The current issue and full text archive of this journal is available on Emerald Insight at:
https://www.emerald.com/insight/2586-3932.htm

Development finance, blended finance and insurance

Hongjoo Jung
Business School, Sungkyunkwan University, Seoul, Republic of Korea

Received 12 December 2019
Revised 15 April 2020
Accepted 18 April 2020

Abstract

Purpose – This research aims to review literature on development finance and its challenge and to examine blended learning and insurance as a catalysts of development finance. In particular, this paper provides new insights and practical examples of blended finance and insurance.

Design/methodology/approach – This research basically relies on literature review and case study to show the value of the emerging methods of blended learning in development finance and insurance system.

Findings – Basic finding in this paper includes new insight of blended finance and insurance as a partnership between public and private sector, which offers new arena for academic research and practice.

Originality/value – As the research relies on literature review and authors' insight, originality may not be valued so much, but if may be introducing or creating new ideas or thinking about development finance or international development cooperation where relevant data or experience is still lacking.

Keywords Blended finance, Millennium development goal, Sustainable development goal, Official development assistance

Paper type Research paper

1. Introduction

Since the end of the Second World War with the largest mortality loss ever, the United Nations has devoted to enhance world peace in various ways including direct or indirect means. Initially established as war-deterring multinational institution, nevertheless, the UN entered into a historic scale of global project, the Millennium Development Goal (MDG) as a way to strengthen global peace by reducing income gap between developed countries and undeveloped countries. Integrating more group intelligence and financial resources, the 15-year project seemed to be more successful than any other development projects conducted in the 20th century.

As a result of success, the MDG project was followed by another 15 years and much larger UN project, the Sustainable Development Goal (SDG) project, from the year 2016. The new project is more ambitious, gigantic and resource-requiring as it involves not only underdeveloped countries but also developed countries and also as it calls not only for public resources but also private resources. As such, financial resource in the SDG stage appears to be much larger and more crucial than that in the MDG period. According to the OECD, total financial resource required to perform the SDG will be US$3.9 trillion (see as follows), which is effectively more than ten times of the MDG resources.

And that is why development finance came to attract serious attentions of policymakers, academicians and practitioners along with various issues to resolve. They have their own goals, ideas and experiences, given the knowledge that private financing has its own risk and return concept that public financing including the Official Development Assistance (ODA)

© Hongjoo Jung. Published in *International Trade, Politics and Development*. Published by Emerald Publishing Limited. This article is published under the Creative Commons Attribution (CC BY 4.0) license. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this license may be seen at http://creativecommons.org/licences/by/4.0/legalcode

International Trade, Politics and Development
Emerald Publishing Limited
e-ISSN: 2632-122X
p-ISSN: 2586-3932
DOI 10.1108/ITPD-12-2019-0011

may not have. How to integrate those differing concepts of finance into the huge SDG project can be an exciting challenge for those parties concerned enough to give birth to new research area and experiments. As both public finance and private finance play different roles given their own raison d'être , they should be strategically or technically managed to fulfill their own goals and constraints, in such a new way of blended finance or combined way of private–public partnership financing, if the financing method should survive.

Blended finance is a strategic development finance for mobilization of additional finance towards sustainable development in developing countries. Understanding the indispensable role of ODA in financing the SDGs, the international community acknowledged the need for significant additional development finance – and accorded a prominent place to private sector participation. The vision underpinning the 2030 Agenda is broad and ambitious, calling for an equally broad and ambitious financing strategy.

Although little academic research has been done, policymakers have recently shown considerable interest in a class of development financing opportunities called "blended finance" that pools public and private resources and expertise. Blended finance incorporates a large portfolio of potential instruments, including instruments provided by development finance institutions to leverage private finance (e.g. loans, equity investments, guarantees, etc.), as well as traditional public–private partnerships (PPPs).

This paper aims to review issues and challenges regarding development finance, using literature survey and case study, to show what has been done so far on the development finance, particularly on the blended financing including blended insurance. This paper is structured as follows. The first part will be devoted to general description of development finance and basic issues regarding the finance. And next part will cover blended finance in its concept, usages, cases and challenges. The third part may be a major contribution of this paper in filling the niche of existing research on blended insurance. The last section summarizes this paper and presents future direction for research.

2. Development finance

2.1 Concept of development finance

Literally speaking, "development finance" is finance for development. As development has a variety of meaning, however, including general disclosure, growth of human bodies, poverty alleviation, improvement of human rights, advancement of national system, economic growth, social advancement, enhancement of freedom [1] and so on, finance is also diverse in its nature. Highlighting the aspect of freedom in development, for example, Sen (1999) notes that "development can be seen, it is argued here, as a process of expanding the real freedoms that people enjoy. Focusing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the rise in personal incomes, or with industrialization, or with technological advance or with social modernization. Growth of GNP or of individual incomes can, of course, be very important as means to expanding the freedoms enjoyed by the members of the society". Development in this article is operationally defined as the project of international organizations such as the United Nations to help underdeveloped countries in various ways.

The United Nations' MDG or the SDG shows what can be done with the development projects in real world as follows (see Figure 1).

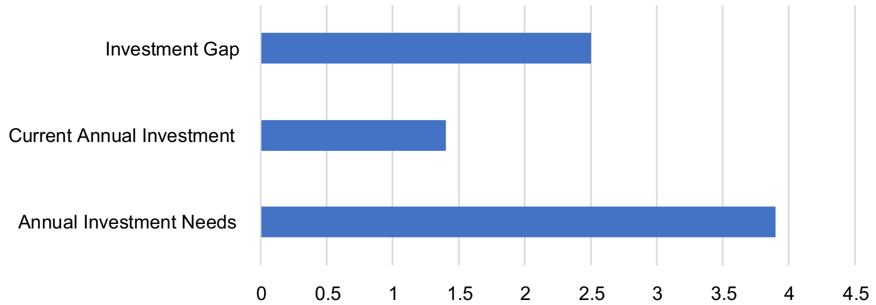
As every project requires both financial resources and human resources, so does the development project. In fact, the SDG project may be the largest global project to develop the whole world for 15 years, requiring more financial resources than any other projects, approximately US$3.9 trillion per year (see Figure 2). And general observation is that US$2.5 trillion should be financed from other sources than regular ODA, mostly from private sector (see Figure 3), which nevertheless functions with its own profit incentive and risk and return

The Millennium Development Goals (MDGs)	
Goal 1	Eradicate extreme poverty and hunger
Goal 2	Achieve universal primary education
Goal 3	Promote gender equality and empower women
Goal 4	Reduce child mortality
Goal 5	Improve maternal health
Goal 6	Combating HIV/AIDs, malaria, and other diseases
Goal 7	Ensure environmental sustainability
Goal 8	Develop a global partnership for development

Sustainable Development Goals (SDGs)	
Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote life-long learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable, and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas, and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development

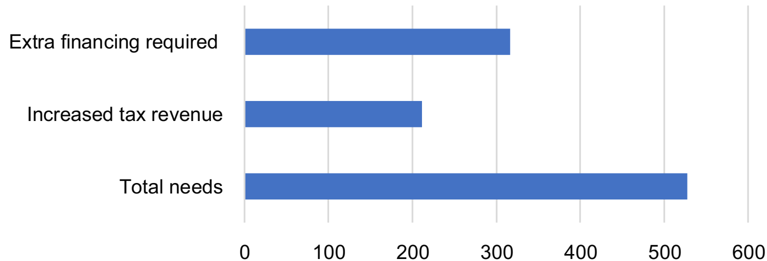
Source(s) : sdgfund.org/mdgs-sdgs

Figure 1. Various goals of the MDG – and the SDG projects



Source(s): UNCTAD (2014), World Investment Report 2014

Figure 2.
Estimated investment gap in key SDG sectors, 2015–2030, per annum



Source(s): IMF (2019)

Figure 3.
Financial gap between total needs and tax revenue in low-income countries

principle. Although ODA is important for developing countries, but it is so limited in size that it may be strategically used to attract more financial resources [2].

Although public financing had contributed significantly to the MDG project targeting developing countries or their governments, for instance, private financing will be expected to play a dominant role in the SDG stage as it involves further development of both underdeveloped and developed countries. That is, a strong private sector is a driver for economic development. Businesses need funding to grow and contribute to their local environment and communities [3].

2.2 Classification of development finance

Development finance can be classified into private finance and public Finance, domestic finance and international finance, direct finance (market-based finance) and indirect finance (institution-based finance), intentional finance and unintentional finance. Among those

classifications, which can be explained later, noticeably unintentional finance means foreign trade or investment without any original altruistic intention to help developing countries but leading to outcome of developing those countries.

There are several different options for development finance – domestic or foreign, private or public and combined. The following Table 1 shows and explains what are the specific ways of development financing (see Table 1).

As described earlier, blended finance is a leverage of private finance through public finance, an innovative partnership between private and public financing, which is explored in more detail in next section.

Options	Primary roles	Strategies
1. Domestic public financing	(1) Increasing equity through poverty reduction (2) Providing public goods and services to change incentives of private actors (3) Managing macroeconomic stability	(1) Promote tax reform, tax compliance and deeper international cooperation (2) Ensure good financial governance and public financial management (3) Internalize externalities and mainstream environmental sustainability (4) Address inequality and the social protection imperative (5) Effectively manage public debt (6) Explore the potential contributions of national development banks
2. Domestic private financing	(1) From households to multinational corporations (2) Profit-oriented, suitable for productive investment	(1) Provide access to financial services for household and microenterprises (2) Promote lending to small and medium-sized enterprises (3) Develop financial markets for long-term investment and enhance regulations to balance access and stability (4) Strengthen the enabling environment (5) Strengthen economic, environmental, social and governance and sustainability considerations in the financial system
3. International public financing	(similar to domestic public finance)	(1) Meet existing commitments (2) Make use of all international public financing sources and instruments (3) Use international public resources efficiently and effectively
4. International private financing	(similar to domestic private finance) Including FDI, portfolio flows and cross-border bank loans	(1) Channel international funds towards long-term investment in sustainable development (2) Manage volatility of risk associated with short-term cross-border capital flows (3) Facilitate the flow of remittances and private development assistance
5. Blended financing	(1) Leverage private finance and traditional public private partnership (2) nnovative implementing partnership	(1) Strategically assess the use of blended financing and innovative partnership (2) Explore the potential contributions of development finance institutions in support of blended finance (3) Strengthen capacity development efforts

Source(s): United Nations (2014), Report of the Intergovernmental Committee of Experts on Sustainable Development Financing, New York. pp. 15–37 (summarized)

Table 1. Options, roles and strategies of development finance

3. Blended finance

As to definition of blended finance, many institutions, more specifically, development actors and researchers have developed a variety of the definitions that may differ in approach and emphasis. The following is a sampling of these definitions (italics added). The following is various definitions of blended finance collected by the OECD [4].

"In general, blended finance connotes a combination of public and private finance, which may or may not involve a form of subsidy" (Klein, 2016). Blended finance refers to "the strategic use of development finance and philanthropic funds to mobilise private capital flows to emerging and frontier markets" (OECD/World Economic Forum, 2015). "Blended finance is an approach that can be used to enable the private sector to invest where it would not otherwise be possible. The idea is to mix concessional funds typically from donor partners with those of commercial development institutions and private investors in a risk-sharing arrangement, with aligned incentives to make sure official assistance can be leveraged as much as possible with private capital" (IFC, 2016). "Blending is an instrument for achieving [European Union] external policy objectives, complementary to other aid modalities and pursuing the relevant regional national and overarching policy priorities. The principle of the mechanism is to combine EU grants with loans or equity from public and private financiers." (European Commission, 2015). "Blended finance is defined as the complementary use of grants (or grant-equivalent instruments) and non-grant financing from private and/or public sources to provide financing on terms that would make projects financially viable and/or financially sustainable" (Mustapha *et al.*, 2014). "Blending as carried out by the EU facilities mixes loans and grants. It entails a combination of market (or concessional) loans with grant (or grant equivalent) components which may be in various forms" (European Think Tanks Group, 2011). "Blending' is a mechanism that links a grant element, provided by official development assistance (ODA), with loans from publicly owned institutions or commercial lenders" (Eurodad, 2013). Blended finance "combines concessional public finance with non-concessional private finance and expertise from the public and private sector"(UN, 2015). In blended finance, "the public aid agencies invest alongside private institutional investors in commercially sustainable private sector projects in developing countries" (Commons Consultants, 2015). Blended finance "refers to a combination of resources, either from official public sources (governments and/or DFIs) or philanthropic actors with capital from other sources (either official public or private actors)" (Development Initiatives, 2016).

Blended finance transactions can include the use of financial instruments to crowd in commercial investments as well as mechanisms to structure or intermediate instruments with the same purpose. According to the DAC Creditor Reporting System, official development finance is provided using five main groups of instruments [5]:

(1) Grants: transfers in cash and in kind where no legal debt is incurred.

(2) Debt instruments: transfers in cash and in kind where legal debt is incurred (e.g. loans, bonds and other securities) or could be incurred when certain events occur (e.g. reimbursable grants). • Equity: a share in the ownership of a company or a collective investment scheme.

(3) Mezzanine finance: hybrid instruments, such as subordinated loans and preferred equity that present risk profiles between senior loans and equity.

(4) Guarantees/insurance: risk-sharing agreements under which the guarantor agrees to pay to the lender/investor part of or the entire amount due on a loan, equity or other instrument in the event of non-payment by the borrower or loss of value in case of investment.

These can be still structured into more complicated mechanisms to mobilize private capital such as funds, syndication, securitization or PPPs [6]. Blended finance should pursue both

development and commercial objectives, underlining its hybrid character, operating between public and private spheres. Similarly, blending may be justified as a response to different types of problems. For example, it may be proposed as a means of addressing market failures (perceived or not) and to improve the risk–return relationship of investment projects (OECD, 2018, p. 1). The variety of actors, forms of financing and objectives associated with blending present a challenge in terms of generating an evidence base on its effectiveness, both in relation to the goals associated with blending itself and in identifying the added value of blending in comparison to other development instruments

Blended finance can help bridge the investment gap for the SDGs, but requires a common framework. Delivering the 2030 Agenda and the Paris Agreement will require all sources of finance – development and commercial – to be scaled up. ODA continues to play an indispensable role in financing the SDGs. We need to move from "billions to trillions" to meet the volume of resources needed, well beyond the US$149.3bn provided as ODA in 2018. Development finance helps unlocking and channelling finance from other sources towards development uses.

The OECD Development Assistance Committee (DAC) in February 2016 agreed to develop "an inclusive, targeted, results-oriented work programme" on blended finance with the following principles: (1) evidence-based: collate evidence and lessons learned on blended finance with a focus on targeting private finance and the use of blended finance across different regions; (2) best practices: develop best practices for deploying blended finance in key economic systems and sectors, such as sustainable infrastructure, and to address specific issues such as climate change. These mechanisms will provide the much needed recommendations to bring together public and private investors for the use and deployment of blended finance to achieve the SDGs. Mobilizing additional capital that would not otherwise support development outcomes is increasingly required in the deployment of development finance. In this context, blended finance attracts commercial capital towards projects that benefit society while providing financial return to investors.

Ensuring that blended finance delivers on its promise. The OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals are a policy tool for all providers of development finance – donor governments, development co-operation agencies, philanthropies and other concerned stakeholders. They build upon already established commitments on ODA targets, leaving no one behind, development effectiveness and aid untying.

(1) Anchor blended finance used to a development rationale

(2) Design blended finance to increase the mobilization of commercial finance

(3) Tailor blended finance to local context

(4) Focus on effective partnering for blended finance

(5) Monitor blended finance for transparency and results

Those principles include and imply potential benefit and cost of blende financing which will be explained later in this paper.

4. Development insurance

4.1 Insurance for development

Insurance is a financial agreement that transfers risk of the insured loss to a risk pool administered by an insurer [7]. Traditional insurance, specializing in risk transfer, differs from the other risk management methods such as risk retention, risk control or risk avoidance in that insurance focusses on risk pooling and sharing among insurance system. Insurance

requires multiple participants to exercise the law of large numbers in order to stabilize average loss or loss ratio among the members.

Having gradually developed with global economy, insurance, the most popular risk management tool, is classified into private and public insurance, life- and non-life insurance, individual and group insurance and so on, depending upon who to manage, what to insure, whom to cover and so on. Originated from ocean marine insurance in the 15th century, insurance has been developed into fire insurance in 17th century, life insurance in 18th century, automobile insurance in 19th century and many other insurances in 20th century.

Insurance has developed with economic growth together. Economic growth has stimulated growth of insurance, and vice versa. Causality of insurance growth and economic development has been addressed among many economists to find in general that insurance also determines economic growth, although the latter influences the former more heavily. And insurance also influences income disparity.

Insurance may be linked to growth theory through input factors. Insurance products or systems can increase factor productivities of labour, capital or technology according to the so-called diamond model of insurance as follows (see Figure 4). Labour productivity, value of human life or household can be protected or enhanced by life insurance including education insurance or personal non-life insurance. That is, economic value of human resources can be maintained by the personal insurance system. And financial system or productivity of capital can be enhanced by credit life insurance, fire insurance or deposit insurance which allows to banking system work, as they are precondition for loan contracts of banks. And technology development or industry structure can be upgraded by corporate non-life insurance, commercial property or liability insurance which have more developed in such tech-savvy countries as the United States or Germany than life insurance in terms of size. Commercial insurance can pave the way of new technology or business development.

Unlike finance in general that helps economic growth rather than income equality, insurance can also support social safety net by providing minimum wealth or health support

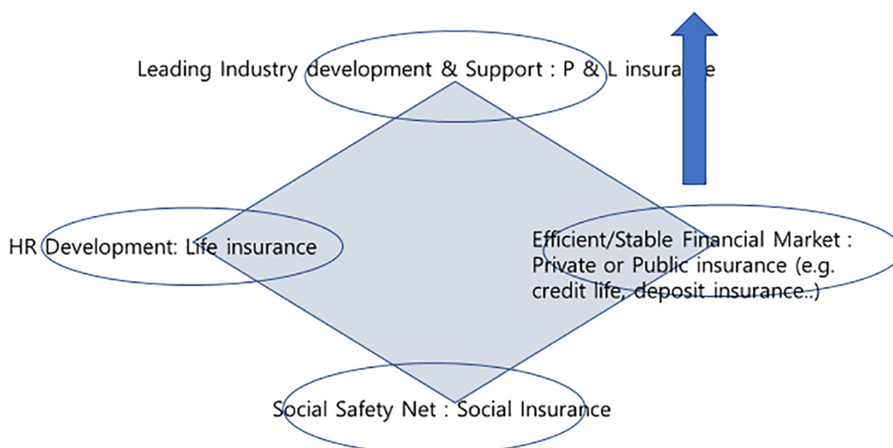


Figure 4.
Role of insurance in economic and social development

Source(s) : Jung, Hongjoo and Misoo Choi (2018), Necessity Necessity of Insurance Development for Emerging Economies - Proposal for an integrated Diamond Model, presented at the 2018 IAFICO (International Academy of Financial Consumers) conference, Tokyo, Japan

system via wealth or income recovery. Not only social insurance but also private insurance can play this role of social support.

4.2 Blended insurance

Blended insurance, including insurance PPP, may be defined as a collaboration or a contractual agreement between the public sector, represented by a ministry or local authority through a government programme, and the private sector, represented by the insurance industry and its service providers and distribution partners, which combines business objectives with public policy goals in a cost-efficient and effective way [8]. As insurance may be a part of finance, we may say that blended insurance belongs to a blended finance system, sharing common characters to some degree with each other.

What makes blended insurance unique or different from blended finance is that blended insurance concentrates on risk management or transfer more than blended finance which focusses on efficient financing. People or corporations around the world nowadays face a variety of risks, including death of the family members, health emergencies, violence and crime, loss of job and reduction of income, crop failure, livestock mortality and natural disasters such as floods, droughts or earthquakes. While these risks may be controlled by market mechanism with voluntary and private insurance on the one hand, they stay in public policy priorities on the other hand, as governments need to find ways of mitigating their fatal impact on vulnerable individuals, communities and small or medium-sized corporations. Managing these risks and their financial implications, for populations, corporations and governments, appears as a crucial component of improved income security and sustainable social and economic development, as was seen earlier in the diamond model.

While insurance is the best or most popular risk management tool among middle- or high-income classes, low-income groups – many of whose members work in the informal economy – are more vulnerable to risks than others, yet they are the least able to utilize the insurance mechanism as they cannot afford to pay the insurance premium which is normally even higher than other groups. Natural disasters and adverse events may push low-income households or businesses further into poverty, preventing them from recovering to their initial wealth position. Although insurance is a powerful tool to break the cycle of vulnerability and poverty, its usage may be limited only to the privileged, unless government intervention occurs in some way.

When it comes to private or public insurance system, as is often the case with differing character of private services and public ones, there are often publicly cited pros and cons of each system. Private insurance, basically relying on market mechanism, highlights efficiency or incentive system by charging risk-based premium and self-responsibility even in insurance system, whereas public insurance leverages public value of the insurance or the insured in pricing of the service by cross-subsidization or need-based participation. That is, low-income households or enterprises pay usually less than they should pay in private mechanism, leading to private cost kept lower than private benefit. The difference between the cost and benefit should be born by the other groups of the society – high-income class or government, on the ground that otherwise the social cost could be larger with more burden coming to the society as a whole.

Therefore, it is imperative that the insurance industry and the public sector tackle the issues together for some insurance in developing economies or even in developed countries with low-income classes. If the insurance industry acted on its own, it might focus on areas of insurance that offered short-term profitability, ignoring certain populations or risks that might be harder to address. On the other hand, if the public sector tried to work alone, protection might not be efficient and expenditure could be higher. Public programmes can sometimes be more reactive to shocks, providing compensation ex-post but failing to create incentives for *ex ante* action and/or to bring about behavioural change. Collaboration between the public and private sectors can reduce and manage risks *ex ante*, as cover can be conditional on adaptation.

Advantages of PPPs to governments and insurance industry are as follows [9]

(1) Microinsurance can bring a client-centred approach to product or service development. Beneficiaries of public programmes can experience reduced payout times or improved benefits. The private sector may be able to deliver benefits more effectively and efficiently.

(2) Data on different risks can be developed over the long term to be able to price and transfer risk in a more efficient way, while contributing to greater public transparency.

(3) PPPs can create better budget management, as insurance premiums can help to bring certainty around contingent events that have a severe impact on public finances.

(4) Insurance mechanisms can help to align incentives within the government to set up the policies that can reduce the exposure to risk of particular groups.

(5) Access to programmes with scale can help reduce operational and premium costs. Scale can help to improve value for final beneficiaries.

(6) Collaboration with the government provides opportunities for improved data collection, which can lead to better pricing and beneficial competition.

(7) Insurance PPPs can increase the capacity of the industry to deal with bigger volumes of clients and premiums, while fostering national financial risk-transfer mechanisms.

(8) Joint work with government can help to change the exposure to risk of the population, making insurance protection sustainable for both insurers and reinsurers.

4.3 Cases of development insurance

4.3.1 Agricultural crop insurance. Agricultural production, a politically and economically important business, is subject to many uncertainties, including natural disasters. Producers of the agricultural goods hold a substantial political power in both developing and industrialized countries such as the United States, France, Germany, Japan, Korea and so on. However, they are not willing to pay insurance premium to transfer the risk to any private insurers for its risk management, due to their limited financial capacity or literacy.

In addition, the agricultural risk is not so easily diversifiable nor subject to the law of large numbers because of its catastrophic nature that private insurers cannot welcome the risk for their business portfolio. Once the risk has been realized, it can damage large area at one time. On the other hand, governments may not like to pay for all the agricultural losses claimed by the producers which should be monitored or controlled in some way.

The complicate situations surrounding agricultural production lead to governmental intervention as a simple financial supporter of the crop insurance system. Governments provide subsidy to insurance premium, share operational cost of the insurance system or offer reinsurance scheme to play as the last resort. Private insurers participate on this system to make a limited profit or suffer a limited loss by underwriting partial risk.

Agricultural crop insurance is purchased by agricultural producers, including farmers, ranchers and others to protect against either the loss of their crops due to natural disasters or the loss of revenue due to declines in the prices of agricultural commodities [10]. And all or part of insurance premium or operation cost of the agricultural crop insurance is born by government.

Without government subsidy, the crop insurance system cannot survive as pure market mechanism may not function in the structure and agricultural producers or governments may suffer all the losses while controlling system after loss may not put in place either. Here blended insurance can facilitate the insurance market to exist and function with some support of public subsidy.

4.3.2 Reinsurance scheme – Korean Re and Toa Re. Some least underdeveloped countries, without domestic reinsurance companies but just a few foreign reinsurers, may try to establish its own reinsurance company. According to experiences of Korea and Japan, there are two different ways to address the issue: Japanese way to encourage local insurers to set up a joint reinsurance company (Toa Re. Case) and Korean way (Korean Re. Case), which is an intertemporal blended insurance mechanism, to set up a governmental reinsurance company at first and privatize it later after grown-up. Korean example is not clearly to be classified as intentional beforehand or not, but it appears to be more effective way to develop a reinsurer with international competitiveness, as can be seen in terms of size and market power of two reinsurers in global reinsurance market.

4.3.3 Implication. Although insurance is not so well understood or implemented in development or in ODA as finance in general, it may have a great potential for future use. Being able to design and implement PPPs in insurance or blended insurance requires a long-term vision and a good understanding between partners. The following ten recommendations, based on the experiences of four cases from Colombia, India, Mexico and Peru, aim to help both governments and the insurance industry to establish successful PPPs. The ILO report (2015) introduces ten recommendations for successful blended insurance or PPPs in insurance

(1) Combine a strategic approach with flexibility.

(2) Define your target beneficiaries clearly.

(3) A solid legal and regulatory framework is needed.

(4) Use insurers as an ally to achieve public policy objectives.

(5) Allocate roles clearly between the public and private sectors.

(6) Take account of the capacity-building needs of the different levels of the public sector (central, state and municipal).

(7) The private sector should build its capacity around best practice, product innovation, pricing, reinsurance, distribution and technology.

(8) Endeavour to improve the value of products to be offered through PPPs.

(9) Include monitoring and evaluation systems with clear indicators.

(10) Take a knowledge-management approach by documenting lessons, and measuring and sharing results.

To sum up, the blended insurance should see its original goal, opportunity, threat, strength and weakness so that it can maximize its performance while minimizing any loss or risk.

5. Issues and challenges of blended finance

The following are a few popular criticisms over blended finance or insurance which leaves a room for further review and research in practice or in theory.

(1) Financialization or Neoliberalization [11]

Some scholars express concerns on the "financialisation" and "neo-liberalization" of conservation and development agendas or relate financial instruments such as forest bonds to commodification of nature (Adrian and Spronk, 2019). Others point out that so far, the share of private for-profit investment into conservation is still very small and tends to be overrated due to an excessive use of market framing and jargon (Dempsey and Suarez, 2016).

(2) Lack of expertise of government of developing countries

One of the reasons behind the financialization de facto is that the bankers who arrange these "partnerships" are almost always smarter than the government officials who are signing the contracts, and that's especially true in developing countries that don't have the expertise to evaluate a complex contract that may call for re-negotiations, modifications and subsidies from the host country [12]. In developing countries, governments often lack the expertise to evaluate PPPs. Even in the United States, which arguably had the most sophisticated financiers in the world, PPPs have led to some impressive failures. If only the reality matched the promise. According to research from the ODI, "a vast majority of blending projects do not directly target poverty eradication" but instead target things like infrastructure [13]. Yes, infrastructure may be important for development, to a degree, but there's limited evidence to show how it directly relates to poverty reduction, which to me is the whole point of development. . . . . .

(3) Transparency

It is not easy to get transparency of process, parties involved, contractual obligations in cost or benefit sharing between public and private entities, value forecasting and so on related to blended finance or insurance. Thus, transparency is critical in ensuring public confidence that project managers are applying the highest standards in the use of blended finance. Thus, it is important to publicly disclose the estimated subsidy for each proposed project as well as the justification for why it is necessary.

(4) Governance and methodological challenges [14]

There are some key concerns over blended finance with management and organizational challenges that influence how blending operations are monitored and evaluated. It continues with an overview of main evaluation methodologies that could be used for blended finance evaluation and challenges associated with applying them, and it outlines the challenges of assessing additionality. The evaluation may be difficult due to model or data. There are major issues around data availability constraining the analysis of evidence on blended finance [15]. Thirdly, it is not clear that blended finance solutions are regularly adopted on the basis of rigorous analyses of specific market failures and consideration of alternatives.

(5) Project risk – long term and large uncertainty

As development project is involved in substantial uncertainty and risk due to long term and demand uncertainty in developing countries. The development community agrees to need to address conflict and fragility for global security and sustainable development. In such complex situations, project manager should strive to include multiple actors at various levels of society. Although the use of private investment in fragile contexts may be low, the need to address the huge SDG funding gap makes innovative and flexible financing methods worth considering. ODA remains critical, but blended finance can help enlarge the total resources available for development.

6. Summary and conclusion

This paper aims to summarize development of a development finance, blended finance and insurance which is growing in size and in popularity in global society as a remedy for sustainable development. It is an intentional or unintentional cooperative partnership between public finance and private finance with different goal and structure.

Blended finance is a growing, indispensable financial method for development project, in particular for SDG, but not a panacea. The development gaps in low-income markets are huge. Investor appetite cannot be stimulated by de-risking efforts at the project level alone. Transparency, incentive control, sector and macro-level policy reforms and good governance are critical to creating markets that will unlock sustainable private sector investment [16].

And blended insurance is another area to take a public attention in development area which has a slightly different logical background and roles. For the sake of continuing development of global society in general, blended finance and insurance should be monitored and evaluated in order to maximize its potential capacity while limiting their weakness.

Notes

1. Sen, A. (1999). Development as freedom. Oxford: Oxford University Press. Introduction
2. Development Policy Forum Roundtable (2015), Financing for development of the challenge of implementing SDGs, Brussel
3. https://www.edfi.eu/about-dfis/what-is-a-dfi/
4. OECD (2018), Making Blended Finance Work for Sustainable Development Goals, p. 49
5. Ole Winckler Andersen, Irene Basile, Antonie de Kemp, Gunnar Gotz, Erik Lundsgaarde, Magdalena Orth (2019), Blended Finance Evaluation : Governance and Methodological Challenges, Working Paper No. 51, p. 6.
6. Ole Winckler Andersen, Irene Basile, Antonie de Kemp, Gunnar Gotz, Erik Lundsgaarde, Magdalena Orth (2019), Blended Finance Evaluation : Governance and Methodological Challenges, Working Paper No. 51, p. 7.
7. Dorfman, Mark S. and David A. Cather (2013), Introduction to Risk Management and Insurance, Tenth edition, Pearson, p. 81.
8. Solana, Miguel (2015), Making Public–Private Partnerships Work in Insurance, International Labour Organization, Paper No. 40, March 2015
9. ILO (2015), p. 8.
10. https://www.iii.org/article/background-on-crop-insurance
11. Why "blended finance" could help transitions to sustainable landscapes: Lessons from the Unlocking Forest Finance project. Author links open overlay panel JulianRodeaAlexandraPinzonbMarceloC.C. StabilecJohannesPirkerdSimoneBauchbAlvaroIribarremePaulSammonfCarlosA.LlerenagLincolnMunizAlveshCarlos E.OrihuelagHeidiWittmer
12. https://www.forbes.com/sites/tomgroenfeldt/2018/04/20/blended-finance-lipstick-on-the-public-private-partnership-pig/#6aca04e4452b
13. https://www.theguardian.com/global-development-professionals-network/2016/may/16/blended-finance-development-public-sector-capital-investment
14. Ole Winckler Andersen, Irene Basile, Antonie de Kemp, Gunnar Gotz, Erik Lundsgaarde, Magdalena Orth (2019), BlendedFinance Evaluation : Governance and Methodological Challenges, Working Paper No. 51.
15. https://www.inclusivebusiness.net/ib-voices/taking-critical-look-role-blended-finance-agriculture-emerging-learning-agenda
16. https://www.devex.com/news/opinion-in-blended-finance-transparency-and-rigor-must-rule-the-day-95776 Opinion: In blended finance, transparency and rigor must rule the day.

References

Adrian, M. and Spronk, S. (2019), "Blended financing, Canadian foreign aid policy, and alternatives", *Studies in Political Economy*, Vol. 100 No. 3, pp. 270-286.

Commons Consultants (2015), *The Pitfalls of Innovative Private Sector Financing: Emerging Lessons from Benchmarking of Investment Funds Supported by Aid Agencies, Summary Report*, Commons Consultants, Copenhagen.

Dempsey, J. and Suarez, D.C. (2016), "Arrested development? The promises and paradoxes of 'selling nature to save it'", *Annals of the American Association of Geographers*, pp. 653-671.

Eurodad (2013), *A Dangerous Blend? The EU's Agenda to 'Blend' Public Development Finance with Private Finance*, European Network on Debt and Development (Eurodad), Brussels.

European Commission (2015), *EU Blending: European Union Aid to Catalyse Investments*, European Commission, Brussels.

European Think-Tanks Group (2011), *European Blending Facilities: Implications for Future Governance Options*, Overseas Development Institute, London.

IFC (2016), *Destination: One Million New Jobs*, International Finance Corporation, Washington, DC.

Klein, M. (2016), *Blending Public and Private Finance: What Lessons can be Learned from IFC's Experience?, EMCompass Note*, World Bank Group, Washington DC, No. 3.

Mustapha, S., Prizzon, A. and Gavas, M. (2014), *Topic Guide: Blended Finance for Infrastructure and LowCarbon Development, Evidence on Demand*, Overseas Development Institute, London.

OECD/World Economic Forum (2015), *Blended Finance, A Primer for Development Finance and Philanthropic Funders*, OECD/World Economic Forum, Paris/Cologny, Switzerland, Vol. 1.

OECD (2018), *Making Blended Finance Work for the Sustainable Development Goals*, Organization for Economic Corporation and Development, OECD Publishing, Paris.

Sen, A. (1999), *Development as Freedom*, Oxford, Oxford University Press.

United Nations (2014), *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing*, New York, pp. 15-37.

Further reading

Basile, I. and Dutra, J. (2019), *Blended Finance Funds and Facilities: 2018 Survey Results*, OECD Development Co-operation Working Papers, No. 59, OECD Publishing, Paris.

Basile, I. and Neunuebel, C. (2019), *Blended Finance in Fragile Contexts: Opportunities and Risks*, OECD Development Co-operation Working Papers, No. 62, OECD Publishing, Paris.

DFIs (2018), "DFI working group on blended concessional finance for private sector projects", *Joint Report Update*, pp. 1-43.

DFIs (2019), "DFI working group on blended concessional finance for private sector projects", *Joint Report Update*, pp. 1-46.

Naran, S. and Paul, K. (2017), "Innovative financing mechanisms for government to leverage private sector investment in infrastructure for sustainable development in South Africa: case study in the water sector", *Public and Municipal Finance*, Vol. 6 No. 3, pp. 33-44.

OECD (2017), *Amounts Mobilised from the Private Sector by Official Development Finance Interventions*, OECD Development Co-operation Working Papers, No. 36, OECD Publishing, Paris.

OECD (2019), *Blended Finance Evaluation: Governance and Methodological Challenges*, OECD Working Paper No. 51.

OECD/UNDCF (2019), *Blended Finance in the Least Developed Countries 2019*, OECD Publishing, Paris.

Corresponding author
Hongjoo Jung can be contacted at: jungprokorea@gmail.com

For instructions on how to order reprints of this article, please visit our website:
www.emeraldgrouppublishing.com/licensing/reprints.htm
Or contact us for further details: **permissions@emeraldinsight.com**