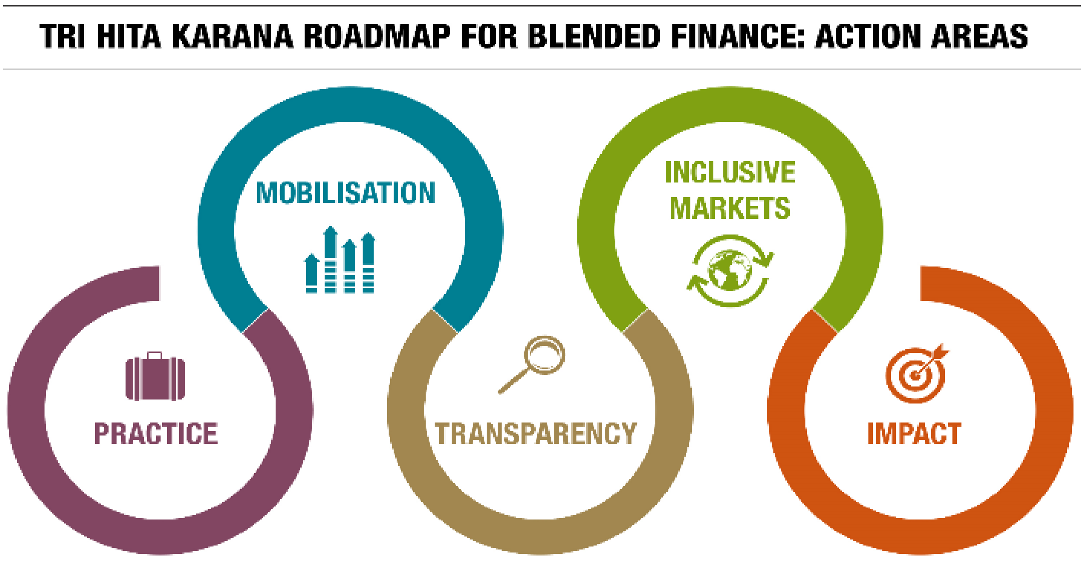
A CHECKLIST FOR ASSESSING THE IMPACT OF BLENDED FINANCE ON THE POOR

The Tri Hita Karana Roadmap for Blended Finance Impact Working Group



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INTRODUCTION

The challenge

Responding to the SDG objective of "reaching the furthest behind first", many blended finance providers prioritize the goal of increasing the well-being of the poor and marginalized. Some blended finance investments have direct benefits for poor households, poor consumers, businesses owned and run by the poor, and smallholder poor farmers. Others have impact on the poor through their contribution to market creation and/or changes in behavior of other market actors in ways that expand and strengthen markets for the poor. The poor can also benefit from investments that support broader economic growth and increase productivity or environmental sustainability. Whatever the expected causal chain, blended finance providers must find some way of measuring investment impacts[1] on the poor.

Some blended finance providers have developed comprehensive impact measurement frameworks that include specific indicators for impact on the poor. But such comprehensive frameworks are often costly and time-consuming to develop and implement. Many other providers, both public and private, lack credible and practical means to identify whether poor beneficiaries profit (or suffer losses) from proposed and selected investments, and, if so, how much blended finance impacts poverty reduction and the aim to leave no one behind. The result can be poorly-informed project selection for those interested in targeting the poor, and weak ex-post impact measurement.

The purpose

The THK Impact Working Group can make a useful contribution to this challenge. Drawing on participants' experience and practice, the Working Group can pull together practical guidance for assessing the impact of blended finance on the poor for a wide range of blended finance providers. This includes those providers with limited human and financial resources for predicting and measuring impact. The following checklist is designed to provide such practical guidance through elaborating: (a) a comprehensive set of questions blended finance providers should ask themselves ex ante regarding the expected impact of the investment on the poor, (b) what can and should be measured ex post to assess impact in each area, and (c) questions or screening considerations blended finance providers can use ex ante to explore potential risks of negative impact on the poor. The checklist covers issues concerning: (1) access to the investment's benefits for poor producers and consumers, (2) changes in costs to poor consumers and producers, (3) income and wealth effects for the poor, (4) basic needs and vulnerability, (5) empowerment of the poor and capacity building, (6) standards protecting producers and consumers, and (7) building and financing markets serving the poor.

The rationale for this checklist is not meant to imply that all blended finance investments should exclusively or even principally target the poor. But, for those investors seeking benefits for the poor, it helps to ensure that important questions on who will be impacted and how are asked before and after the investment.

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[1] The term impact here is used to refer to expected or generated 'positive or negative, intended or unintended effects' of the intervention (compare DAC Evaluation Criterion 'Impact'). As used in this checklist, this included outputs, outcomes and higher-level, transformative impacts.

What we mean by the poor or poverty

The checklist does not rest on a particular definition of the poor. Blended finance providers using the checklist can decide what best suits their mission. The definition of poverty could be based on income or on indirect indicators that correlate with income, or it could focus more on being excluded or underserved by existing markets. The poverty line could be established by national authorities or by multilateral institutions. It is important, however, that blended finance providers are explicit and transparent on how they define the poor for the purpose of the transaction and how they will measure impact on poor beneficiaries.

In some cases, blended finance providers will define the focus on poverty in terms of whether the investment is made in a low-income country or in a low-income region within a country. The checklist includes questions regarding mobilizing private finance in poor regions or countries to address those cases.

Intended use

The checklist is intended to be used by any blended finance provider interested in measuring the impact of a transaction on poor beneficiaries, on markets that serve the poor, or on standards and institutions that protect or empower the poor. It is up to each blended finance provider to assess the importance of benefits for the poor in its mission, in its portfolio, and in individual transactions. There is no intention to impose a specific definition of blended finance—both the DFI or OECD variants are relevant. We anticipate that the emphasis on benefiting the poor is particularly salient in transactions that include a concessional or aid element because many donors seek to prioritize use of scarce grant or other concessional resources to benefit the poor. But the checklist may also be used in fully commercial blended finance transactions.

Design objectives

The aim is to build a tool that is simple to use for a broad range of blended investors and transactions. For this reason, the ex-ante questions can generally be answered with a yes or no, and they are constructed to be as objective as possible – though subjective judgments are inevitable in some cases.

The checklist is intentionally comprehensive to offer blended finance providers a way to assess impact on the poor for most kinds of transactions. Only a subset of questions will be relevant for any given transaction.

The tool is offered as a public good for decision-making and knowledge sharing purposes. A contribution to the formulation of the tool by any Working Group member does not imply that the tool will be used by the member's institution.

What is not covered

This checklist is not intended to measure macroeconomic and second-round effects of blended finance transactions on the poor. It does not assess effects in the form of benefits for overall growth or productivity (at the macroeconomic or regional level) with poverty reducing impact, second-round effects on non-beneficiary firms or workers, or fiscal revenue increases permitting additional expenditures that benefit the poor.

The checklist does include some questions assessing impact on markets serving the poor—changes (influenced by the investment) in the behavior and investment choices of other market actors, as well as the degree to which the investment deploys standards and strengthens institutions that protect and build the market power of the poor.

Ex post metrics

The checklist offers a description of *what* needs to be measured ex post to assess impact in various areas. It does not indicate *how* impact should be measured in each case. Building a standardized, detailed set of impact metrics for the checklist is beyond the scope of this work. Rather it would make more sense to make use of existing standardized metrics that have broad support from investors and stakeholders. The IRIS+ framework offers such an opportunity. We are grateful that the Global Impact Investing Network (GIIN) is providing their expertise in harmonizing some indicators with metrics utilized within the IRIS+ system. Please refer to the Excel file annexed to this paper for an overview of such exercise.

Ex post measurement that assesses whether impacts can be *attributed* to a given investment requires rigorous impact evaluations. These are expensive and time-consuming. Not all blended finance providers conduct such statistical studies, and those that do undertake them do so for a sample of investments. Decisions about how and when to deploy impact evaluations, and which type, are separable from decisions about the use of the checklist. Nevertheless, to assess whether ex ante assumptions or predictions are supported by evidence, some form of credible ex post impact measurement is necessary for every blended finance investment.

Table 1: Assessing benefits ex ante and measuring impact ex post

	Assessing benefits: ex ante	**Yes/ No**	**Measuring impact: ex post**
Access	Will the poor have access to the benefits of the investment?		Characteristics of beneficiaries of the investment by income level or alternative poverty measure, sources of income, gender, education, urban/rural, family situation, business/farm size, etc.
	Will the investment deliver new access to goods and services that increase the well-being of the poor?		Numbers of poor with first time access to beneficial products like financial services, electricity, water, sanitation, appliances, health services, the internet, etc.
	Will the investment improve the quality of a product or service consumed by the poor?		Numbers of poor with first time access to beneficial products like electricity or water for a defined amount of uninterrupted service or with a defined improvement in quality
	Will poor producers be given new access to value chains and markets that deliver greater revenue?		Numbers of poor producers selling for the first time in a formal market, an export market, a higher value market (e.g., processed vs. unprocessed goods), at a higher unit price, etc.
Affordability	Will the investment increase the affordability of key goods and services that raise the productivity and well-being of poor households (e.g., financial services, skills, health services, better information, housing, scholarships, and connectivity)?		Changes in costs of products consumed by the poor that are provided by the investment
	Will the investment increase the affordability of productive inputs used by poor producers (e.g., fertilizer, water, electricity, transport costs)?		Changes in costs of key productive inputs used by farms or businesses owned by the poor
Income and wealth benefits	Will the investment create jobs that can be accessed by the poor?		New businesses created by the poor Jobs for the poor supported Type of jobs supported (full time, part time, seasonal)

	- Will the jobs be in the formal sector? - Will the jobs be directly or indirectly related to the investment? - Will the jobs increase labor income for the poor? - Will the jobs be secure and decrease seasonality?		Formal jobs for the poor supported Increased labor income for the poor Reduced job seasonality or insecurity for the poor
	Will the investment help increase educational levels of the poor?		Number of poor children accessing early childhood, primary or secondary school for the first time Education attainment indicators for poor beneficiaries
	Will the investment add value to assets held by the poor?		Change in value of assets (e.g., land, livestock, financial assets, inventories) held by the poor
	Will the investment generate higher revenues, sales, turnover, or profit for poor producers?		Increased revenue, sales, turnover, or profit for poor producers
	Will the investment reduce indebtedness of the poor?		Changes in poor household, business, and farm debt levels
Basic needs and vulnerability	Will the investment reduce food insecurity for the poor?		Food insecurity as measured by food consumption patterns for the poor
	Will the investment generate significant improvements in the health or human capital of poor beneficiaries?		Health indicators for poor beneficiaries Skill indicators for poor beneficiaries
	Will the investment reduce the vulnerability of the poor to negative shocks (such as shocks related to weather or climate change, natural disasters, health, macroeconomic instability)?		Access by the poor to financial services, including insurance, credit and savings products Access by the poor to climate resilient production techniques Shifts in production or consumption by the poor to reduce vulnerability to climate change or other shocks
Empowerment and Capacity Building	Will the investment help poor producers achieve greater market power and receive a larger share of the value in a given market (e.g., through a fair trade or organic certification)?		Share of production by the poor sold in certified markets Share of production by the poor sold through formalized producer groups

	Will the investment increase the financial literacy of the poor?		Financial literacy indicators for poor beneficiaries
	Will the investment help the poor establish a formal identity for access to financial and other services?		Access by the poor to digital and other formal identity verification
	Will the investment provide market information that strengthens the competitiveness or efficiency of the poor?		Access by the poor to information on market conditions, e.g., product prices, input costs, weather
	Will the investment help formalize economic activity in which the poor participate?		Indicators of formalization of jobs for poor beneficiaries Indicators of formalization of businesses owned by the poor
	Will the investment strengthen the management or finances of producer groups for poor producers (e.g., farmer cooperatives)?		Indicators of producer group financial and governance performance
	Will the poor be included as decision-makers in investment design and implementation?		Defined and quantified roles for the poor in investment design and implementation
Standards	Will the investment conform to international recognized standards that protect poor consumers or producers (e.g., ILO, UN, or IFC standards)?		Internationally recognized labor and social standards protecting poor producers or consumers under the investment
	Will the data privacy of poor clients of financial institutions or mobile service providers be protected?		Standards for data privacy protection for poor beneficiaries
Market building and finance mobilization	Will the investment introduce a new product or service or asset (e.g., savings product) previously unavailable to the poor?		Numbers of poor accessing new products, services, or assets
	Will the investment introduce a new business model or technology that better serves the poor?		Successful launch of a sustainable business model or technology innovation with demonstrable benefits for the poor
	Will the investment likely affect the behavior of other market actors in ways that expand and strengthen the		Adoption by other market actors of business models or technologies beneficial for the poor

	market outside the scope of the investment?		Increased private investment by other market actors demonstrably linked to the investment Increased sourcing from poor producers demonstrably linked to the investment Changes in market product pricing beneficial to the poor demonstrably linked to the investment
	Will the investment mobilize additional private finance for poor regions, such as urban slum areas, informal settlements or last-mile rural locations, etc. within a country?		Indicators of increased private investment in poor regions that can be demonstrably linked to the investment
	Will the investment mobilize additional private finance for a low-income country?		Indicators of increased private investment in a low-income country that can be demonstrably linked to the investment

ASSESSING RISKS: EX ANTE

Blended finance transactions involve a multitude of investors and actors, with interests that are not necessarily aligned. The underlying causal chains leading from the blended finance investment to reduced poverty are long, and this can imply a risk of incorrect assumptions or unintended effects on the poorest and most marginalized. All this suggests the importance of putting risk assessments at the forefront of investment decisions, taking into account who is set to benefit from the investment and how to best mitigate adverse effects. Questions for assessing risks are thus presented here in addition to the matrix.

Financial sustainability

- Is there a high risk that the investment is not financially sustainable?

Access to goods and services

- Will the investment increase living expenses for the poor, including costs for food or housing?
- Will the investment increase the dependence of poor producers on one buyer?
- Will the investment increase the dependence of poor consumers on one seller?
- Will the investment incentivize risky consumption choices by the poor?
- Will the investment impede access to basic services for the poorest and most marginalized?
- How will the investment avoid, or at least address, expected adverse effects on access to goods and services for the poor?

Physical harm

- Will the business model underlying the investment expose the poor to physical insecurity (e.g., women traveling alone or at night)?
- Will the investment expose the poor to greater risk of occupational accidents or occupational health damage?
- Is there a high risk that the investment will breach international human and labor rights standards and frameworks?

Equality

- Is there a high risk that the investment will increase inequality among those impacted by the investment?
- Will the investment discriminate in favor of some poor or marginalized populations at the expense of others?
- Will the investment interfere with poor women's ability to manage both household/childcare responsibilities and income-producing activities?
- Is there a high risk that the investment reinforces discrimination against women?

Climate change

- Will the investment expose the poor to greater risk from climate change, such as increasing their dependence on activities, jobs, products, or production methods increasingly threatened by climate change?

- Will the investment expose firms and financial institutions serving the poor to greater risk from climate change?

Financial status

- Will poor clients of financial institutions supported by the investment be exposed to financial harm (e.g., over-indebtedness) that can be controlled?
- Will the investment increase vulnerability of the poor with regard to adverse income shocks that can be controlled?

Aid effectiveness

- Will the investment conflict with, or undermine, the country's poverty reduction strategy?
- Will the investment undermine impact of development cooperation programmes that target the poor first?
- How does the investment compare with alternative uses of ODA primarily addressing the poor?
- Will the investment exclude local population and impacted population groups from decision-making?
- Will the investment offer public consultation and complaint mechanisms?