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In the thematic monograph *Legal Insights into Environmental Sustainability*, the concept of sustainable development has been analysed as a legal and economic category, aiming to explore the way that changes in the socio-economic model impact public policy and normative framework. The results could serve as guidelines for policymakers to enhance states' efficiency in achieving the sustainable development goals, and define standards in terms of sustainable development. The themes covered in the monograph are internationally relevant, advocating best-practice approaches in the field.

Dr Mirko Vasiljević, Professor Emeritus

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LEGAL INSIGHTS INTO ENVIRONMENTAL SUSTAINABILITY

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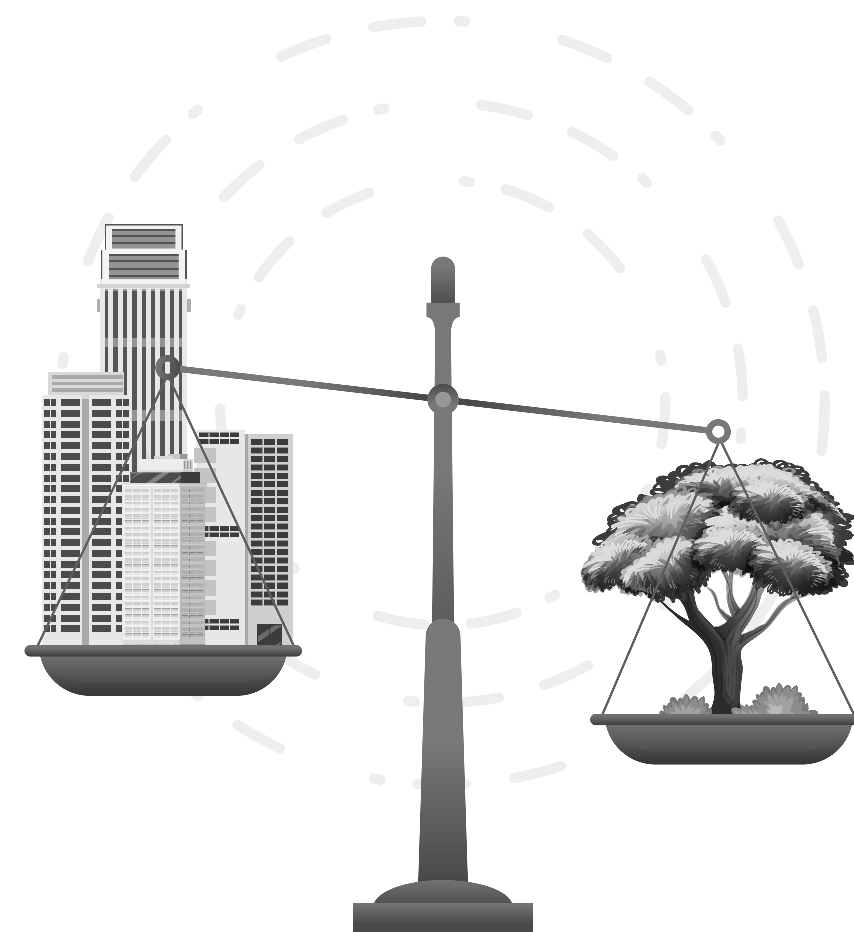

edited volumes

EDITORS: SANJA STOJKOVIĆ ZLATANOVIĆ, RANKO SOVILJ, IVANA OSTOJIĆ, MILKA DIMITROVSKA

LEGAL INSIGHTS INTO ENVIRONMENTAL SUSTAINABILITY

Exploring the intersection of various traditional legal disciplines – labour, business, and ecological law, with sustainability issues aims to offer valuable insights into the significant academic uncertainties about the future of a multilateral, globalized, and digitalized world, with law as an integral part of it. Global environmental protection issues are undoubtedly linked to economic development, societal progress, and finally, the exercise of fundamental human rights. Thus, legal, economic, and scientific reflections regarding the reconceptualization of basic notions/institutes by improving and/or adjusting the applied methods in various social science disciplines could contribute to the ongoing national and international debate at the public policy level, to implement theory in practice. This thematic monograph comprises eight research papers where legal ones dominate in Part 1 of the monograph related to the topics of Law and Sustainability, while the last two papers in Part 2 of the monograph deal with economic issues of sustainable development.

LEGAL INSIGHTS

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Blended Finance as a Sustainable Development Support Mechanism*

Abstract

It is widely agreed that public resources will not be sufficient to cover the investment gap needed for the sustainable development goals achievement (around USD 2.5 trillion annually in developing countries). The development finance landscape has changed in terms of actors, financial instruments, motives and goals. Blended finance is an important mechanism for encouraging the growth of private sector investments in sustainable development projects in which development finance institutions have a significant role. Public and philanthropic capital can catalyse private sector investments that provide financial incentives and create innovative solutions to achieve the sustainable development goals in underdeveloped countries. By improving the risk-return profile of investments without disrupting functioning markets, blended finance encourages and mobilizes private capital in emerging and frontier markets, where public sector resources and donor funding are limited. In the following paper, the blended finance concept and its connection with complementary development strategies, its importance in supporting sustainable development, as well as the blended finance instruments and mechanisms, will be explained.
Keywords: Blended finance, Sustainable development, Development finance institution, Private sector investment

Introduction

Determining the concept of globalization and considering its impact on society as a whole is the subject of numerous discussions conducted both at the national and international level, especially in the years at the turn of the 21st century (Stojković-Zlatanović & Sovilj, 2017: 833). Globalization, mostly perceived as an economic

* The paper was written as part of the 2024 Research Program of the Institute of Social Sciences with the support of the Ministry of Science, Technological Development and Innovation of the Republic of Serbia.

process, has also its political and social, and, why not mention, also its ecological aspects (Zarić & Kelić, 2022: 15). What certainly characterizes today's phase of globalization is that it is the last stage of internationalization, which includes the concept of regionalization and wide expansion (Maksimović & Petrović, 2017: 211).

Green economy and sustainable growth are among the most studied topics today and are especially significant in economics, in terms of "the rational use of natural resources and in the process of creating sustainable economic (industrial) development" (Ostojić, Maksimović & Stojković-Zlatanović, 2022: 263). According to Petrović et al. (2017) "the use of fossil fuels is a key generator of harmful gases that cause the greenhouse effect and lead to global climate change, which is why managing the growing global energy demand is one of the key priorities" (Petrović, Nikolić & Ostojić, 2017: 1). The research results indicate that, in the short term, the impacts of population, gross domestic product per capita and energy intensity on CO_2 emissions are positive and significant (Petrović, Nikolić & Ostojić, 2018: 63; Petrović, 2023a). According to the analysis "an increase in gross domestic product by 1% leads to an increase in energy consumption between 0.47% and 0.48%" (Petrović, 2023: 1473). Also, economic policy measures "should be focused on stimulating loans to finance investments in more energy-efficient technology that enables the transition to cleaner energy sources, especially in the energy, manufacturing and transportation sectors" (Petrović & Lobanov, 2022: 6655).

The green economy, which includes the social and economic well-being of the environment, is the path to a sustainable development (Maksimović, 2022: 61). Effective, inclusive, and efficient institutions are a prerequisite for the implementation of the sustainable development goals, where the purpose of the state with such a set of institutions is to protect, without jeopardizing the natural rights of those who live in it (Ostojić, 2020: 101; Kelić, 2018: 30). The achieved levels of development of individual economies are greatly influenced by the development of institutions (Ostojić & Petrović, 2019: 307). Development finance institutions have an important role in promoting sustainable development and the green economy concept, as well as related blended finance activities (Ostojić, Petrović & Kelić, 2023).

There was a turnaround in the development financing in the last couple of decades. The development finance institutions are no longer the primary financial resources of the public sector, but there is an increased interest in private-sector investments in development. The representation of green banking in the operations of national development banks contributes to the mobilization of financial resources for specific climate change mitigation and adaptation projects. The specificity of these financial institutions is reflected in their ability to use limited public resources to mobilize larger amounts of private capital for development, in order to achieve the net-zero goals (Ostojić, 2023: 201). Private equity funds, multinational corporations, foundations and financiers that are not controlled by the government, as representatives of private sector investors, assume a central role in the global development (Savoy & Milner, 2018). Financing of development projects can be realized by using grants from bilateral or multilateral donors. When it comes to commercial financing, which is also one of the available mechanisms for financing development, investors are primarily interested in achieving returns on the funds invested. Blended finance is created by combining the two aforementioned types of financing, and involves the use of capital from public, or philanthropic sources to increase private sector investments in developing countries in order to support the achievement of sustainable development goals (Convergence, 2021). Investors' interests are satisfied by achieving appropriate financial returns, while at the same time, commercial capital is attracted to projects that contribute to sustainable development. According to the OECD definition, blended finance represents "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries" (OECD, 2018: 4). This financing mechanism contributes to a faster economic growth of developing countries, ensuring that the total amount of resources at their disposal is increased, complementing their investments and the inflows of agency aid to fill the gap in the financing of the sustainable development goals and thereby make a significant contribution to the implementation of the Paris Agreement. Therefore, blended finance most often appears in the form of financial support to the small and medium-sized enterprise sector, climate finance,

investment in infrastructure and agribusiness, and development of the local financial market (Savoy & Milner, 2018). In the following pages, the concept of blended finance, its importance in supporting sustainable development, as well as the instruments and mechanisms on which it is based, will be explained.

Literature Overview

Blended finance is a relatively new tool in the development cooperation toolkit (OECD, 2020). Khan & Badjie (2020) present a framework for the blended finance of impactful small and medium enterprises (SMEs) to achieve the sustainable development goals (SDGs). They emphasize that the consensus of three stakeholders (philanthropy, private-sector activities and public-sector facilitation) is an essential precondition for blended finance. Prontera & Quitzow (2022) analyse blended finance as an instrument of 'catalytic power', defined as the mobilisation of partners and their resources to pursue external objectives. Luis Curbelo's research (2022) confirms that an important part of the bankability gap of private projects can be covered with public investments, by using blended finance, emphasizing their importance. Pereira (2017) points out that 'blending' has become a common term for development finance, but with an accent on one important problem that is reflected in the fact that this type of financing does not always support pro-poor activities, favouring middle-income countries as well as private-sector donor firms. Attridge & Engen (2019) recognize that blended finance is under enormous pressure to eradicate poverty as the ultimate goal of sustainable development and suggest that policymakers need a better understanding of the development potential of the blended finance, as well as its real costs, to ensure value for money and effective policy-making and aid distribution. Havemann, Negra & Werneck (2022) explore blended finance for agriculture and conclude that to ensure more significant investments in agriculture, it is necessary to unite multiple funding modalities and thereby, they advocate blended financing of agriculture to achieve the sustainable development goals. Christiansen (2021) analyses how non-governmental organizations, development finance institutions and philanthropists using blended finance

seek to fill the funding gap for marine conservation according to blue economy principles. He also suggests that blended finance can become a technical solution that enables market-based environmental management. Choi & Seiger (2020) put climate finance in the focus of the analysis, explain how the transition to low-emission, climate-resistant development paths should be implemented. However, the current global climate finance flows are grossly inadequate. Blended finance, a mechanism that mobilizes significant capital and investment from different actors, becomes a promising solution to help economies decarbonize and meet the goals of the Paris Agreement. Attention has been mostly focused on the volumetric contribution of blended finance, which is why the authors believe that a qualitative assessment of blended finance, which examines the processes and mechanisms by means of which capital sources are mobilized and operationalized, is equally important. Apampa et al. (2021) argue that, due to the existence of high risk and uncertain economic returns, sustainable agriculture is systemically underfunded in developing countries despite its key contribution to many sustainable development goals. The authors' view is that blending public finance with private sector resources to overcome some of these challenges is the best solution for financing sustainable investments in agriculture on a large scale.

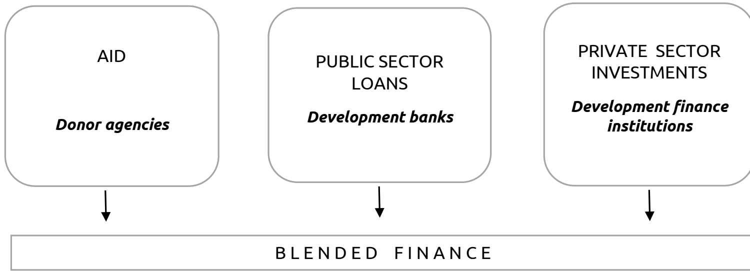
Research

Blended Finance and Complementary Development Finance Strategies

The three main development finance strategies of low-income and middle-income countries are aid, loans to the public sector and investments in the private sector (Graph 1). Each of them annually channels significant flows of development finance. Crucially, what differentiates these strategies is the funding methods and instruments they use. Financial resources whose purpose is to provide aid to vulnerable countries refer to the resources of aid agencies, that is, donor agencies, and include grants and technical assistance. Development banks approve loans to the public sector that include concessional and non-concessional loans to states and

their institutions, while development finance institutions support the private sector by investing in commercially and environmentally sustainable projects (EDFI, 2016).

Graph 1. Development finance strategies



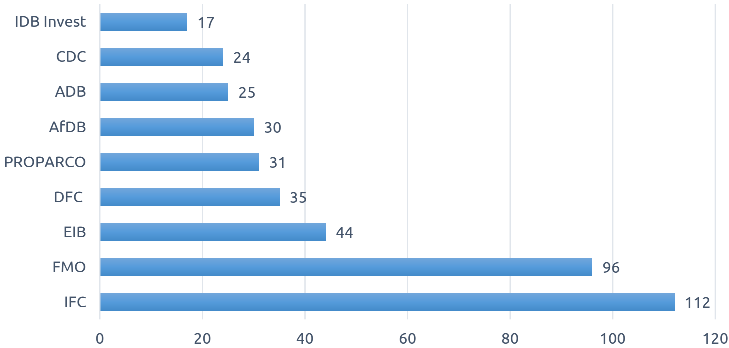
Source: EDFI, 2016: 8.

Financial resources of aid agencies, such as the Official Development Assistance (ODA) are an important source of funds that encourages development activities in low-income countries. The ODA is the prevalent channel of public development aid that encourages economic development and welfare growth in developing countries and in 1969 it was accepted as the 'gold standard' of foreign aid (OECD, 2021). In practice, aid agencies funds are often combined with investments in project activities on preferential terms, aimed at attracting private investors, providing them with protection against losses, or some other form of 'preferential treatment' (EDFI, 2016). In 2022, the official development assistance by the member countries of the Development Assistance Committee (DAC) amounted to USD 204 billion, recording an increase of 13.6% compared to the previous year. The largest share of these funds (over 98%) was made up of grants, loans to sovereign entities, debt relief and contributions to multilateral institutions (calculated on a grant-equivalent basis), while the rest (less than 2%) involved development-oriented private sector instrument (PSI) vehicles, net loans and equities to private companies operating in the ODA-eligible countries (calculated on a cash flow basis) (OECD, 2023).

Blended finance is one of the key approaches in mobilizing new sources of capital to achieve the sustainable development

goals. Blended finance implies the merging of donor finance with the private capital of development finance institutions that invest according to market conditions. In this type of financing, concessional capital serves to attract private investments (Murray & Spronk, 2019). This is achieved by accepting riskier projects to meet the requirements of private investors in terms of return and risk. On the other hand, donors use grant funds in order to achieve a rebalancing of the return and risk ratio, or mitigate the risks associated with investments in regions where private investors are not willing to invest. Injecting private capital into specific development projects can help fill the development finance gap (Mustapha, Prizzon & Gavas, 2014). Through the sharing, or reduction of risk, donor finance can have a stimulating effect on investors from the private sector and provide funds to achieve financial stability, build missing capacities and infrastructure in new and underdeveloped markets, while also generating financial returns for investors (Economist, 2016). In one blended financial fund, one dollar of concessional capital mobilized an average of four dollars of private capital (capital at market terms), while three of the four dollars were invested by development finance institutions (Convergence, 2020). Mobilized capital can include credit lines to micro, small and medium enterprises in developing countries, project financing, as well as direct

Graph 2. Development finance institutions' engagements in blended finance by volume of financial activities, 2020 (number of financial commitments)



Source: Merchant, 2020: https://www.convergence.finance/news-and-events/news/7GHDALorzVgedYo85N8XJK/view

investments in companies (Pereira, 2017). Blended finance is used to 'unlock' untapped investments in sustainable development, particularly from the private sector (IFC, 2019). Its importance is also indicated by the fact that this combined form of financing has so far mobilized approximately USD 161 billion of capital for sustainable development in developing countries, with the average annual capital flow of USD 9 billion since 2015 (Convergence, 2021).

It is interesting to see how the financial resources of development finance institutions and aid agencies can be combined in blended finance. The lucrative nature of development finance institutions and their profit orientation enable them to achieve a long-term sustainability, financial stability of the projects, as well as successful project implementation and achievement of development goals. A financing mechanism that would combine the financial resources of aid agencies and development finance institutions would bring benefits to both parties. Aid agencies would benefit from the business experience of the development finance institutions and their profit orientation, as they would thus ensure the sustainability of their investments, which is generally not achieved in many cases. Aid agencies often cooperated with non-governmental agencies and other non-profit organizations in their project activities, which did not have a long-term dimension and lasted a certain period (Savoy, Carter & Lemma, 2016). An example is the construction of electrical infrastructure in underdeveloped areas. Most of these projects do not have long-term sustainability, while the positive effects would only be realized as long as the achieved improvements are maintained, just for a certain period. Therefore, by partnering with development finance institutions, the aforementioned deficiency would be eliminated, due to the institutions' accumulated knowledge, skills and experience, while projects could provide maximum results and progress that would be confirmed and guaranteed in the future. On the other hand, the development finance institutions could, using the experience of the aid agencies, engage more in border markets and the unstable countries with war conflicts, for whom financial support is extremely important. These are regions that bring numerous challenges and require more extensive and risky investments, which can be provided through the concept of blended finance (Savoy, Carter & Lemma, 2016).

Blended Finance Instruments and Mechanisms

Development finance institutions make a significant contribution to bridging the gap between public and private sector investments, as they compensate for missing financial resources by mobilizing commercial investments (Ostojić, 2022). Developmental finance institutions provide financial support in those spheres of business that are undercapitalized, which are considered to carry a high risk and in which private investors are losing interest. They provide capital, insurance, guarantees and local currency financing. These institutions promote and provide investment, not only through financial support, but also through improving the business environment in underdeveloped countries, facilitating the process of privatization of local companies and strengthening environmental corporate social responsibility (CDC, 2021).

The presence of development finance institutions has a significant impact on risk mitigation in underdeveloped countries (currency risks, preventing contract violations, expropriation). Accumulated knowledge, advanced technologies, expertise, set of standards that development finance institutions apply in risk assessments encourage other investors. Also, these institutions act as intermediaries between companies, banks and other national and international financial and development institutions, and enable their connection and long-term cooperation (ADB, 2011)

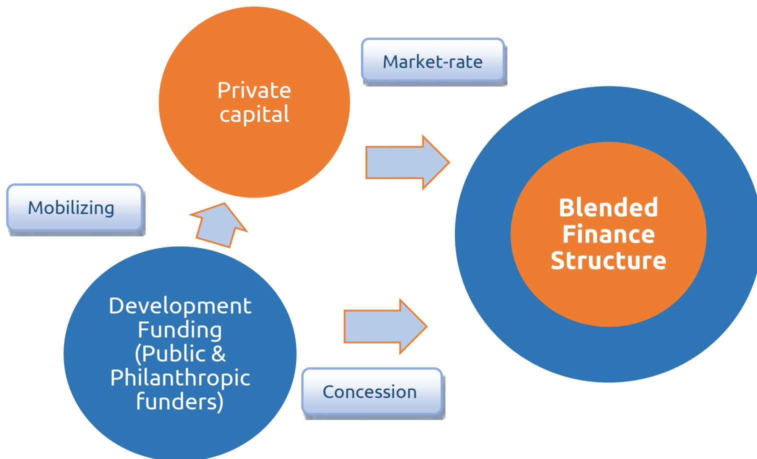
The largest part of the development financial institutions' investments for the development of the private sector in underdeveloped countries, which are implemented with the support of donors, are provided by global multilateral development financial institutions (40%), which include the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency. Regional multilateral development finance institutions cover a quarter of capital flows. Bilateral development finance institutions provide a third of capital flows for private sector development and include 15 European development finance institutions, the U.S. International Development Finance Corporation (DFC) and the Japan Bank for International Cooperation (EDFI, 2016).

Blended finance is based on a structural approach. Public or philanthropic financiers provide financial resources on more

favourable terms than the market ones. In this way, lowering the price of capital, or providing additional protection to private investors in the form of insurance on the terms more favourable than the market ones, providing guarantees or improving credit rating is ensured. Public and philanthropic investors also provide technical assistance before or after the investment, to ensure the sustainability of the investment and enhance development results (IDFC, 2019). Concessional capital, guarantees, or risk insurance are used to improve the investment environment and attractiveness for private investors by defining the ratio of return and risk (reducing the risk rate, or improving the ratio of return and risk). Unlike private investments, concessional finance involves scenarios where a public sector investor, or philanthropic organization accepts a higher risk for the same or lower rate of return, or the same risk for a lower rate of return (Convergence, 2021).

The consensus of United Nations member countries on the importance of the allocation of public sector funds in order to attract private investment is defined in the Addis Ababa Action Agenda which emphasizes the importance of establishing a blended finance market to attract additional capital for sustainable development goals financing (United Nations, 2015). There are several ways

Graph 3. Blended finance mechanism



Source: Convergence, 2021: 9.

to combine public sector finance with private investments: first loss guarantees, the waterfall model, the cascade model and technical assistance (Savoy & Milner, 2018).

First Loss Guarantees

This type of financing of sustainable development implies the consent of the public sector to cover a part of the loss in a specific investment, up to a determined amount. This business arrangement represents a type of financial tool for providing risk protection to private investors by covering capital losses (Savoy & Milner, 2018). As the development financier absorbs the initial losses associated with the investment, donors point out that this is precisely what makes it a powerful financial tool (IDFC, 2019). The public sector's consent to cover the loss cumulates private sector investments that would otherwise not have been realized, while the reason for the new investor inclusion is the private capital direction toward the sustainable development goals (GIIN, 2013).

In developing countries, the sector of micro, small, and medium enterprises and entrepreneurs is faced with financial barriers to further development, which are reflected in insufficient access to financial resources. They need additional financial resources to modernize and expand their business scope (increase sales, improve product quality, provide better working conditions for employees). In a financial system without microcredit financial institutions which provide easier access to capital for the mentioned enterprises, commercial banks only remain in the role of lenders. Commercial banks require guarantees that significantly exceed loan value (over 130%), as well as high interest rates and treat investments in these companies, as those with high risk. As a result, many enterprises with sustainable projects are unable to obtain the necessary financing from the regular financial intermediation system, which leads to the financial gap caused by the insufficient supply of credit to micro, small and medium enterprises (Chatzouz et al., 2017). Without the necessary funds, this important sector and development driver enters a circle: lack of credit – lack of investment – lack of sustainable growth and development (Savoy & Milner, 2018).

The mentioned problems can be mitigated to a certain extent by the credit guarantee scheme. If the public sector is the loan guarantor, banks are much more willing to provide credit lines for the sector of micro, small and medium-sized enterprises and entrepreneurs, because in this way they receive protection against credit risk in the form of a financial guarantee of the first loss. This type of guarantee emphasizes how public policies can respond to the needs of the financial market, fill certain gaps in the financial market, provide financing for the sector of micro, small and medium enterprises and entrepreneurs and establish cooperation between the private and public sectors for sustainable development and successful project implementation (EIB, 2015).

First loss guarantees raise certain issues, such as negative selection and moral hazard. When their investments are secured by public sector guarantees, private investors can accept riskier projects because they feel protected. In this way, credit lines are granted to riskier borrowers, which results in inefficient allocation of resources (Saito, 2014). In this way, risk is transferred from the private to the public sector. For the mentioned reason, guarantees cover only 30–80% of the loan value (Hamp, Rispoli & Agwe, 2014). Also, both private and public sectors have invested financial resources and in the case of successful investment, both sectors realize returns at established rates. If the investment fails, the public sector reimburses the private investors for their initial investment, to cover the initial risk (Runde et al., 2011).

Waterfall Model

This type of blended finance corrects the shortcomings of the previous model, with the gains and losses for public and private investors being eventually balanced. Both private and public investors realize returns, but at different times and different rates (OECD, 2018a). The waterfall model works on the principle of pre-determining the rate of return of the development project which is guaranteed to the private sector. This is usually a rate below the commercial rate, but is guaranteed by the public sector.

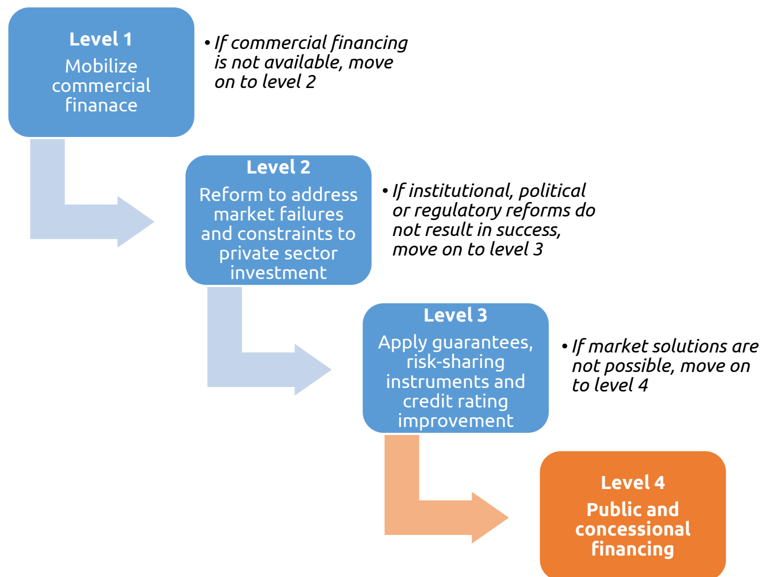
If the yield on a development project is equal to or less than the guaranteed rate, all realized returns belong exclusively to the

private sector. In the case of a return on investment at a rate equal to the commercial rate, private and public investors achieve balanced returns. If the development project achieves additional financial gain, above the rate that ensures balanced investor returns (above the commercial rate), these funds are paid to the public sector as a premium for the accepted risk (Savoy & Milner, 2018).

The Cascade Model and Maximizing Financing for Development (MFD)

The cascade approach to development finance involves determining the best instrument – decision tree that selects an adequate financial tool adapted to the development project specifics (Savoy & Milner, 2018). The focus is on the private sector, intensifying their investments in development projects and filling the financial gap for the realization of ultimate development goals, such as eradicating extreme poverty, inclusive growth, good governance, promoting general prosperity, environmental and social

Graph 4. The cascade decision-making model



Source: OECD, 2020: 38; IFC, 2019a: 11.

sustainability. The role of the private sector is not only that of a source of financial support, but also a source of innovation and expertise. Only in the situations where there is no possibility to finance the development project with the private investors' funds, the public sector is allowed to participate. The priority is to optimally use public resources and avoid unsustainable debt and liabilities (IMF, 2017).

Technical Assistance (TA)

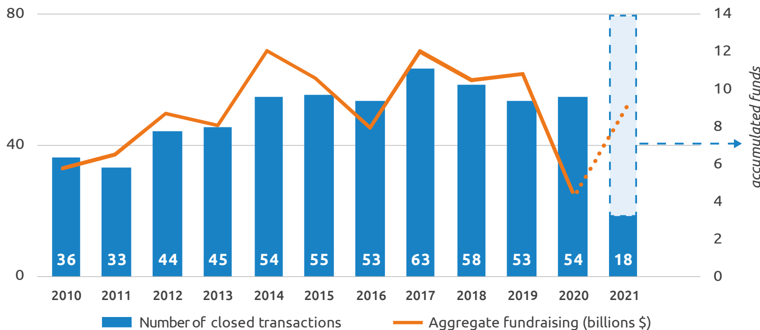
Financial resources are necessary to initiate development investments, but technical assistance provided by donors and philanthropic agencies is also important for the successful commercialization of project ideas. Technical assistance does not imply a direct injection of capital, but the goal is to monitor the project life cycle and accomplish final positive outcomes. Experts with professional advice and experience can contribute to successful project implementation and the achievement of higher rates of return (OECD, 2015). Although the value of blended finance transactions decreased from USD 55 million (average transaction value in 2015–2017) to USD 39 million (average transaction value in 2018–2020), more than a third of the blended finance contracts in 2020 were related to technical assistance mechanisms for capacity building (Convergence, 2021). Technical assistance can be very important for new investors in the traditionally considered high-risk areas such as agriculture, and can include transactions such as the improvement of environmental protection standards carried out in the periods before, or after the investment, that contribute to successful investments (Convergence, 2021).

Discussion

In response to the financial crisis in 2007, several international regulations "were adopted to improve the ability of the financial sector to absorb losses arising from economic and financial stress situations, seeking to reduce the risk of spillover of the crisis from the financial sector into the real economy" (Sovilj & Stojković-Zlatanović, 2018: 1). Focusing on the global blended finance

flows, since 2015 the value of annual capital flows has averaged around USD 9 billion, and the average number of closed transactions per year has been 55. During 2021, blended development finance flows did not reach the level of the previous year (Convergence, 2021). The main investment barriers that private investors face through blended finance are high perceived risk and lower return compared to the investments with the same risk. Fund managers and donors have reduced or postponed fundraising for 2020. Fund mobilization began when markets had stabilized and investors resumed their activities at the same scale as before the Covid-19 crisis. Many donors and private investors were focused on protecting the existing portfolios from the negative consequences caused by the pandemic, which somewhat deterred them from financing new projects (OECD/UNCDF, 2020). As a result, the participation of private sector investments in blended finance transactions decreased from USD 2.2 billion in 2019 to USD 1.1 billion in 2020 (Convergence, 2021).

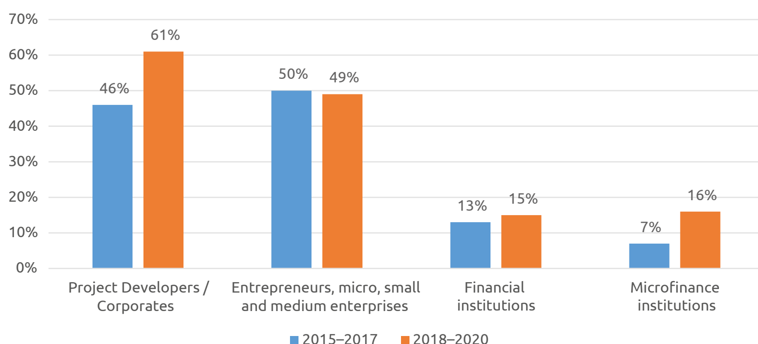
Graph 5. Blended finance market, 2010–2021.



Source: Convergence, 2021:14.

In 2020, more than a third of the blended finance transactions were related to the energy sector (35%), agriculture (28%) and financial services (26%) (OECD, 2021a). The most represented direct beneficiaries of blended capital since 2015 have been corporations (61%). The important direct beneficiaries of the blended capital have also included entrepreneurs, micro, small and medium enterprises, as well as microfinance institutions (Graph 6).

Graph 6. Proportion of closed transactions by direct beneficiary, 2015–2020.

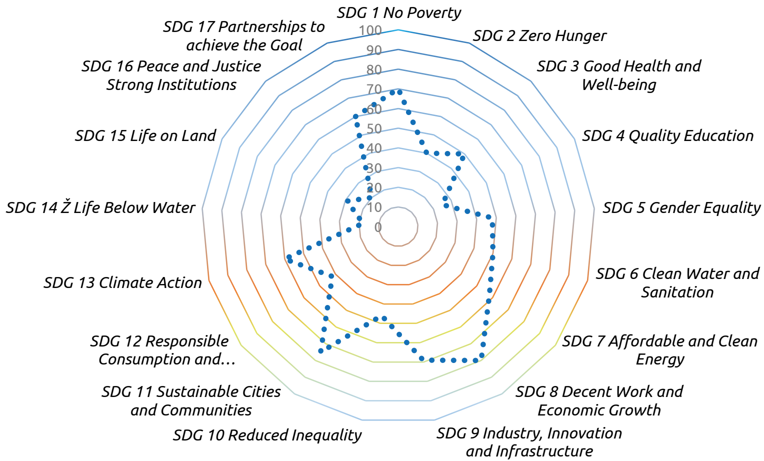


Source: Convergence, 2021: 26.

Some of the blended finance disadvantages defined by the Global Network for Blended Financing are that they favour middle-income countries and foreign investors to the detriment of local investors, as they manifest a lack of transparency, moral hazard and risk "subsidization" at the expense of taxpayers (Larrea, 2021; Savoy & Milner, 2018). Most of the criticism has also been directed to the development finance institutions. Consequently, the mentioned development financing model should be used in situations when the private sector has primary participation. Development finance institutions are very important for underdeveloped and conflict-affected countries where private sector investments are necessary to drive development. Private investors are not ready to invest due to the perceived high risk which makes these countries insufficiently attractive for investors. However, precisely in these countries, blended finance and development finance institutions work best and play catalytic roles in fund mobilization and risk mitigation (Pereira, 2017).

Blended finance contributes to those sustainable development goals that require investment and can generate profit. Half of the finance for sustainable development goals in developing countries can be presented in the form of investments. This is evidenced by the OECD research on the connection of blended finance with sustainable development goals (Graph 7). The goal that is targeted the most by blended finance is SDG 8 Decent work and economic growth. It is followed by Industry, innovation and infrastructure

Graph 7. Blended finance and sustainable development goals



Source: OECD, 2018a: 27.

(SDG 9), Affordable and clean energy (SDG 7), Climate action (SDG13), No poverty (SDG1), Zero hunger (SDG2) and Joint action and partnership towards global progress (SDG 17) (OECD, 2018a). The least positive impact was achieved in the areas of biodiversity, natural resources, reforming and strengthening institutions and establishing the rule of law (SDG 14, 15 and 16). Therefore, as previously stated, this type of financing does not have the same potential to contribute to all the sustainable development goals, just as it does not represent an adequate tool in all development contexts. It is necessary to further improve blended finance and find new private-public approaches to development finance (OECD, 2018a).

Conclusions

The funds from public sources are insufficient for the sustainable development goal achievement (around USD 2.5 trillion annually in developing countries). In the last twenty years, development finance has undergone fundamental changes. The development finance landscape has changed in terms of actors, financial instruments, motives and goals. In addition to the Official Development Assistance (ODA), other development finance opportunities

have emerged. In order to progress successfully, it is necessary to bring in private actors as development partners.

Blended finance is becoming recognized as a helpful tool to bridge the funding gap for the sustainable development goals achievement. A significant role in blended finance is played by development finance institutions that invest in projects with a development and financial dimension, respecting the principles of responsible business for society and the environment. Accepting high-risk projects that other investors are not interested in, development finance institutions provide examples for others to follow in their path transferring knowledge and experience and paving the way for progress toward the SDGs.

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