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Foreword

It is common knowledge that the lack of infrastructure in Africa is inhibiting the continent’s growth and economic development. There is no doubt of the significant need for investment to address this gap. The potential of Blended Finance within this context is clear.

This guide provides a broad overview of Blended Finance - its uses, its benefits, and the obstacles to its deployment as well as practical recommendations to overcome them.

A recent project – the Beitbridge Border Post infrastructure project in Zimbabwe, which reached financial close in November 2020 - is an excellent example of the practical use of Blended Finance. Bowmans advised on the matter and our learnings are included as a case study.

Due to the multiplicity of acronyms and technical terms used, a glossary of defined terms is also included.

For further information please contact me or any one of the partners included as key contacts.

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Partner

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Defining Elements of Blended Finance

Blended Finance is essentially the blending of ‘Development Finance’ with ‘Additional Finance’. The defining elements of Blended Finance include:

**Development Finance** is a catalyst for Additional Finance

**Development Finance** is external finance and assistance to developing countries, with the purpose of achieving development, specifically sustainable development (usually from funding institutions with a specific mandate to do so).

**Additional Finance** or **Additional Commercial Finance** consists primarily of commercial finance (usually from funding institutions whose priority is return maximisation) that has not specifically been earmarked to achieve development. It is described as additional finance because it is in addition to the finance that would have been available without blending.

In order for finance to constitute Blended Finance, there must be a causal link between Development Finance and Additional Finance: Development Finance should be a catalyst for, and mobilise, Additional Finance.

Certain writers also refer to the ‘crowning in’ of Additional Commercial Finance, which, in the context of Blended Finance, essentially amounts to the same thing as catalysation and mobilisation - the presence of Development Finance leads to an increase or ‘crowning in’ of Additional Commercial Finance.

The objective of Blended Finance is to employ financial mechanisms to ‘shift the risk-return profile’ (i.e. make the returns worth the risk) of transactions and projects in developing countries, thus attracting and mobilising Additional Commercial Finance.

The concepts of catalysation and mobilisation of Additional Commercial Finance are at the core of Blended Finance.

Finance is identified by purpose rather than source

Development Finance and Additional Commercial Finance are not defined by whether they are sourced from the private or public sector. Rather, the purpose of each type of finance is what distinguishes it from the other.

**Blended Finance is transaction/project-specific** and **time-bound**

The **Blending Element** - being the Development Finance contribution - needs to be identifiable and reflected in the financing arrangements of the project or transaction or sector in question.

In addition, the deployment of Blended Finance in a specific transaction or project needs to be ‘time-bound’ in that it should only be used for a fixed time period, in order to ensure that long-term dependence on Development Finance by the project or transaction or sector within which either is implemented is not created.

The long-term goal of Blended Finance is to make the Blending Element redundant - to build a strong enough market that can stand on its own two feet and is attractive to commercial investors on a sustainable basis.

Concessionality is not a prerequisite

The use of Development Finance in Blended Finance is often on concessional terms, but concessionality does not need to be present in order for finance to be classified as Blended Finance.

Concessional terms or concessionality, within the financing context, refers to financing terms that are more generous than market-standard financing terms. Concessionality can be achieved by a finance provider through, for example, offering lower interest rates or longer grace periods than those that are available in the market, or by offering a combination of these.

A primary aim of Blended Finance is to achieve the Sustainable Development Goals

One of the primary aims of Blended Finance is to achieve, or at least assist in the achievement of, the Sustainable Development Goals (SDGs).

Sustainable development has been described as ‘…the overarching paradigm of the United Nations’.

Multiple meanings have been attached to the concept, but it was perhaps best described in the Brundtland Commission Report (a report published in 1987 by the United Nations) as ‘…development that meets the needs of the present without compromising the ability of future generations to meet their own needs.’
Defining Elements of Blended Finance

The SDGs are as follows:24:

- **SDG 1: No Poverty** - End poverty in all its forms everywhere.
- **SDG 2: Zero Hunger** - End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
- **SDG 3: Good Health and Well-being** - Ensure healthy lives and promote well-being for all at all ages.
- **SDG 4: Quality Education** - Ensure inclusive and quality education for all and promote lifelong learning.
- **SDG 5: Gender Equality** - Achieve gender equality and empower all women and girls.
- **SDG 6: Clean Water and Sanitation** - Ensure access to water and sanitation for all.
- **SDG 7: Affordable and Clean Energy** - Ensure access to affordable, reliable, sustainable and modern energy for all.
- **SDG 8: Decent Work and Economic Growth** - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- **SDG 9: Industry Innovation and Infrastructure** - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
- **SDG 10: Reduced Inequalities** - Reduce income inequality within and among countries.
- **SDG 11: Sustainable Cities and Communities** - Make cities inclusive, safe, resilient and sustainable.
- **SDG 12: Responsible Consumption and Production** - Ensure sustainable consumption and production patterns.
- **SDG 13: Climate Action** - Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy.
- **SDG 14: Life below water** - Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
- **SDG 15: Life on Land** - Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
- **SDG 16: Peace, justice and Strong Institutions** - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
- **SDG 17: Partnerships to achieve the Goal** - Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Developing countries have been a primary focus in the quest by global players in achieving the SDGs. A study conducted by the Organisation of Economic Co-Operation and Development (OECD) in 2018 showed that the annual investment gap is USD 2.5 trillion when it comes to achieving the SDGs in these countries.25

To close this gap and achieve the SDGs, increased attention has been focused on financing sustainable development in as effective a manner as possible, with Blended Finance emerging as one of the solutions.27

The idea in this context is to bring together a multiplicity of participants, from the public and private sectors, who will work together and leverage off one another to solve the challenges that hamper the achievement of the SDGs.28

Despite the fact that there is no shortage of worldwide capital, an ‘unfavourable risk-return’ profile constrains commercial investors from investing in transactions and projects in developing countries.29

It is believed that this is where Blended Finance can make a difference: by deploying Development Finance to improve the risk-return profile of such transactions and projects, Blended Finance can attract Additional Commercial Finance, assist in demonstrating the viability of the transactions and projects and, hopefully, build markets in the mid-to long-term that will attract further commercial capital for development, without the further need for the Blending Element.31

Footnotes:
25 Ibid at note 1.
26 Ibid at p22.
28 Ibid at note 1, at pp5 and 81.
29 Ibid at note 1, at pp5 and 81.
30 Ibid at note 1, at p15 and p121.
Sources of Blended Finance

Development Finance and Additional Commercial Finance are identified by purpose rather than source. Both sets of finance can be sourced from the public and the private sector. Some examples of role players from both sectors are set out below.

Development Finance Participants

- **Donor governments, government ministries and bilateral aid agencies**
  - Donor governments, government ministries and bilateral aid agencies generally participate in Blended Finance by providing grants and other concessional financing.
  - Donor governments usually blend with commercial actors indirectly, either through Bilateral Development Banks (BDBs), Multilateral Development Banks (MDBs) and other Development Finance Institutions (DFIs) and intermediaries, or through funds or other mechanisms managed by third parties.
  - On occasion, they do participate in blending directly with commercial actors but this is less common.

- **BDBs, MDBs and DFIs**
  - Both public and private sector operations of BDBs and MDBs provide finance for, and manage, Blended Finance funds and facilities, whereas specialised private sector DFIs play an important role in blending by providing a range of instruments and structuring mechanisms to mobilise the commercial sector.

While BDBs, MDBs and other DFIs have been described as critical role-players in Blended Finance, public sector operations of BDBs and MDBs provide concessional financing and grants and work principally in the public sector, including with state-owned entities (SOEs), while private sector operations of such entities hail from a specific mandate to engage with the private sector.

Private sector DFIs and the private sector operations of BDBs and MDBs provide instruments in various forms (such as equity, loans, guarantees, insurance and technical assistance) to private sector projects and companies, most often on non-concessional terms.

The mandates of DFIs include: generating returns on the capital their shareholders provide to them and supporting projects with a positive development impact in the private sector in developing/emerging markets.

Philanthropic investors

Private philanthropy is an important source of Development Finance. In this context, philanthropies are known for having relatively low risk-aversion levels and for being willing to invest in innovative financing models and business concepts.

In recent years, there has been an expansion in the levels and types of philanthropy in developing countries. The sources of, and support for, philanthropy in or to these countries include, amongst others, wealthy families and businessmen, corporate foundations with ties to local businesses, and private foundations based in more developed countries.

Commercial investors

Examples of commercial investors participating in Development Finance include institutional investors, commercial banks and corporations. Institutional investors, such as insurance companies, pension funds, and investment funds are influential in decisions surrounding the allocation of Development Finance capital as they, collectively, manage a significant amount of capital.

Infrastructure funds represent a growing portion of institutional investment in infrastructure. The use of these funds in developing countries demonstrates an increasing opportunity for developing countries to attract both domestic and foreign sources of Additional Commercial Finance for blending.

Commercial banks contribute to blending by providing debt funding to a range of transactions and projects in various sectors in developing/emerging economies.

Footnotes

Blended Finance Instruments and Mechanisms

Blended Finance approaches can be broadly divided into two categories: instruments and mechanisms.

Instruments

A range of instruments can be utilised either alone or together to address the unfavourable risk-return profile of investments in developing countries. Examples include the following:

- **Direct investment of debt and equity**

  The standard types of financial instruments for direct investments in both corporate and project finance are debt and equity instruments. Development Finance Providers may, for example:

  - provide debt in the form of mezzanine loans, which take a subordinated position to the senior funding provided by Additional Commercial Finance Providers, with repayment of such mezzanine loans and interest thereon ranking behind repayment of the senior funding; and/or
  - provide equity which takes a subordinated position to all debt financing, with shareholder loan repayments and distributions ranking behind such debt financing.

- **Bonds**

  A bond can be defined as ‘…a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). A bond could be thought of as an I.O.U between the lender and the borrower that includes the details of the loan and its payments’. The owner of a bond is the creditor of the issuer of that bond.

  Because bonds generally suffer less from the ‘day-to-day volatility’ that characterises many other types of instruments, they are considered to be more secure than such instruments.

  Bonds have been said to be a dominant class of instrument favoured by fund managers in OECD countries. In the infrastructure project context, for example, insurance can cover political risk, technical risk, physical risk and climate risk.

- **Guarantees and insurance**

  Guarantees and insurance can protect against political, government and commercial risks.

  So-called guarantees and insurance can be categorised as two categories: instruments and mechanisms.

  - **Guarantees**

    Guarantees and insurance can protect against political, government and commercial risks. Such a guarantee is an obligation on the part of a guarantor to pay to the creditor an agreed-upon amount of a loan or amount owing under another financial instrument upon the occurrence of a specified event.

    - **For example:** if the party whose obligations are being guaranteed cannot repay the outstanding under such loan or instrument, or in the event that the project or transaction in question fails as a result of a political or government event (such as political unrest or expropriation).

  - **Grants and technical assistance**

    Grants or ‘aid’ are direct monetary contributions to a project, fund or sector without the expectation on the part of the grant provider of repayment.

    Official Development Assistance (ODA), for example, is government aid which is designed to promote the development of developing countries. ODA can be provided bilaterally, by donor to recipient, or channelled through multilateral development agencies, such as the United Nations or the World Bank.

    Technical assistance can consist of a range of activities such as feasibility studies, policy advice, capacity-building, awareness raising, engagement with regulators to address unstable or uncertain regulatory environments, which all aim at boosting investor confidence.

    Development Finance participants thus bring more than finance alone to Blended Finance transactions.

- **Hedging**

  Hedging against foreign exchange and interest risk is often required in Development Financing transactions in order to attract adequate Additional Commercial Financing. As the premium attached to hedging instruments is often quite expensive in the Development Finance context, multilateral organisations and currency exchange funds, capitalised by donor countries, sometimes step in to offer more cost-effective options.

Footnotes

1. Ibid at p27.
3. Ibid at p25.
4. Ibid.
6. Ibid at p10.
7. Ibid at p85. Also see: CGAP, Development Finance Institutions and Financial Inclusion: From Institution-Building to Market Development, https://www.cgap.org/sites/default/files/Investment-DFIs-PDF_0.pdf and the Convergence Article at p10. The latter article states that guarantees/ risk insurance are used by the public and philanthropic development finance providers to transform capital markets and enable adequate Additional Commercial Financing transactions in order to attract adequate Additional Commercial Financing. As the premium attached to hedging instruments is often quite expensive in the Development Finance context, multilateral organisations and currency exchange funds, capitalised by donor countries, sometimes step in to offer more cost-effective options.
8. Ibid at p83.
9. Ibid.
11. Ibid.
12. Ibid.
Blended Finance Instruments and Mechanisms

Mechanisms

Blended Finance mechanisms can be used to structure instruments\(^1\). Examples include the following:

- **Funds**
  - Funds are legal entities in which participants pool their resources to subsequently own equity\(^2\).
  - Funds can use different types of instruments in their investments in projects or transactions\(^3\). They can be structured in a manner which exposes all investors to the same risk-return profile (a flat structure) or in a manner that provides for some investors to have subordinated repayment claims compared to more senior investors (a layered structure)\(^4\).
  - Development Finance providers can use Funds to mobilise Additional Commercial Finance at multiple levels. They can blend their capital with that of Additional Commercial Finance providers within the structure of the Fund itself or the Fund can be used by Development Finance Providers to support Blended Finance transactions at a project level and crowd in Additional Commercial Finance for particular projects.\(^5\)
  - Examples of funds include:
    - the United Nations Capital Development Fund (UNCDF), which targets the reduction of poverty in the world’s 47 least developed countries\(^6\);
    - the Central Africa SME Fund (CASF), a fund that provides private equity, long-term debt and technical assistance to small-to-medium sized enterprises (SMEs) in the Democratic Republic of Congo and Central African Republic. The fund’s goals include: encouraging entrepreneurship and creating a service; agricultural and local manufacturing base to provide locally produced goods and services to Central African economies\(^7\);
    - the Global Energy Efficiency and Renewable Energy Fund (GEEREF), which exclusively targets the energy sector; and
    - the German Investment Corporation’s (DEG’s) up scaling programme for SMEs, which focuses solely on Africa but targets a range of sectors - energy, communications, banking and financial services and health and agriculture\(^8\).

- **Facilities**
  - Facilities within the Blended Finance context...pool donor government financing towards blending\(^9\). They do not engage commercial finance investors directly but provide the finance that MDBs, BBIs, other DFIs and other intermediaries can use to crowd in Additional Commercial Finance\(^10\).
  - Facilities can provide a range of the instruments - grants, loans, equity, guarantees and technical assistance being among them\(^11\).
  - Facilities that target a specific geographical area usually target many sectors, whereas Facilities that are mandated to tackle a specific issue across multiple jurisdictions usually focus on fewer sectors\(^12\).

Examples of Facilities include the following:

- the IFC-Canada Climate Change Program\(^13\), a partnership between the Government of Canada and the International Finance Corporation (IFC), established in March 2013\(^14\). Funding provided by the program is invested on concessional terms and blended alongside IFC’s own funds ‘to enable climate change investments into renewable energy, sustainable energy lending, energy efficiency improvements and other innovative, low-carbon projects in developing markets’\(^15\);
- the following International Development Association (the concessional arm of the World Bank)\(^16\) facilities:
  - a local currency facility for markets with no or limited currency hedging solutions, which offers hedging solutions to eliminate or limit foreign exchange risk in such markets;
  - a risk mitigation facility, which provides project-based guarantees to infrastructure projects that do not have sovereign backing;
  - a multilateral investment guarantee facility, which expands the coverage of Multilateral Investment Guarantee Agency (MIGA) guarantees through risk participation and ‘shared first-loss’ and the Global SME Finance Facility\(^17\), a Blended Finance partnership focusing on ‘helping to close the finance gap faced by SMEs in emerging markets’\(^18\). The Facility’s aim is to catalyse access to Additional Commercial Finance for the most underserved SME segments, such as SMEs in fragile countries, very small enterprises and women-owned SMEs\(^19\).

Subordination

Subordination by certain investors shields other investors from losses incurred by an entity, project or portfolio of assets\(^20\), or at least mitigates the risk of loss to such investors.

In the case of individual companies or projects, for example, subordinated debt providers and subordinated equity providers (Subordinators) absorb a higher risk, compared to senior debt providers and equity providers that are not subordinated (Unsubordinated Finance Providers), in that they will only be repaid their debt/equity if and when Unsubordinated Finance Providers are repaid. In instances where subordinators have insufficient funds to repay all debt and equity, therefore, Subordinators will be repaid less than what is due to them or will not be repaid at all. This is sometimes referred to as taking a ‘first loss’ position\(^21\).

In the context of Blended Finance, Development Finance providers would be the subordinators and Additional Commercial Finance providers would be the ones shielded from potential risks by virtue of such subordination\(^22\).

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Footnotes:

1. Ibid at p101.
2. Ibid.
3. Ibid at p98.
4. Ibid at p97.
5. Ibid at pp86 and 101.
6. Ibid at p86.
7. Ibid at p86.
8. Ibid at p86.
10. Ibid at p101.
11. Ibid at p101.
12. Ibid at p101.
13. Ibid at p101.
15. Ibid at p101.
16. Ibid at p101.
17. Ibid at p101.
18. Ibid at p101.
19. Ibid at p101.
20. Ibid at p101.
22. Ibid at p101.
 Syndicated loans

In the Blended Finance context, syndicated loans are provided by a group of lenders, usually consisting of a mix of Development Finance Providers and Additional Finance Providers (in certain instances, from both public and private sectors). The division of the loan leads to risk diversification and the presence of certain Development Finance providers, such as BDBs, MDBs and other DFIs, boost investor confidence and allows for a reduction in transaction costs.93

PPPs

Public Private Partnerships (PPPs) combine a range of blending instruments and constitute a mechanism to crowd in Additional Commercial Finance94. They also constitute an SDG in themselves – SDG 17 (Partnerships to achieve the Goal)95.

Although there are varying definitions of PPPs, perhaps the simplest way to describe them is as ‘…any contractual arrangement between a public entity, or authority, and a private entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility’96.

One of the main motivations for structuring a project as a PPP has been said to ‘achieve efficiency gain in the provision of infrastructure assets and services’97. For example, a PPP in the water sector of a developing country can achieve an increase in the number of people connected to improved water services, as well as increase overall water supply quality and reliability.98

Footnotes

93 Ibid at p87.
94 Ibid at p88.
97 Ibid at p3.
98 Ibid at p5.
Obstacles and Recommendations

The Evidence Gap

Evidence and information on Blended Finance is sporadic. There are useful case studies that are published from time to time, but pooled information and evidence bases are lacking[1].

This constitutes a barrier to the crowding in of Additional Commercial Finance as it constrains efficient pricing of capital by Additional Commercial Finance providers[2].

For example, information is needed on:

• the magnitude and concessionality of Development Finance that is being channelled towards Blended Finance approaches and what Additional Commercial Finance is being mobilised as a result[3];
• who has benefited from Blended Finance mechanisms and who has not[4];
• what conditions determine when it is worthwhile to bring in Additional Commercial Finance[5];
• how Blended Finance is allocated in terms of countries, sectors[6] and markets[7];
• what impact has been achieved through blending[8]; and
• how different Blended Finance instruments result in different social and environmental impacts, and under what circumstances[9].

Various efforts have been made to map the Blended Finance market, but none of these has managed to cover the entirety of finance flows in a consistent and comparable way[10].

Much of the information on Blended Finance has been focused on Funds and Facilities, and whilst this information has provided insights into Development Finance deployed and Additional Finance mobilised, they do not provide information on what happens outside of Funds and Facilities[11].

In addition to information being critical to the development of Blended Finance on an overall level, transparency and sufficiency of information is key at the specific transaction or project level to ensure fair competition amongst potential Additional Commercial Finance providers. This is crucial, particularly in the infrastructure PPP context where procurement of public services takes place via private sector investors[12].

A lack of information and transparency undermines the use of Blended Finance and the potential for market growth[13].

Lack of Guidelines

There is currently no ‘blueprint’ for the effective use of Development Finance to unlock Additional Commercial Finance[14]. In-depth guidelines on the principles surrounding Blended Finance are required to ensure its effectiveness[15].

Whilst there currently appears to be more familiarity with the concept of Blended Finance than has been the case in the past, there is still a lack of understanding on how to use Development Finance to de-risk, or reduce the risk of transactions and projects and attract Additional Commercial Finance[16].

Crowding out of Investors

If concessionality is required to crowd in Additional Commercial Finance, it needs to be kept to a minimum[17]. There should be just enough concessionality to make a project or transaction attractive to potential Additional Commercial Finance providers[18].

The objectives should be to minimise market distortions, not to ‘over-subsidise’ the private sector[19], and to avoid generating unfair competition (i.e. “crowding out”) for potential Additional Commercial Finance investors that would be unable to match the terms of a blended structure[20].

In addition, concessional resources should not become a substitute for, nor delay, nor disincentivise, more sustainable commercial or policy interventions, such as reform aimed at improving the enabling environment[21].

Other Obstacles

Other obstacles to the crowding in of Additional Commercial Finance continue to persist. For example, in the infrastructure sectors of developing countries, in particular, there is a lack of bankable project or transaction pipelines[22], high development and transaction costs[23], a lack of viable funding models[24], inadequate risk-adjusted returns[25], unstable or uncertain regulatory frameworks[26], inadequate public budgets[27], political risk, and foreign exchange volatility[28], weak institutions and rule of law[29] (which could, for example, result in risks surrounding contract enforcement[30]), informality of economies[31], poor corporate governance standards[32], underdeveloped capital markets[33] and lack of essential physical infrastructure[34].

As the risks grow, investor demands for higher returns or shorter maturities for instruments will also grow[35]. This results in Additional Commercial Finance being overly expensive or its future availability being uncertain, with the ultimate result that the transaction in question is likely to be deemed unviable at the outset or become unviable down the line[36].

‘As a result, private investors will continue to seek other alternatives that better balance returns with risks associated with the investment, even if this means keeping their assets in developed countries with far lower returns or yields[37].

Institutional and regulatory reforms are needed to make the development of infrastructure in developing countries more attractive to commercial investors, generate project and transaction pipelines and encourage PPPs[38]. Donor countries need to continue to encourage regulatory reform, the rule of law and international engagement that encourages stability, peace and global co-operation in order to address factors which hamper sustainable development[39]. It is also important to emphasise that Blended Finance is not a silver bullet for solving all of the challenges involved in mobilising Additional Commercial Finance to achieve the SDGs[40]. It is only one part of a variety of development mechanisms that need to be consolidated to drive sustainable development and achieve the SDGs[41]. Other mechanisms that it needs to collaborate with include ‘sharing knowledge, funding research, advancing policy dialogue, and building up the local capacity[42] of developing countries’[43].

Traditional forms of Development Finance also need to continue to be invested outside of the context of Blended Finance in order to continually foster the development of developing countries[44]. Such finance should thus work in parallel with Blended Finance in addition to constituting the blending element.
The Beitbridge Border Post Project - A Practical Example of Blended Finance in Infrastructure

Background

Bowmans recently advised the sponsors in connection with the Beitbridge Border Post Project - a project involving the modernisation and refurbishment of the border post situated on the border between South Africa and Zimbabwe (Project). The Project is a PPP between the Republic of Zimbabwe (RoZ), acting through the Minister of Transport and Infrastructural Development (MoTID), and a project company SPV incorporated in Zimbabwe (Project Company).

The principal aim of the Project is to eradicate inefficiencies that have historically been experienced at the border post. These inefficiencies have been caused by, amongst others, high traffic volumes, impaired physical and information and communications technology (ICT) infrastructure and a lack of information exchange among key statutory functions. Such inefficiencies have not only had a negative impact on travel by road (including travel by suppliers delivering key goods and services to neighbouring countries) but have resulted in grave revenue losses for Zimbabwe.

The manner in which the Project aims to address such inefficiencies is to construct a transit toll system where tolls can be paid either online (in advance of reaching the border post itself, but infrastructure surrounding it such as parking lots and a tourism centre. The Project therefore contributes to the following SDGs: SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry Innovation and Infrastructure) and, of course, SDG 17 (Partnerships to achieve the Goal).

Initial Barriers to Bankability

Achieving financial close on the Project was no easy feat. The Project was awarded preferred bidder status in 2018 and reached financial close over three years later, in November 2020. Many barriers needed to be overcome in order to make the Project bankable. These barriers included:

- **Political risks and uncertainty**
  - There was a change in political leadership in November 2017, with a new President and Cabinet being put in place in December 2018, following general elections in July 2018.

- **Unstable economy**
  - The Zimbabwean economy suffers from rampant inflation and therefore currency exchange risks.

- **Regulatory risk**
  - The regulatory framework surrounding the Project could be described as untried and untested. There are multiple statutes governing PPPs and joint ventures in Zimbabwe, some of which work in conjunction with each other and, in the absence of a track record of a PPP of this nature, there was a risk that the Project would be deemed to be governed by the incorrect piece(s) of legislation (both from a procurement and continuing governance point of view), which could lead to uncertainty and possible challenges by interested and affected parties, or by the RoZ government itself, down the line.

- **Lack of government contract templates**
  - Due to the lack of a track record of a PPP of the nature of the Project, there were no adequate templates of government contracts required to implement the Project. Such contracts therefore needed to be drafted and negotiated by advisors to the Project.

COVID-19

COVID-19 had, and continues to have, a negative impact on global economic activity. In the context of the Project, it delayed financial close and disrupted early works, conceptual design formulation, negotiations with the RoZ Government and applications for key project permits in the jurisdictions in which the Project was being implemented – being Zimbabwe, Mauritius and South Africa. It also reopened negotiations with the RoZ on force majeure clauses under the Concession Contract, with political risk insurers on political risk insurance cover and with the lenders with regard to the cost of debt funding and the base case financial model (the projections of which had to be adjusted, due to the adjustment on traffic studies as a result of the anticipated drop in gross domestic product).
The Beitbridge Border Post Project - A Practical Example of Blended Finance in Infrastructure

Blending to mitigate risks

The Project makes use of Blended Finance in various ways:

- **It is structured as a PPP**

  The PPP structure is a mechanism which allows the various Project participants to contribute their investments, knowledge and technical abilities in a manner that allows for a favourable risk/return profile.

- **DFIs are involved**

  Two of the lenders are DFIs - the Cairo branch of the African Export-Import Bank (Afreximbank) and The Emerging Africa Infrastructure Fund Ltd (EAIF), located in Mauritius and acting through its agent, Ninety One SA (Pty) Ltd (a South African financial institution). These DFIs not only bolstered investor confidence by virtue of their mere presence on the deal, but also by making use of Blended Finance instruments.

  In addition to being senior lenders to the Project, Afreximbank is a provider of political risk insurance to one of the equity providers to the Project, and EAIF is a mezzanine lender in respect of a portion of the debt advanced by it and thus takes a subordinated position to that of the other lenders with regard to this portion.

  The DFIs thus play a critical role in crowding in finance from the other investors – the equity providers to the Project (consisting of funds and companies in South Africa, the British Virgin Isles, and Mauritius) and the other senior lenders to the Project (consisting of four of the major South African banks: Absa Bank Ltd; FirstRand Bank Ltd, The Standard Bank of South Africa Ltd and Nedbank Ltd).

- **Blending instruments and mechanisms are used**

  In addition to the PRI cover provided by Afreximbank to one of the equity providers, PRI cover is provided by the Export Credit Insurance Corporation of South Africa SOC Ltd (ECIC) and other political risk insurers at both a debt and equity level.

  Other instruments and mechanisms include the following:

  - **Subordination**
    In addition to EAIF taking a subordinated position in relation to the other debt providers, the equity providers take a subordinated position in relation to all debt providers. Distributions and shareholder loan repayments will only occur once the Project has achieved certain milestones. They are also at the bottom of the cashflow waterfall, with debt and other Project costs taking priority.

  - **Hedging**
    Hedging arrangements were entered into between hedging divisions of four of the major South African banks and the Project Company’s holding company (the latter being the borrower of the equity and debt provided to the Project) in order to hedge currency and interest rate risk relating to the Project.

  - **RoZ termination payment**
    In the event of termination of the government agreements due to a default on the part of the RoZ, the RoZ is obliged to make a termination payment to the Project Company. The existence of this mechanism provided the debt and equity providers with comfort in the context of certain of the risks mentioned above (i.e. political risk and uncertainty, an unstable economy and regulatory risk).

Conclusion

Blended Finance can be a useful tool for crowding in Additional Commercial Finance and making otherwise non-viable projects and transactions viable. Although there are gaps in information, policies and rules surrounding its deployment, individual case studies have proven its efficacy - the Beitbridge Border Project in Zimbabwe being one such study.

Blended Finance cannot be expected to carry the burden of achieving the SDGs alone, however, but must be viewed as part of a broader solution. Other mechanisms contributing to such a solution include, amongst others, information gathering and distribution, policy development, co-ordination between stakeholders, regulatory reform and the continued deployment of Development Finance (both in the form of financial investment and technical expertise) in developing countries, in parallel with its deployment as part of the Blended Finance solution.
Glossary of Defined Terms

Additional Finance or Additional Commercial Finance means commercial finance that does not have an explicit development purpose and that has not primarily targeted development outcomes in developing countries\(^{48}\).

Afreximbank means African Export-Import Bank\(^{149}\).

BDBs means Bilateral Development Banks. These are types of DFIs which are set up (or chartered) by one country for the purpose of implementing that country’s foreign development/ cooperation policy\(^{150}\).

Beitbridge Border Post Project means a project involving the modernisation and refurbishment of the border post situated on the border between South Africa and the RoZ.

Blended Finance means the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries\(^{151}\).

Blending Element means the contribution provided by a provider of Development Finance\(^{152}\).

Card Present Transaction means a transaction whereby tolls payable at the Beitbridge Border Post in Zimbabwe are paid at the border post through the use of ICT card technology.

Card Not Present Transaction means a transaction whereby tolls payable at the Beitbridge Border Post in Zimbabwe can be paid (or prepaid, as the case may be) online

CASF means the Central Africa SME Fund\(^{153}\).

CPA means the Currency Framework Agreement entered into between the RoZ and the Project Company in connection with the Beitbridge Border Post Project.

DEG means the German Investment Corporation\(^{154}\).

Development Finance means public and private finance that is being deployed with a development mandate\(^{155}\).

DFIs means Development Finance Institutions. These are financial institutions which provide financing to investors in poor or developing countries\(^{156}\).

ECIF means the Export Credit Insurance Corporation of South Africa SOC Limited\(^{157}\).

Facilities, within the Blended Finance context, means a mechanism used to pool donor government financing and allocate it to address specific issues in one or more geographical area(s)\(^{158}\).

Funds means legal entities in which participants pool their resources in order to subsequently own equity\(^{159}\).


ICT means information and communications technology.

IFC means the International Finance Corporation\(^{160}\).

MBDs means Multilateral Development Banks. These are types of international DFIs which are set up (or chartered) by two or more countries for the purpose of encouraging economic development in poor/ developing countries. MBDs consist of members from both developed countries and developing countries\(^{161}\).

MIGA means the Multilateral Investment Guarantee Agency\(^{162}\).

MoTID means the Minister of Transport and Infrastructural Development of the RoZ.

ODA means Official Development Assistance, being government aid which is designed to promote the development of developing countries\(^{163}\).

OECD means the Organisation of Economic Co-Operation and Development, an international organisation that brings together the OECD Member Countries and a range of partners that collaborate on a range of social, economic and environmental issues at global, national and regional levels\(^{164}\).

OECD Member Countries means the 37 countries that are members of the OECD\(^{165}\).

PRI means political risk insurance.

Project Company means the project company responsible for the implementation of the Beitbridge Border Post Project, being Andalusia Investments (Private) Limited, trading as Zimborders.

RBZ means the Reserve Bank of Zimbabwe\(^{166}\).

RoZ means the Republic of Zimbabwe.

SDGs means the Sustainable Development Goals, a set of 17 goals formulated by over 150 world leaders at the United Nations Summit in 2015, with the overall aim of achieving Sustainable Development\(^{167}\).

SLA means the Service Level Agreement entered into between the RoZ and the Project Company in connection with the Beitbridge Post Project.

SMEs means small to medium sized enterprises.

SOEs means state-owned entities.

Sustainable Development means development that meets the needs of the present without compromising the ability of future generations to meet their own needs\(^{168}\).

UNCDF means the United Nations Capital Development Fund\(^{169}\).

Notes

4. Ibid at 1.
5. Ibid at 2.
6. Ibid at 12.
8. Ibid at 11.
9. Ibid at 12.
10. Ibid at 12.
11. Ibid at 12.
12. Ibid at 12.
13. Ibid at 12.
15. Ibid at 12.
16. Ibid at 12.
17. Ibid at 12.
18. Ibid at 12.
19. Ibid at 12.
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166. Ibid at 12.
167. Ibid at 12.
168. Ibid at 12.
169. Ibid at 12.
170. Ibid at 12.
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Our expertise is frequently recognised by independent research organisations. Most recently, our Kenyan practice won the 2022 Chambers Africa Award for Law Firm of the Year in Kenya. In 2022, Bowmans won six IFLR Africa Awards including overall M&A Team of The Year; Jurisdictional Firm of the Year: South Africa; Loans Firm of the Year: South Africa; M&A Firm of the Year: South Africa; and Project Finance Firm of the Year: South Africa. We also advised on the deal named M&A Deal of the Year. At the 2022 Africa Legal Awards, we won four practice awards including Banking and Finance Team of the Year; Capital Markets Team of the Year; Tax Team of the Year and Transportation and Infrastructure Team of the Year.

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