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Determining performance of blended finance projects in emerging markets

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ABSTRACT:

Current trends show that the level of SDG-related financing and investing is far less than what is needed in emerging markets (EMs), and there is a growing concern about how to close this gap. The blended finance project is one of the possible solutions to fill the financing gaps for achieving SDGs in EMs. Although prior research has stressed the importance of blended finance projects for EMs, there is no prior understanding of what factors determine the performance of blended finance projects in EMs, especially in their preparation and implementation stages. Therefore, this thesis explores the factors determining blended finance projects' performance in EMs during the preparation and implementation stages of blended finance projects.

An induction-based qualitative research approach is used to analyse six interviews from four blended finance providers targeting the EMs. The research result is the Model of determinants that influence the performance of the blended finance projects in the preparation and implementation stage, including cross-cutting determinants. The findings indicate that determinants for the preparation and implementation phase influence each other. Cross-cutting determinants equally influence the performance at the preparation and implementation stages.

These findings help project managers to understand the factors that can enhance or reduce the performance of blended finance projects in EMs.

KEYWORDS: Emerging markets, Developing economies, Blended finance project, Determinant, Preparation stage of the blended finance project, Implementation stage of the blended finance project, Performance of the blended finance project

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Abbreviations

ADA: Austrian Development Agency

B2B: Business-to-Business

COP: Conference of the Parties

DA: development agency

DFI: development finance institution

DSIF: Danida Sustainable Infrastructure Finance

EM: emerging market

EMIIF: Emerging Market Impact Investment Fund

FDI: foreign direct investment

GDP: gross domestic product

GNI: gross national income

IFU: Investment Fund for Developing Countries

M4P: Making Markets Work for the Poor

MoU: Memorandum of Understanding

OECD: Organization for Economic Co-operation and Development

ODA: Official Development Assistance

PPP: Public-Private Partnership

SDG: Sustainable Development Goal

Sida: Swedish International Development Cooperation Agency

SII: Social Impact Investment

SME: small and medium enterprise

UN: United Nations

USAID: United States Agency for International Development

WEF: World Economic Forum

1 Introduction

This thesis explores the factors determining the performance of blended finance projects in EMs, both during the preparation and implementation stages of blended finance projects. The first chapter introduces the background of the study, the objective and the research question as well as delimitations. It further provides the definitions of key terms, a short review of prior key studies, and structure of the thesis.

1.1 Background of the study

Most of the world's nations already know that sustainable development of all regions and mutual cooperation is the key to the preservation of quality of life on Earth. In September 2015, UN member representatives confirmed this intention by adopting Sustainable Development Goals (SDGs) at the conference in New York (Martin, 2015). The UN envisioned the achievement of the 17 SDGs by all countries, be they poor or rich, by the end of 2030.

World Commission on Environment and Development report (1987, p. 24) defines sustainable development as *"Current generation meets the needs of the present without compromising the ability of future generations to meet their own needs."* The chairman of that commission was Gro Harlem Brundtland, and therefore definition of sustainable development is also known as Brundtland's definition of sustainable development.

Brundtland's concept of sustainability counts on new methods of effectively using the available resources to satisfy the needs of current generations (World Commission on Environment and Development, 1987, p. 25). Developing new ways of satisfying the current needs without harming future generations requires investments in projects that are well structured and aim at clearly defined development goals differently than ever before (Panayotou, 1998, p. 3).

The need for promoting sustainable development is regularly declared at various climate conferences and summits, where the intention to keep direction towards mutual sustainability and prosperity is widely supported. For example, the best-known climate

conference is the Conference of the Parties (COP). It is a *"supreme decision-making body"* (United Nations, 2023) for the climate change action established by the UN. The visible and significant commitments are made at the annual COP gatherings.

Financing the SDGs is a challenging task. Current resources devoted to the financing SDGs, mainly Official Development Assistance (ODA), are not sufficient (United Nations, 2022, p. 29). Governments of developed economies do not release enough money from their budgets to cooperate effectively with developing and emerging countries for attaining sustainability. Even the most developed states in the world have not yet reached all their sustainability commitments (United Nations, 2022, p. 29). Thus, they must plan and finance their internal operations as well as help developing and emerging countries in achieving sustainable development.

The intention to involve the private sector in financing sustainable development was there even before the release of the Agenda 2030. However, after the introduction of the SDGs, there was a concrete need for additional resources from the private sector and innovation in involving the new players in financing sustainable development. Targeting only a positive impact on the developing economy is enough for philanthropy, but the commercial sector must make a profit. There are several ways to attract commercial players for projects in developing and emerging countries. For example, blending is one of them. Blended finance has a high identified potential to leverage the missing resources. Several tools are designed to provide blended finance and communicate the blending projects, but the leverage ratio that the blended finance projects reach is low (Convergence, 2021, p. 47) .

Although prior research has stressed the importance of blended finance projects for emerging countries (Kindornay, 2016, p. 3; World Economic Forum & OECD, 2015, p. 4), there is no prior understanding of what factors determine the performance of blended finance projects in emerging countries, especially in their preparation and implementation stages. Therefore, there is need to comprehensively understand the factors that

determine the performance of blended finance projects in emerging countries, especially in their preparation and implementation stages. Such investigation can increase our knowledge of successfully managing the blended finance projects in emerging countries for sustainable development.

1.2 Research question and objectives of the study

The preceding discussion steers the course of the present thesis. The basic objective of this thesis is "T*o explore the factors determining the performance of blended finance projects during the preparation and implementation phases"*. Accordingly, the main research question is:

What factors determine the performance of blended finance projects during the preparation and implementation stages of the blended finance projects?

In order to answer the research question and to achieve the objective, following four sub-objectives are developed:

1) *To study the conceptualization, types, modern approaches, motivation, importance, and performance of the blended finance projects.*

2) *To increase understanding about the stages of blended finance projects.*

3) *To investigate the factors that explain the performance during the preparation and implementation stages of blended finance projects.*

4) *Empirically explore the determinants both during the preparation and implementation stages of blended finance projects that explain the performance of blended finance projects in emerging markets.*

1.3 Delimitations of the study

The thesis does not claim that the results provide a complete set of possible determinants that influence the performance of blended finance projects in EMs during the preparation and implementation phase. Every project has unique features that cannot

be captured and generalized. Also, the empirical research is limited to the number of interviews held and the willingness of potential interviewees to answer the questions.

Study concerns only the project performance, not the vitality of the project outcomes. Projects in developing countries that have a long-term impact on the country's development are crucial to achieving viability after the project ends. Well-performed preparation and following implementation is a solid base for the quality of the project's outcomes. However, it is not in the scope of this thesis to scrutinize the factors that influence the project's viability.
Further, this study focuses on the project performance during the preparation and implementation stages of blended finance projects instead of focusing on the impact of project on the country's performance. Furthermore, this study generally focuses on blended finance projects instead of focusing on any particular type of blended finance project. This decision is taken because there are too many types of blended finance projects, and new forms are emerging as well.
Currently (in 2023) exists no database that encompasses blended finance projects, additional resources that the projects leverage, or a database of donors. While the data are not internationally unified and available, measuring the impact of the blended finance projects and studying the concrete sets of successful projects and factors that influenced them is difficult. Understanding the project's performance in the preparation and implementation stage is demanding without the complete data.

1.4 Definition of the key terms

The key terms used in this thesis are defined below:

Emerging markets = there is no universal definition of EM (Duttagupta & Pazarbasioglu, 2021). Generally speaking, it is an economy in the process of economic development. It's GDP is rapidly expanding and also has a high labour productivity and national income (CFI Team, 2022).

Developing economies are usually used as a synonym for the EM. It is an economy, which is less developed (IGI Global, 2023). Many international organizations have own definition of the "developed" and "developing" economy/country/ market.
The definitions are based on economic metrics (The Investopedia team et al., 2022), however measurement and classification of the data in those metrics differ. For example, World Bank classifies the EMs according to GNI (WB Group, 2023), IMF also uses involvement to international trade and financial health of the economy (Duttagupta & Pazarbasioglu, 2021). The definitions are not universal and the distinguishing features of the terms "Emerging market" and "Developing economy" varies, so for the purposes of this thesis, these both terms are used as synonyms.

Blended finance projects are projects with financing strategy that should leverage additional finance from private or public sector, that were not initially designated for financing sustainable development (Pereira, 2017, p. 10). The financing mechanism motivates investors to put private money into the project. This type of financing is broadly used in EMs to support the development of the economy (OECD, 2023a).

Determinant means *"something that controls or affects what happens in a particular situation"(Cambridge Dictionary, 2023)*. Determinants of project success are decisive factors that have influence on the project's performance and quality of project´s outcomes. The determinant may influence the project in a positive and in a negative way as well.

The preparation stage of the blended finance project is an initial stage of project. It includes steps as identification of the problem / finding the project idea, formulation of the project documents, risk analysis, setting the project team and the team hierarchy. The concrete steps depends on the nature of the project and the required project results (*PMBOK Guide*, 2021, pp. 39, 222). For the blended finance project, in EMs specifically, this phase additionally includes for example definition of a suitable financing instrument for the concrete project and company (World Economic Forum & OECD, 2015, p. 12),

gathering the previous knowledge about the target territory or communication between the donor of development finance and the investor, who provides the private investment.

The implementation stage of the blended finance project is the phase when the project documentation is turned into practice. This stage involves realizing the steps planned in the preparation phase. The project activities are performed to produce outputs (products/services). This stage is finalized by creating the project's output (Author's definition).

Performance of the blended finance project: This term is understood for the purpose of this thesis in two dimensions.
The first is how the project activities are implemented. What stages and structure does the project have, and what is the scope of the project stages.
The second dimension shows the quality of the project's goals and objectives and ability to fulfil them. It involves measuring various aspects of the project's progress and success, such as the quality of the deliverables, adherence to the project schedule and budget, the project's profitability, and the stakeholders' satisfaction (Project Management Institute, 2021, p. 47). By measuring performance, project managers can get a clear picture of their project's performance and adjust as needed to keep it on track (Bonghez & Grigoroiu, 2013).

1.5 Previous studies

The determinants of performance in blended finance project has not been empirically studied. However, some studies highlight the importance and barriers in blended finance projects, and therefore are presented in below table 1.

Table 1. Previous studies on blended finance projects

Name of the study	Author	Focus	Methodology	Findings
Private sector engagement for sustainable development – Lessons From the DAC	Shannon Kindornay	Leveraging private capital for social prosperity.	Qualitative research. Induction of the practical experience	Donor has to bear risk; outcomes of blending must be measurable.
The International Finance Corporation's Blended Finance Operations	Alison Evans, José C. Carbajo, Stoyan Tenev	Ways of implementation of the blending projects.	Qualitative research. Induction of the best practices.	Need for better data about blending. Stresses the profitability factor.
Bridging funding gaps for climate and sustainable development: Pitfalls, progress, and potential of private finance	Robyn Clark, James Reed, Terry Sunderland	Determinants that prevent private investors from blending.	Systematic review method.	Description of some concrete obstacles that prevent use of blending.
A How-To Guide for Blended Finance	OECD WEF	Guide for the institutions how to deploy the blended finance effectively	Synthesis of empirical experience and opinion	Schemes for deploying and management of blended finance projects

1.5.1 Private sector engagement for sustainable development – Lessons From the DAC; *Shannon Kindornay (2016)*

The OEDC DAC report emphasizes the private sector's importance in development cooperation. In the foreword, the former secretary-general Angel Gurria stresses not only the importance of funding but also the holistic change of policies in developing countries and how the private sector influences them (Kindornay, 2016, p. 3).

Focus of the study

The paper maps the potential of blended finance, and also social impact investments, and foreign direct investments. It offers concrete examples of promoting sustainable growth in emerging economies (Kindornay, 2016, p. 55). It represents ways to support economic growth while at the same time being sustainable and good for the environment and society.

The report's scope includes an explanation of financing tools that may be used in developing countries – Foreign Direct Investment (FDIs), Blended Finance, Social Impact Investment (SII), Monitoring and measuring mobilized private funds, and Responsible business conduct.

Methodology

The report is based on the experience and recommendations of the OECD experts. It describes challenges and their solutions, provides guidance and best practices for FDIs, Blended finance, Monitoring and measuring private funds, SII, and Responsible business conduct. Each of the mechanisms has a separate chapter in the report.
The assembled expertise from OECD experts is in the report induced to the best practices and recommendations for the private sector engagement.

Findings

Governments should be prepared to bear the risk and encourage the private sector to invest in developing projects with higher risk. The expectations of leverage of private resources through public support must be realistic. The leverage ratio is measured as lower than 100% (in 2016). Stresses the importance of additionality in successful projects and how to measure it.

In the chapter about blended finance, the study emphasizes the potential of this type of development financing, describes the instruments, and offers recommendations on how to apply them. For example, it recommends standardization of impact measures to easily

qualify and quantify the results. Stresses analysis of the effectiveness of different instruments to get the best practices that can be applied in the future (Kindornay, 2016, p. 15).

1.5.2 The International Finance Corporation’s Blended Finance Operations; Alison Evans, José C. Carbajo, Stoyan Tenev (2020)

Focus of the study

The report examines the best ways how to implement blended finance. It includes principles of Development Finance Institutions (DFIs), presents recent (in 2020) successful cases of blended finance implementation, and maps older project results based on Project Performance Assessment Reports and evaluations of projects carried out in 2010 - 2016.

Methodology

The authors assembled experience, notes, and reports from the blended finance projects in developing countries financed by International Finance Corporation (IFC).
The report uses induction to transform findings from the cases into general points about the best use of blended finance in practice.

Findings

Currently, provided blended finance is not sufficient to attract new private investors. A strong business case and good information about the target market are necessary conditions for the project's success. The projects must be profitable to cause viable development and reach long-term development goals without relying on development financing.

1.5.3 Bridging funding gaps for climate and sustainable development: Pitfalls, progress, and potential of private finance; Robyn Clark, James Reed, Terry Sunderland (2018)

Focus of the study

The review uses professional literature to describe basic financing mechanisms for sustainable development. The research also focuses on explaining obstacles that prevent private sector resources from sustainable development projects.

The paper considers opportunities and threats for potential investors to climate and environmentally friendly projects (Clark et al., 2018, p. 336). Additionally, the authors of the report want to introduce best practices and recommendations on this problem based on the research to overcome hurdles for private sector engagement and so increase the performance of blended finance projects (Clark et al., 2018, p. 344).

Methodology

The authors used a systematic review methodology. They have sifted around 17 000 documents – peer reviews and grey literature about environmental and development issues (Clark et al., 2018, p. 336). The literature examination followed the population-intervention-comparator-outcome structure (Reed et al., 2015).

To deepen knowledge and find new literature resources the author of the study used snowballing method and screening of lists of references of related relevant articles (Clark et al., 2018, p. 337).

Findings

World leaders have a clear awareness of the importance of the private sector's participation in sustainable development. However, there is a number of barriers to deeper and more efficient private sector involvement. The review describes four of them: The information gap, "Short-termism", the Undervaluation of natural capital, and the Overvaluation of voluntary commitments (Clark et al., 2018, p. 340).

The information gap results in the lack of transparency over the private finance invested in sustainable development. There is no universal way to report the investments, no unified and worldwide accepted terminology. Universal measures and databases would help to solve the problem (Clark et al., 2018, p. 337). The information gap leads to inappropriate investment decisions (Clark et al., 2018, p. 339). Another barrier, called short termism, means preferring the private sector's short-term and long-term (Clark et al., 2018, p. 339). It is a typical feature of the private sector, and it needs a complete mind shift to change it. Another resounding hit requires conservation investment. Preserving natural resources instead of exploiting them could be profitable for governments, citizens, and investors. However, only in the long run (Clark et al., 2018, p. 340).

The pipedream of efficiency of the voluntary commitments is also described as a hurdle for efficient private sector involvement. These commitments are helpful in stimulating binding engagements but not sufficient to make the actual change (Clark et al., 2018, p. 340). Business practices must be adjusted to unlock the private sector finance efficiently. Staying at the current (meaning the year 2018) track of doing business will make the private sector investments into sustainable development insufficient or even useless in the long run (Clark et al., 2018, p. 340).

The economists dealing with the "green economy" and climate change are confident about the amount of resources lacking for reaching SDGs, it is units of trillions of dollars annually. The resources are potentially available in the private sector. Nevertheless, there is a lack of concrete proofs that the potential is real (Clark et al., 2018, p. 341). Despite various liabilities for sustainable development and voluntary commitments it is impossible to reach the long-term sustainable development without profound policy and financing change (Clark et al., 2018, p. 344).

1.5.4 A How-To Guide for Blended Finance; World Economic Forum and OECD (2015)

Focus of the study

The report focuses on the practical implementation of blended finance processes in an organization. It provides the point of view from the concessional finance provider side of the blended finance project.

Methodology

The report synthesizes opinions and experiences collected from hundreds of individuals and organizations (World Economic Forum & OECD, 2015, p. 2).

Findings

The text offers practical advice and concrete schemes for blended finance projects. The study explains what mechanisms and types of funding should be deployed in the concrete phases of the project (World Economic Forum & OECD, 2015, p. 7).
Organizations that want to provide blended finance must be aware of the blended finance mechanisms and possible obstacles before starting the blended finance projects. The implementation process of the blended finance mechanism is concretely divided into chapters and schedules (World Economic Forum & OECD, 2015, p. 10). The implementation process includes, for example, instructions on how to set up the project goals (World Economic Forum & OECD, 2015, p. 13) or a way to approach the private sector with a business opportunity (World Economic Forum & OECD, 2015, p. 20).

The report concludes that the blended finance mechanism is essential to understand and implement carefully. However, every project is unique, and the organization that wants to manage blending projects must be sure of its capacities and possibilities to lead the projects to success (World Economic Forum & OECD, 2015, p. 22).

1.6 Structure of the thesis

Figure 1 Structure of the thesis (author's work)

The thesis is dived into six chapters. The first part introduces the topic, defines the objective and the research question, and delimits the study. Moreover, the key terms are explained, and previous studies are presented. The second chapter defines blended finance project, discusses types, motives, modern approaches, performance, and stages of blended finance projects. Finally, the chapter ends with a general framework of the study. In the third chapter the methodology used in this thesis is presented. This chapter covers the research strategy, and how data was collected. Fourth chapter analyses the interview data, and fifth chapter presents the findings of the study. The final chapter answers the main research question and presents the contributions and further research directions.

2 LITERATURE REVIEW

This chapter introduces the blended finance project as it is the main concept in this thesis. This chapter also goes over the types, motives, modern approaches, performance, and stages of blended finance projects. Finally, it presents the general framework of the study.

2.1 Defining blended finance project

Blended finance for development cooperation can be generally named as a mixture of concessional financing with commercial investments. The concessional finance has the origin in the official development assistance (ODA), philanthropy, or other concessional finance providers. The concessional financing should “leverage” additional resources from the commercial sector to finance sustainable development in developing countries(Pereira, 2017, p. 5). Whether the money is private or public (publicly owned funds, insurance companies, and others), it is important that it is additional. It means that the money was not initially intended to be invested in a developing country (OECD, 2018, p. 22). It is essential to pin up that the commercial investor invests for profit.

World Economic Forum (WEF) perceives blended finance as a way of using public development finance or philanthropic money to encourage commercial investments to aim at developing countries (World Economic Forum, 2015, p. 8). OECD defines blended finance as:

“The strategic use of development finance for the mobilization of additional finance towards sustainable development[1] in developing countries”.
(OECD DAC, 2020, p. 4)

A project can be defined as a temporary attempt designed to deliver a product or a service. The result of a project is unique so as is its structure. All projects share the same feature that they are interim, so they have the beginning, implementation, and the

closing phase (*PMBOK Guide*, 2021, p. 4). Project phases varies according to the nature of the project (*PMBOK Guide*, 2021, p. 42).

Investing in **projects in developing countries** brings particular risks for international investors. There are various obstacles that the investor does not usually have to face in developed states. For example, weak public institutions, insufficient law or possibility to enforce the law, inadequate infrastructure, lack of competencies among potential employees, and many others (GISD, 2023; OECD, 2018, p. 22). Tackling these obstacles brings costs and risks which the commercial sector is not ready to bear (Clark et al., 2018, p. 339).

Blending in development projects brings together donated or public money with commercial sector investments to reach global progress toward sustainable development and profit (Bank of America, 2020). Important donators of the public share of the money in blended finance projects in developing countries are Development Finance Institutions (DFIs) or Development Agencies (DAs) (Convergence, 2021, p. 34). National governments usually own these institutions and provide a buttress for the growth of the private sector in developing countries (OECD, 2022b). The DFIs provide a significant share of climate finance funds. In 2014, 33% of these financial flows were from various DFIs (Buchner et al., 2015, p. 3).

Under certain conditions market's risks and barriers for climate action may seem the same as for any commercial investment. So the investment intention does not have to be a decisive factor for an ordinary market-driven private company seeking the highest capital return (Druce et al., 2016, p. 41). With appropriate market incentives based on research and reliable information, private businesses may connect the highest financial effectiveness with sustainable development actions (Clark et al., 2018, p. 339). Blended finance instruments are one of the categories of such incentives.

After formulation of Agenda 2030 and Sustainable Development Goals (SDGs) the international commonwealth found out, that there is not enough public sources to finance the ambitious plans (OECD, 2022, p. 1)(OECD, 2018, p. 22). That led to widespread of discussions (Clark et al., 2018, p. 336) about leveraging the money from the private sector through a new financing instruments (Tew & Caio, 2016, p. 2). Agenda 2030 and SDGs represents one of the most significant globally accepted commitments to reach sustainable development and mitigate the climate change (Clark et al., 2018, p. 336). DFIs, DAs and other public institutions invest money to support SDGs for decades (Baldwin, 2022)(Convergence, 2021, p. 9), however reaching those goals requires much more than a new system of financing (OECD, 2018, p. 3). It needs total mind shift, to make the commercial sector realize, that investing in the sustainable development could be profitable in a long term (Hoek, 2018).

The blended finance projects are often wrongly replaced with the term Public-Private Partnership (PPP) or social impact investments or Foreign Direct Investments (FDIs). The PPP projects are commonly aimed on infrastructure development, while blended finance projects aim on almost any sector (Leger, 2019, pt. 17 s). In blended finance projects the origin of the concessional money is not important. It might come from government organization, philanthropic financing institution or even a private person. In case of PPPs the leading model is a partnership between state and a private sector (Pereira, 2017, p. 11). Additionally, the PPP does not necessarily use a concessional financing. Blending always gives some concessional conditions that mitigates the riskiness of a project in developing country (WB Group, 2022). The border between PPP and blending may act blurred. It can be said, that blended finance projects shares mechanism of PPP, but origin of the money or project's goals are not necessarily the same (Clark et al., 2018, p. 338).

Similar mechanism as blending is also Social Impact investment (SII). This kind of investment aims on social sector and businesses. The investor's intention is to generate positive social impact and profit at the same time (OECD, 2015, p. 59). However, blending

projects seeks the profit and the positive impact of the project does not have to be in the social sector only.

It is also necessary to differentiate blending from the FDIs. According to OECD, the FDI is an investment from an investor to a company abroad. The investor intents to get stable influence over the company, that means gain at least 10% of voting rights (OECD, 2023b). It has been the greatest source of investment in the developing countries in the last years (Kindornay, 2016, p. 8). Blending instruments does not aim to gain a particular share in existing company. The investment aims on establishing a business, no matter if it is greenfield or brownfield. And the part of blended investment is always concessional financing, despite the FDI.

2.2 Types, motives, and modern approaches of blended finance projects

2.2.1 Types of blended finance projects

Blended finance instruments are mostly applied when the project is bankable (Convergence, 2021, p. 9) so the project will make a profit in the future. However, it is not always a necessary condition. For example, Danish Investment Fund for Developing Countries (IFU, managed by Danida) supports only those projects, that would not be viable without the support (IFU, 2023).

During the past years the blending instruments have evolved, and there are several ways to deliver finance to blending projects (European Commision, 2015, p. 9; OECD, 2018, p. 25). The division of the blending instruments (or approaches or tools) in this thesis is inspired by the scheme of blending archetypes designed by Convergence (2021). Blending approches can be divided into four groups: Concessional debt and equity, Guarantees and risk insurance, and technical assistance (Convergence, 2021, p. 24), and investment grant. Under these categories, there are concrete instruments which are

designed and used by DFIs, philanthropic organizations or DAs worldwide. These blending tools or approaches are discussed below.

Concessional loan and equity

These blending instruments refer to the provision of borrowed money under favourable conditions, better than the commercial investor could gain on the market (OECD, 2003). Usual concessional conditions of the **loan** are lower interest rates and longer repayment period than is usual in commercial sector (WB Group, 2021; Pereira, 2017, p. 9). There may also come with other benefits, such as long grace periods and lower fees or charges (Segal, 2022).

Concessional lending is widely used on government-to-government level; however, this tool is applicable for the commercial sector as well. In case of concessional loan, the investor expects that the lended money are repaid. The conditions for receiving this type of credit enables the borrower to gain profit from the investment, despite the complications that may occur on the EM.

Concessional **equity** refers to a type of equity investment in which the investor agrees to provide capital to a company at below-market rates or with more favourable terms than what would be typically offered. In case of concessional equity, the investor gets share on capital in the company (WB Group, 2021). The concessional equity investors may offer other benefits to the company, such as patient capital, technical assistance, and access to networks and markets. Concessional debt is one of the most used blending tools (Convergence, 2021, p. 24; WB Group, 2021).

Combination of the debt and equity financing is called mezzanine. Mezzanine also delivers the money directly to the private sector subject (OECD DAC, 2020, p. 25). This blending instrument is provided as a loan to the company. Debt is transferred to equity in case that the loan cannot be paid (Druce et al., 2016, p. 27).

Overall, concessional debt, equity, or mezzanine are important ways to support the growth and sustainability of companies that have a positive impact on society or the environment, particularly in markets where access to capital may be limited. It can be an important tool in achieving social and environmental goals while generating financial returns for investors.

Guarantees and risk insurance

Guarantees and insurance help to reduce the riskiness of the operation and so improve the risk-profit ratio (Convergence, 2021, p. 9). The key advantage is that the guarantees reduce risk for the banks to provide a loan, that favours small and medium enterprises (SMEs) that would have problem to get loan for a significant investment in their portfolio (Garbacz et al., 2021, p. 25). A guarantee is defined as:

"An agreement that guarantees a debt will be repaid to a lender by another party if the borrower defaults. Essentially, a third party acting as a guarantor promises to assume responsibility for a debt should the borrower be unable to keep up on its payments to the creditor" (Kagan & Estevez, 2021)

A guarantee is provided to enhance loan quality (Platon et al., 2014, p. 3) and support the reliability of the borrower. Guarantee might be required as a condition to get the loan, especially in a country, where the company that plans to perform the project is not established. Typically the guarantee is required for a loan for big-scaled projects on power plants or transport infrastructure. In case that a DFI, state or other donor stand behind the project as a guarantor, it eases the process of the loan assignment (Kagan & Estevez, 2021).

An **insurance** blending instrument shares the similar purpose as a guarantee (Canada, 2016): to decrease riskiness of the project. Almost any part of project can be insured (supplier default, exchange rate volatility, natural disasters). The type of insurance and the part of the project that might be insured depends strongly on the nature of the project. Universally could be insured a loan that is used for the project financing. Insurance of a loan is usually closed at the same time as the debt contract, or even afterwards

(Canada, 2016). From the past few years, the share of provided insurance is declining. In 2020, the share insurance made 19% of provided blended finance, however in 2018 the share was 35% (Convergence, 2021, p. 24).

Technical assistance

Technical assistance shares features with the project preparation. It is a blending instrument suitable for technically complicated projects, to provide specific tailored services. It is appropriate for example for agricultural project (European Commision, 2015, p. 9). Technical assistance maintains capacities of project implementer and helps to manage operational costs (World Economic Forum & OECD, 2015, p. 4).

Investment grant

The grant supports the project by eliminating specific costs and so decrease overall project's expenses (Pereira, 2017, p. 12). This blending instrument is usually combined with others, like technical assistance or a loan. Grants are provided for various specific purposes: like to cover creation of feasibility study, interest rates or initial travel costs, testing doing business models at the new market etc. (World Economic Forum & OECD, 2015, p. 5). Money on the project preparation (feasibility studies, project documentation etc) is often granted without need to repay. This type of blending mechanism uncovers a hidden potential of projects proposals, that would not be even considered as feasible. However, there is a possibility, that after the profound preparation, the project will show up to be unrealistic. In this case the grant is especially beneficial for the company. The project was not materialised and gained no profit, but the company does not have to repay any loan.

2.2.2 Motivations

Motivations for providing blended finance for developing projects varies. The shared one is support of the developing country and its sustainable development. For example to maintain its infrastructure, decrease unemployment, provide required services and others. Although it does not have to be the main motivation.

Blended finance projects also support the companies, that perform the projects and provide a share of the project's budget. The project might be an entrance to the new market, where the company is established and make the profit. It is also a target of many states to provide finance for blending projects because it supports local businesses and so national economy, helps to fulfil international commitment to support of sustainable development, provides the ODA, and diversifies the portfolio of export partners of the state, so the economy and its exporters are more resilient against crises.

2.2.3 Modern approaches to blended finance projects

Current approach to blended finance is labelled as "Blending 1.0" by OECD. That means using blending instruments that make the project possible to be successfully implemented (OECD, 2018, p. 31). The future of blending should be in a shift to so called "Blending 2.0". The new approach aims on higher complexity of the blending, not only the instruments and financing mechanism, but it also has an ambition to rebuild the context of blending and make it to by highly efficient.

In comparison to Blending 1.0, the Blending 2.0 should involve the stakeholders and lead them to the mutual dialogue. The process must contain not only the donor and investor, but also the governments of the developing countries to find a solution on the state levels for example how to facilitate financing in local currencies and support the domestic financial system (OECD, 2018, p. 32). Blending 2.0 approach takes into account evaluations of the blending programs, systematically work with monitoring, and push the investors to rely less on the concessional finance and so motivate them to continue with the work even after the project ends. It means high development impact on the EMs (OECD, 2018, p. 32). The terms of Blending 1.0 and Blending 2.0 are drafted by OECD. These approaches do not provide a compulsory framework. Blending providers already use some of the OECD recommendations, but the blending standards, procedures and instruments are not widely harmonized.

World Bank Group assess a new system how to decide about financing of the projects. The concept is called “cascade approach”. It was adopted by the World Bank Group in 2017 to lead the attempts for the private investment leverage.

“When a project is presented ask – ‘Is there a sustainable private sector solution that limits public debt and contingent liabilities?’ If the answer is ‘Yes’- promote such private solutions. If the answer is ‘No’ - ask whether it is because of: (i) Policy or regulatory gaps or weakness? If so, provide WBG support for policy and regulatory reforms. (ii) Risks? If so, assess the risks and see whether WBG instruments can address them. If you conclude that the project requires public funding, pursue that option.”

This approach is used to divide the projects that are commercially viable, from those ones that requires full public development financing, and for recognizing cases where is needed policy adjustment to enable the private sector to profit from positive externalities (Cordella, 2018, p. 1). Blending financing is applied to the first option – the commercially viable projects in developing countries that needs financial incentive. World Bank Group policy aims on enabling the commercial investors to operate in a healthy business environment. Without risk of unsustainable financing and cumulative debts (WB Group). The model has a clear principle with mathematic figure that allows distinction of the projects based on quantitative data (Cordella, 2018, p. 3).

During Covid-19, it was estimated that the financing gap for SDGs rise for 70% in 2020 (from 2,5 trillion dollars to 4,2 trillion dollars) (OECD, 2020, p. 15). The pandemic meant higher expenses because of the restrictions and high hygienic requirements and new priorities for the developing countries, aimed on medical infrastructure. The urgent issues were covered by humanitarian aid. However, a progress in approach to the development cooperation was expected. FDIs and multilateral development banks (MDBs) had a strong motivation to increase amount of leveraged private capital (Bery & Apampa, 2022, pt. 3).

Another trend that brought the current unrest time (2021 – 2023) is inflation. The projects in developing countries supported by blended finance are becoming more

attractive (Bery & Apampa, 2022, pt. 5). Developing countries are distinguished for the high economy growth rate, higher investment risk and also higher possible profit rates, so the de-risking through blending might be more seek by private investors than in the times with the low inflation rate.

Inflation brings uncertainty to the currency markets (Lowry, 2022). A new tendency in providing blending is to address local institutional investors, not only those ones from the developed countries (Sangeré, 2021, p. 39). Local investors, who operate right on the EM, dispose of local currency and are familiar with the market (Sangeré, 2021, p. 37). It might be funds that invest on the domestic market and the DFI provides them a good business opportunity. The investment then brings the profit back to the local market and at the same time the economy is developed (Bery & Apampa, 2022, pt. 5). However, the institutional investors have a minor share on capital leveraged through the blending instruments (Sangeré, 2021, p. 38).

2.3 Performance of blended finance projects

Blended finance projects are important for fulfilling the financing gap needed to reach sustainable development (OECD, 2018, p. 41). Reaching the sustainable development, represented by SDG framework, remains to be optimistic because sources needed for reaching the goals already exist (Solheim, 2016, p. 69). The SDGs gap estimated at 2016 represents only "*3% of the world's GDP, 14% of global annual savings or 1.1% of the value of global capital markets*" (Tew & Caio, 2016, p. 8).

Every blending project is unmatched (World Economic Forum & OECD, 2015, p. 4). The projects have unique structures, phases, and measures for tracking and observing the quality or performance of project processes. The concessional finance provider and the implementer must perform well and comprehensively in the preparation phase. Quality preparation is a necessary condition for exemplary performance during the implementation. At the implementation stage, there are monitored and reported qualities of completion of project activities and outcomes. Constraints and boosts for the performance

of the process at these stages are various determinants, which among the developing countries seems to be similar in some cases (Kamrul, 2012, p. 80).

Overall project performance is defined by three performance dimensions: Time, Costs, and Scope (Sone, 2008, p. 2). The projects implemented in developing countries also have an essential performance dimension in delivering sustainable development impact. This attribute is necessary to combine with the ability to acquire profit. These are crucial measures for blended finance projects' performance.

The following outline of how the blended finance project might be performed helps to understand the functioning of the blending mechanism and the processes on concrete stages. The outline is designed for the purpose of this study. It is not intended to serve as a universal instruction on how to perform blended finance projects.

Identification

The blended finance project starts with finding a business opportunity. The business opportunity is gap in the market that the local economy cannot fulfil because of the low effectiveness of currently available resources or the solution for the identified opportunity is missing entirely in the market. The business opportunity that contributes to the sustainable development should be perceived as a way how to develop the private business from the very beginning. The initial stage should underline intention to maintain the sustainable development at the market where the business is performed (Solheim, 2016, p. 3).

Business opportunities identified in the EM are usually connected with infrastructure and crucial services, as water access, provision of medical services or critical infrastructure (Convergence, 2023). Concrete features of the business opportunity/project proposal and conditions for provision of the concessional finance sets the development finance institutions individually (Pereira, 2017, p. 19). For example Austrian Development Agency (ADA) requires among other conditions that the project stresses the core of the problem at the market and not only the syndrome and sifts the sustainability of the

intervention (ADA, 2015, p. 36). The Swedish International Development Cooperation Agency (Sida) requires from the private companies that cooperates with them adaptation to UN Global Compact and willingness to external observation. Sida has no one concrete strategy for private sector collaboration and still the involvement of the private sector is perceived as highly important for the Sida's development activities (Sida, 2021b). The opportunity might be identified by the donor/provider of the concessional financing, or the commercial sector subject (World Economic Forum & OECD, 2015, p. 20).

Preparation stage

The potential investees present the project proposal based on the business opportunity to the provider. The blended finance provider assesses the drafted proposal and decides if the project would be supported. For the project that is supported has each blending provider an intrinsic approach (World Economic Forum & OECD, 2015, p. 4). Every provider has a team of different sizes, uses various blending instruments, sets own standards, and possesses a different budget. As there is no universal definition of the EM, the blending providers also differentiate in the location of the countries where the projects might be identified and implemented. As the project is approved, the project plan and other documents needed for implementation are developed.

Implementation stage

At the implementation stage, project plan is performed that was initially made during the project's preparation. The implementation follows the project plan. The commercial implementer usually has an obligation to report the progress of the project activities to the investor/provider of the concessional finance. The concrete reporting obligations depends strongly on the nature of investment, blended finance mechanism that is used and the concrete investor's requirements and habits. Blended finance providers also may designate the blending managers to cooperate with the project managers from the commercial sector during the implementation.

The closing stage of the project

The final stage of the project depends on the blended finance instrument that was used for the project financing and requirements of the individual concessional finance provider. This phase may contain evaluation of the project outcomes. Evaluations are conducted also during the project implementation, evaluation performed at the closing stage does not have an influence on that particular project, but provide concrete experience for the future projects (Pereira, 2017, p. 39). In the end of the project, it is necessary to ensure sustainability of the project outcomes. The business should be established and produce positive outcomes and support the development of the market, even though the investor left the business in the end of the project (Kuuskoski, 2022). The investor should not support the business far too long. The private sector should be established and functioning independently or in cooperation with other private subjects. In case that the business is functioning and its sustainability is ensured, the investor should be also ready to exit and let the invisible hand of the market to act (Kuuskoski, 2022).

2.4 Preparation and implementation stage of blended finance project

The previous chapter briefly describes the basic framework of the blended finance project to provide a holistic picture of the practical functioning of the blending projects. This chapter studies only the preparation and implementation stages, the scheme is in Figure 2.

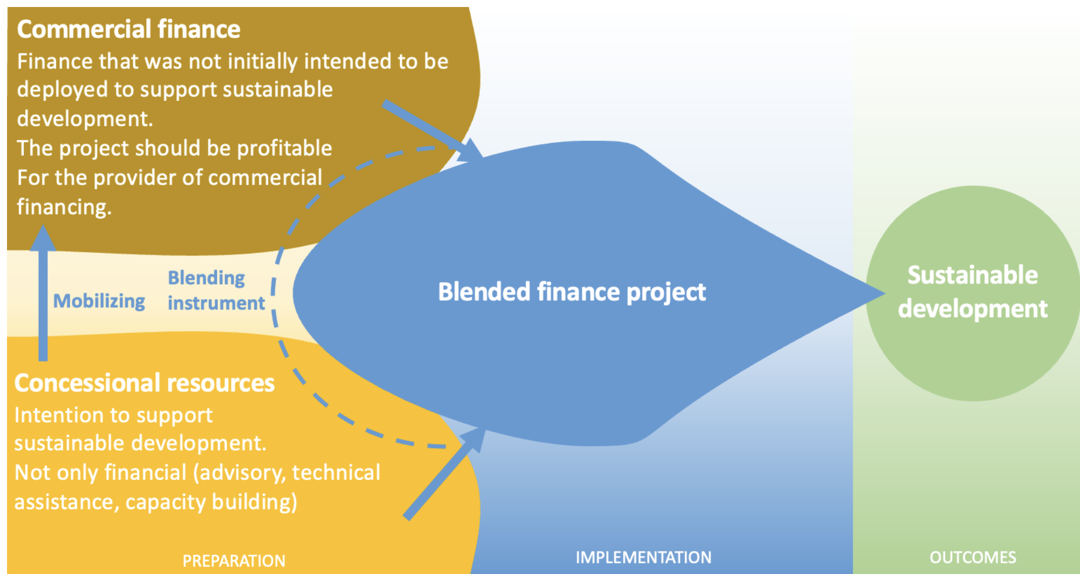

Figure 2. Preparation and implementation scheme (author's work)

These two stages might be expected for any project, even though the terminology used for these project's phases is not universal. What is described in this chapter as the scope of a project's phase might be named differently in various DFIs for different types of blending projects. It is also possible that various literature sources could perceive the scope of one of a single phase described below as two or more project phases. The following division is based on the author's understanding of the purport of the preparation and implementation stages of the blended finance project.

2.4.1 Preparation stage of blended finance project

At the preparation stage, project planning takes place – definition of inputs, goals and how the goals are reached. All project preparations are unique and there are variables that may influence the project planning, such as market conditions, organization's requirements, financing instrument or legal restrictions. As the project planning is so incongruous, it is hard to presume how long the preparation phase is (Project Management Institute, 2021, p. 53). Quality of the project planning has direct influence on the performance at the implementation stage and quality of the project outcomes. During the preparation phase, feasibility studies, concrete budgets and financial

structure are created, and policy or organizational advisory is provided (OECD, 2018, p. 84). Some of these steps can be made in cooperation between investor and the investee. However, individual investor could require some of the planning steps to be made by the potential investee as a condition for assessment of the project proposal. The investment decision is made at the beginning, during or in the end of the preparation phase. Below are examples of some of the investors/blended finance providers and their procedure of the project preparation.

Danida Sustainable Infrastructure Finance requires for the project proposals certain features as *"information about project background, total project investment with detailed budget, type of equipment to be delivered or organisational set-up"* (IFU, 2023). On the opposite, Czech Development Agency provides special grants for the project preparation that covers up to half of the expenses that enables the private sector subject to find the business partner and develop the project plan. The applicant for the grant on project preparation may get the subsidy for creation of the feasibility study or a business plan (Czech Development Agency, 2022, p. 3). Finnfund, the Finnish blending provider, requires the potential investee to develop own plan that is presented to the Finnfund's representatives. The three core criteria for each project proposal are profitability, responsibility and project's development impact (Finnfund, 2023b). During the preparation of the blended finance project, financing instrument used for the concrete project should also be decided (examples of the blending instruments could be found in chapter 2.2.1. of this thesis).

ADA works with the Making Markets Work for the Poor system (M4P) for market system development that eradicates poverty. The M4P supports inclusive development of the EMs and analyse them (ADA, 2015, p. 8). The preparation requires set of the strategical framework, analysis of the market system and afterwards definition of sustainable development outcomes (ADA, 2015, p. 11). When setting the strategic framework in programs M4P system describes the poverty reduction goals and the system how the goals work (ADA, 2015, p. 12). In analysis of the market system the M4P works not only with

symptoms of the market failure, but strives to understand the causes and treat with them (ADA, 2015, p. 12). When defining sustainable development outcomes, the M4P works with those systematic changes that are long-lasting and at this phase is also considered investor's exit strategy (ADA, 2015, p. 13). The complete scheme of M4P is to be find in the Annex 3. After setting of the strategical framework, market analysis and definition of outcomes follows the implementation of M4P program.

2.4.2 Implementation stage of blended finance project

As there exists no single way of how to perform preparation phase of the blended finance projects, the same feature shares the implementation stage. There are several financing instruments and blending providers. Each has its own specifics and conditions under which the finance is provided (Pereira, 2017, p. 9). The nature of blended finance and the fact that these projects are performed in developing countries gives the blended finance projects some universal specifics that are common for the blended finance projects. For example, monitoring and evaluations of the development outcomes during the project implementation have specific measures for the projects in developing countries. The DFIs or other blending providers require monitoring of the project implementation and evaluate how the project goals are fulfilled. Monitoring and evaluations during the project implementation helps to uncover defaults and divergences from the project goals (Pereira, 2017, p. 39). Metrics that are monitored are also specific. Implementation of blended finance project in developing countries needs to measure not only financial performance, but also development impact, fulfilment of development goals etc. (OECD, 2018, p. 139). To measure such features of project performance during the project implementation requires additional administration. Such requirements increase the project costs, need for human resources and so can be an obstacle for the private sector to get involved (Pereira, 2017, p. 21).

Throughout the implementation phase, the project team would need to remain flexible and adaptable, responding to changes in the local context. Adjusting the project design and implementation as necessary to ensure that it remains effective and sustainable

even after the project is finished (Kuuskoski, 2022). In following paragraphs are examples of implementations of concrete DFIs.

For example, Finnfund uses several financing instruments: equity, mezzanine, and debt. All projects are prepared and performed individually based on the investee's needs and the financing instrument. Finnfund provides concessional time frame for the project implementation, usual intervention lasts 5-7 years in case that Finnfund gets the share in a company. Concessional loans have maturity 5-10 years (Finnfund, 2022). During the implementation investee makes annual reports, the Finnfund representatives monitor the project performance and ongoing goals are evaluated. The graphic with the Finnfund´s complete investment process is to be found in the Annex 4.

Sida designs and implements the projects to influence in a positive way the value chains, business models, and overall market's functioning (Sida, 2021b). Sida's intention in implementation of the projects is to create business environment that would evolve the local market towards long term sustainability and job creation (Sida, 2022b).

Government of Australia uses blending instruments to maintain market in the regions surrounding Australia especially in the Indo-Pacific region (Australian Government, 2020). For the project implementation, Australia Government uses several channels – the Emerging Market Impact Investment Fund (EMIIF), Australia Climate Finance Partnership, Private Infrastructure Development Group, and Private Financing Advisory Network (Australian Government, 2020).

EMIIF fund supports small and medium enterprises. The fund functions as a fund of funds and does not provide the finance directly but through the financing intermediaries. The financing instruments used are equity, debt, guarantee and mezzanine finance. The direct support that the EMIIF provides is in form of technical assistance to the financial intermediaries and the SMEs as well (Australian Government, 2020). The EMIIF's scheme of financing approach is to be find in the Annex 5. When providing the financial resources

through the funds the projects implemented have to support inclusive developing environment and gender equality (EMIIF, 2022b). The direct non-financial technical assistance is provided via sharing the best practices, consultations aiming on the gender equality and impact management (EMIIF, 2022b). To receive the technical assistance, beneficiaries (SMEs and the financial intermediaries) must be stick on the requirements for the impact reporting (EMIIF, 2022a).

2.5 Framework of the study

The study is based on the literature review and empirical research findings. The literature review contains secondary data connected with the preparation and implementation of blended finance projects and the current blending trends. It provides an overview of blended finance projects in general, and some parts directly aimed on the preparation and implementation stage. The empirical research complements the theoretical findings. The Performance factors model is a combination of the literature notes and empirical experience presented by individuals in semi-structured interviews. The study is performed this way because the theoretical resources do not provide concrete determinants for blended finance projects' preparation and implementation phases. So, the determinants could not be based on the literature only and verified or denied in the empirical research afterward. There is a risk that a significant part of the determinants identified by the literature would be denied or not considered by the interviewees in the empirical research. For this reason, the findings are induced from the literature and the empirical research, and the performance factors model combines both – theoretical and empirical research.

3 Research methodology

In the following chapter, the research methodology applied to the study is discussed in detail.

3.1 Research strategy

Research strategy refers to the overall plan or approach employed to conduct a study and achieve research objectives. It outlines the systematic steps, methods, and techniques that researchers use to gather data, analyse it, and draw conclusions (Chetty, 2020). The thesis research is aimed at exploring the factors determining the performance of blended finance projects during the preparation and implementation phases. Due to prior very limited knowledge on subject matter of this thesis and exploratory nature of this study, this study adopts an induction based qualitative research strategy (Draper, 2004, p. 642).

Accordingly, secondary data available on main concepts of the study was done in literature review part. Based on the secondary data, template was created for conducting semi structured interviews (attached in the Annex 1). The interviews responses were analysed, and the summaries were structured to correspond to the aim of the study. Finally the determinants were detected with the method of induction.

The whole research process uses qualitative data analysis because it reflects need for understanding the context and processes. The qualitative data research is aimed at understanding the meaning of the literature and opinions of the interviewees (Graue & Palić, 2015, p. 6). For the purpose of this thesis, this approach is beneficial in the process of identification of the best possible determinants that influence the performance of the blended finance projects in the theoretical background that contains the literature review, and in empirical research conducted via semi-structure interviews.

3.2 Literature review

The literature review is qualitative analysis of relevant secondary academic resources, reports, documents, and policies concerning blended finance projects. The literature review is based on the resources from relevant international institutions which are devoted to research of blended finance data and use of the financing mechanism for sustainable development (OECD, Convergence, WEF). Further information from DFIs was used that deploy blending instruments for financing sustainable development. Some resources were researched in the lists of references of relevant academic articles.

The theoretical background was assembled to reflect the concentration on the preparation and implementation stage of the blended finance projects. The information from the concrete sources were categorized according to the relevance to the concrete stage. The structure of the literature review is designed to describe the issue of blended finance from the broad concept to the performance of the blended finance project and its preparation and implementation.

3.3 Interviewing process

The empirical research is based on interviews with employees, former employees, and representatives of DFIs that provide blended finance for sustainable development in developing countries. The research was conducted via semi-structured interviews. This form of interview allows the interviewers to set topics and express concrete interest in the prepared template (Barclay, 2018). The interviewees have an option to get familiar with the questions, assess their willingness to participate in the research and prepare for the interview. Loose structure of the interview allows both sides to explore topics and problems that are individual and couldn’t have been included in the template (Crabtree & Cohen, 2006). This method was helpful because all interviewees had experience with different projects. The form of semi-structured interview helped them to describe concrete performance measures and how do they perceive performance, provide their point of view on the concept of blended finance, and share their informal opinion on the

blending mechanism and enhancement of the processes based on their unique experience.

The interviews were aimed at the DFIs as blended finance providers, not at the investees. The reason for choosing the side of investor was, that the investees are concerned about the one project on which they gain financing support. Moreover the investees are not usually familiar with the policies, requirements, and procedures behind the investment process. The blended finance providers perform many projects at the same time, so that they may compare the experience from several different projects. Providers work with the policy and conditions under which the financing is provided and are aware of the theoretical background, such as ODA data, OECD policies, peer experience, and others. Some of the policies and studies are mentioned in the literature review. The description of each institution, where the interviewee works / worked is introduced in the Chapter 4. "Empirical research".

3.4 Performance determinants

In the fifth chapter, theoretical background and the empirical findings on performance determinants are presented. As mentioned above, induction method was used for exploring the determinants of performance in blended finance projects. This method is used to construct the general rules and explanations based on concrete notes and observations (Draper, 2004, p. 643). Induction was used, because the determinants are presumed to have a potential to influence all blended finance projects. The determinants are introduced in the Model of performance determinants. The model connects determinants of the preparation and implementation stage of the blended finance projects that influence project performance at each stage. The theoretically defined factors supported by empirical are directly connected processes at each stage.

4 Empirical research

The following chapter is based on interviews with current and former employees and representatives of the blended finance institutions. All interviewees have experience with blended finance project management, preparation, or implementation. The semi-structured interviews were conducted in person in Prague or online on the MS Teams platform. The template for the semi-structured interviews is attached in Annex 1 of this thesis. The interviewees were chosen according to their position in the organization. The organizations and individual were chosen according to the online research among DFIs. The criteria for the research were selected based on the available information about the interviewee regarding blending and theoretical background of this thesis (blending projects must be implemented in EMs, the DFI is involved in the preparation and implementation phase).

The interviewee expresses their own opinions and thoughts about the blending. The opinions and arguments expressed in the interviews do not necessarily reflect the official policy, statements, and opinions of the institution where the interviewee works or worked. The introduction of each institution serves as a context for a better understanding of the text.

The following section is divided according to the institutions where the interviewee works or worked. Such division is chosen by purpose. Dividing the interviews according to the topics discussed in the interview would potentially cause misunderstanding of the empirical research outcomes, even though some topics discussed in the interviews are similar. However, each interviewee has highly specific background, experience and the institutions use varying blending instruments. The answers are summaries and conclusions of the semi-structured interviews. The texts of summaries and conclusions are developed and written by the author of this thesis. All interviewees had an opportunity to read and adjust the texts before the thesis was published.

Some relevant persons approached refused to participate in the research, and some interviewees and institutions did not reply. In total, eleven subjects were contacted- institutions and concrete persons from Europe, North America, and Australia. Six

interviewees from four different institutions agreed to conduct the interview. All of them work or worked for an institution based in Europe. As some private persons interviewees want to stay anonymous, the author of this thesis respects their will.

Interviewing is essential method of the qualitative research, suitable for exploring novel information. The interviewees were contacted directly via their publicly available email address. When addresses on concrete people were not available, only the institution was contacted. Some institutions recommended appropriate interviewees after receiving the template for the semi-structured interview. Some subjects refused to be involved in the research and some did not reply.

The interviews were needed to profoundly investigate the knowledge of the interviewees about the blended finance projects. Even though some interviewees were not directly involved in both examined phases, they explained their opinions about processes and how they perceive the performance and possibilities for enhancement during the whole project. The interviewing method and unlimited time for the interview helped to get details about the performance and management of the process. The length of the interviews varied from forty to ninety minutes. None of the concrete projects could be mentioned directly in the text of this study. However the thesis does not aim on examining and generalising determinants from the concrete cases, but from the concrete processes. Some of the topics were repetitive (importance of the clear communication, vision, external factors that influence the performance) and easily generalizable.

The limit for the number of interviews was at least five, so the interviews results provide sufficient empirical experience and possibility to compare the interviewees opinion, find repeating topics and concrete cases that influence the project performance. It was necessary having the minimal number of interviews and endeavour to make as much as interviews possible to encompass diverse opinions and sights to be sure that the final results are complex and provide well founded base for creation of the reliable model of determinants that influence the performance of the blended finance projects.

4.1 Czech Development Agency

Czech Development Agency is an agency operated by the Czech Ministry for Foreign Affairs to mediate development cooperation of the Czech Republic. The Agency manages blending program B2B (Business-to-business). The program is devoted to private entrepreneurs and companies to support market development in developing countries. The B2B program uses grant as a blending instrument (MZVČR, 2021). The projects proposed for support from the B2B program should address solutions for SDGs in the target country (Czech Development Agency, 2023a). The target country could be any developing country classified by the OECD DAC (Czech Development Agency, 2023b). The B2B provides grant in two phases: (1) Preparation phase and (2) Implementation phase.[1]

The scope of (1) Preparation phase is (a) to create a feasibility study for a concrete problem or (b) creation of a business plan. The maximum coverage for the Preparation phase of the program is 50% of the project's costs. The absolute limit is 500 000,- CZK (approximately 21300,- EUR) (Czech Development Agency, 2023b). After finishing the preparation, the applicant should continue with business establishment, and may apply for the second B2B grant. There is no condition that the company involved in the B2B Preparation must be involved in the Implementation, even though it is desired to follow up.
(2) Implementation phase of the B2B program should result to establishment of the business at the EM. The condition for application in this phase is that the company has a local partner and developed business plan. It does not matter if the business plan was developed in the first phase of the B2B program, or individually by the company. The financial support allocated for the Implementation phase is maximum 4 000 000, - CZK (approximately 170 400 EUR) within 2 years. During the first year of implementation might be covered 40% of the projects costs, in the second year it is 30% (Czech Development Agency, 2023b).

1 Names accidentally similar to the terminology defined for the purpose of this thesis (Chapter 1.4.). However in case of the B2B program the Preparation phase and Implementation phase are names of the grant calls, not the definitions of stages of a coherent project.

The private subjects who apply for each phase of the B2B program can get additional advisory from the Czech Development Agency or Czech Embassies in the target countries (Czech Development Agency, 2023a). In the following, the information provided from two interviewees from Czech Development Agency is discussed below:

Interviewee 1: Jolana Dragounová - Manager of foreign development cooperation with the private sector

B2B program parameters

Czech Development Agency has been providing grants for private businesses for a long time, and the financial limit hasn't changed since 2018. The interviewee perceives the limitation in the financial burden of the B2B grants, which provide relatively small amounts (see above in the annotation for Chapter 4.1). Applicants are often private companies that cooperate with Czech Development Agency on another project, so they have experience with developing countries. However, the program does not attract a lot of other private players. The interviewee perceives the problem in the internal setting of the program and administration. The fundamental problem might be a lack of capacities. Only two employees maintain the whole Czech blending program.

The big downside is that the grants are tied to the state budget. Companies have relatively little time to apply for a project; application is only in a particular time frame once a year, and the submission period for the project proposals is two months. This linkage to the state budget makes the program less business friendly. The paperwork associated with disbursement is extensive and complicated, and the terms are tight because of the strict state budget. Some activities of the projects are performed in a rush, which harms the project outputs.

(1) Preparation phase

In the Preparation phase, the private companies are supposed to "try" working in the developing country. There is a possibility to get advisory support from the local

embassies. B2B managers usually mediate contact between embassy employees and private companies. Knowledge of the local market positively determines the project implementation. The company should be sufficiently experienced. For example, one of the successful projects was the implementation of a private company that produces IT devices in Kenya. The company already had experience from Gambia, and the preparation and implementation were smooth. However, it is not eliminating that the applicant has no experience in developing country or abroad. After all, B2B is supposed to help entrepreneurs enter foreign markets. Also depends on the complexity of the project. More complex means riskier and then it is better to have an experienced implementor.
The B2B program has evaluation criteria that decide if the project proposal is supported. The requirements are, for example, business development impact, overall development impact, applicant's qualifications, financial sustainability, and potential viability of the proposed project.

(2) Implementation phase

There is no terrain monitoring during the project implementation. For example, a company can write at mid-term that everything is fine, and in a month, they want to stop the project suddenly. Blending managers only see the project on paper but never on their own. They are unable to assess the development impact. Just because the project is administratively correct does not mean the implementer's outputs are right.

Blending with grants enhancement

It would be nice if the program had a vision that is followed through. Companies don't understand the message of the B2B program. The program is about market development, but some companies see it as a one-time export, not a long-term partnership. It is a pity that the purpose of the blending is not delivered. The private sector should know about the development agenda and the vision of developing countries through the private sector. If easier communication, administration, and better networking worked, it would make the preparation and implementation of the project more manageable. Not only

help companies by giving them money but also support them on how to work in those countries and do business there.

Interviewee 2: Jan Wikturna - Specialist in cooperation with the private sector

B2B program parameters

The entire B2B program is administered by two people. One is a permanent Czech Ministry of Foreign Affairs employee, and the other is an external employee. The interviewees job as the external was to administer the grants, prepare the program and its parameters, select projects, and monitor and control the private subjects involved. The scope is quite similar to the permanent employee. Blending has specificities compared to other development projects. Considering just the Czech Development Agency projects, the most significant difference is that there is limited control over the project. B2B project managers never have the opportunity to see the project physically. They must rely on local embassies or project managers from other programs for field monitoring.

There are no restrictions on what the typical scope of a project is. The program is designed for all OECD DAC developing countries and all sectors. Initially, the interviewee felt this was correct, and the freedom adds to the program's attractiveness and flexibility for the private companies. With more and more experience, the interviewee concluded that rules are important. There is a complete lack of Czech Development Agency involvement in formulating project documents or formal opportunities for consultation with firms. Programming is essential. Thinking simply along the lines of *"we will give companies money for anything, anywhere, anytime, as long as they support sustainable development"* is utopian.

B2B program phases

The current formal conditions for the success of the project are pretty simple:

(1) Preparation: The phase aims to find a local business partner.

(2) Implementation: A local business partner must have already been identified, and the company receives support to implement its project plan.

Unfortunately, there were ways around those basic rules. Very often, the private sector finds a partner for export/import. In terms of rules, everything was in order, but in terms of substance, private sector development was no longer fulfilled. Sometimes it happened that they even found a public sector partner instead of private one. The public sector has a position in blending. However, the B2B program is so vaguely formulated that the public sector had no defined role; hence, its involvement is primarily problematic.
The subsidies are linked to the state budget. Thus, all the processes had to be done within a calendar year: travel to the target country, find out information, implement, report, and get reimbursed. (1) Preparation only has this one-year cycle. The (2) Implementation has two annual cycles. The money is "guaranteed" to the company up front, but they still have to make financial statements, invoicing at the end of each calendar year during implementation. This means much paperwork that may not be necessary and is not very pleasant for a private company. Initially, there was an option to guarantee funding for three years, but as time passed, it was reduced by one year. This new rule has not worked in practice, but the system has not returned to how it was. The intention was to support many small projects and thus multiply the leverage effect. Unfortunately, it had the opposite effect. The interviewee believes supporting a smaller number of good-quality and well-developed projects would have been better for macroeconomic results. However, more finance allocated to the B2B program from the state budget will not solve the problem. Everybody always wants more funding for their department and program; this is true. However, more money does not automatically equal higher development impact.

Role model

Probably the best project, in the interviewee’s opinion, was implemented in India by a Czech company that deals with creating green walls, partitions, and dividing walls. This

company was able to get into the Indian market precisely according to the formal intention of the B2B program and open a branch there, which is still functioning and thriving today. As a joint venture with a local partner, this company has transferred Czech know-how, employed people, and is also dedicated to the continuous development of the local business environment. There was excellent communication with the company throughout the preparation and implementation of the project. These determinants are also critical.
Some projects had excellent ideas and vision, which is wonderful and necessary. Nevertheless, if a public institution provides the money, it is crucial that the administration, communication, and reporting are also good. Some companies develop the best vision, but if they also have the worst administration, the proposed project is practically unfeasible. Quality of administration and development vision go hand in hand in blended finance projects. If it were to be decided which determinant is more important, the interviewee believes that vision is prevalent, but the communication and administration are also vital.

Development impact

Most B2B program projects are unsuccessful if we take permanent retention on the foreign market as a sign of success. There have been very few such projects that have materialized the proposed outcomes. Many companies only apply for the Preparation grant, create a feasibility study, and evaluate their project as unfeasible at the end of the project. That is also the end of the story. So the company fulfils everything formally required but has no development impact. If we take it as a sign of failure that the company did not even meet the formal requirements of the B2B program, then perhaps there was no such project that failed.

In Implementation phase, most of the firms were successful, and those projects were sustained. That requires a real commitment and development vision of the implementer. It happened that those projects that went through the second phase also ended after a few years, and the results were not sustainable, but the B2B program cannot mitigate

that. There is also no systematic monitoring in place. Embassies can provide this, but they usually do not have the capacity to monitor systematically.

If there were fewer projects for higher sums, the Czech Development Agency could be involved in project identification, intervene in the preparation of documents before a company applies for a grant, systematically monitor implementation, and the implementation period would be longer, projects could undoubtedly be more successful. Paperwork simply does not ensure this. When evaluating project proposals for grants, one can always find "development potential." However, B2B managers can never know if the company will just take advantage of an easily available grant or do a piece of work to develop the target country. The number one determinant of project success in terms of building results is definitely the implementer's motivation. Unfortunately, it has been shown that when an implementer commits to co-financing, it does not necessarily mean they are serious about the project's performance and impact.

Blending with grants enhancement

The creation of results is not a formal measure of the success of the B2B program. It would be necessary to tighten the conditions and make them more specific. Having vaguely formulated conditions and doing a lot of small projects with the currently available human and financial capacity is highly inefficient in terms of impact on sustainable development. Nevertheless, focusing on big companies and big results is impossible with the available funding for individual projects. The leverage rate is potentially low for small firms. Usually up to the minimum required co-financing. And then, if the company does not turn its development plan into reality, even the little money from the state budget is poorly invested. Focusing on the fact that a company may be small but can bring innovative solutions and a significant impact has proven to be utopian in the light of experience.

As a donor, Czech Development Agency should already be preparing project documents, formulating project plans, and looking for business opportunities. This cannot be done with grants from the state budget. It would be a possible non-transparent procedure.

"Perhaps, rather than looking for small, individually designed solutions, it would be better for the country to open a few branches of a huge corporation that will observe all human rights standards, maintain a green economy, and provide stable jobs and salaries for its employees". One such project might contribute more to the sustainable development of some developing countries than most small projects that rarely materialize their development intent.

4.2 Danida Sustainable Infrastructure Finance

Danida Sustainable Infrastructure Finance (DSIF) is a fund managed by Danish Investment Fund for Developing Countries (IFU). DSIF offers financial support to the infrastructure projects in developing countries. The support consists of subsidised loan and technical assistance. The complete financing scheme of DSIF is attached in the Annex 2. The finance is provided only to those projects, that cannot be financed commercially, but has a development impact (IFU, 2020, p. 2). The DSIF provides technical assistance and loan guarantees to make the projects attractive for the Danish private sector (IFU, 2020, p. 3). DSIF formulates individually concrete principles for the project that might be supported. Those are:

- DSIF operates in developing countries with GNI per capita below USD 3,995 (2020) and with a Danish representation.
- Projects must address at least one of the UN SDGs.
- Projects in sector with Danish core competencies will be prioritized*.
- All projects must be tendered. If there are sufficient Danish suppliers, the bidding will be limited to those.
- The minimum contract amount to be financed is DKK 100 million.
- The Ministry of Finance or a solid bank in the recipient country is required to act as borrower/guarantor.

- Projects will be assessed on sustainability criteria, including IFC performance standards and UN Guiding Principles on Business and Human Rights.
- Projects should be based on local demands and needs and be reflected in national development strategy and sector plans.

**the prioritized sectors are for example: transportation, energy, water supply and sanitation* (IFU, 2023)

The official demand for support must come from the authorities of the beneficiary country because the infrastructure projects that are supported are mainly in the public ownership (IFU, 2020, p. 3). Private sector companies may present to DSFI their project proposals to be consulted "unofficially".

Interviewee 3: Mikael Tendo Koefoed Bjørnsen – Investment manager

Blending in terms of project management

The position of the blending project manager is different when compared with project management, which does not deal with blended finance. Working with stakeholders from governments and the commercial sector simultaneously is a complex task. Stakeholders who act in the DSIF projects are several. It is (1) the recipient country a borrower, usually the local Ministry of Finance, (2) owner of the project, a local company who owns the infrastructure, it might be, for example, a water utility company, the national electricity company, (3) the Danish private company who signs the construction contract an implements the project and (4) the project supervisor, who monitors and supervises the project. The supervisor also supports the exchange of know-how, technical assistance, and capacity building. Moreover, working in developing countries means dealing with the countries' different cultural backgrounds and specific problems. As the DSIF concentrates on the recipient country's strategic documents, the project's scope must align with the recipient's country policy.

Project cycle

Preparation of the project takes at least two years, then follows the construction period when the project is implemented. In the case of DSIF, implementation means physically building the infrastructure. The construction period also takes at least two years. The preparation period is long because DSIF is involved in the project from the early stage. According to the interviewee, early involvement in the project is excellent and beneficiary for the quality of the project outcomes and performance because DSIF may prevent potential problems and always has a good overview of the project.

Project default

Projects might fail at any stage, but the work is performed profoundly, and complete failure is not usual. Furthermore, the failure does not always mean the project does not deliver the desired outcomes. Problems in the project design might occur, that the performance indicators are not formulated appropriately, so the project does not provide evidence-based measures on development impact.

There are some examples of a complete default. It is when the beneficiary country defaults because of war, high inflation, or other objective circumstances. However, when such a case happens, the project is not let to fail. The DSIF projects are so complex that complete failure would harm the recipient's economy. To prevent such cases, the projects get additional subsidies.

Preparation stage

Annually, one or two projects are turned from the pipeline to the preparation phase. Not many project proposals are refused, because DSIF steps into the project very early. However, there are conditions for putting the project into to DSIF pipeline. It does not require only fulfilling the necessary conditions (mentioned in the annotation for Chapter 4.2.). DSIF needs explicitly to find a Danish implementor. When such a private company does not exist, the project is unfeasible for them. This condition is specific for DSIF.

During the assessment of the project ideas, the typical features of blended finance projects are also considered - a combination of sustainable development and business aspects. Emphasis is put on sustainability consideration and design of the proposal, life cycle costing, climate and environmental impact. When the DSIF accepts the project idea, they develop all the necessary background, like the project document, project activities' design, or financing. This preparation process is performed in very close cooperation with embassies and the local project owners.

The challenges during the preparation phase are specific to the DSIF financing model. Apart from the requirement that the implementor has to be a Danish company, DSIF usually requires a sovereign guarantee. The loan technically comes from the Danish commercial bank, so almost full guarantee from the export credit agency is required. It is a Danish guarantee on a Danish loan. At the same time, the developing country's local subject must also provide the guarantee. Usually, it is the local Ministry of Finance. Getting such a reliable local guarantee might be a challenge, mainly when the project is on a national level.

The projects implemented by the DSIF are big, and as they are tied with the beneficiary development strategies, there must be political support at some levels. Because the projects are so complex and influence the crucial infrastructure, they must often be ratified by the local parliament. This process could be highly time demanding. While designing details of the preparation phase it is always a challenge to manage costs. Infrastructure projects accrue more and more when the preparation gets deeper and deeper. It is challenging to secure additional financing if those adjustments exceed the budget or to secure co-financing for the project. Nevertheless, it must be remembered that DSIF offers loans, not grants. If the project budget extends limits, it is on behalf of the local partner to decide how big a loan they would afford.

Implementation stage

Monitoring the output level demands expert supervision. There are closed large contracts with consultants for each project, and the monitoring is performed regularly. The reports are made monthly; however, during the critical construction phases, the reporting is performed on weekly bases. Monitoring work performance is evident and well-designed. Monitoring development impact is more complicated. The DSIF must rely on the beneficiary to provide the impact data. To secure this reporting, the buyer declaration is signed as a part of loan documentation. In the declaration are included monitoring and reporting requirements.

Challenges during the implementation occurs all the time. Typical constraints on any infrastructure project are on paying taxes. During the preparation phase, it is not an issue. However, during the implementation, taxes might be a significant complication for the private sector implementor.

According to the interviewee, everything mentioned in the interview template is an essential determinant for the blended finance project implementation (see Annex 1, question C3). However, for DSIF specifically, the political will in the country is the most important. It is for the reasons mentioned for the preparation phase, the need for constant support during the construction, and the taxes issues mentioned above.

Generally about blending

The DSIF is not aiming at the private Danish companies that will enter the new market. The engagement of private companies in the development narrative has no notable influence on the quality of the project outcomes. The companies are usually at the place to do the work. The main additional value is the transfer of know-how and ability to maintain the infrastructure to the locals. The sustainability of the project outcomes is always considered an essential measure of performance and long-term commercial viability and effectivity of blended finance overall.

Recommendations for blending

Being able to identify the need meaningfully and credibly for concessional in projects is essential. Blended finance providers cannot say now:

"This is what the private sector is able to solve in the country, and this is the amount of concessional to provide to accomplish the goals without over-subsidies of the private sector or even crowding out the private sector."

Communication and agreement within the DFI community on what is acceptable in the given sector and country. What level of concessional should be provided to deliver the outcomes effectively? That is the enormous difficulty, the balance between the concessional.

4.3 Finnfund

Finnfund provides investment for the profitable businesses in developing countries, classified according to OECD, that are financially viable and have development impact. The blending instruments used by Finnfund are mezzanine financing, debt, and equity. The investments are denominated in EUR or USD. A project has to be privately owned (Finnfund, 2022).

The project preparation may start with an unofficial application of the potential investee, team of Finnfund’s experts assists with the project design (Finnfund, 2022). The project design is followed by negotiations about legal affairs, documentation, and conditions for the pay-out. Designing takes 3-4 months, phase of negotiations 4-12 months (Finnfund, 2023a). After this process follows the implementation of the project. This phase requires monitoring of the project implementation and reporting to Finnfund. At this stage Finnfund also requires monitoring of the project “at field” (Finnfund, 2023a).

Interviewee 4: Peter Chappell – Project manager

Role of Finnfund

The role of Finnfund is not to compete with the private sector. Finnfund provides financing, that is additional to the private financing. Sometimes the private sector cannot gain the needed resources in the market. For example, in Zambia interest rates are in the mid-20s, so not even the locals can afford the loan. This is where the Finnfund's role is important for the market development.

Project default

From time to time, it happens that the project is a complete failure despite the profound preparation. For example, the war in Ukraine destroyed the renewable energy project that was unfortunately at the border with Russia. Such an occasion, caused by unexpected external factors, means a complete investment loss. In the riskier part of the world where the Finnfund operates, it happens that the investment is lost. Not only external determinants might cause the default. Risk contains all kinds of things. Devaluation of currencies, growth of the market (different than it was expected), lack of necessary inputs (labour, material), or undeveloped industries. For example, a company wants to develop the forestry industry because the developing country has the potential, but there are no timber markets.

Finnfund perceives the investments holistically in a portfolio. So, persistence in measures and monitoring makes the portfolio safe. But it could not be safe too much. Investing only in the safest cases reduce the additionality of the investment's impact.

Preparation stage

The difference between "ordinary" and blended finance project management is probably in the preparation phase. Once the project is prepared, implementation is not more complicated or different from the other projects in developing countries. During the preparation phase, many factors come to the decision process if to perform the project or let the proposal be. Finnfund does not require incredibly high returns. Firstly, the risk

must be acceptable, and then an expected return level is set. The determinants that decide if to perform a project might be for example, the scale of the opportunity, nature of the opportunity, the riskiness of the project (risky geographical area, work with risky currencies), length of experience that the company has, the track record they have in the branch of the opportunity (that makes the project proposal much better), company's stability, realistic expand program. Something like a "We will see" situation is not acceptable.

Companies that have positive cash flow are relatively easy to finance. Those with negative CF expect positive CF in the future may work in the end, but these cases are more complicated for preparation.

There are also certain questions that must be asked: How is the risk high? How much of the risk can the Finnfund as the donor bear? How is it profitable? But giving more and more conditions may discourage the company from getting involved. Finnfund has to stick to some milestones but bear the risk as well.

Finnfund does not approach concrete companies for a substantial project directly. However, the Finnfund team is trying to let the appropriate companies know about sustainable development and EMs' potential and encourage them to cooperation.

For the preparation, the blending instrument perceived by the interviewee as the smoothest is debt. Designing mezzanine and equity is more complex. However, for all blended finance projects implemented by Finnfund, a whole roll of conditions must be fulfilled, whether it is mezzanine, debt, or equity. Those conditions regard environmental and social aspects and how the investment impact development. The administration is also a big deal. The company needs to be big enough to adapt, for example, to environmental and social development measures. Otherwise, the project is not feasible because the company would not fulfil the conditions that Finnfund requires.

Implementation stage

The project implementation is monitored by the project manager. The project managers have a set of companies in the portfolio that they look after. Many conditions and

measures come with the implementation, and Finnfund must be sure that the investee fulfils the requirements. For example, monitoring of the development impact (number of employees, gender balance in the workforce, amount of carbon that the business is releasing - hundreds of things). Implementation requires observation of the company's commercial position to maintain financial ratios. Especially if the blending instrument is equity, project managers need to understand at every level what is happening.

There is also included supporting role at the operational level regarding expertise. Finnfund never gets directly involved in a case. For example, when law issues occur. If the investee has a problem that Finnfund has already met elsewhere, they may share the expertise. But not get involved operationally. The investees usually appreciate such help. Concrete example: a company was considering an investment in a new timber processing facility. The same facility existed elsewhere, also managed by one of the "Finnfund's" companies, so Finnfund facilitated an experience exchange. It is only informal support. One must remember that Finnfund is specialized in financing. From time to time, the companies find advice from the embassies. Also, the EU has delegations worldwide, with many people on the ground.

Anything that can give more assurance for project implementation and future forecasts is good. For example, take-off agreements and analysis of the state and the future. A Memorandum of Understanding (MoU) is also good but not necessary. MoU is great for early-stage businesses (some that do not have a business plan or necessary permits). Such a document is helpful to start. MoU can also be used to set a framework for work before starting to work on the project seriously. It depends on whether the subject wants to rely on it or not for wider usage. Even more critical than the MoU itself is asking the questions like: What happens if the partner turns around? How severe is the impact?

General determinants

Only 10 – 20 % of the proposed projects Finnfund proceeds through the investment committee. A tiny number of people who get into contact implement the project. An

important determinant for the Finnfund's projects is that the implementers are business-persons. If they are not, projects are still feasible, but things get much more complicated, because blending is not only about the sustainable development, but business aspects also play a crucial role.

Essential issue is that the stakeholders must have a vision. Otherwise, it is entirely impossible to perform anything. Blending is not only about financing. It is mainly about a vision. The business value of Finnfund's projects usually comes from expected cash flow, the forecasts. Those forecasts are the vision of the future project performance, meaning that the forecasts presume what is realistic in that market and give confidence in the capability of sponsors to deliver the outputs. That is the critical circumstance to have such a vision. If one does not have the vision, one has nothing.

Blending potential

The potential of blending is a tricky question. The theory clearly works. However, if the blending approach really has such prospects as the theory says, that's hard to tell. The nature of the blending project is an important matter. Blending is hard to define; it is a specific case of supporting sustainable development. It should unlock the financing, but even though one has reduced the risk, and everything is covered, there might still be a loss. When using blending, the loss is not so severe, but it still might occur. Similarly, undertaking a massive amount of due diligence takes time. One does not want to speculate if the blending mechanism works or not. Blending changes some "No" to "Yes". In aggregate, blending unlocks some additional finance for sustainable development. But according to interviewee’s opinion blending is not as promising as it looks on paper.

Interviewee 5: Anonymous – Finnfund Investment analyst

Finnfund considers the profitability of an investment, Environmental, Social and Governance (ESG) factors as well as the potential impact when making an investment. When an

investee company becomes non-performing, some DFIs may assist in turning the company around. That the interviewee perceives as a significant difference between the project management of blended finance projects in developing countries and an “ordinary” project management.

Preparation phase

Project preparation in Finnfund starts with the initial project screening discussed with the sector head, e.g., the renewable energy sector and the chief investment officer. If the project proposal is given the go-ahead, the project's team is built up. The team comprises an investment manager, financial analyst, economist, impact advisor, and Environmental and Social (E&S) advisor. This team prepares materials presented to the investment committee. If the committee is satisfied with the project proposal, it is moved to the due diligence phase. This phase puts effort into getting to know more about the private company. Financial analyst at this phase of preparation examines the financial models. Projects that get approval are those that are financially viable, align with E&S principles, and have a great potential for impact.

The length of the preparation phase differs according to the project's scope and how the project is complicated. In less complex cases, it would take 4-6 months on average. In more complicated cases, it might be a year or more. Finnfund makes investments in EMs where the risk for investment is high. When some factors make the investment even riskier, such as war, investments might be delayed in those areas. If a project is not profitable, it is not sustainable in the long run. In EMs, the potential profitability should be higher than in developed economies. When the potential profit of the investment is low so much that it would not cover the higher risk increased by the external factors, it makes the project unfeasible. But projects are not only about profitability. During the assessment of the project are compared gains, possible losses, and potential impact on the region.

The preparation is very profound. Many project proposals are reviewed, with only a small part approved for investment. When the project defaults during the implementation phase, the causes may vary from macroeconomic to industry-specific factors, but the implementors default is not usual.

Implementation phase

During the investment duration, companies prepare annual audited financials shared with Finnfund. Adverse changes in the risk rating of an investee company may lead to close monitoring during the implementation. Once the project is approved, the portfolio manager manages the project regularly. If the project is not performing well, despite all controls and demanding preparation, it goes to a special committee to find a solution to turn around the company and minimize losses. Committee must find where the problem is and structure an action plan for how to recover the implementor. Or at least to find some solutions how to decrease the losses. Some of the challenges that investee company face includes instability of the EM, depreciation of the exchange rate, and poor management, which may happen sometimes.

Blending potential

The success of blending tools depends on the commercial confidence player has that the risky project is de-risked, and the commercial subject will obtain good returns. In the end, it is essential to work closely with the commercial player to ensure trust that the investment is not so risky as it might look like. Current blending is not used so much as was expected, but it is still good. To reach the SDGs, other methods of financing for sustainable development must be deployed, not just reliance on grants. Blended finance is such a diversifying mechanism. It brings together development financiers, philanthropies, and commercial players to finance development in EMs.

4.4 The Swedish International Development Agency

Sida has special tools how to work with private sector, however there is no comprehensive strategy dedicated to the private sector collaboration. All private subjects have to fulfil a base condition to be ready for observation from the Sida and adapt to the UN Global Compact principles.

Sida offers four opportunities to the private sector how to collaborate(Sida, 2021b):

1. Sida's guarantee instrument
   - Sida’s guarantee is an instrument dedicated to the SMEs, helping them to get financing for the business development. The beneficiaries are banks or other investors who provide loans to the SME in the target country. (Sida, 2022a)
2. Challenge Funds
   - Sida supports several funds that invest into the sustainable development. The funds use the money to find the private subject who offers the best business solution for the development problems (Sida, 2021a)
3. Public Private Development Partnership
   - Cooperation between Sida and the private sector to find a suitable business solution on concrete cases that should eradicate poverty. Sida and the private subjects provides the solution and co-financing. The implementor of such projects are NGOs. (Sida, 2022d)
4. Swedish Investors for Sustainable Development
   - It’s a partnership between Sida and 21 of the biggest financial players at the Swedish market. The partnership was established to work on solutions of SDGs (Sida, 2022c)

Interviewee 6: Anonymous - Program Officer, Department for Partnership and Innovation

The key difference between project management of blended finance and a "normal" project are parties involved - commercially driven actors combined with donors and implementing actors, sometimes even governments. The parties have significantly different perspectives and primary objectives. This combination of stakeholders requires constant thinking and communication about the development and business aspects. That takes a lot more time than "ordinary" development projects. Stakeholders involved in the Sida projects differ according to the beneficiary whom the guarantee provided. Guarantee to a fund involves investors going into the funds, the fund representatives, Sida team, and investees. Guarantee to a local bank: technical assistance partner to the bank, Sida, and investees. Sida’s direct project beneficiary is the institution that receives the guarantee, while the end beneficiaries consist of the borrowers who, in the end, get a loan under the guarantee.

The projects' scope and size vary from small guarantees to local banks that provide loans to SMEs to guarantee for a vast infrastructure project or investments into funds. Sida provides guarantees for small loans, in hundreds or a few million USD. Also, project duration varies a lot. It could be “short” five years projects for SMEs or twenty years-long for financing infrastructure. SIDA is not limited to a particular business size. SIDA guarantee can work with a wide range of topics and amounts, as long as these topics are in line with Sida’s development strategies.

Reporting about the project is required from the beneficiary (fund, bank). Development impact reporting is not a usual scope of a bank's work, and administration connected with reporting might be limiting. This obstacle is mitigated by technical assistance to show the bank representatives how to do the reporting. This process requires a dialogue with the bank to find the balance between the bank's abilities and capacities and requirements on reporting.

The guarantee must be financially additional. That means that the guarantee helps unlock the money that would not be available for the target groups in the absence of a guarantee. It happens that a financial institution applies for the guarantee to have an easier job with some loans that they would have provided anyway. In those cases, a guarantee is not provided as it is not deemed to be financially additional. The additionality is something that Sida must assess for the projects to have the highest additional development impact. The projects are designed for business cases; they have to be in line with Sida's development strategies of the target country. I

Sida always looks at the project proposals from five perspectives: poverty reduction, climate and environment, gender equality, conflict perspective, and human rights perspective. More aspects must be considered to move from the project proposal to the preparation phase, risk of market distortion, partner capacity of their operations if they can make those investments, and reasonable, logical, and implementable theory of change. However, the five perspectives mentioned above are always considered in all projects.

Preparation stage

Preparation of the project is usually between six months to two years.

The preparation process requires analysis of all criteria mentioned in previous paragraph, preparation of project reporting, negotiation of project agreement, investigation of the bank's due diligence process, financial performance, staff, and capacity. Critical is a risk assessment to calculate the price of the guarantee. The assessment shows what is the expected loss of a guarantee.

The preparation phase has challenges that may cause even the project cancellation. Extensive-scaled projects may be complicated a lot. In those complex projects, figure out many more stakeholders like several investors, the Sida team, and the bank that receives the guarantee. It is usually infrastructure projects or some other that significantly influence the target country. Sometimes the project is cancelled from the beneficiary's site during the preparation. The beneficiary may realize that they can provide the loans

without the guarantee. Alternatively, another guaranteed provider has a different solution and how to de-risk the investments and the beneficiary may decide to do the project with them.

Implementation stage

Implementation is mostly about monitoring. For each project are two monitoring officers; one is for financial monitoring, and one is for the impact. They are already involved in the preparation phase. In the guarantee agreement designed during the preparation phase must be mentioned the monitoring conditions. The monitoring officers help to formulate them. They work together despite having different focuses. The officers usually go to the field monitoring and make regular and mid-term reviews of the projects.

The problems that may occur during the implementation phase, when measures are unfeasible for the concrete project (deadlines, monitoring requirements). The team may not have designed the monitoring criteria appropriately during the preparation phase. It was visible, especially during the COVID-19 era. In such cases flexibility and the ability to capture challenges and changes are increasingly important.

Another complication at the implementation stage is miscommunication about the reporting, or the partner lacks the capacity for monitoring and reporting. These problems might be mitigated with an excellent preparation stage.

However, something external may always happen and preparation cannot avoid it. For example, during the preparation, it was decided to make guarantees for women's businesses and SMEs. During the implementation, the project team found that the guarantee provided was too big, and the finance could not be used effectively.

When discussing determinants of effective implementation, the communication is nr. 1. Commitment of the parties is also important, and it is tight with communication. It is not enough to have on board only the beneficiary's headquarters; the project and its purpose must be communicated to all levels. Another critical determinant perceived by the interviewee is the stability of the EM to implement the project without being disrupted by security issues, political stuff, and macroeconomic factors. However, these external features are characteristic of developing countries, and it is not much to be done to avoid

their influence. Significant is also the currency exchange rate. Sida tries to evade the risk by using stable currencies, typically USD. Nevertheless, many partners want to work in the local currency. In case of weak or less stable currencies, this might be a risk for the project and its deliverables.

When the partner's default occurs, it is usually caused by external shocks. Typical is the case of war, severe economic shock, or the COVID-19 pandemic.

Use of blending

Blending had the ambition to fulfil SDGs. We are in the mid-term, and the SDG financing is delayed significantly. Blending as a financing mechanism is not used enough. However, it does not have to be connected with the blending potential and functioning. There are several potential causes.

Donors are those who should provide the concessional money but were not equipped enough to deploy blending in 2015 and be immediately efficient. The use of blending requires a change of thinking about development cooperation. Find a common language and topics about blending, proceeding reliable and unified data, and coordination among the blended finance providers to make the projects more efficient and viable. Standardization supports some processes, so the preparation and implementation stage of the blended finance project would take less time, and the blending mechanism would be deployed massively and more effectively. More clarity and predictability secured by blending providers would encourage private implementors, increasing blending usage and overall development impact. These are complex tasks that take a lot of time.

"Are we sure that eight years is enough to be perfect?"

It is necessary to be aware of the combination of the economic and development aspect to instil a vision of the development impact. The future of blending should be re-think what risk means and what the return is. Appreciating value, not money in the first place. The value may bring finance but in the long run.

Furthermore, donors and beneficiaries must remember that blended finance cannot solve every sustainable development issue. A complete shift from grants to blended finance is impossible when we still need to keep the course of the SDGs. Blended finance cannot fix everything. Commercial activity cannot fix human rights and refugees and related problems.

5 Findings

This chapter presents the findings from the conducted interviews. Blending shows that the involvement of the private sector in the maintenance of sustainable development is possible. Private sector businesses seek prosperity, assurance, and a vision of future profit. Developing countries are risky and in a poor economic condition. There is a hazardous environment and almost no certainty. The blending provides a possible solution to both problems. The finance devoted to the leverage is not only provided to attract the private sector. It is an investment that must be turned back not only financially but also in development outcomes.

The connection between the theory and practical experience shows a lot of overlaps and coherent points of view of the interviewees. Even though the blending instruments that the interviewees work with differ and the role of the concrete DFIs as a blended finance provider is also specific, in each case, there are many things that the projects have in common and what the blended interviewees recommended and appreciated. The practical implications of the day-to-day work are unique for the individual DFI or private company. These practical implications are, for example, criteria for the project proposal to be acceptable for the institution, priorities of stakeholders, strategic documents, or blending instruments used.

The preparation phase of the project is crucial for the influence that the phase has on the implementation. Although no outcomes are created in preparation stage, the empirical research has shown how decisive this phase is for the implementation, and so delivering of sustainable development outcomes. Implementation is also decisive. It does not matter what quality and precision the preparation phase has if the project is not implemented. However, without the profound preparation, the implementation performance could quickly slow down or fail and not deliver the outcomes. The two phases are strongly interconnected. There are determinants specific only for performance in each phase and some that had to be considered all the time. All the identified determinants are structured in the following model.

5.1 Model of performance determinants

The model presents performance determinants specific for preparation and implementation stages of the blended finance projects as well as "cross-cutting" determinants that should be considered during both phases. To maintain the performance steadily, it is not enough to aim on the identified cross-cutting determinants on just a one of the examined stages.

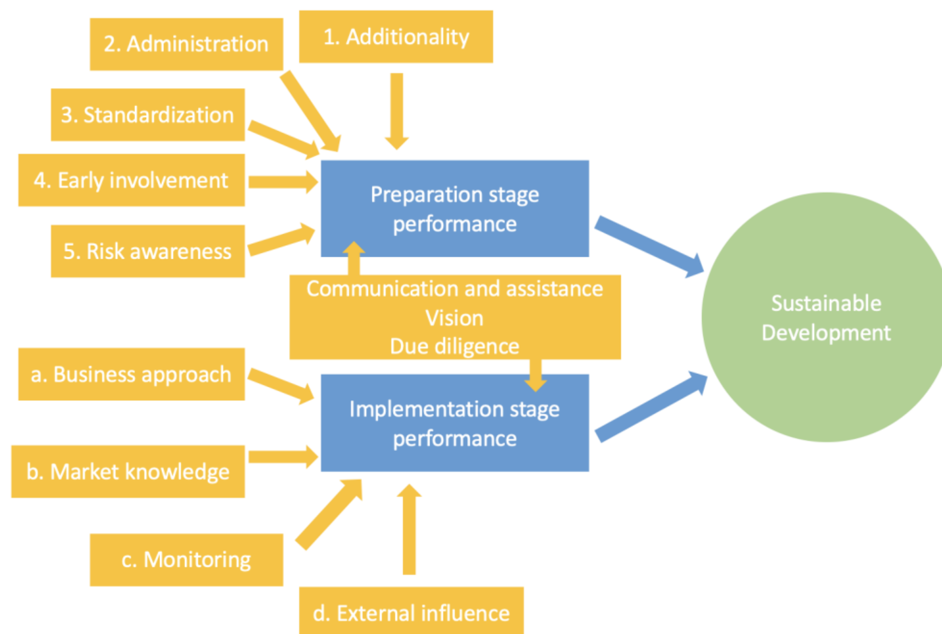

Figure 3. Model of determinants that influence performance of the blended finance projects during preparation and implementation stages (author's work)

5.1.1 Preparation stage determinants

1. Additionality

The blended finance project must provide commercial resources that are additional to the resources that would be invested into sustainable development anyway, even without the blended finance mechanism. This principle is also called leverage. Peter Chappell from Finnfund noted, *"Sometimes if one wants to obtain a commercial bank loan (at the*

emerging market) and there are interest rates in the mid-'20s, so it is not viable to get a loan and do business. In this kind of situation, we (Finnfund) can actually step in and facilitate. It's not really our role to compete with the private sector."

Additionality must be secured during the preparation phase. As Kindornay notes, it is vital to ensure additionality at the beginning and measure it during the investment process (Kindornay, 2016, p. 75). When the project is already being prepared or implemented, it is too late to concentrate on how it might be additional for sustainable development and beneficiaries. Additionality is a critical component of blended finance projects, as it helps to ensure that the use of blended finance creates a meaningful and sustainable impact beyond what would have been possible with financing sources without leverage alone. By identifying and measuring additionality, blended finance practitioners can better understand the impact of their investments and ensure that they deliver value for money and contribute to increasing positive social and environmental outcomes.

Apart from finance, additionality could have several forms. For example, transfer of know-how, capacity building, staff training, improvement of social and environmental regulations, increased access to clean energy, or awareness of preserving non-renewable resources.

During the preparation, additionality requires a profound study of the project proposal and seeking the gaps that the private sector involvement could fulfil or enhance. For working with marginalized groups that do not have equal opportunities on the market (women, expatriates, refugees, SMEs), technologies that have the potential to be successfully deployed in the market. However, the initial costs are too high, and so the entrance on the market could be too risky for the company (geothermal energy, 3D print) and many other examples. All these gaps provide an opportunity for the project's additionality. As the Sida's Program Officer mentions:

"The (Sida's) guarantee would help to unlock financing that would otherwise would not be done…It has to be target groups, women or riskier projects and sectors like agriculture or renewable energy."

When the principle of additionality is ignored, it could even harm the market by crowding out the private sector (World Economic Forum & OECD, 2015, p. 13). When ignoring the principle of additionality during the preparation, concessional finance only helps to solve a problem that would have the solution anyway, and the need for private sector intervention, further leverage, and evolution is eliminated.

<u>How does this determinant influence the performance in the preparation phase:</u>
Without the principle of additionality, there is no supplementary development impact. Defining opportunity for additionality, a gap that cannot be fulfilled with the current market settings, helps to define the project goals and the activities that are performed, which is beneficial for the performance in the project preparation phase.

2. Administration

The administrative processes are also an essential part of the implementation phase, however the way how the administration is settled must be apparent during the preparation. Moreover, during the implementation phase, a significant share of administration is included in the monitoring process. According to Peter Chappell, based on experience from Finnfund, administration connected with the preparation could be so demanding that it may eliminate some companies from involvement in blended finance projects. Especially small companies that cannot afford to employ additional staff to fulfil all administrative requirements. Also, for the bigger private partners, finding capacities to solve administrative issues might be demanding.

Ensuring that the project and the investee are capable of fulfilling their commitments and delivering the development outcome must be done during the preparation. Furthermore, this process requires much administration based on the individual requirements and intentions of the blended finance provider. However, the administrative process

should not be too demanding (World Economic Forum & OECD, 2015, p. 4). When the exacting administrative process is necessary, the partner capacities might be enhanced with technical assistance and clear communication about the administrative requirements and how to fulfil them.

The administrative process on the side of the concessional finance provider has to be well-established and structured. During the project preparation. It must be clear what requirements the donor has and what are the capacities of the private partner, what data can be collected at the target market, and at what quality. Suppose the administration is described and accepted during the preparation. In that case, it is easier to hold the line during the implementation, and it gives a good base for overall cooperation. Jolana Dragounová from the Czech development agency comments administration:

"It is not really our work to control the companies during the preparation, as they are creating budgets or the project document. We only assess the outcomes of the preparation phase. But we are providing to those active ones, who ask us for help, recommendations on how to solve the best administrative requirements. It's above what is the actual scope of my work, but it is necessary if I want to have projects of high quality."

How does this determinant influence the performance in the preparation phase:

When the administration is manageable and well communicated, the investees may concentrate better on the project's scope, have time and capacity to create quality project documentation and focus on the nature of the project. All these aspects contribute to the performance in the preparation stage.

3. Standardization

Standardizing some processes in blended finance projects is considered essential for project performance. This need has been perceived a long time ago.

"Crucially, for blended finance to work for the sustainable development agenda, we need improved transparency and better data on how and where blended finance is going and the impact it is having."

(Tew & Caio, 2016, p. 3)

Standardizing processes during the preparation potentially spills over a positive influence on performance during the implementation phase, viability of the project outcomes, and broader usage of the blending. It is not easy to standardize the project implementation because during the implementation may occur problems and situations that cannot be standardized (further in chapter 5.1.2.). Standardizing measures that should be monitored would help control and assess the project's development impact and improve the blended finance mechanism. The lack of robust data and evidence that could be shared with private companies prevents their involvement in the blended finance project. However, all the measures and conditions must be clearly established during the preparation phase.

Jan Wikturna from the Czech Development Agency suggests that *"If there were some concrete rules and measurements adopted by the wide range of blending providers, it would make the project performance more efficient"*. A similar opinion shares Mikael T. K. Bjørnsen in terms of standardization of concessionality *"Agree among the DFI community on the level of concessionality, what is acceptable and what is not."* standardization of this aspect is connected with additionality. If there is a clearly defined what is concessional and what amount of concessional finance should be provided would help to secure additionality and so the development impact.

"The lack of guidelines also likely contributes to limited communication on additionality for projects with the private sector. Given the importance that DAC members place on additionality, there is a need for transparent narratives on additionality for projects that are linked to expected development impacts. Institutions are often asked to showcase partnerships with the private sector. Without a compelling narrative as to why support is being provided, institutions open themselves up to criticism in the media and by other stakeholders that may misinterpret how institutions are working with the private sector and the rationale for doing so."

(Kindornay, 2016, p. 74)

Having standards and predictable requirements is necessary to have within a single organization. However, if those processes were standardized among a significant number

of the concessional finance providers, it would increase overall performance at the preparation stage of the blended finance projects.

"Establishing a broad consortium of partners and a centralized body that provides access to current initiatives and connects projects and investors to appropriate resources would help in overcoming some of these challenges and could streamline planning processes, project initiation, and finance sourcing stages."

(Clark et al., 2018, p. 342)

A similar opinion shares the Sida's Program Officer:

"We need to coordinate between providers of the blended finance to do things more scalable…we need to aggregate the small projects to do the big projects. But the aggregation takes time."

<u>How does this determinant influence the performance in the preparation phase:</u>

There are many aspects at the preparation stage that must be established from the beginning of the project and could be standardized, and so make the preparation smoother. Like conditions for measuring the development impact, level of concession-ability, and way of reporting. All these processes must be set at the preparation stage, and standardization of those processes contributes to the performance of the processing.

4. Early involvement

Being involved in the project early means for the blended finance provider to work with the goals adjustment, the vision, smoother communication, adjustment of the preparation works, and fewer problems during the implementation. Preparing the project in developing countries takes more time and requires working with different and more severe risks than in developed countries. When the blended finance providers get involved in an early stage, they have a better opportunity to help with administration, assess risks, apply standard processes, and instil the vision of combining business and sustainable development. Especially project managers from the Czech Development Agency, who had only margin involvement during the preparation phase, had talked about appreciation of involvement in the project ahead of time.

"When the donor could make control even while starting the preparation and tell the potential investees: sorry, but we found out that this proposal for this country is unsuitable. The process would be much better, and we would avoid unnecessary projects that have no potential to be implemented"

Jan Wikturna

For the commercial subject, it has an undoubted benefit that the professionals experienced in developing economies help them adjust the documents and prepare effectively. Even the private subjects who already have some experience with business in EMs need to follow the conditions and rules of the DFI and the vision of the development finance project. Early adaptions help to model and set up required processes. The WEF and OECD recommend in their publication "A How-To Guide for Blended Finance" an early involvement to effectively apply specifics of the investment transaction, investment monitoring, setting the regular communication and cooperation among the stakeholders (World Economic Forum & OECD, 2015, p. 17).

How does this determinant influence the performance in the preparation phase: Early involvement of the blended finance provider helps to set up the project's processes and the activities performed during the implementation and measures that monitor the implementation performance. This determinant on the side of private subjects contributes to the simplification of processes at both stages, a better understanding of the project's vision, and adaptation to the blended finance mechanism.

5. **Risk awareness**

As was mentioned previously, doing business in developing countries has specific risks that must be identified and mitigated during the preparation. Some risks cannot be mitigated, so the stakeholders at least need to be aware of them. Blended finance projects in developing countries can be complex and involve a range of risks. Some of the common risks associated with blended finance projects in developing countries include the following:

- **Political and regulatory risk:** Developing countries have an unstable political environment and regulatory frameworks that may change unexpectedly, impacting the project's success.
  This risk might be mitigated by gaining official political support for the project and designing the projects in line with the official development strategies or MoUs. However, unpredictable political affairs, from the local to state political level, may always occur.

- **Currency and exchange rate risk:** Exchange rate fluctuations can have a significant impact on the project's finances, especially if the local currency is volatile. According to some interviewees, this risk is usually undermined. However, it could be devastating for the project during the implementation. It is necessary to do some steps during the project preparation phase.
  This risk might be covered with insurance or financial derivate like forward of swap. The use of such hedging instruments could be expensive. Another solution is to use stable currencies like the USD or EUR. This approach might be complicated for the locals in the developing country.

- **Market and demand risk:** The demand for a project's products or services may evolve unpredictably, or the market does not exist. As an example of the Finnfund's project manager Peter Chappell, it is a great idea to start a business with timber in a country where are good natural conditions and the industry is needed to enhance the development of the country; however, it is impossible to do such development finance projects if there is no timber market. Alternatively, the market exists, but its growth is too slow or unpredictable.
  Another risk that the stakeholders should be aware of is that the solution (product, service, or technology) that is provided has intense competition in the market. The competitor does fulfil sustainability measures or SDGs; however, it is attractive for the consumer, and so it might be impossible to implement on the market a business that offers sustainable solutions.

This risk might be mitigated by profound market analysis (supply, demand, competitors, stability of the local market, prices, taxes, duties), finding a local partner, or the creation of a joint venture.

- **Financial risk:** The financial risk is connected with the financial health of the investee or other crucial partner (local bank, a business partner). The riskiness is connected with the partner's assets and liabilities, business stability, cash-flow and cash-flow prospects, and the probability that the money is repaid or that the company can deliver desirable outcomes.

"Companies that are small, currently with negative cash-flow but expecting positive cash-flow in the future…these projects are much more difficult, but it may work out".

Peter Chappell (Finnfund)

It also requires the preparation of the budget and financial analysis. This is strongly connected with the previously mentioned risks (taxes, customs duties, currency exchange rates, inflation, prices of crucial commodities or materials).
As Mikael T. K. Bjørnsen has noted, "In the detailed design phase, it is always a challenge around costs when the project is just getting to be bigger and bigger in terms of scope and costs. It could be quite a challenge to secure additional financing or to secure a partner for co-financing".

- **Technical and operational risk:** Technical issues mean inadequate infrastructure or lack of skilled workforce. Risks must be identified during the project preparation. Otherwise, the implementation of the project is impossible or highly complicated, and so the preparation performance is poor or fails completely.

- **Environmental and social risk:** Projects may impact the environment and the social fabric of the community in which they operate. If these impacts are not well-managed, they can create reputational and financial risks for the project.

> These risks are usually mitigated by measures and milestones that the concessional finance providers and their policies set. The effect might be supported by establishing solid partnerships with local communities, governments, and other stakeholders can help to manage risks associated with social and environmental impacts.

Some possible solutions for the concrete risks are drafted in each paragraph. Many risks can be revealed during the project preparation. Some risks, especially those that have an influence on the project implementation, might be only presumed, and the stakeholders are aware of them, although they cannot be mitigated (further in sub-chapter 5.1.2. Implementation stage determinants).

The overall value of the investment is based on the potential risks. It is important to know, especially for the blended finance provider. As the Sida's Program Officer stressed: "Making risk assessment means that we need to calculate the price of the guarantee and that pricing is calculated based on the expected loss of the investment." A blended finance provider needs to know the overall riskiness and so have an opportunity to avoid the risk by risk sharing with more stakeholders, giving more responsibility to the private partner in case of risky projects, or by securing insurance. The overall risk is also decreased by gathering the projects into the portfolios, so the combined riskiness of the projects in the portfolio is acceptable.

<u>How does this determinant influence the performance in the preparation phase</u>: There are different kinds of risk. Some cannot be mitigated during the preparation phase. However, the more assurance, awareness, and predictability the project gains during the preparation, the smoother the project implementation and enhancement of the quality of project outcomes. During the project preparation, such risks could be discovered that may stop or slow down the preparation phase, and stakeholders must be aware of them to perform the preparation well.

5.1.2 Implementation stage determinants

a. Business approach

"The business case for the development project should be strong and based on robust market assessment. If the business case is weak, continued reliance on government support should be questioned."

(Evans et al., 2020, p. 12)

This determinant signifies how the stakeholders think about the project and what aspects the project should have. Business is a critical consideration in blended finance projects in developing countries.

"An important determinant for the Finn fund's projects is that the implementers are businesspersons. If they are not, projects are still feasible, but things get much more complicated because blending is not only about sustainable development, but business aspects also play a crucial role. "

Peter Chappell, Finnfund

The business approach to the project means that the stakeholders do not concentrate only on the development and sustainable aspects but also on commercial viability, meaning that the project should generate enough revenue to cover its costs and generate profits. The financial projections should be realistic and consider any potential risks and uncertainties. The concrete aspects must be considered during the preparation phase (risk awareness); however, how the business is implemented, how the crises are solved, and the evolution of the project are considered during the implementation; it is the decisive stage for doing business. The project must have the potential to grow and expand its operations and impact over time.

Because of the countries where the projects are implemented, and the market conditions, blended finance projects require a unique business approach. According to Finnfund's Investment manager, the most significant difference between the "ordinary" commercial project and the blended finance project is that even if the company and the project are not doing well, the investor (concessional finance provider) does the

maximum to keep the project on track. The investor and the company must be patient and understand that the revenue is not only financial profit but also in delivering value. The business approach in blended finance projects means a shift from understanding the profit as a financial return. The project must be financially sustainable, but the returns and profit do not have to be extremely high; if other values, then the money is produced.
The DFI and the commercial partner, and all the stakeholders, have to count on that the financial return will be slow; this is an extremely important concessional condition – a long business. Jan Wikturna from the Czech development agency adds that the business case must be understood not only from the development point of view but also from a business friendly. He especially stresses long periods extended over the usual market conditions.
By sticking to the business aspects during the implementation phase, the project can achieve long-term sustainability and success. When the business approach is ignored, the project may fail during the implementation because of a lack of finance or poor business prospects.

How does this determinant influence the performance of the implementation phase:
Ignoring the business approach may lead to the situation when the project delivers the development impact, but not in the long run and for much higher costs of the company or concessional finance provider than was expected. The business approach must be understood under different than ordinary conditions – giving a long-term understanding of the profit and values while sticking to financial viability. Otherwise, the project implementation fails, or the project is over-subsidized. Both cases mean poor performance.

b. Market knowledge

Knowing the local conditions at the market or at least awareness of the conditions at the EMs, in general, gives the implementation better flexibility. When the implementor is aware of possible defaults or doing-business habits, the implementation process performs better. The implementor familiar with local processes (administration, negotiation

habits, specific business manners, law) is better at dealing with problems. Also, the concessional finance provider, when knowing the local environment, may help to solve the potential crisis, can give advice, or provide assistance or contact.

Knowledge of the local market is an advantage but not a necessary condition. Blending is a mechanism that encourages the private sector to do business in EMs, not only evolving those who already are on the market. The implementor does not necessarily have to be the subject who has the experience. It would be sufficient to have an opportunity to get advice or assistance from a subject that actually has practical experience (embassy, other private companies that have been implementing the similar project)

How does this determinant influence the performance of the implementation phase: This determinant influences the day-to-day implementation process. When the stakeholders know the target market, its specifics, and its conditions, the implementation process is more resilient against crises and unexpected changes.

c. Monitoring

The monitoring measures are usually set by the concessional finance provider. It is necessary to measure the sustainable development impact, financial health of the company and the other concrete measures based on the project goals and stakeholder's preferences.

When the measures are set properly the process gives an excellent overview of the project performance, monitoring outcomes provide material for the evaluation and suggestions for performance enhancement. As the Finnfund's investment analyst says, during the implementation phase the investees are closely monitored and regular audits are made. Based on this monitoring are set the risk rates of the investees and that may lead to monitoring adjustment during the implementation phase. For example when the implementation process seems to be implemented badly the monitoring starts to be more frequent and closer. If there are still problems that the monitoring uncovers Finnfund

solves such problems with a special committee that tries to solve the problems or at least decrease potential losses. But the problems are revealed thanks to the quality monitoring during the implementation. When the monitoring measures are set inappropriately or the monitoring is done incompetently, the project might perform badly, however the monitoring won't uncover it.

"When we (Sida) haven't though through the monitoring during the preparation and then we get to the monitoring and we realize that the project is actually very complex, and it's hard to monitor on…or we realize that the deadlines we put there for the reporting are too small, in those cases we have to do agreement changes in lot of our projects. We need to be flexible to capture these challenges and do the changes if needed."

Sida's Program Officer

Project implementation performance must be measured against the goals that are set during the preparation phase. There are already some standardized recommendations for monitoring measures that might be used (World Economic Forum & OECD, 2015, p. 18). Using monitoring data same for the various actors and stakeholders means enhancing cost effectiveness and getting useful data about project implementation that are comparable among the projects (Clark et al., 2018, p. 344). However, to get concrete and accurate information about the performance and gaps in implementation, it is important create and follow tailor made monitoring to the project.

How does this determinant influence the performance of the implementation phase:
During the implementation monitoring is a key process of measuring project performance. When the monitoring is well designed and carried out it provides a good base for performance observation and enhancement.

d. External influence

During the preparation, most of the external factors should be avoided or alleviated. But not all the risks are taken into account during the preparation, or the mitigation measures set during the preparation are not adjusted correctly. Some are only detected

but cannot be mitigated on 100%, like energy crisis, war, hyperinflation, pandemic, political crisis, unpredictable development of the currency exchange rate. Such negative influence could be so severe that it might cause the complete project default. In the last years was such typical occasion Covid-19 pandemic or the war in Ukraine.

This influence is usually negative, however it could occur also an unexpected opportunity, like appreciation of the local currency, increased demand for the solution or a fast market growth.

All of the interviewees who experienced project default during the implementation phase mentioned the unexpected external influence as the cause of failure. Some of the potential causes were mentioned in the chapter 5.1.1. a. Risk awareness. These influences are those ones that cannot be mitigated or wasn't identified at all.

<u>How does this determinant influence the performance of the implementation phase:</u>
External influence that is not caused by the implementor or concessional finance provider may have a decisive influence on the implementation phase or its potential failure or success. The degree of influence on the project performance depends on the nature and size of the occasion.

5.1.3 Cross cutting determinants

The cross-cutting determinants influence the performance on preparation and implementation stage, and they are strongly connected with the abilities of the project leader. Not only the project manager, but every stakeholder leading the project processes, should be aware of importance of the following determinants. highly performing projects are those ones with leaders who have effective leadership skills (Project Management Institute, 2021, p. 41).

- **Communication and assistance**

Communication framework and assistance is necessary already during the preparation phase to effectively explain requirements and expectations of the project processes, implementation, and results. In the implementation phase communication includes

monitoring, measurement, evaluation, communication about performance, and effectivity of the implementation. Effective communication requires active work with stakeholders, negotiation of their needs and effective transfer of know-how, capacity building and provision of technical assistance.

"We are dealing with governments in our day-to-day work, we are also dealing with commercial investors and actors…because we are a public sector, dealing with the strategical investments, it means schism between the political preferences and commercial consideration, that's quite a challenge in terms of project management".

Mikael T. K. Bjørnsen, DSIF

Furthermore, according to Sida's Program Officer communication is crucial in any project. The most demanding are the complex ones that connect number of stakeholders. The implementor/beneficiary needs to have a clear connection to the blended finance provider for smooth and well performing projects.

In case of problematic situation or default the DFI shall provide professional communication, assistance, or experience exchange. Technical assistance may be a nonfinancial part of concessionality, increases the additionality and reduces project risk (Evans et al., 2020, p. 22). A good example provides Peter Chappell from Finnfund:

"We (Finnfund) are not getting involved directly, but for example when one of our investees had a legal problem, if it is an issue we encountered elsewhere, we can try to share expertise with them, but we do not get involved operationally".

Adding that such piece of advice is based on individual request and not provided officially, but the investees are grateful for such assistance.

<u>How does this determinant influence the performance at the preparation and implementation phase:</u> Effective communication helps to avoid misunderstandings that slow down the processes during both phases. Providing assistance in terms of sharing expertise, exchange of know-how, providing contact or assistance helps the investee and beneficiary to solve and avoid potential risks.

- **Vision**

The provider of the concessional finance usually has no problem with adapting the vision of combination of profitability and sustainable development, because providers process such projects daily. The purely commercial companies are usually not used to adopting targets and vision that combines profitability, scalability, and sustainable development of an EM. Instilling a sustainable development vision into a commercial company that must be profitable can be challenging, but it is essential for achieving long-term performance during the preparation and implementation process among all stakeholders.

"Commitments are important not only for the people we are talking to, but the whole organization. For example, with a bank, when the project should be successful, it is just not sufficient that the headquarters of the bank are aware of the project purpose. They need to communicate it to the other local offices as well."

Sida's Program Officer

Success requires an internal buy-in within investor's and investee's organization. The project and its vision are designed during the preparation in a group of stakeholders. However, during the implementation, the vision must be communicated by those ones who prepared the project to make successful implementation.

According to Finnfund's Investment analyst for maximising the development impact the investee shares the vision of investor for maintaining sustainable development. Similar thoughts mentioned interviewees Peter Chappell, Jolana Dragounová and Jan Wikturna: *project's vision should be stable and clear for stakeholders from the beginning to the end*. During the preparation and implementation process stakeholders may change. Way how they are engaged in the project processes maintains the project vision. Engagement of the stakeholders enhances project process performance and increases stakeholder's contentment (Project Management Institute, 2021, p. 33). The vision of sustainable development must be clear and well communicated from the beginning of the preparation. That makes base for negotiations about the shared goals, followed by performance measurement and the complete process of preparation and implementation. The vision

of the blended finance projects does not only mean prospect of the sustainable development impact, but also financial returns.

"You have to have a vision, otherwise many of the things would be completely impossible…actually the projects are mainly about vision. The financing is like an easy part in a way. Most of the value of the project comes from the future cash-flow forecasts. Getting assurance what is realistic at the market and getting confidence of capabilities of the sponsors to deliver. That's the really key stuff."

Peter Chappell, Finnfund

This requires a strong business case with reliable prospects of the future profitability. Vision of the future profit combined with project development impact, share the believe that the positive aspects for sustainable development are beneficial for the business and profit as well.

How does this determinant influence the performance at the preparation and implementation phase: When the private company invests its resources into the project that should not aim only on profitability, but also development externalities it is something unordinary in commercial business. To keep the private player on the track and consider both aspects during the decision making requires a strong vision. Otherwise, financial or development performance of the project could be overlooked.

- **Due diligence**

Due diligence is a process of research, analysis, and investigation conducted by individuals or organizations to evaluate a business opportunity, investment, or potential transaction. The goal of due diligence is to gather and evaluate information in order to make informed decisions, mitigate risks, and ensure that all relevant facts are known and considered, before starting the business operation (Chen, 2023).

Due diligence can include a wide range of activities, it depends on what subject is examined (for example bank, manufacturing company, SME) and for what purpose. Financial due diligence means analysing financial statements, tax returns, and other financial data

to assess the financial health of an investee or a business partner. Legal due diligence means reviewing legal documents, contracts, and agreements to assess any legal risks associated with the transaction or investment.

During operational due diligence process are assessed the operational capabilities of a company, including its management, personnel, infrastructure, and systems. Market due diligence may include market research to evaluate the potential market for a product or service, as well as competitive landscape and industry trends. Environmental and social due diligence: Assessing the potential environmental and social impact of a subject's operations, as well as compliance with relevant laws and regulations (Chen, 2023) (CFI Team, 2023).

“Due diligence process of the bank requires looking to their financial performance, staffing, capacity, all of that”.

Sida’s Program Officer

Due diligence should be a part of whole preparation phase and all decision-making process during the implementation. It can help to identify potential risks and opportunities, as well as ensure that all relevant information have been considered before making a final decision (see the due diligence process graphic in the Annex 6). Strong governance and risk management frameworks can help to identify and mitigate risks throughout the project lifecycle. Due diligence process is typically conducted by professionals in a concrete field such as lawyers, accountants, and consultants, who have expertise in the relevant areas and can provide a concrete information about the project in terms of established performance measures.

<u>How does this determinant influence the performance at the preparation and implementation phase:</u> Thinking about due-diligence and adoption of this approach at both analysed stages of the blended finance projects means investing time and energy finding the best possible solutions that leads to the best performance of the project according to stated goals and measures of the project.

6 Conclusion

The chapter aims to answer the research questions by presenting the main findings of the empirical study. Furthermore, theoretical contributions and further research directions are also discussed.

This thesis aims to explore the factors that determine the performance of blended finance projects in EMs both during the preparation and implementation stages of blended finance projects. The research was based on the literature review and official information from four blended finance providers. Previous studies underline general mechanism about the blended finance projects from the implementor's (The International Finance Corporation's Blended Finance Operations, Evans et al., 2020) and investor's (studies: Private sector engagement for sustainable development – Lessons From the DAC, Kindornay, 2016; A How-To Guide for Blended Finance, World Economic Forum & OECD, 2015) perspective, case studies and the best practices. These studies were particularly useful for identification of the project processes and experience exchange. However, none of the previous studies were aimed at identifying the determinants of performance of blended finance projects both during the preparation and implementation stages. Therefore, there was need to study the factors determining the performance of blended finance projects both during the preparation and implementation stages

Empirical part of this research is conducted via six semi-structure interviews from four blended finance providers in order to dig deeper to know the performance determinants during preparation and implementation stages. The interviews were aimed not only on official policies and regulations of the institutions where the interviewees work / worked, but also on their personal opinion and experience of the project preparation and implementation. The interviewees did not talk directly about importance of official policies and recommendations from the resources. The performance determinants mentioned during the interviews were based on the experience from the previous projects. In the following, the conclusions of study are discussed by answering the main research question.

6.1 Answering the research question

What factors determine the performance of blended finance projects during the preparation and implementation stages of the blended finance projects?

The preparation stage determinants and implementation stage determinants along with cross-cutting determinants of performance in blended finance projects are depicted in the form of model shown in figure 3. These determinants are induced from theoretical resources and empirical evidence.

At the preparation stage, the Additionality determinant secures the fulfilment of the gaps in sustainable development; Administration and its set-up are decisive for the productivity and effectiveness of the processes; Standardization helps to avoid unnecessary operations and shortens the time required for each stage; Early involvement contributes to clear communication and buy-in of the stakeholders, and the Risk awareness determinant makes the project performance predictable.

For the implementation stage were identified four key determinants. The Business approach ensures that during the implementation must be taken into account profitability so the project is viable and delivers the development impact consistently; Market knowledge is essential to tackle risks and use the benefits of the target market; Monitoring gives a holistic overview over the project and provides valuable information for the performance enhancement during the implementation, and External influence could be a serious challenge to the project performance and must be considered during the project implementation.

Cross-cutting determinants are Communication and assistance, Vision, and Due diligence. This set of determinants is influenced by the qualities of the project management. All determinants are necessary to keep and maintain the project concept and secure constant performance at both stages.

Each of the determinant's definitions includes description of how the determinant influences the processes on the concrete stage.

However the model does not assemble the complete set of determinants that influence the performance at the examined stages. There might be other determinants connected with the concrete territory or blending instrument.

Moreover some of the determinants influence each other. Several identified determinants of the performance at the preparation stage are pre-determinants of the performance at the implementation stage. For example standardization of some processes and measures at the preparation phase influence monitoring at the implementation phase. Standardization may influence what measures will be monitored and the gathering of the data. That could mean that standardized monitoring measures are added to the unstandardized. Risk awareness at the preparation stage also influences monitoring. According to the concrete country and the identified risks are the monitoring requirements designed. When the risk analysis at the preparation stage is badly performed, in the implementation stage it could mean that the monitoring is performed in a wrong way and that influences the performance. Some potential external influence is overlooked or underestimated. During the implementation such risk could be severe for the project performance and the implementation process could fall down.

The identified determinants correspond to the aim of the research question, however there set of possible performance determinants is not complete.

6.2 Contribution of the thesis

The thesis provides insights about factors determining the performance of blended finance projects in EMs both during the preparation and implementation stages of blended finance projects. The study's findings are an important contribution because there is no prior empirical evidence about factors determining the performance of blended finance projects. Further, another significant contribution is that, instead of identifying general determinants, this study identifies specific determinants of the performance of blended finance projects both during the preparation and implementation stages. Such an approach clearly helps understand which factors at the preparation and

implementation stages of a project impact the performance of the processes at both stages.

Blending is, in theory, one of the most promising ways of financing SDGs. Despite this fact, the mechanism is still not widely used. More practice, communication, and sharing experience among the stakeholders is required to find out the real potential of blended finance projects.

The outcome of this thesis contributes to the solution of the challenges connected with wider blending deployment. Profound knowledge about blended finance projects helps to understand the performance of the projects and so more significant deployment of the blending in reaching sustainable development in EMs.

6.3 Future study

The thesis does not consider the long-term viability of the project for the EMs. There is a potential for future research to consider the long-term sustainability of the project results. Because blended finance projects should support sustainable development, the outcomes must be long-lasting to make a real influence towards reaching sustainable development. Effective outcomes of the projects and support for the markets will ensure that the developing countries are not left behind.

This thesis does not examine the blending instruments into the deep. The focus is aimed at the process performance. The performance determinants for the concrete blending instrument should be examined in the future. Narrowing the topic to only one blending instrument may help uncover the problems in a specific field. Based on the theoretical and empirical research, no financing instrument was identified that would be the best for the project's performance. The choice of concrete blending instrument depends on the provider's capacity and the project's nature. However, there might be performance determinants specific to the concrete blending instrument.

The nature of the project also influences factors of the project's performance. This thesis does not differentiate blended finance projects according to their scope (infrastructure,

energy, support for small and medium enterprises, or agriculture). The determinants identified in this study should be generalizable for all blended finance projects. Except for the determinants that this thesis defines, there might be many other specifics for the concrete project scopes. That could be a topic of future studies for a better and more comprehensive understanding of blended finance projects.

The thesis also stresses the importance of standardizing some blended finance processes and measures. Some initiatives and platforms provide opportunities for experience exchange and support for the blended finance providers (OECD conferences, Convergence). However, none of them provides widely accepted comprehensive data or recommendations on standardizing some blended finance project processes. Future studies should concentrate on if there is any potential for all-embracing standardization and exploration of what processes could be standardized and measured. Also, studying not only the point of view of blended finance providers but also conducting a comprehensive study from the investee's point of view. The set of motivations encourages private companies to involve in blended finance projects and how to support and adjust the blending to make the projects more attractive.

Deepening the knowledge about blended finance mechanisms will bring the blending forward. The financing gap for reaching sustainable development, mitigating climate change, and its consequences is still significant. Finding other resources for financing the countries left behind seems to be one of the biggest challenges for the future of development cooperation and international business. Blending is still perceived as an excellent opportunity to secure the involvement of private resources. Future research about blending should contribute to better knowledge about the mechanism and uncover its potential if there is still any opportunity to use blended finance more effectively.

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Annexes

Annex 1 Semi-structured interview template

QUESTIONS FOR SEMI-STRUCTURED INTERVIEW

This form guides the interview and serves as a template for the interviewer's notes and the interviewee's overview. The filled form cannot be published. The interviewer might use the information from this form only on behalf of writing the master's thesis mentioned in the heading. The interviewee's answers do not represent the opinion of the institution where the interviewee works/worked. The answers are only shared experiences of blended finance projects the interviewee gained while working for the institution. Any of the following questions might be skipped by the interviewee.

Background Questions

Name of the interviewee:
Interviewee's job title:
Name of the institution:

SECTION A: Blending project management

A1) How do You perceive the blending mechanism in terms of project management?
- Does the project have any specifics in comparison with other ones that are financed differently? Especially on preparation and implementation phase.

May You pick one model project? If it is impossible the questions might be answered in general

A2) What is (usual) scope of the project(s)? (*Energy infrastructure, water supply, transportation…*)

A3) Which partners were involved in the project? (*Investor, investee, local partner, local government…*)

A4) Project duration

A5) Size of project (in millions of Euros):

A6) How many blending projects Your institution undertakes in developing countries per year (approximately):

A7) Was any of the projects You ever experienced unsuccessful?

- If so, what was the main reason (*objective circumstances, partner's failure…*)

A8) At what stages does Your institution divide the project? (*Identification, preparation, implementation / monitoring…*)

A9) What activities are performed in these stages?

SECTION B: Project preparation stage

B1) What is decisive in deciding if to perform the project? (Or let it be)

B2) How long is usual preparation phase of the project in Yours institution? (Is it weeks / months)

B3) How is preparation phase in Your institution proceeded?

B4) From Your point of view what determinants at the project preparation stage contributes to the successful preparation? (*Prior experience in the territory or branch, financial health of the investee, prior linkages in the host country or its government, quality of the project plan etc.)*

- If I give You a scale from 1-5 (with 1 as low and 5 as high), how would You rate these determinants for the current projects?

B5) Do You perceive any obstacles / challenges that may cause the project´s preparation default?

- For the provider of concessional finance (or the blending manager)
- For the investee (commercial partner)

SECTION C: Project implementation stage

C1) How is proceeded project implementation in Your institution? (*Involvement of the project manager, monitoring, reporting…*)

C2) What challenges has Your institution faced during project implementation?

C3) From Your point of view what determinants at the project implementation stage contributes to the successful implementation? (*Quality of inter-parties' relationship/understanding/trust/ communication, effective co-ordination between parties, the commitment of parties, support of the government of the host country, stable policies of the government of host country, less security problems in host country, language skills, local administration etc.*)

- If I give You a scale from 1-5 (with 1 as low and 5 as high), how would you rate the determinants for the current projects?

C4) Do you perceive any obstacles / challenges that may cause the project´s implementation default?

- For the provider of concessional finance (or the blending manager)
- For the commercial investor

SECTION D: Project Performance

D1) What criteria does Your institution use to evaluate the project performance and how important are for Your institution to assess the performance of the blending project?

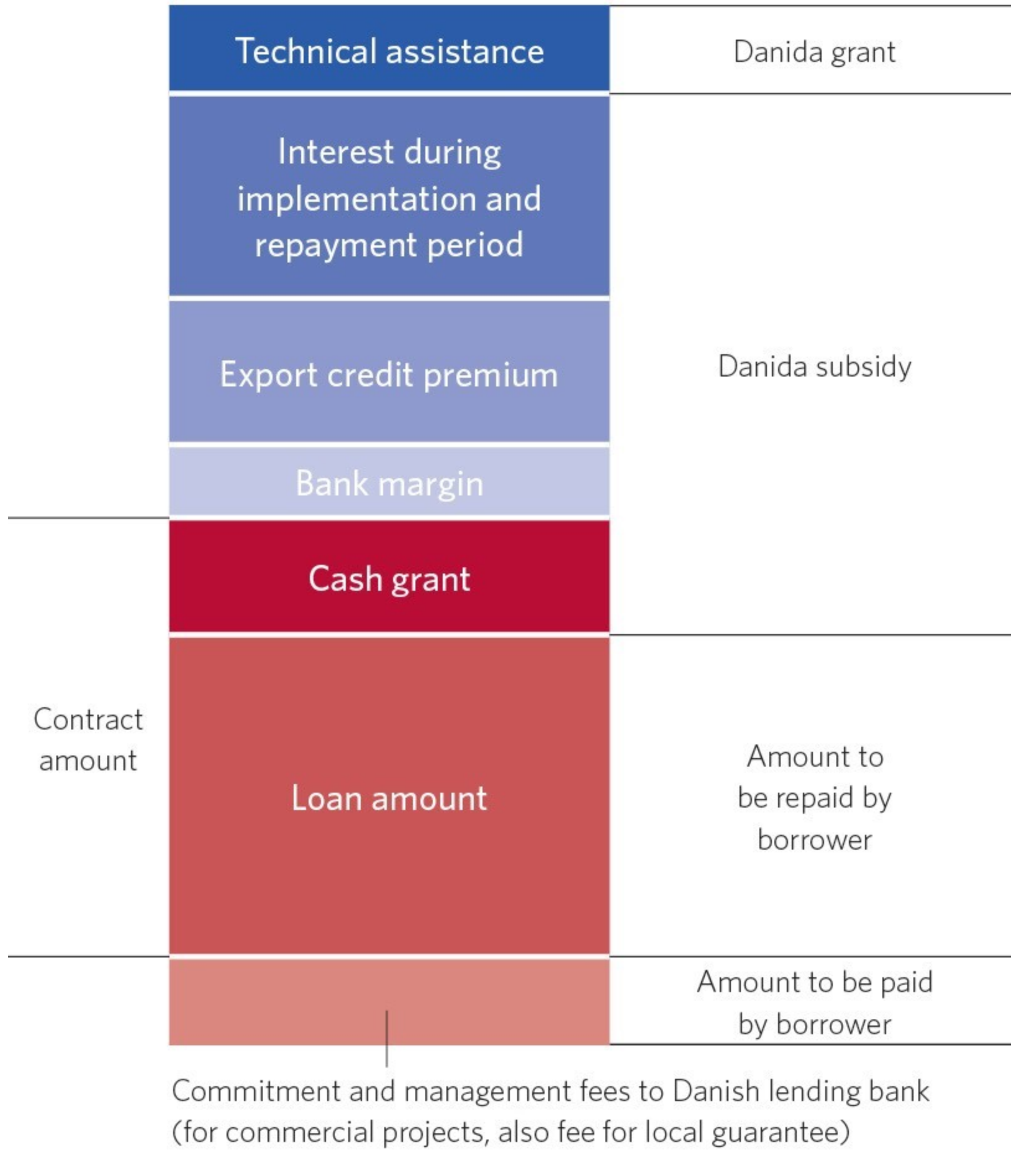
	Importance of the performance measure					
	Very low	Low	Mid	High	Very high	N/A
a) Project’s profitability						
b) Accomplishment of goals						
c) Sticking on the schedule						
g) *Other?*						
h) *Other?*						

SECTION E: Blending in general

E1) Do You think that the blending is used enough for sustainable development of emerging markets?

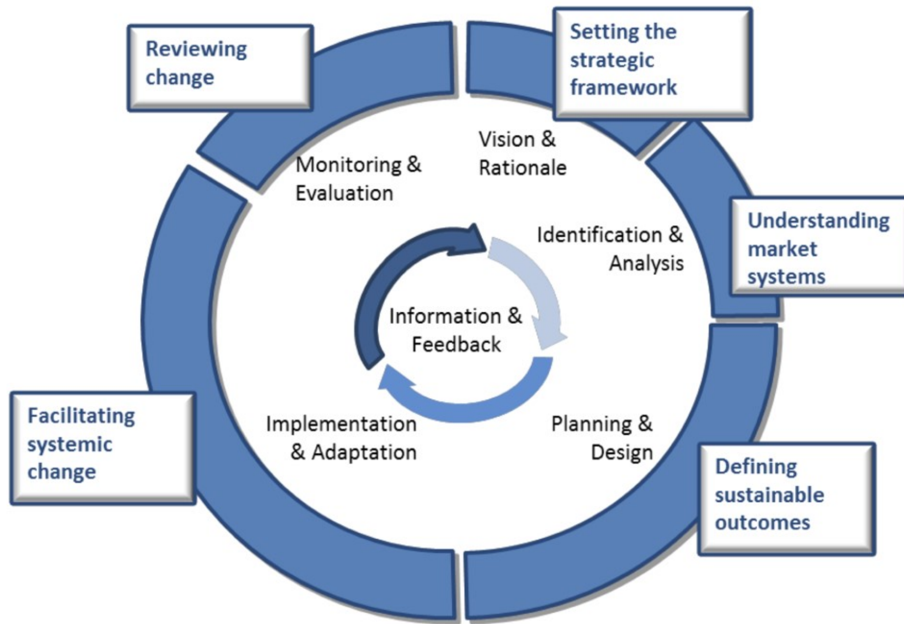
E2) Is there any recommendation You would suggest for enhancement of the blending usage?

Annex 2 Danida financing scheme



(IFU, 2023)

Annex 3 Approach in M4P programmes



(ADA, 2015, p. 13)

Annex 4 Finnfund investment process

Finnfund investment process & criteria

Getting to know the project	Due Diligence & investment proposal	Negotiations & legal agreement	Co-operation & monitoring
Data about sponsor, company / project & operational environment Finnfund principles introduced to company	Additional information & site visit, including discussions with relevant stakeholders	Negotiations & documentation of legal documents, including conditions for disbursement	Annual reporting Monitoring visits Member of Board (equity) Member of advisory committee (funds) Funds disbursed when satisfactory responsibility practices in place

THREE CRITERIA

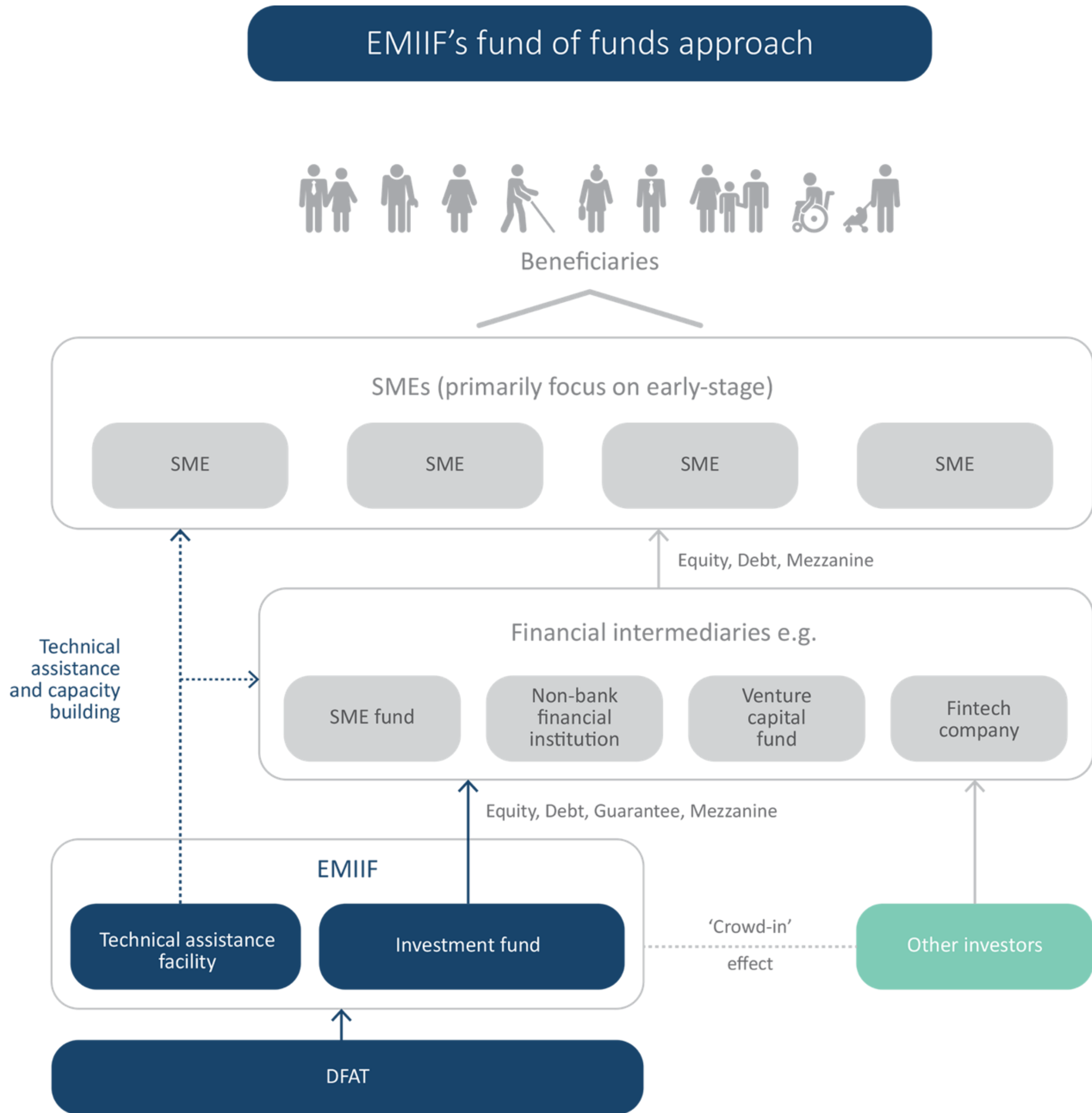
Criterion	Description
PROFITABILITY	Economic viability to generate lasting impact. Financial return that reflects the risk.
ESG	Responsible project implementation based on international standards and Finnfund guidelines.
IMPACT	High potential for measurable and lasting development impact.

2–4 weeks	3–4 months	4–12 months	5–15 years
Clearance in principle	Investment Committee	Board decision	Signing of agreement

EXIT (equity)
REPAYMENT (loan)

(Finnfund, 2023)

Annex 5 EMIIF fund of funds financing scheme



(Whitelum et al., 2021, p. 13)

Annex 6 Due diligence process graphic

(CFI Team, 2023)