Blended Finance as a Catalyst for Sustainability and Economic growth in Emerging Economies: The case of Morocco

Imane Mahrat , International Institute of Higher Education in Morocco,(IIHEM)

Khalid ALLAM

Ecole National de Gestion et de Commerce (ENCG , Kenitra)

Siham ELALAOUI

Ecole National de Gestion et de Commerce (ENCG , Kenitra)

Submitted August 29, 2024

Accepted 7 March 20025

Published 7 March 20025

Abstract

Blended finance has grown significantly over the last decade. It provides a means to de-risk investments in sectors and geographies that are perceived as high-risk by traditional investors and could play a significant role in addressing global challenges especially in less developed economies. By mobilizing private capital for sustainable development, it can contribute to the achievement of the Sustainable Development Goals, which include a wide range of social, economic, and environmental objectives. In the case of Morocco, there is no research that addresses the impact of Blended finance on economic growth and sustainability in the country. In this qualitative exploratory study, the goal was to understand the role of Blended finance in attracting private capital needed to finance the substantial investment to boost economic growth in Morocco. Findings showed that blended finance could play a crucial role in attracting investment, particularly in the agricultural sector, technology, and sustainable development projects, despite the challenges posed by bureaucracy and transparency that hinders the use of blended finance mechanisms.

Key words: Blended Finance, Economic growth, challenges, Morocco

1. Introduction

Emerging markets face a big challenge when it comes to attracting enough money to support long-term and inclusive development (World Bank, 2017). Even though foreign direct investments (FDIs) in these markets have been growing steadily for the past 15 years, these inflows still aren't enough to boost economic growth (Karlsson & Pettersson, 2020). According to research by OECD in 2020, the financing difficulties faced by these countries result in an annual funding gap of $2.5 trillion. This gap remains even if all OECD countries manage to meet their goal of allocating 0.7% of their Gross National Income (GNI) to development finance (OECD, 2020).

To tackle this issue, emerging markets need a massive inflow of capital, which means that public and private players need to work closely together. In the past, financial institutions have mostly focused on financing low-risk investments (OECD, 2020). However, in order to stimulate economic growth, private investment needs to be directed toward riskier projects, sectors, and places that private usually avoid because they seem too risky (IDFC, 2019).

Blended finance, a strategic mix of public and private capital, has emerged as a promising solution to this challenge. By leveraging public or philanthropic funds to attract private sector investment, blended finance aims to catalyze economic growth in sectors and regions where investment is needed the most (IDFC, 2019).

This study examines how blended finance can act as a catalyst for enhancing the economy in emerging nations focusing specifically on Morocco. It delves into the complexities of finance its potential advantages and the hurdles it must overcome. Through interviews with experts versed in finance, this study aims to offer valuable insights into how effective blended finance is driving economic progress in Morocco. It aims to add to the existing research on how blended finance can support economic growth in developing countries.

This paper is structured in four parts: the first part presents the background of the problem and states the problem statement; the second section provides a literature review, research methodology and data collection follow; and the last section discusses key findings of the study. The paper is wrapped up with conclusions and recommendations of the research.

2. Problem statement and purpose of the study

Governments in emerging markets have a critical role to play in reducing these risks. By strategically using public funds to provide de-risking tools, they can encourage private financing for projects that have strong social and development benefits but are seen as too risky by private investors (OECD,2020). This approach, known as "blended finance," allows the private sector to balance certain risks with appropriate rewards, connecting specific target groups to the market and eventually making financially sustainable solutions possible (IDFC, 2019).

Blended finance has grown significantly over the past decade. In 2021, Convergence Finance reported that it has led to an overall financing of more than $160 billion, with an average annual capital flow of around $9 billion since 2015 (World Bank, 2022). This approach shows the potential of using relatively small amounts of donor funding to readjust the risk profile of a project and make pioneering investments more appealing to private investors.

The problem that this research paper aims to discuss the potential of blended finance to be a catalyst for sustainability and economic growth in emerging economies, specifically Morocco, and what do professionals in the field think about it. Impact investment vehicles such as blended finance are used to lower the risk of social development projects in emerging markets, as well as enhance their financial profitability. This is done through a mix of development, public, or philanthropic funds to mobilize private capital flows to emerging and frontier markets. Which leads to positive results for both the investors and the communities.

However, stances regarding the effectiveness of blended finance are divergent. Some view that "blended concessional finance has moved beyond its niche position to become a significant tool for development finance and mobilization" (Mutambatsere & Schellekens, 2020). Others have criticized the use of blended finance, stating that "there is no proof of its effectiveness or impact" (Larrea, 2019).

The systematic questions are then:

1. How does blended finance contribute to sustainability and economic growth in emerging markets like Morocco?
2. What are the challenges in implementing blended finance in Morocco?
3. What is the opinion of Professionals in the field, about the importance of Blended finance and its effectiveness?

This qualitative research will delve into the experiences, perceptions, and strategies of Key stakeholders involved in blended finance. It will explore the complexities and nuances of implementing blended finance in an emerging economy like Morocco, providing a richer and more holistic understanding of the phenomenon.

According to a report by the OECD the Moroccan economy is expected to grow by 3.5% in 2024 and 4% in 2025, exceeding the 2.9% growth projected for 2023 (World Bank, 2024). This growth is largely due to measures aimed at mitigating the socio-economic impacts of inflation, drought, and the Al Haouz earthquake (World Bank, 2024).

The economy is on an upward trajectory, fueled by local spending, investments, and strong performances in exports and services. The increase in transfers and subsidies, which are intended to back the ongoing reform in social protection and enhance financial abilities in key social sectors like education and healthcare, is leading to a surge in public consumption. There's a positive shift in business sentiment, with capacity utilization reaching 79%, and a year-on-year rise of 6.1% in industrial exports as of February 2024. The annual rates of overall and core inflation have been on a downward trend since March 2023, registering 0.7% and 2.4% respectively in March 2024 (World Bank, 2024).

Defined as the strategic use of development finance for the mobilization of commercial finance towards sustainable development (OECD, 2020), Blended finance has been implemented in Morocco to achieve development outcomes through market-based investment and financing. In this paper, the goal is to examine the role and effectiveness of blended finance, specifically in the context of Morocco. Specifically, the aim of this qualitative study is to provide a comprehensive understanding of the practical application of blended finance, the challenges it meets, its key stakeholders and the perspectives of professionals in the field.

3. Literature Review

The United Nations (UN) at the Addis Ababa Action Agenda (AAAA) of the Third International Conference on Financing for Development defined blended finance as “the integration of concessional public finance with non-concessional private finance and expertise from both the public and private sectors” (OECD, 2018). The Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) (2016) provides a more comprehensive definition, describing it as “the strategic application of development finance to mobilize additional finance towards the Sustainable Development Goals (SDGs) in developing nations”. The Development Financial Institutions (DFI) Working Group, on the other hand, defines blended finance as “the amalgamation of concessional finance from donors or third parties with DFIs’ standard ownaccount finance and/or commercial finance from other investors, with the aim of developing private-sector markets, addressing the SDGs, and mobilizing private resources” (IDFC, 2019).

Blended finance can then be defined as a strategic approach to finance that uses public, philanthropic, and private funds to drive sustainable development and economic growth. It aims to attract more commercial capital towards sustainable development goals 16 (SDGs), thereby addressing the funding gap that exists in many developing countries (OECD, 2018). The concept of blended finance appeared in response to the recognition that public and philanthropic funds alone are insufficient to meet the financing needs for sustainable development. By using private capital, blended finance can mobilize significantly more resources for sustainable development than would be possible with public funding alone (Convergence, 2020).

Blended finance works through several mechanisms, including risk mitigation, leveraging, and structuring mechanisms. Risk mitigation mechanisms, such as guarantees and insurance, can reduce the risk for private investors, making investments in sustainable development more attractive. Leveraging mechanisms involve the use of public or philanthropic funds to attract private investment. Structuring mechanisms involve the design and structuring of financial instruments and investment vehicles in a way that aligns with the risk-return profiles of private investors (World Economic Forum, 2015).

3.1. Components of Blended Finance

Blended finance structures can manifest in various forms, contingent on the specific requirements of the project and the preferences of the involved investors (OECD, 2020). Some prevalent components of blended finance include:

1. Concessional Finance: it's the use of public money, such as grants, concessional loans, or subsidies to reduce the cost of capital for a project (World Bank, 2024). Concessional finance is often employed to decrease the overall risk level of a project and make it more appealing to private investors, particularly in environments characterized by considerable risk or low return (IMF, 2022).
2. Risk-Sharing Instruments: Blended finance might involve the use of risk-sharing instruments, such as guarantees or insurance, to transfer specific risks from private 17 investors to public or philanthropic entities (OECD, 2020). These instruments can aid in

protecting investors against political, currency, or credit risks, thereby augmenting their willingness to take part in projects with uncertain or volatile operating environments (OECD, 2018).

3. Technical Assistance: In certain cases, blended finance includes the provision of technical assistance to help project developers in enhancing their capacity, governance, and operational efficiency (World Bank, 2024). This can include support for project preparation, environmental and social impact assessments, or the implementation of best practices in project management and monitoring (UNDP, 2023).

4. Impact Investment Funds: Blended finance can also be directed through impact investment funds that aim to generate both financial returns and positive social or environmental impact (OECD, 2020). These funds typically amalgamate various sources of capital, including philanthropic, public, and private funds, to invest in projects that address specific development challenges while also delivering competitive financial performance (UNDP, 2023).

3.2. Potential Impact of Blended Finance

Blended finance has the potential to unlock substantial investment in sustainable development projects and contribute to the achievement of the United Nations Sustainable Development Goals (SDGs) (UNDP, 2023). By using private sector capital and expertise, blended finance can help bridge the massive financing gap for development, estimated to be in the trillions of dollars annually (World Bank, 2024). It can also encourage innovation and efficiency in the delivery of essential services, such as healthcare, education, and clean energy, by harnessing the resources and capabilities of the private sector (OECD, 2020).

Moreover, blended finance can support the transition to a low-carbon and climate resilient economy by mobilizing investment in renewable energy, energy efficiency, and climate adaptation projects (UNDP, 2023). This is particularly relevant in the context of the Paris Agreement and the global commitment to limit the rise in average global temperatures to well below 2 degrees Celsius (UNFCCC, 2021).

In addition to its financial impact, blended finance can also drive positive social outcomes by improving access to essential services, creating job opportunities, and fostering inclusive economic growth (OECD, 2023). By targeting investments in underserved communities and marginalized populations, blended finance can help reduce poverty, inequality, and social exclusion, thereby contributing to a fair and sustainable development (UNDP, 2023).

3.3. Structures and instruments of Blended Finance

Blended finance entails the use of a diverse array of financial instruments and structures to address the unfavorable risk-return profiles of investments in developing countries (OECD, 2020). These instruments are discussed next.

3.3.1. Equity Instruments

Equity instruments denote ownership of an entity and constitute a claim on the part of the entity’s assets and earnings (OECD, 2020). In the context of blended finance, equity investments are frequently used to provide risk capital to businesses or projects that have the potential to generate social and environmental impacts, in addition to financial returns (World Bank, 2023). For instance, development finance institutions often use equity investments to support businesses in sectors such as renewable energy, agribusiness, and healthcare (UNDP, 2024).

3.3.2. Debt Instruments

Debt instruments represent a loan made by an investor to a borrower (OECD, 2021). In blended finance, debt instruments can be used to provide loans to businesses or projects that are considered too risky or unprofitable for commercial lenders (World Bank, 2023). These loans can be provided on concessional terms, such as lower interest rates or longer repayment periods, to make them more affordable for the borrower (UNDP, 2023).

3.3.3. First Loss Capital

First loss capital is a type of credit enhancement that protects other investors from losses up to a certain amount (OECD, 2021). In blended finance, first-loss capital is often provided by public or philanthropic investors, who are willing to bear a higher level of risk in order to catalyze additional investment from private investors (World Bank, 2023). For example, a public investor might provide first-loss capital to a fund that invests in renewable energy projects in developing countries, thereby reducing the risk for private investors and encouraging them to invest in the fund (UNDP, 2023).

3.3.4. Guarantees and Insurance

Guarantees and insurance are risk mitigation instruments that can be used to protect investors from specific risks (OECD, 2021). In blended finance, guarantees and insurance can be provided by public or philanthropic investors, or by specialized institutions such as multilateral development banks or insurance companies (World Bank, 2023). For example, a guarantee might be used to protect investors from the risk of default by a borrower, while insurance might be used to protect investors from risks such as political instability or natural disasters (UNDP, 2023).

3.3.5. Development Impact Bonds

Development impact bonds (DIBs) are a type of performance-based contract in which private investors provide upfront capital for social or environmental interventions and are repaid by a public or philanthropic outcome funder if the interventions achieve pre-agreed outcomes (OECD, 2021). DIBs can be used to mobilize private capital for interventions that have the potential to generate significant social or environmental impacts, but that are considered too risky or complex for traditional forms of financing (World Bank, 2023).

3.3.6. Performance-Based Grants

Performance-based grants are a type of grant that is disbursed based on the achievement of pre-agreed outcomes (OECD, 2021). In blended finance, performance based grants can be used to incentivize businesses or projects to achieve social or environmental impacts (World Bank, 2023). For example, a performance-based grant might be used to incentivize a business to reduce its carbon emissions or to provide essential services to underserved populations (UNDP, 2023).

Structured Funds and Syndicated Loans Structured funds and syndicated loans are types of investment vehicles that can be used to pool resources from multiple investors and invest in a diversified portfolio of assets (OECD, 2021). In blended finance, structured funds and syndicated loans can be used to mobilize large amounts of capital for investments in sustainable development (World Bank, 2023). For example, a structured fund might be used to invest in a portfolio of renewable energy projects, while a syndicated loan might be used to provide large-scale financing for infrastructure development (UNDP, 2023).

3.4. Examples of Blended Finance projects in Morocco

The Organization for Economic Co-operation and Development (OECD) has emphasized the role of blended finance in supporting Agri-SMEs in many developing countries. These enterprises contribute to eradicating poverty, achieving food and nutrition security, promoting inclusive growth, protecting water, land and biodiversity, and achieving climate action. However, many of them do not have sufficient access to finance to fulfill their potential (OECD, 2021). Blended finance can enable Agri-SMEs to access more capital and targeted financial products to grow their businesses and their contribution to the 2030 Agenda. In Morocco, nearly 70% of the agricultural sector is made up of small and medium sized farms, the majority of which are excluded from current bank financing because of their economic fragility and their traditional land tenure (OECD, 2021).

LixCap LLC, a Moroccan LLC headquartered in Casa-Blanca, has supported USAID's Morocco Economic Competitiveness program by reviewing Morocco's cold storage logistics value chain. TCL is critical for boosting agribusiness exports, a sector which represents over 25% of Morocco's total GDP (LixCap,2020). LixCap, through a USAID-backed market mapping program, identified an opportunity to develop a cold storage facility at the Port of Tanger Med. The refrigerated warehouse presented an investment opportunity and a means to enable local agribusinesses to export their goods to Europe.

LixCap developed a blended finance solution to transform an earlier market study for USAID and DAI, Inc. into a bankable deal. They structured an investment package that would catalyze the construction and maintenance of a cold storage facility. LixCap developed a strategic partnership with Friopuerto, a Spanish-based cold storage firm, to bring external capital. The firm also brought its internal capital and a portable credit guarantee from USAID's Development Credit Authority supported the investment. This was followed up with the sourcing of investment partners in Morocco, Spain and the United States, ultimately securing USD 11 million. Today, Friopuerto Tanger Med is North Africa's most advanced cold storage facility and will generate profitable returns as well as positive impacts for local agricultural producers and traders (LixCap, 2020).

The NOOR Ouarzazate Solar Complex is a 580MW solar power project located 10 kilometers north of the city of Ouarzazate, Morocco. It is the world's largest concentrated solar power plant. The project was developed on a build, own, operate and transfer (BOOT) basis by ACWA Power Ouarzazate, a consortium of ACWA Power, the Moroccan Agency for Solar Energy (Masen), Aries, and TSK. The project received preferential financing from several sources including the Clean Technology Fund, African Development Bank, the World Bank, and the European Investment Bank. The facility lies in the South region of Morocco, near the ancient, fortified town Ait-Ben-Haddou, near Ouarzazate. The project was completed in four phases and covers an area of over 3,000 hectares (12 sq mi). It can store solar energy in the form of heated molten salt, allowing for production of electricity into the night (The World Bank, 2024).

The partnership between USAID and OCP Group is a significant development aimed at revolutionizing agriculture in Africa. The partnership aims to overcome critical barriers hindering Africa's agricultural potential (OCP, 2024). Two sustainable and innovative initiatives have been designed to enhance agricultural efficiency and productivity across the continent. The first project is called the Space to Place Project and will gather accurate local soil and climate data, which will provide the basis for a "Decision Support Tool" to guide farmers on the optimal use of fertilizers. The second project is the Rock Phosphate Amendment Project which will evaluate the impact on crop yields and soil fertility of the application of phosphate rock and innovative nutrient formulas based on it (OCP, 2024). The agreement includes plans to engage other stakeholders and partners to advance these groundbreaking initiatives and encourage the adoption of the new tools by farmers across the continent. OCP Group, through OCP Africa, will invest $30 million to support efficient fertilizer use across sub-Saharan Africa, complementing USAID's $40 million investment to expand Space to Place. The partnership is expected to benefit millions of African farmers and enhance the continent's food security (OCP, 2024).

These examples illustrate one of the key opportunities presented by blended finance; its ability to mobilize private capital for sustainable development. By providing risk mitigation and leveraging mechanisms, blended finance can make investments in sustainable development more attractive to private investors, thereby mobilizing more resources for the achievement of the Sustainable Development Goals (SDGs) (OECD, 2018).

4. Methodology and Data collection

This qualitative study aims to explore the significance of blended finance in Morocco, its potential impact, the roles of various stakeholders, its limitations, and the necessary efforts for its effective implementation. Given the complexity and emerging nature of blended finance in the Moroccan context, a qualitative approach was deemed appropriate to achieve a deep understanding of the issues at hand (Creswell, 2009).

Semi-structured online interviews were utilized to gather insights from key professionals in the field: the first participant (P1) is a Finance director at a consultancy company that concentrates on promoting entrepreneurial investments for the economic advancement of emerging and frontier markets. The company operates in Africa, Asia, and the United States of America. The second participant (P2) is a sustainable Finance and Advisory Manager at a commercial bank in Morocco; and the third participant (P3) is a former Policy Research Consultant at The World Bank. All participants have over ten years experience in their current role.

The study was conducted in two phases. Initially, solicitation emails were sent to 50 professionals across various sectors including finance, consulting, and policymaking in Morocco. This targeted approach ensured a diverse range of insights from different industry perspectives. Out of the 50, only three responses confirmed their willingness to participate. The participants had relevant experience and insights on blended finance, so all three respondents were selected for detailed interviews. The semi-structured interviews, conducted via video calls, lasted approximately 45 minutes each. Questions were designed to explore the themes of importance, impact, roles, limitations, and implementation efforts related to blended finance. Participants were reluctant to be recorded so this study relies on notes from our discussion.

5. Findings

5.1. Importance of Blended finance in the current context of the Moroccan Economy

According to all participants in the study, blended finance is crucial for several reasons. P1 stated “Blended finance mitigates risks and makes high-risk projects viable for private investors, which is crucial for sectors like Agriculture and renewable energy.” P2 added, “It leverages private sector efficiency and expertise, leading to better project outcomes and addressing significant funding gaps.” P3 highlighted, “Blended finance is essential for achieving sustainable development, particularly in sectors like SMEs and infrastructure, where traditional financing falls short.”

Blended finance can significantly transform Morocco's economy by driving development across various sectors. Morocco has ambitious plans, particularly for solar and wind power. “By reducing investment risks and enhancing returns, we can attract more private investments into renewable projects,” noted P1. This would reduce the country's reliance on fossil fuels, create jobs, and stimulate local economies. P2 on the other hand stated that “SMEs are the backbone of Morocco’s economy,” said P2. “Blended finance can mobilize capital to help them overcome funding gaps, enabling expansion, innovation, and greater economic contribution.”

Blended finance can also support critical infrastructure projects. P3 pointed out, “Improved infrastructure boosts productivity, reduces business costs, and enhances citizens' quality of life. It’s a key area where blended finance can make a tangible impact”. P1 added that Agriculture and rural development play a significant role in Morocco’s economy, “Blended finance can support agricultural projects that improve productivity and resilience to climate change, benefiting rural communities and ensuring food security”. P2 on the other hand, stated that the tourism sector, vital for Morocco’s economy, can also benefit from blended finance. “Investments in sustainable tourism infrastructure enhance Morocco’s appeal and promote environmental sustainability”.

Blended finance can also address gaps in funding for education and health initiatives. P3 noted, “supporting educational and healthcare projects, can improve human capital and overall well-being, leading to a more skilled workforce and healthier population, contributing to long-term economic growth”. P1 discussed the importance of blended finance in financial inclusion by supporting projects that provide access to financial services for underserved populations. He mentioned, “This fosters entrepreneurship and economic activity”. Moreover, “Investing in innovation and technology through blended finance can lead to the creation of new industries and a more competitive economy globally”.

5.2. Role of Stakeholders in Blended Finance

The success of blended finance initiatives depends on the roles of various stakeholders, including the government, private sector, development finance institutions (DFIs), and non-governmental organizations (NGOs). According to all three participants, the government can create an enabling environment through supportive policies, regulatory frameworks, and incentives.

Increased government involvement is necessary to ensure investments have a meaningful impact through channels such as incentive schemes, risk mitigation, coordination, and monitoring. The private sector is also very important since it brings in capital, efficiency, and expertise. Private companies and investors need to actively participate in projects and collaborate with public entities.

Another important actor would be Development finance institutions (DFIs) since they can provide concessional finance and technical assistance. They play a pivotal role in derisking project and mobilizing private sector investment. NGOs can provide on-ground insights and ensure the community needs are met. They facilitate project implementation and ensure social and environmental standards.

To encourage the implementation of blended finance in emerging markets, especially in Morocco, several strategies are necessary. First establishing clear and supportive policies, including tax incentives, streamlined regulatory processes, and legal frameworks to protect investors, is essential for creating a more attractive environment for private investors. “Clear policies, tax incentives, and streamlined regulatory processes are essential to attract private investors,” suggested P3.

Second, enhancing the capacity of local institutions through training and development programs for government officials, financial institutions, and other stakeholders is a crucial point for improved management and implementation of blended finance projects. Third, the promotion and support of public-private partnerships (PPPs) can leverage private sector expertise and funding, leading to enhanced collaboration and efficient project execution. Finally, ensuring transparency and accountability in fund usage through regular monitoring, evaluation, and reporting of project outcomes increases investor trust and project success.

There was a clear consensus among all three participants: Government participation is not just beneficial, but essential to ensure that blended finance investments yield substantial and meaningful impact. One of the ways for government involvement is the implementation of tax incentives or subsidies. These could be strategically targeted towards projects that are in alignment with the nation’s development objectives. These measures could convince and attract a greater influx of private investment.

Another strategy is the provision of guarantees or other risk mitigation instruments. These tools can attract private investments into sectors that are traditionally perceived as high-risk. By reducing the investment risk, these mechanisms can catalyze increased participation from the private sector. The establishment of dedicated units or agencies to orchestrate blended finance initiatives is another important step. These entities can facilitate effective collaboration among stakeholders, leading to smoother project implementation and optimal utilization of resources. Lastly, the creation of robust monitoring and evaluation frameworks is important to assess the impact of blended finance projects. These frameworks ensure that projects are on track to meet development objectives and provide the flexibility for necessary adjustments. Which ensures a dynamic approach, allowing projects to adapt and evolve in response to changing circumstances and needs.

5.3. Challenges and solutions

One of the main issues that projects face is the very long bureaucratic process. "Lengthy bureaucratic processes delay project initiation and increase costs," P1explained, he also added "Requests for grants and financing should be sent during the brainstorming phase of a project since it could take up to 9 months or more from them to get approved." Streamlining regulatory frameworks by simplifying and harmonizing regulations related to blended finance projects can significantly reduce bureaucratic hurdles. Having to get approval from many government agencies can stretch out project timelines, possibly leading to investors losing interest and missed chances for timely investments. Setting up one-stop shops, central points of contact for investors to handle all rules and administrative needs, can greatly cut down on the time and effort needed for compliance.

Frequent changes in policies or lack of clear, stable rules can create uncertainty, raising the perceived risk among investors and making it harder to attract private money. Making sure policies are stable and clear can reduce uncertainty and how risky investors perceive the investment to be. Poor coordination between agencies can lead to inefficiencies, resulting in doing the same work twice and further delays in carrying out the project. Improving coordination between agencies by setting up inter-agency committees or working groups can lead to more efficient project implementation and better use of resources. Using technology to automate and simplify bureaucratic processes can cut down on processing times and make things more transparent. Running training programs to improve the skills and abilities of government officials and stakeholders can lead to more efficient handling of projects.

Another issue discussed with the participants was the complex tracking and monitoring of Blended finance initiatives in Morocco. Indeed, it is a very problematic issue that needs to be fixed as it creates gaps in data and makes it harder to make quantitative studies that have the potential to attract more private investors. "Establishing standardized impact measurement and reporting methods is crucial for demonstrating tangible outcomes and attracting more private investors." highlighted P3, "Technical assistance and targeted support for project preparation and capacity building can enhance the enabling environment for increased blended finance transactions and development impact".

Regulatory barriers and bottlenecks pose significant challenges to institutional capital participation in blended finance transactions. P3 noted, "Tailored regulatory frameworks that encourage institutional investor participation are necessary to overcome barriers and bottlenecks.

The reliance on sovereign risk ratings can lead to overestimating the risks of blended finance projects. Improving risk assessment methodologies and maximizing credit enhancements can attract more private capital. Scaled grant funding for project preparation and building local capacity can also demonstrate commercial viability and facilitate greater investor participation.

According to P3 Improving data transparency is critical for attracting additional private capital and enabling evidence-based decision-making. A collective commitment to data transparency and uniform reporting standards can expand blended finance, helping bridge the gap between perceived and actual risks.

Local governments play a crucial role in creating an enabling environment for blended finance transactions. P2 suggested “Strengthening local governments' capacity to develop and implement bankable projects is essential for fostering a supportive ecosystem for blended finance”. He also added that “By promoting collaboration, innovation, and ongoing learning among all stakeholders, we can foster a more supportive ecosystem for blended finance, unlock new capital sources, and accelerate progress toward a more inclusive, sustainable, and resilient future for everyone”.

Several Limitations of the role Blended Finance can play in Morocco were brought up during the interviews, especially in the context of Morocco. P1 highlighted that despite risk mitigation tools, private investors may still hesitate to invest in emerging markets due to perceived high risks. Enhancing risk assessment methodologies and providing credit enhancements could help encourage investors. Moreover, Blended finance structures can be complex and costly to design and implement, deterring smaller investors or enterprises according to P2. Simplifying processes and providing technical assistance can mitigate these challenges. In addition, a shortage of local expertise in managing blended finance projects leads to reliance on external consultants. Building local capacity through training and development programs is crucial noted P2. Finally, according to P3 scaling blended finance projects from pilot phases to broader implementation is challenging, especially in diverse and fragmented markets. Developing scalable models and replicable frameworks is essential to improve the adoption of blended finance in emerging market and encourage private investors.

6. Conclusion

To successfully implement blended finance in emerging markets, particularly in Morocco, developing and enforcing strong regulatory frameworks to provide clarity and stability for investors is very important. Clear regulations can reduce perceived risks and attract more private sector investment. Strengthening institutional capacity by building the capacity of local institutions to manage and implement blended finance projects effectively is essential for the successful execution and oversight of blended finance initiatives.

Promoting and supporting public-private partnerships (PPPs) can leverage private sector expertise and funding, leading to enhanced collaboration and efficient project execution. Ensuring transparency and accountability in fund usage through regular monitoring, evaluation, and reporting of project outcomes increases investor trust and project success. By addressing these challenges and implementing these recommendations, Morocco can create an enabling environment for blended finance, attracting more private sector investment and driving sustainable economic development.

The study acknowledges several limitations, including the small sample size and reliance on qualitative data from a very limited number of interviews as well as the very general context of the research. Future research could integrate quantitative methods and larger sample sizes to provide more comprehensive insights. Additionally, exploring blended finance in specific sectors could further enrich the understanding of its impact and potential rather than a macro-economic study.

References

Convergence (2020). *The state of blended finance 2020*. Retrieved from https://www.convergence.finance/resource/the-state-of-blended-finance-2020/view

Creswell, J. (2009). Research design: Qualitative, quantitative, and mixed methods. Thousand Oaks, CA: Sage. USA.

IDFC (2019). *Blended finance: A brief overview*. Retrieved from https://www.idfc.org/wp-content/uploads/2019/10/blended-finance-a-brief-overview-october2019_final.pdf&ved=2ahUKEwiAqdaWhcKHAxWLW0EAHVtSDpIQFnoECCQQAQ&usg=AOvVaw1Q4WBoufvdqL80AyXAld4p

International Monetary Fund (2022). *How blended finance can support climate transition in emerging and developing economies*. Retrieved from https://www.imf.org/en/Blogs/Articles/2022/11/15/how-blended-finance-can-support-climate-transition-in-emerging-and-developing-economies

Karlsson, J., & Pettersson, M. (2020*). Effects of FDI on Emerging Markets: An exploratory study of nineteen emerging markets and the real effects of inward FDI*. Retrieved from https://urn.kb.se/resolve?urn=urn:nbn:se:lnu:diva-96075.

Larrea, J. (2021*). Five critics of blended finance and five responses from convergence.* Retrieved from https://www.convergence.finance/news/7DQVQeR4TfTDLLqbsyszb8/view.

LixCap (2020). *Blended finance investment development for the cold chain.* Retrieved from https://www.lixcap.com/en/blended-finance-investment-development-for-the-cold-chain/

Mutambatsere, E., & Schellekens, M. (2020*). The why and how of blended finance.* Retrieved from https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://documents1.worldbank.org/curated/en/856201613568586386/pdf/The-Why-and-How-of-Blended-Finance.pdf&ved=2ahUKEwjQ5vDjhsKHAxWsBdsEHQMiEMIQFnoECBwQAQ&usg=AOvVaw35JEYrq6z-q7YGLBdTQhft

OCP Group (2024). *USAID and OCP forge partnership to revolutionize agriculture*. Retrieved from https://www.ocpgroup.ma/press-release-article/usaid-and-ocp-forge-partnership-revolutionize-agriculture

OECD (2018), *Making blended finance work for the Sustainable Development Goals*, OECD Publishing, Paris. Retrieved from https://www.oecd-ilibrary.org/blended-finance-definitions-and-concepts_5j90df1466zv.pdf?itemId=%2Fcontent%2Fcomponent%2F9789264288768-7-en&mimeType=pdf.

OECD/UNCDF (2020), *Blended Finance in the Least Developed Countries 2020: Supporting a Resilient COVID-19 Recovery*, OECD Publishing, Paris, https://doi.org/10.1787/57620d04-en.

United Nations Development Program (2023). *Scaling blended finance to mobilize private SDG investments in LDCs and other vulnerable countries*. Retrieved from https://www.un.org/ohrlls /events/scaling-blended-finance-mobilize-private-sdg-investments-ldcs-and-other-vulnerable-countries

World Bank Group (2017). *Investment in Emerging Economies and Developing Economy Regions: Trends, Prospects, and Policy Options*. Retrieved from https://documents1.worldbank.org/ curated/en/099542403162311587/pdf/IDU0f6e85a340d9b4040ee0828b060b095204a20.pdf.

World Bank Group (2024). Morocco: Unlocking the potential of the private sector to spur growth and job creation. Retrieved from https://documents1.worldbank.org/curated/en/099826007162422 5517/pdf/IDU12f69bf581e7fa144061b0cf15dc97f2b2bbd.pdf&ved=2ahUKEwjztuPBlcKHAxU8cvEDHabEELkQFnoECDEQAQ&usg=AOvVaw2iWCoox1axZEU7bsoAZ0_Y

World Economic Forum (2015). *An overview of the strategic use of development finance and philanthropic funds to mobilize private capital for development*. Retrieved from https://www.weforum.org/search/?query=blended+finance