Blended Finance and Partial Risk Guarantee

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A partial risk guarantee (PRG) is one of the critical instruments in the blended finance approach that provides assurance to the risk investor to lend leveraged capital to the borrower. Under the PRG scheme, philanthropic capital is employed as a risk guarantee to create financial and economic additionality through the multiplier effect.

Keywords: borrower ; donor ; economic additionality ; Partial risk guarantee ; Lender ; Risk guarantor ; Sustainable development goals ; Philanthropic funds ; Fiscal deficit ; Climate financing ; Impact investment ; Investment ; Blended finance ; Bibliometric analysis

1. Introduction

The United Nations has set forth seventeen Sustainable Development Goals (SDGs) for all nations to attain by 2030 (UN 2022). Impact investing is garnering the utmost significance for effectively implementing the SDGs, as the fiscal deficit in reaching the goals has soared to USD 4.2 trillion in developing economies (Convergence 2022). The World Health Organisation (WHO) declared COVID-19 a worldwide health pandemic on 11 March 2020 (Gurcan et al. 2022). The COVID-19 pandemic has further deteriorated global financial, economic, and health problems, making achieving sustainability arduous (Li et al. 2023; Hepburn et al. 2020). The infusion of capital through impact investments, catalytic aid, and other innovative tools assists in overcoming the health crises and contributes towards achieving sustainability (OECD 2018, 2020).

Impact investing via blended finance has emerged as an indispensable vehicle for bridging the rapidly expanding SDG funding gap. Blended finance is a structuring approach that mobilises private investment and public and philanthropic capital to achieve SDGs through financial leverage (Convergence 2022; Pereira 2017; Chirambo 2021). The novelty of the blended finance concept lies in streamlining the group of heterogenous investors and innovative tools for a standard set of financial and development goals in line with the norms of SDGs (IDFC 2019).

In the development of innovative approaches that deform the existing unsustainable practices and bridge the gap between sustainability and business models (Farza et al. 2021), a partial risk guarantee (PRG) is one of the critical, innovative instruments in the blended finance approach that provides assurance to the risk investor to lend leveraged capital to the borrower (World Bank 2008). Risk guarantees provide technical and infrastructural assistance to the borrower aiming to upscale the population struggling with poverty, hunger, illiteracy, and sanitation issues. Under the PRG scheme, philanthropic capital is employed as a risk guarantee to create financial and economic additionality through the multiplier effect. Through the accessibility of financial capital, PRG assists the vulnerable sections of society in overcoming atrocities of poverty and unemployment. PRG improves the cash flow situation of the borrower by meeting operating expenses through the disbursement of working capital loans. Overall, the borrower's quality and adoption of innovative practices are enhanced through additional capital and subsidised costs.

Mobilisation of private investment is needed to meet the rising demand for a skilled workforce and financial capital that has escalated post COVID-19. As a result, researchers must look at creative ways to combine public and private funding for growth. The employment of a partial risk guarantee approach would assist philanthropic, private, and public investors in creating a pool of resources for upscaling the borrowers and optimising the number of beneficiaries. To meet this rising demand and contribute towards a sustainable environment, the financial leveraging of capital through partial risk guarantee that multiplies the access of funds and improvises the infrastructural facilities is essential (Solanki et al. 2021). Companies nowadays are exploring emerging ways of utilising their CSR (Corporate Social Responsibility) funds, such as blended finance, for sustainable and equitable growth of an economy. CSR integrates the environmental and social concerns of the companies, along with managing business operations and stakeholders' interests (UNIDO 2007). From a global perspective, an innovative economy has the potential to attain sustainable development and contribute towards a resilient ecosystem (Bhaskaran 2023).

2. Sustainable Impact: Blended Finance with Risk Guarantees

The motive behind implementing the blended finance approach is to synchronise climate-based investments with the sustainability ecosystem. In the blended finance method, the partial risk guarantee (PRG) is a crucial financial tool since it enables cash to flow to the borrower to achieve desired goals while sharing the investor's risk. Several barriers prevent the utilisation of charitable funds for social and financial support, notwithstanding corporations' willingness to contribute to these initiatives. These challenges include murky rules, an absence of pertinent literature, and a lack of evidence for valuable models. Philanthropic funding can increase access to finance and lower the risk associated with commercial investment. Therefore, PRGs must be used to pool public and private resources, offer startup funding, and maintain the flow of money for small enterprises that they would otherwise be unable to access. It is crucial to lyse the present literature on blended finance and partial risk guarantees to establish the needs and advantages.

PRG is an important blended finance tool, as it will help sort the issues arising in funding for sustainable development, climate financing, and the progress of developing nations. For this purpose, researchers conducted a bibliometric analysis to analyse the current literature and realise the recent trends, prominent authors, journals, organisations, and countries in the domain to have a holistic idea of the research area.

The keywords identified through the bibliometric analysis are integrated and complement each other regarding overall social welfare. The review exhibits that the maximum number of citations for the blended finance approach are for the article published by authors from Cambridge University, United Kingdom. At the same time, many emerging nations are researching more about utilising blended finance instruments. The emergence and need for innovative tools are arising to create sustainable impact and optimise additional investments to increase public–private partnerships. The analysis describes keywords that form a network and provides a comprehensive overview of blended finance and partial risk guarantee and the arenas where it is mainly employed.

The evolution of any domain is the most critical aspect. The results show that certain publications are a catalyst for jumpstarting the PRG domain. Around 50 articles have been published since 2005, when this area started developing. From its inception in the area of transportation in developing countries to the most influential in financing SDGs, it has numerous applications and directions.

The blended finance approach operates to combat climate risks and finance the rising SDG deficit. In accordance with the attainment of SDGs, the partial risk guarantee scheme offers various benefits to the implementation partners (borrowers) through additional funds and enhanced accessibility to function smoothly. The guarantee scheme integrates the pool of resources from private and public investors to de-risk capital and achieve a greener environment. It aligns the interests of borrowers and lenders by offering green and sustainability-linked loans and creating more opportunities for smart-based climate investments (World Bank 2021).

From sustainable development and climate financing to political situations and innovative energy infrastructure, blended finance and PRG have no limits. The research and work in PRG must keep growing, as a substantial fiscal deficit will not be bridged with only public or private funds.

Many economies are eventually impacted by uncontrollable and adverse climatic conditions, such as pollution, floods, droughts, etc. It has been further intensified by the COVID-19 pandemic, which has worsened the risks that need to be mitigated through financial support.

From the perspective of attainment of SDGs, risk guarantees provide a platform for assisting infrastructural and technical support to firms and organisations aiming to upscale people grappling with poverty, hunger, poor sanitation, unemployment, and illiteracy. Water, sanitation, agriculture, marine conservation, energy infrastructure, etc. all see the utilisation of partial risk guarantees. The authors in this area are developing innovative ways to implement this ecosystem to combat the abovementioned issues. Developed nations, such as the United Kingdom, the United States, the Netherlands, Switzerland, etc., are becoming forerunners. Even though these countries are not fairing as severely as the developing and underdeveloped countries regarding the fiscal deficit, they are still looking for sustainable solutions in blended financing. Developing and underdeveloped countries are joining the foray, albeit at a slower pace.

Traditional finance carries some inherent investing risks. Nevertheless, blended finance reduces these risks by combining PRG with a guarantor, who assumes a portion of the risk. The financial rewards and impacts are transformed for the investor into social and economic implications as blended finance is used in the development sector. Using economic synergy, blended finance enables leveraging money to draw in many investors and boost their impact. Countries can lessen their reliance on public funding and the perceived investment risk using the PRG scheme. There is a need to encourage financial investment in climate-resilient and sustainable development initiatives and expand current public–private partnerships to advance the 2030 Sustainable Development Goal.

The underserved segment of the society will ultimately benefit from achieving sustainable development goals; hence, reducing the fiscal deficit is paramount. The PRG initiative empowers impoverished youth by providing them with jobs and the means to improve their economic circumstances, ultimately benefiting society.

The bibliometric analysis of blended finance and partial risk guarantees opens avenues for future researchers. There is considerable potential in figuring out the ecosystem for PRG and blended finance and how it can be implemented in theory and practice. Questions regarding identifying the best methods to implement PRG as an innovative tool of blended finance and its implications for managers, policymakers, and host governments remain unanswered. Researchers can further the research by answering these questions and contributing to the literature, which will help to understand PRG and, consequently, help reduce the sustainable development goal fiscal deficit. The factors examined can be tested empirically. There is a lack of models that work for PRG and can be constructed.

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