The Blended Finance Roundtable
A FIT Report
Berwin, Leighton, Paisner – Blended Finance Conference

Convened with global development thought leaders and financiers to highlight MCC’s leading role within the Blended Finance arena and to broaden understanding of our work and impact.

Highlights

The Venue

Berwin Leighton Paisner, London
14 November 2017

Partners

BLP Law, Dalberg

Format

Interactive and action-oriented. Discussions focused on sharing experiences, lessons and best practices in using development resources to mobilize private capital flows into projects with development outcomes

Participants

Over 75 senior officials from the private sector, development institutions, and regional development banks along with global development thought leaders and financiers

Outcome

Actionable, informed strategies for unlocking capital flows at MCCC are underdevelopment
Dialogue lead to a better understanding of the needs of private capital by development partners
$2-3 Trillion SDG Funding Gap:
- 80% of this for infrastructure related to water, sanitation, transportation, power, public health and other much-needed public services.

Global Capital Flows:
- Only a fraction of worldwide assets from banks, pension funds, insurers, foundations and companies are invested in sectors with development impact.
- Despite emerging and frontier market contributions to global GDP, they receive only a fraction of global capital flows because of risk and market inefficiencies.

Mobilizing private capital towards development outcomes at scale requires a blended finance ecosystem with catalytic intermediaries and bankable projects.
Infrastructure investments are also impacted by market risks

Despite high returns and low default rates, investors still see emerging markets infrastructure as subject to downside risks.

**Macro Risk**
- Political
- Regulatory
- **Currency**: projects collect revenues in local currency but debt repayment is in foreign currency

**Commercial Risk**
- **Credit/Counterparty**: The risk of default from borrowers on debt repayments
- **Demand**: Risk around commercial viability and sales
- **Liquidity**: The inability to exit/sell an asset when desired

**Finance Risk**
- **Access to Capital**: Risk of not being able to secure financing

**Infrastructure Risk**
- **Construction/Operational**
- **Off-take**: being unable to secure long-term contractual commitment for purchase of a resource.
Session 1

Why are blended finance principles needed? Or Perspectives on Blended Finance Principles

**Moderator:** Alexander Sarac, BLP Partner, Projects, Energy & Infrastructure Finance

**Panelists:**
- Chris Clubb (*Convergence*)
- Paul Horrocks (*OECD*)
- Joyita Mukherjee (*IFC*)
- Colin Buckley (*CDC*)
- Kay Parplies (*European Commission*)
- Lisbet Peters (*d.Capital*)
- Peter Sullivan (*Citibank*)
- Scot Mackin (*Denham Capital*)

Session 2

How can blended finance be used to get deals to closure? An Analysis of Survey findings

**Moderators:** Michael Cupit (*E&Y*) and Christopher Edgerton Warburton (*Lions Head*)

Session 3

Has Blended Finance worked? Learning through Experience, Lessons and Best Practices

**Moderator:** Soren Andreasen (*EDFI*)

**Panelists:**
- Philippe Valahu (*Private Infrastructure Development Group*)
- Las Perera (*GuarantCo*)
- Ana Hajduka (*Africa GreenCo*)
- Isdert Boersma (*FMO*)
Attendees

Development Finance Institutions
International Development Agencies
Infrastructure Funds
Private Equity
Foundations
Industry Experts

Africa Trade Insurance Agency
Agence française de développement (AFD)
AIIM
Allianz Global Investors
AMEA Power
Arup
Atkins Acuity
Aviva Investors
Bechtel
CDC
Citi
Convergence Finance
Cross Boundary
D Captial
Dalberg
Deloitte
Denham Capital
Department for International Development
EDFI
European Commission
EY
FMO
Guarantco

IFC
JICA
Lion's Head Global Partners
McKinsey & Company
Mott Macdonald
MUFG
Nedbank
OECD
Overseas Private Investment Corporation
Palladium
Private Infrastructure Development Group
Royal BAM Group
SECO, Switzerland
SIDA
Standard Chartered Bank
StandardBank
Tanzania Development Bank
The Bank of Tokyo-Mitsubishi
USAID - Power Africa
Wilberforce Chambers
Alexander Dixon, Sr. Director and Jason Bauer, Director
Why Blended Finance

Global Sustainable Development annual funding gap:
- $2 T
- 3% GDP
- 14% annual savings
- 1.1% of capital market value

*Global Investment Gap by Sector*
- Power - $530 B
- Transport - $260 B
- Water & Sanitation - $260 B
- Agriculture - $260 B

*Blended finance* tools and instruments can be deployed to improve the risk-return profile of projects with development impact to attract commercial funding and close the investment funding gap.

Adapted from McKinsey
Blended Finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries.

**By the numbers...**
- 17: OECD DAC Members engaged in Blended Finance
- 16: Blended Finance facilities launched from 2000 – 2016
- 4: Historic average leverage ratio of blended finance transactions

**How it works...**
- **Financing Sources**
  - Commercial Capital
  - Public & Private
- **Financing Structures**
  - Development Capital
  - Public & Private
- **Use of Finance**
  - Investing in projects in sectors with development impact:
    - Power
    - Transport
    - Water and Sanitation
  - Concessional
  - Concessional / non-concessional

Adapted from OECD
<table>
<thead>
<tr>
<th>Principles</th>
<th>Alignment with MCC</th>
<th>MCC Tools and Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anchor Blended Finance use to a Development Rationale</td>
<td>MCC’s core mission: <em>Reducing poverty through economic growth</em></td>
<td>Blended Finance Instruments and Vehicles</td>
</tr>
</tbody>
</table>
| Design Blended Finance to Mobilize Commercial Finance | MCC Compacts:  
- Identifies constraints to growth  
- Target barriers to investment  
- Expands pipeline of bankable projects  
- Aligns private capital with development priorities | Innovation Grants and Grant Facilities  
Public Private Partnerships  
Viability Gap Financing  
Technical Assistance |
| Tailor Blended Finance to Local Context | MCC’s unique model *increases partner country capacity* and catalyzes results by *incentivizing good policies and reform* | Enabling Environment and Sector Reforms  
Investment Climate Reforms  
Utility Reform and Turnaround |
| Encourage Effective Partnering in Blended Finance | MCC provides a platform for mission aligned development partners to make investments at scale into vetted projects. | Innovation Grants and Grant Facilities  
Public Private Partnerships  
Viability Gap Financing |
| Monitor Blended Finance for Transparency and Impact | MCC monitors and tracks progress throughout compact lifetime | Quarterly Progress Reports  
Evaluations  
M&E Portfolio |
Blended Finance: By Design

MCC is uniquely positioned within the USG, finance sector and wider development community to play a more catalytic role in the strategic use of development finance to mobilize private capital flows to our partner countries and views MCC as a Builder, Catalyst and Dealmaker for blended finance transactions.

**Builders**

Strategically invest in public infrastructure with our partner country. Create enabling environments and improved investment climates through policy and institutional reforms. Support regulatory reforms necessary to unlock capital and strengthen local capital markets.

**Catalysts**

Provide strategic, financial and technical advisory to create pipelines of investable opportunities. Crowd in private capital to advance compact goals or test innovative solutions. Manage, Mitigate and Share risk associated with investing in new markets and sectors. Unlock investment and growth opportunities for U.S. companies in MCC’s partner countries.

**Deal Makers**

Provide strategic grant capital to crowd in commercial finance. Offer pathways to scale and capital to create markets for innovations and proven business models. Bring transactions and financially viable PPP projects to market that meet international standards.
MCC’s Blended Finance Portfolio Goals

- **Increase Leverage:** Make MCC resources and funding more strategic by increasing capital flows into investments that deliver development outcomes and ensure long-term sustainability of our work

- **Strengthen Impact:** Finding new sources of capital (domestic and international) for investment in public infrastructure and services is necessary to drive social, environmental and economic progress

- **Improve Investment Environments:** By addressing barriers to investment and improving market conditions, MCC’s blended finance approach helps align returns in development related investments with market expectations and perceived risks
# Blended finance tools

<table>
<thead>
<tr>
<th>MCC BF Tools</th>
<th>Market Risks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Political/Country</td>
<td>Currency</td>
<td>Credit</td>
</tr>
<tr>
<td>Guarantees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedging</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior/Sub Capital (VGF)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results Based Incentives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Market Risks

- Blended tools
- Macro
- Credit/Commercial
- Technical
- Finance
- Infra Specific

- Market Risks
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- Credit/Commercial
- Technical
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- Political/Country
- Currency
- Credit
- Liquidity
- Demand
- Construction
- Operations
- Access to Capital
- Pipeline
- Off-take
<table>
<thead>
<tr>
<th>Instrument</th>
<th>Description</th>
<th>Type</th>
<th>Risks Addressed</th>
<th>Use of MCC Funds</th>
</tr>
</thead>
</table>
| **Direct Investment or Viability Gap Finance** | Direct investment into a transaction, project or fund | Junior / Subordinated Capital | Credit, liquidity, construction, operation risks, access to capital | • Fund partner country's equity stake in project  
• Provide VGF to make project commercially viable |
| | | Loan Syndication | Political, liquidity, credit risks, access to capital | • Purchase of partial risk/credit guarantee  
• Letter of credit  
• Funding of reserve account. |
| **Results Based Finance** | Provides incentives to achieve desired result | Impact Bonds | Operation, output, construction risks | • Design and structuring fee of bond  
• VGF to make commercially viable  
• Purchase of partial risk/credit guarantee |
| **Grants** | Financial contribution with no expected repayment | Technical Assistance | Access to capital, operational risks | • Transaction advisory / feasibility studies  
• Technical assistance |
| | Grant Facilities | Lack of bankable pipeline | • Fund transaction advisory services and feasibility studies |
| **Hedging** | Contractual instruments to help manage risks | FX Hedge | Foreign exchange risk | • Pay premium to cover FX hedge |
Blended Finance Instruments and Vehicles

Deploying the right tools...

MCC Instruments

- Grow the financial base for development by mobilizing private finance

MCC Vehicles

- Unlock non-concessional finance within global markets to fund projects with development impact

To take advantage of unprecedented opportunity ...

An Abundance of Capital

- Over $200 trillion AUM

Demand for Diversified Portfolios

- Stable, long-term returns

Favorable Trends

- Strong growth and returns, record low interest and default rates

Mobilize Commercial Capital for Development

- A 1% portfolio allocation change closes the development funding gaps

Strong growth and returns, record low interest and default rates

A 1% portfolio allocation change closes the development funding gaps
The Drivers for Success

Operational Expertise

Build Blended Finance Portfolio

• Develop MCC Blended Finance Strategy
• Outline Framework and refine MCC's Blended Finance Toolkit – including blended finance instruments and vehicles
• Strategically engage other Blended Finance stakeholders (DFIs, European donors, foundations, banks, etc.) around MCC's work.
• Conduct Blended Finance training and skills development for FIT and IEPS division

Focus

Strengthen Practice

• Financial Ecosystem analysis and Productive Sector reviews
• Quantify constraints and identify where business strategies align with compact objectives
• Identify policy, institutional and regulatory reforms that catalyze private sector investment and market development.