Results (MfSDR) (OECD, 2019[14]), the Quality Standards for Development Evaluation (OECD DAC, 2010[16]) and the recently revised Evaluation Criteria (OECD/DAC Network on Development Evaluation, 2019[15]). In an effort to promote a shared understanding of blended finance and evaluation concepts and terms, the OECD DAC's Network on Development Evaluation (EvalNet), through its Working Group on Evaluating Blended Finance, is currently performing a systematic review of how definitions are used and the implications of these different understandings/definitions for programming and evaluation.

47. Without discussing the merits of different impact measurement and management approaches, it is important for DAC members to understand, from the start, what they offer in terms of:

- nature of the development results tracked (financial, economic, ESG);
- level of the results (outputs, outcomes or impacts);
- data sources (modelling or observed) and stakeholders involved (direct clients, final beneficiaries, etc.)
- quality control and assurance process.

48. Further to this, evaluation plans should be thoroughly negotiated and agreed upon by all actors engaged in a blended finance operation, including financial intermediaries, such as DFIs and asset managers, as well as, whenever possible, by intended beneficiary groups. To facilitate collaboration, EvalNet members share their evaluation plans on a regular basis. While multilateral DFIs are fully integrated to the Network's activities, bilateral DFIs are rarely represented in this process. According to the OECD 2018 Survey, only a few blended finance facilities systematically conduct evaluations before replenishment and for over half of the surveyed funds, evaluation needs to be explicitly requested by their investors (Basile, Bellesi and Singh, 2020[2]). While engaging in blended finance operations, DAC members should clearly spell out from the beginning, what are their expectations in terms of monitoring and evaluation by delegated financial intermediaries.

3.1.3. Value for money considerations

49. When establishing results indicators, DAC members should remain mindful of the burden this may imply. Cumbersome administrative demands from different donors might at least partially be mitigated by harmonisation efforts. The European Fund for Sustainable Development, for example, strives to provide a unique results-based framework, which will enable the aggregation of project, instrument and programme-level data. Another potential obstacle pertains to the aforementioned claims of commercial confidentiality. To some extent, this may be an unfounded argument, which public authorities should bear in mind, as real trade secrets are not inscribed in contractual agreements or financial flows (OECD and DANIDA, 2018[5]).The IATI standards, for instance, have made allowances for

sensitive reporting situations including, inter alia, commercial information. For instance, there is the option for partners to exclude some or all details of an activity in order to protect those involved (DFID, 2018[21]).

50. Due to resource constraints donors could consider setting up differentiated approaches to monitoring and evaluation of their blended finance operations. This could entail establishing basic requirements for all blended finance transactions, and more robust and sophisticated frameworks destined for those blended operations that are geared towards larger and more transformative impact. Such differentiation of approaches could allow for larger cost-efficiency.

51. When it comes to measuring value for money considerations, economic rate of return is a metrics that is often used to assess how a project's economic benefits compare to its costs. While this can be considered a useful approach in that it is a single metrics encompassing a cost-benefit analysis, including benefits concerning environmental, social and governance improvements (MCC, n.d.[22]). While it is in principle a convenient metrics allowing for comparability across institutions, the differences in methodologies and assumptions used by different organisations when calculating it hinder an effective use of the ERR to compare results.

3.2. 5B Track financial flows, commercial performance, and development results

3.2.1. Ensuring more financial transparency, while avoiding the pitfalls

52. On tracking financial flows, in 2018 DAC members agreed to define methodologies for measuring the amounts mobilised from the private sector by official development finance interventions (OECD, 2018[4]). The agreement outlines the reporting arrangements for the following five instruments: guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies and credit lines. Still, DAC members need to ensure that these methods are embedded in all blended financial operations they support. Collectively, DAC members should strive to ensure that financial intermediaries adhere to this common transparency standard, including by the private sector arm of multilateral and bilateral DFIs.

Box 4. TOSSD a new international statistical standard for the SDGs

The international community is working to develop a new international statistical standard, Total Official Support for Sustainable Development (TOSSD), in order to track resources invested to achieve the Sustainable Development Goals (SDGs). TOSSD aims to incentivise broader external finance for development as a complement to developing countries' own domestic resources. Official OECD statistics on private finance mobilised will become an integral part of TOSSD.

It is major international effort to complement ODA by increasing transparency and monitoring of important new trends that are shaping the international development finance landscape, including: i) the leveraging/catalytic effect of ODA, ii) the use of blended finance, and iii) the use of innovative risk mitigation instruments in development co-operation. A cross-border flow component will track resource flows and investments coming from a wide variety of bilateral and multilateral institutions, agencies, banks and investment facilities, as well as certain civil society organisations.

The new framework will facilitate greater transparency about the full array of officially-supported bilateral, multilateral and South-South finance for sustainable development. It responds to new financing imperatives implicit in the 2030 Agenda – the importance of mobilising SDG-supportive investments by the private sector, and of marshalling more resources to provide global public goods, investments and services to promote the enabling conditions for sustainable development and to address global challenges.

Source: (OECD, 2017[8])

53. Research mandated by the Swedish Expert Group for Aid Studies (EBA) highlights that it remains difficult to get a precise picture of multilateral spending on Private Sector Instruments (PSI) as the quality of reporting varies considerably among providers. The co-existence of two fundamentally different approaches to reporting PSI and other ODA spending seriously weakens the comparability of 2018 ODA statistics (Meeks, Gouett and Attridge, 2020[11]). The authors reiterate the need for organisations such as the OECD to spearhead better transparency and accountability practice among all blended finance actors.

54. Transparency of blended finance operations may also entail some risks, which should be properly acknowledged and mitigated. While recognising that there are legitimate needs to safeguard truly confidential business information, the presumption in blended finance transactions should be in favour of disclosure, with any exemptions defined narrowly and justified on a case-by-case basis by reference to foreseeable harm to a legitimate, recognised interest (UN OHCHR, 2019[11]). The benefits from disclosure of sensitive information to the market as a whole may outweigh the costs to individual entities, but only if all entities are subject to the same requirements (IFRS, 2019[10]).

55. Progress from DFIs in enhancing transparency on concessionality of blended finance operations should be highlighted. In particular, in October 2019, IFC agreed to include information on the level of concessionality (as a percentage of total project cost) of blended finance concessional finance projects in its public disclosure documents (see Box 5 below).

Box 5. IFC standards on disclosing concessionality

In addition to providing commercial financing, IFC uses concessional donor funds to crowd in private sector financing that would otherwise not be available to projects with high development impact. To ensure transparency and accountability of these operations, IFC established a disciplined approach to providing blended concessional finance, including disclosure requirements on concessionality (the level of concessionality provided as a percentage of total project cost). These requirements pertain to projects mandated by IFC after October 1, 2019. In order to ensure the usage of minimum concessionality there is an internal review process that provides checks and balances on concessional finance terms. Information on concessionality is made publicly available in IFC public disclosure document (the summary of investment information).

Source: (IFC, 2019[23]), What is Concessionality and How it is calculated, https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/solutions/products+and+services/blended-finance/5_what+is+concessionality+and+how+is+it+calculated

56. Over the long haul, it would be beneficial for the international development community to understand how blended finance initiatives can contribute to the achievement of the SDGs, and in what context. This can only happen if blended finance actors collectively accept to share both their successes and failures more openly, as these are inherent to the trial and error process of innovative financing mechanisms. Typically, DFIs and private investment managers establish corporate information and disclosure policies that apply to the institutions themselves, in parallel to information disclosure

requirements in their ESG safeguards at the project level. These are hence two separate, and partially independent, levels where transparency can be sought. DAC members should thus strive to facilitate the emergence of a safe space for the exchange and stocktaking of lessons learnt (cf. sub-principle 5D).

57. Despite the recent call from the Blended Finance Taskforce report to enhance, or multiply, leverage ratios (BSDC, 2018[1]), such approach might trigger unintended incentives in the realm of development cooperation. Perhaps one of the most obvious consequences is the risk of increased bias towards middle-income countries (where it may be easier to attract private co-investors) as opposed least developed ones, where evidently there is most need (Carter, 2018[24]). Similarly, the quest for financial leverage might push investment managers towards privileging larger companies, against start-ups or Small to Medium Enterprises (SMEs), which are typically perceived as more risky and have lower absorption capacity. These trends are already widely acknowledged in the literature (UNCDF, 2018[8]; Basile and Dutra, 2019[2]; Kenny et al., 2018[12]). DAC members must be aware that emphasising financial additionality (the ability to catalyse private investment that would not have occurred otherwise) may come at the expense of development additionality (the additional development results that would not have materialised without the investment).

3.2.2. Promoting better reporting on development results

58. The 2018 OECD Blended Finance Funds and Facilities Survey shows that, while impact indicators are widely adopted, in reality, too little development performance data is collected ex post or taking into account the voice of end beneficiaries. Direct investees are by far the most common source of development impact information: 81% of funds and 63% of facilities rely on declarations from their client companies or financial institutions (Basile, Bellesi and Singh, 2020[2]). Thus, most of the development results available on these pooled investment vehicles is too recent to pertain to actual impact, possibly biased by conflict of interest and lacking triangulation from multiple sources. A GPEDC study on private sector engagement in development co-operation has shown that only 12% of analysed projects had a results framework publicly available. Project-specific information on monitoring and evaluation provisions was also limited. While more than half of the projects referred to monitoring frameworks, 39% were in the form of general institutional monitoring frameworks that were not project specific, while 17% pointed to project-specific frameworks. Very few projects provided actual preliminary or final results (GPEDC, 2019[25]).

59. The Survey further underscores that many financial intermediaries assess and communicate on their impact rather loosely (Basile, Bellesi and Singh, 2020[2]). Many of the reported impact metrics pertain to purely operational concepts such as number of closed deals, leverage ratios, capital raised/unlocked/mobilised, and growth of investor wealth. Annual progress reports may generically refer to “lives impacted” without explaining what this means or how it was calculated. Another example of frequently used impact indicator is the number of training hours delivered, which doesn’t specify how many individuals benefited from them, what skills they actually acquired, nor their usefulness. Final beneficiaries surveyed by the GPEDC raised concerns around the favouring of the quantitative results in monitoring frameworks (GPEDC, 2019[25]). Evidently, there is a need for better guidance and direction on the integration of qualitative reporting alongside metrics.

60. The DFI’s enhanced principles on blended concessional finance in private sector projects refer to promoting high standards (principle 5) (DFI Working Group, 2018[5]). In practice, with regards to evaluation, this means that DFIs/MDBs apply the same standards to projects involving blended concessional finance as to other operations. To promote consistency among MDBs, the Evaluation Cooperation Group (ECG) defined ‘Good-Practice Standards for the Evaluation of Private Sector Investment Operations’ in 2001 and revised it four times since (ECG, 2006[4]). European DFIs have recently made significant steps forward in enhancing their collective reporting on both direct and indirect development results (EDFI, 2020[26]).

61. The discussion around the appropriate methodologies for blended finance evaluation is ongoing. This heterogeneity can, to some extent, be explained by differences in mandates and instruments of particular blended finance approaches. Typically, evaluation methodology will depend on the strategy of the blended finance investment. Specifically, whether it is intended to help create the market (i.e. system-level effects) or whether it has more specific development objectives, at portfolio or project level. Data and resource availability, as well as time constraints, will have a bearing on the feasibility of particular evaluation methodologies (such as counterfactual approaches). In the light of this, a more detailed assessment should be undertaken of the relevance of individual evaluation methods for specific blended finance instruments and interventions.

62. Altogether, best practice involving the tracking of development performance should distinguish between sources of information, including their provenance and any potential associated bias. Added to this, it is important to reiterate the need for both qualitative and quantitative information, as diverse and complementary sources enable the emergence of more robust evidence base through triangulation. More integrity should be sought when analysing development results at various levels in the results chain: input, activities, outputs, outcomes and impacts. Robust methods of data collection and calculation are paramount to support this, although it is only realistically achievable if a common framework of understanding emerges; this will prevent confusion in terminology and allow for genuine comparison. DAC members should thus promote deontological ethics for the feeding, calculation and communication of development results among financial intermediaries entrusted with development finance.

3.3. 5C Dedicate appropriate resources for monitoring and evaluation

3.3.1. Empowering the internal capacity for learning and accountability

63. Most blended finance actors lack internal capacity when it comes to monitoring and evaluation systems (Basile, Bellesi and Singh, 2020[2]). For instance, resource constraints as a bottleneck when it comes to transparency in blended finance operations was identified by the Tri Hita Kirana (THK) Working Group (THK Transparency Working Group, 2020[10]). Similarly, the Global Impact Investing Network's found that 25% of impact investors did not have the resources to hire wholly dedicated Impact Management and Measurement (IMM) staff (GIIN, 2017[6]). More recently, over 50% of the surveyed impact investors indicated that the supply of professionals with IMM skills is insufficient (Mudaliar et al., 2019[7]). Most importantly, only a small proportion of their IMM capacity is supported through donor funding (16%).

64. The OECD 2018 Blended Finance Funds and Facilities Survey found that most vehicles have identified a team or unit in charge of monitoring and evaluation as part of the line management structure (Basile, Bellesi and Singh, 2020[2]). However, this is not sufficient in view of fulfilling the DAC Principles for Evaluation of Development Assistance (1991), which stipulate that the process should be impartial and independent in its function from the decision-making, delivery and management process. Impartiality contributes to the credibility of evaluation and the avoidance of bias in findings, analyses and conclusions. Independence provides legitimacy to evaluation and reduces the potential for conflict of interest. The requirement for impartiality and independence exists at all stages of the evaluation process, including the planning of the evaluation programme, the formulation of the terms of reference and the selection and approval of evaluation teams.

65. It is important to highlight that the allocation of development assistance often comes with a provision to dedicate a percentage of the total budget to monitoring and evaluation. Similarly, DAC members could consider dedicating a ring-fenced amount to evaluation when making an investment for blending purposes. For instance, The Children's Investment Fund Foundation, reserves 5% of the programme budget to assess results down to the beneficiary level.

66. Enhancing clarity on the respective *roles* of (ex-ante) impact assessment, Economic, Social and Government (ESG) due diligence, monitoring and (ex-post) evaluations would be beneficial for all blended finance stakeholders. Each of these *roles* fulfils a different *function*, requires a different set of skills, therefore it may be advisable to ensure some degree of separation in organisational chart. Nonetheless, for smaller financial players, these roles are often merged and overlapping with investment responsibilities. DAC members could contribute to fostering linkages between key market enablers that are responsible for ESG certifications, IMM and evaluation in order to promote mutual understanding and cross-fertilisation among these fields.

3.3.2. Promoting collaboration as integral to the partnership

67. Better harmonisation of approaches to monitoring and evaluation could lead to a cost reduction, both for asset managers and client investees. One example in this direction it the Mutual Reliance Initiative (MRI), agreed between EIB, AFD and KfW, which allows the institutions to use each other's supervision and monitoring systems to reduce the administrative burden on partner countries (EIB, 2013[27]). Similarly, blended finance partners can envisage to engage in joint and collaborative evaluations, that offer opportunities for mutual capacity development and learning between the partners, for building participation and ownership, for sharing the burden of work, for increasing the legitimacy of findings and for reducing the overall transaction cost for investors and investees alike (OECD, 2006[11]).

3.4. 5D Ensure public transparency and accountability on blended finance operations

3.4.1. Establishing the enabling conditions for transparency

68. Supporters of the Tri Hita Karana(THK) Roadmap for Blended Finance have also acknowledged that better transparency and accountability will ensure that blended finance operations are brought in line with general standards for development financing (OECD, 2018[28]). Transparency of operations also facilitates the engagement of local actors and promotes ownership of the development projects by partner countries (see Detailed Guidance Note on Principle 3).

69. A case study developed by Publish What you Fund, the Federal Ministry of Budget, Finance and Planning of Nigeria, and the Central Bank of Nigeria recently published report of the THK Transparency Working Group also highlights the case for increased transparency of public information regarding DFI investments, including blended finance project, to support partner governments' stakeholders to forecast and plan their budgets accordingly (THK Transparency Working Group, 2020[10]) (see Box 6 below).

Box 6. How overlooking the transparency needs of host governments can result in weakened domestic capacity

Case study developed by Publish What You Fund, the Federal Ministry of Budget, Finance and Planning of Nigeria and the Central Bank of Nigeria, to inform the Tri Hita Karana (THK) Transparency Working Group report

The case study provides a case in point on how transparency of development finance flows in crucial for effectiveness of development policies. Due to insufficient data and unavailable public information regarding DFI investments in Nigeria, including blended finance projects, government stakeholders are not able to plan their budgets or undertake basic fiscal policy processes, such as accurately calculate their Balance of Payments. A lack of accuracy in these calculations can result in incorrect figures, distorting the country’s relative deficit/surplus position and therefore undermining efforts to develop appropriate fiscal policy measures to manage inflation, interest rates and exchange rates.

Transparency of data is a necessary pre-condition to allow government stakeholders to forecast and plan policies. Transparency should be a key consideration for providers, implementers and recipients of blended finance resources and a basic tenet of working in partnership.

Source: (THK Transparency Working Group, 2020[10]), Promoting Transparency in Blended Finance, https://www.convergence.finance/resource/4TdOQkT6IMnVvf9wqZFNV/view

70. Publish What You Fund’s 2018 Aid Transparency Index notes that while 27 of the 45 donors surveyed provided information on general objectives of development projects, the publication numbers drop significantly for indicators that can be used for detailed monitoring of projects and holding donors accountable. Only 13 organisations were found to provide results information for pre-project appraisals. Only eight consistently publish reviews and evaluations (Publish What You Fund, 2018[29])

71. Likewise, the 2018 OECD Blended Finance Funds and Facilities Survey emphasised that only one in four evaluation report is made publicly available (Basile, Bellesi and Singh, 2020[2]). The most common practice amongst Survey respondents is to share reports only with internal management or investors. While this is extremely useful to foster internal uptake of the evaluator’s conclusions, it does not contribute to augmenting public knowledge. Introducing a knowledge management system in the investment process as well as in organisational governance practices is of outmost importance in light of the evidence gap in the development impact of blended finance. For instance, at project level, project documents could include how learning from past projects’ assessments or evaluations are incorporated.

72. Reporting requirements and disclosure need to be clearly communicated and applied by stakeholders throughout the investment cycle. In the UK, contractual documents explain DFID’s transparency expectations. The accountable grant templates, for example, state that direct partners who receive funding from DFID should publish details of direct funding to International Aid Transparency Initiative (IATI) within 6 months of the start of the agreement (DFID, 2018[21]).

73. In blended finance operations, accountability should be understood both upstream towards donors and finance providers, as well as downstream, towards local actors and end beneficiaries. Furthermore, to the extent that public development finance is involved, accountability to the taxpayer is also required.

74. As an important accountability tool towards project stakeholders, donors should ensure that financial intermediaries engaged in blended finance operations establish relevant complaint mechanisms. Apart from facilitating transparency, such mechanisms allow for identifying problems that may arise in the implementation of a blended finance project at an early stage and quickly introducing corrective measures. As noted in a recent report by the International Trade Union Confederation (ITUC), such mechanisms should allow for accepting complaints made in local languages and should provide clear guidance for all stakeholders on how claims will be assessed (ITUC, 2018[30]).

75. Improving transparency can help build trust and strengthen the case for blended finance transactions, and reduce existing information asymmetries to encourage more private investment in developing countries. This, in turn, would have direct impact on risk assessments and expected transaction cost for prospective financiers. The availability and accuracy of data also plays an important role in ensuring a competitive playing field.

76. In this spirit, in November 2019 Publish What You Fund launched a new initiative aimed at collaborating with DFIs and other stakeholders to increase the transparency of DFIs and their private sector investments (Publish What You Fund, 2019[31]).

3.4.2. Enabling policy learning through the accumulation of evaluative evidence

77. Private asset managers often equate 'impact reporting' with evaluation despite difference between the two concepts (Basile, Bellesi and Singh, 2020[2]). Many blended finance vehicles integrate evaluation results as part of their external communication. This indirect and fragmented dissemination may hamper the credibility of the overall evaluation, especially when the underlying report is not fully disclosed.

78. As blended finance is a relatively new approach in development co-operation, the production and dissemination of evaluative evidence is critical to understanding its relevance and effectiveness. Recognition of the importance of evidence in blended finance operations is becoming increasingly widespread. For instance, the Rapid Evidence Assessment recently mandated by UK's DFID underlines that better understanding of DFIs investment will help inform policy decisions on the allocation and investment of ODA and other financial flows, suggesting a commitment to the compilation of evaluative evidence (Attridge et al., 2019[15]). Besides reporting to external stakeholders, and informing social and commercial performance management, evaluation of DFI portfolios can help prioritise the right strategies going forward. (Winckler Andersen et al., 2019[1]) go one step further, suggesting that "a systematic review of existing evidence with a focus on achieved results by various blended finance instruments would be an important contribution to the further discussions on the potential role and relevance of blended finance for the achievement of the SDGs."

79. This will only be possible if all blended finance actors progressively commit to building a public body of evidence, which implies not only performing more robust evaluations, but also sharing them more widely, to the benefit of all interested parties. DAC members should also seek to ensure that the same rigour in terms of evaluation standards and publication in applied by financial intermediaries. Finally, DAC members should strive to better share evaluations performed by their bilateral DFI and private financial intermediaries in the OECD DAC Evaluation Resource Centre (DeREC) (OECD, 2020[17]).

80. The EvalNet Working Group on Blended Finance Evaluation, co-ordinated by Denmark, Germany, Norway and the OECD Secretariat, is currently working to address some of these challenges. By end of 2020, this work aims to (i) establish a shared understanding of blended finance evaluation concepts and terms; (ii) explore how to evaluate development additionality and development impact; and (iii) develop a shared understanding of evaluation of different blended finance instruments, including unintended effects, such as market distortions.

3.5. Checklist to guide the implementation of the OECD DAC Blended Finance Principle 5

81. To assist DAC donors to implement recommendations laid out in the previous section in blended finance operations, a checklist is proposed in Figure below:

Figure 3. Checklist to implement Principle 5

5.A Agree on performance and result metrics from the start

- ✓ Adopt a theory of change for a blended finance mechanism as a whole
- ✓ Reach an initial agreement on reporting for results, using a common set of key performance indicators
- ✓ Adopt a common monitoring and evaluation framework

5.B Track financial flows, commercial performance, and development results

- ✓ Ensure more financial transparency, while avoiding the pitfalls
- ✓ Promote better reporting on development results, improving data collection and quality assurance processes

5.C Dedicate appropriate resources for monitoring and evaluation

- ✓ Empower the internal capacity for learning and accountability
- ✓ Promote collaboration as integral to the partnership
- ✓ Apply differentiated approaches to monitoring and evaluation

5.D Ensure public transparency and accountability on blended finance operations

- ✓ Establish the enabling conditions for transparency
- ✓ Enable policy learning through accumulation of evidence and lessons learnt from monitoring and evaluation

Source: Authors

Best practice examples

Box 7 below provides an example of best practice on measuring results about financial and development additionality of a blended finance facility.

Box 7. How UNCDF, a blending facility part of the UN Development Programme, measures results about financial and development additionality

The United Nations Capital Development Fund (UNCDF) is the UN's capital investment agency for the world's 48 least developed countries (LDCs). As a hybrid development and financing agency, it deploys capital grants, loans and guarantees to both public and private entities mainly targeting local markets in LDCs, where the needs are the greatest. With its unique capital mandate and financing instruments, UNCDF offers 'last-mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development (UNCDF, 2018[62]).

UNCDF's approach to measuring results attempts to capture both financial and development additionality through a formal theory of change and an Integrated Results and Resources Matrix (IRRM) that sets out a series of performance indicators, tracked on an annual basis (UNCDF, 2014[63]). To capture UNCDF's financial additionality, UNCDF regularly measures the additional finance that investees raise both as a result of UNDCF's support at the investment level as well as the additional 'catalytic' capital that arises from any follow-on finance that is indirectly mobilised by local actors as a result of the models and capacities originally supported by UNCDF. To measure its development additionality, UNCDF tracks a number of indicators that capture contributions to development results at both the investee level as well as at the policy or market system level.

In UNCDF's work in local development finance, financial additionality is measured inter alia by estimating the success of UNCDF-supported local governments in increasing their mobilisation of own resources. Development additionality is tracked through the number of local infrastructure projects completed by UNCDF. Catalytic impact is assessed by improvements in local governments' abilities to allocate, mobilise and invest their capital for investment. It is important to note that such interventions include both programmes designed to achieve scalable systemic impact, for example a new way of delivering climate finance at the local level, as well as individual stand-alone investments. The direct benefit of the investment may be limited, but its overall objective is the demonstration effect and associated policy and regulatory technical assistance towards the systemic impact. For each individual revenue-generating investment in its local development finance work, UNCDF operates a "dual key" investment committee which independently assesses financial and development outputs for each operation and ensures that a theory of change is in place against which to measure eventual impact.

Recognising the limitations inherent in any numbers-based measurement system, UNCDF's results are also validated and further explored via an independent Evaluation Unit, which makes use of theories of change at both the organisation and individual programme levels to design and conduct theory-based, mixed-method process and outcome evaluations examining questions of interest organised according to the UN/OECD criteria. Evaluators are tasked with validating the financial results that are reported by UNCDF investees, as well as exploring more deeply aspects of development additionality around improved capacity of partner organisations and the relevance and results of programmes and instruments at the beneficiary level. Evaluators also investigate UNCDF's contributions to market and system development using techniques such as contribution analysis and process tracing, taking care to recognise alternative drivers of change in what are by definition complex policy and market systems.

In doing so, UNCDF follows the relevant norms and standards for evaluation developed by the United Nations Evaluation Group as well as more specific guidance around measuring market development for the poor that has been developed by bodies such as the Consultative Group to Assist the Poor and the Donor Committee on Enterprise Development.

Source: Andrew Fyfe and Heewoong Kim, UNCDF, from (Basile, Bellesi and Singh, 2020[2])

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