

# The State of Blended Finance 2019



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# Executive Summary

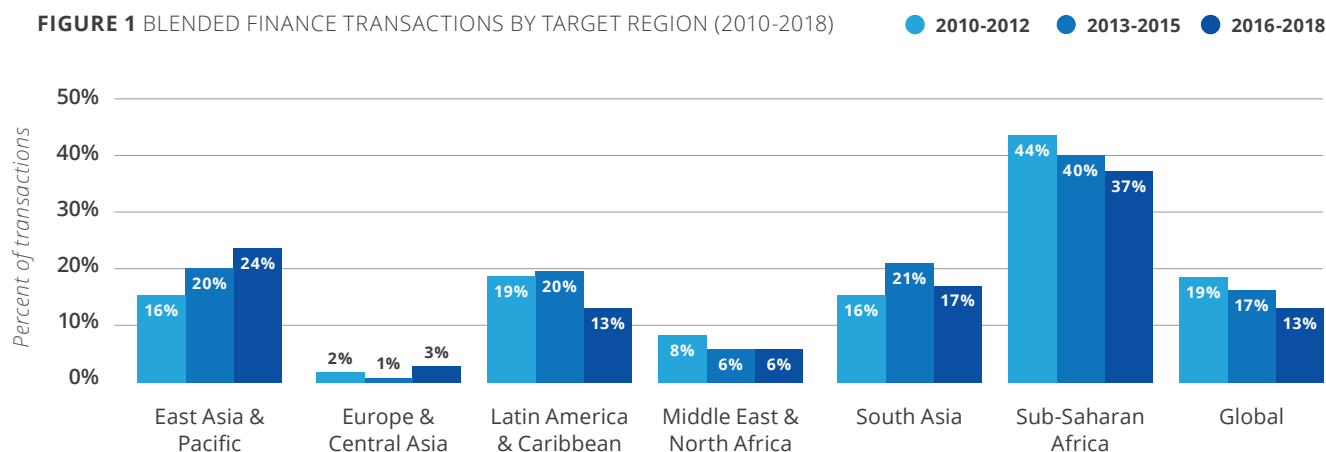
The Sustainable Development Goals (SDGs) target a range of development challenges, from combating climate change to ending poverty and hunger. To achieve the SDGs in developing countries, a significant scale-up of investment is required. Blended finance is the use of catalytic capital from public and philanthropic sources to mobilize additional private sector investment in developing countries to realize the SDGs. Blended finance is one important approach to financing the SDGs, with the United Nations (UN) member countries reaching consensus on its importance at the Third International Conference on Financing for Development in 2015. Since then, blended finance has become a familiar concept for a diverse set of organizations across the public, private, and philanthropic sectors.

This report uses Convergence data and insights to provide an updated analysis of the blended finance market, including intended impact, blending approaches, focus sectors, and target regions. The report also highlights the most active organizations in the space, provides an overview of emerging trends and themes in blended finance, and reflects on progress towards 'better blending'. Established out of the Addis Ababa Action Agenda, Convergence generates blended finance data, intelligence, and deal flow to increase private sector investment in developing countries for sustainable development.

## Deal Trends

This report looks at more than 3,700 financial commitments to over 500 blended finance transactions, with aggregate financing around \$140 billion. We have seen steady growth in blended finance, by number of transactions closed, with a notable acceleration beginning in 2009. Blended finance transactions range considerably in size, from a minimum size of \$110,000 to a maximum size of \$8 billion, but the median transaction size has remained consistent at around \$64 million. Funds have consistently accounted for the largest share of blended finance transactions, although we have seen an increase in the proportion of projects, as well as facilities and bonds / notes over time. Sub-Saharan Africa continues to be the region most frequently targeted by blended finance transactions, but on a declining proportional basis and with deal sizes remaining small relative to other regions. Meanwhile, Asia has established itself as the new frontier for blended finance. Energy and financial services continue to be the two most common focus sectors; however, agriculture, water and sanitation, and health are ripe for more blending.

**FIGURE 1** BLENDED FINANCE TRANSACTIONS BY TARGET REGION (2010-2018)



Concessional debt or equity has been the most commonly deployed financial instrument in blended finance structures, while we see a decline in the use of technical assistance funds. Blended finance has continued to be concentrated on Goal 8 (Decent Work and Economic Growth), Goal 9 (Industry, Innovation and Infrastructure), Goal 1 (No Poverty), and Goal 10 (Reduced Inequalities), with increasing momentum around Goal 7 (Affordable and Clean Energy) and Goal 11 (Sustainable Cities). The majority (68%) of blended finance transactions are ultimately aiming to reach low-income populations and base of the pyramid (BoP) consumers.

## Investor Trends

Convergence's database identifies over 1,100 unique organizations across the public, private, and philanthropic sectors that have made one or more financial commitments to blended finance transactions, with approximately 20% of these organizations active blended finance investors (i.e., with three or more commitments). Notably, the private sector is providing an increasing share of the 3,700 financial commitments to the over 500 blended finance transactions captured in this analysis. Blended finance has achieved the greatest traction with financial institutions (e.g., commercial banks) and corporates (e.g., multinational companies), while participation from institutional investors as well as local investors has been limited to date. Impact investors represent a declining share of financial commitments to blended finance transactions, but continue to represent an active sub-set of investors.

Both (i) development agencies and multi-donor funds and (ii) multilateral development banks (MDBs) and development finance institutions (DFIs) have increased their blended finance activities over time. Development agencies are a critical source of concessional capital for blended finance, and these organizations have continued to develop the capacity and tools to practice blended finance

over the past year. MDBs and DFIs continue to be leaders in the space, with an uptick in blended finance activities from institutions based outside of North America and Europe. While foundations and NGOs represent a declining share of financial commitments to blended finance, these organizations can play a number of key roles as catalytic capital providers (e.g., through the Catalytic Capital Consortium launched by the John D. and Catharine T. MacArthur Foundation, the Rockefeller Foundation, and Omidyar Network).

## Ecosystem Trends

Over the past year, we have seen considerable momentum behind the 'better blending' agenda, which focuses on the more effective and efficient use of blended finance approaches in support of the Sustainable Development Goals (SDGs). In 2018, the Tri Hita Karana (THK) Roadmap for Blended Finance was launched to coordinate market-wide action, with working groups established around each of the five action areas: Practice, Mobilization, Transparency, Inclusive Markets, and Impact. Other recent 'better blending' efforts have included: the DFI Working Group's updated Joint Report to harmonize the DFIs' blended finance principles and practices; the Global Impact Investing Network (GIIN) Blended Finance Working Group that seeks to support the greater frequency and scale of blended finance investments; and the launch of two reports on Blended Finance in the Least Developed Countries (LDCs) by the United Nations Capital Development Fund (UNCDF) and a consortium of partners, including Convergence.

Looking ahead, there are a number of emerging trends and themes in blended finance. We see significant potential to scale blended finance for agriculture, with a growing community of practice leading to more and better blending in the sector. The field of conservation finance is starting to explore blended finance solutions, while blended

finance for water and sanitation continues to be an area of strong interest. The role of blended finance in the LDCs is still a priority topic for many policymakers, but there is still a role for blended finance in the middle-income countries where six out of 10 extremely poor people live. Notably, we are also seeing a growing appetite for blended finance in developed countries too, which could foster a cross-fertilization of ideas and models.

## Reflections

Blended finance is an increasingly familiar concept to a diverse set of stakeholders, from development agencies to private foundations, impact investors to commercial banks. This is enabling more sophisticated multi-stakeholder conversations about blended finance – beyond simply ‘what’ and ‘how’ to more nuanced considerations of ‘where’ and ‘when’. Concessional capital providers are establishing the physical, financial, and strategic resources required to more effectively engage the private sector in sustainable development. As these development funders become more sophisticated in their strategies and practices, we anticipate a positive impact on the practice

of blended finance. These organizations hold the potential to draw blended finance towards higher-impact sectors (e.g., agriculture, health) and lower-income countries (e.g., LDCs, Small Island Developing States).

Admittedly, blended finance is not yet achieving its full potential for achieving development impact and mobilizing additional financing for certain SDG targets. The current practice is still at relatively low leverage ratios, with much room for improvement in structuring transactions that effectively and efficiently draw in private sector capital. We need to increase blended finance volumes beyond \$15 billion annually through scale. The potential to mobilize additional commercial capital for the SDGs in developing countries is there as long as the right investment opportunities are created. Blended finance practitioners across the public, private, and philanthropic sectors are coordinating to identify and scale good practices. The status quo of blended finance will not result in material improvements for people living in developing countries; we need to focus on scaling up or refining blended finance solutions that have demonstrated the ability to achieve measurable impact.



# Introduction

## Blended Finance

The Sustainable Development Goals (SDGs) are a set of 17 Global Goals set by the United Nations (UN) to tackle a range of development challenges, from combating climate change to ending poverty and hunger. Not only do the SDGs aim to create a world that is more sustainable, they also offer real opportunities to leverage the expertise and resources of the private sector.

To achieve the SDGs, a significant scale-up of investment is required. The UN estimates that the annual funding needed to achieve the SDGs by 2030 is nearly \$4 trillion, much greater than the estimated current SDG-focused funding of \$1.3 trillion from domestic and international sources.<sup>1</sup> The \$2.5 trillion gap dwarves official development flows and philanthropic commitments: the Organization for Economic Cooperation and Development (OECD) reports total official development assistance (ODA) from the 30 OECD Development Assistance Committee (DAC) members at \$153 billion,<sup>2</sup> while Development Initiatives estimates that private

development assistance (e.g., development assistance from non-public sources like foundations, corporations, and NGOs) is around \$45 billion.<sup>3</sup>

Blended finance is one critically important approach to mobilize new sources of capital for the SDGs. This is evidenced by the UN member countries' consensus on the importance of deploying public funds to attract private investment at the Third International Conference on Financing for Development in 2015 in Addis Ababa. Convergence was established out of the Addis Ababa Action Agenda to build the blended finance market to attract significantly higher amounts of private capital to the SDGs. Since then, blended

<sup>1</sup> United Nations Conference on Trade and Development (UNCTAD). (2019). World Investment Report 2019. Geneva: UNCTAD. June 12, 2019. Accessed August 8, 2019. [https://unctad.org/en/PublicationsLibrary/wir2019\\_en.pdf](https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf)

<sup>2</sup> OECD. (2019). "Development aid drops in 2018, especially to neediest countries". Paris: OECD. April 10, 2019. Accessed August 8, 2019. <https://www.oecd.org/newsroom/development-aid-drops-in-2018-especially-to-neediest-countries.htm>

Note: Official development assistance (ODA) from the 30 members of the OECD's Development Assistance Committee (DAC) totalled \$153 billion in 2018 as calculated using the new "grant-equivalent" methodology adopted as a more accurate way to count the donor effort in development loans. Under the "cash-flow basis" methodology used in the past, 2018 ODA was \$149.3 billion.

Note: The 30 DAC members include Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, and United States.

<sup>3</sup> Development Initiatives. (2016). Private development assistance: key facts and global estimates. Bristol: Development Initiatives. August 15, 2016. Accessed August 8, 2019. <http://devinit.org/post/private-development-assistance-key-facts-and-global-estimates/>

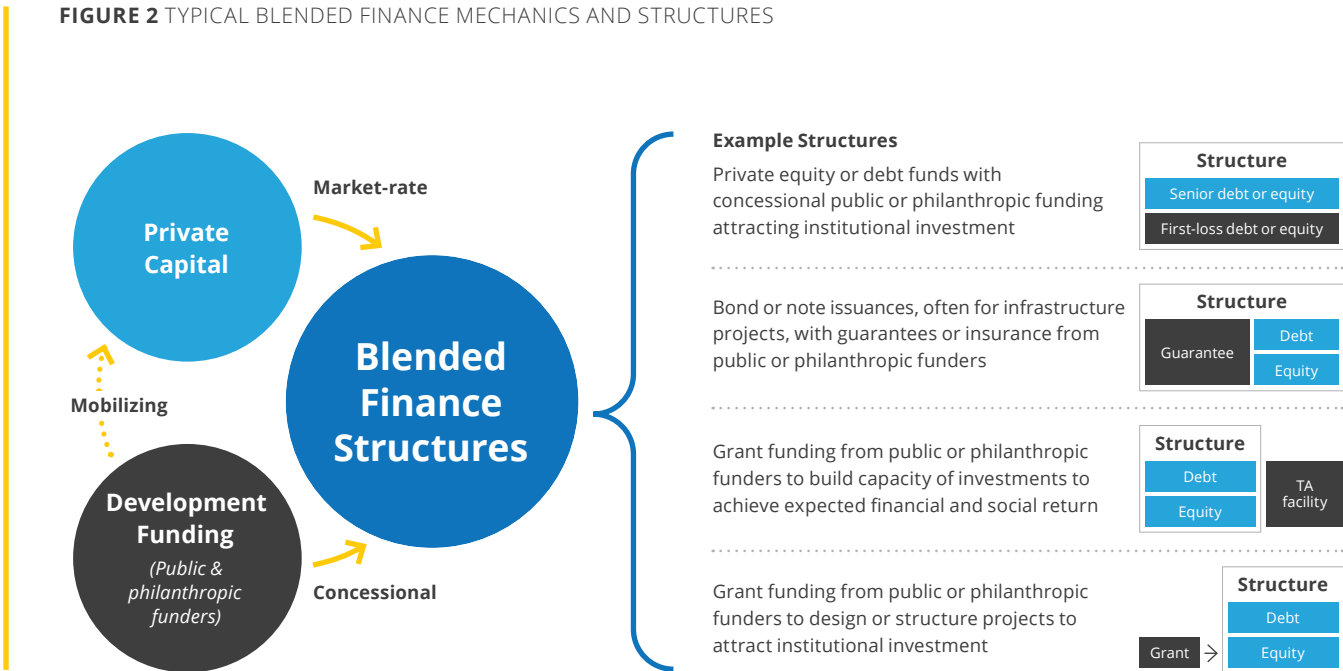
finance has become a familiar concept across a diverse set of stakeholders – from development agencies to private foundations, impact investors to commercial banks.

According to the World Economic Forum, blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the SDGs. Blended finance allows organizations with different objectives to invest alongside each other while achieving their own objectives (whether financial returns, social impact, or a blend of both). The main investment barriers for private investors addressed by blended finance are (i) high perceived and real risk and (ii) poor returns for the risk relative to comparable investments. Blended finance creates investable opportunities in developing countries, which leads to more development impact.

Blended finance is a structuring approach. Blended finance is not an investment approach, instrument, or end solution. Figure 2 highlights four common blended finance structures:

- i. Public or philanthropic investors provide funds on below-market terms within the capital structure to lower the overall cost of capital or to provide an additional layer of protection to private investors
- ii. Public or philanthropic investors provide credit enhancement through guarantees or insurance on below-market terms
- iii. Transaction is associated with a grant-funded technical assistance facility that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact
- iv. Transaction design or preparation is grant funded (including project preparation or design-stage grants)

FIGURE 2 TYPICAL BLENDED FINANCE MECHANICS AND STRUCTURES

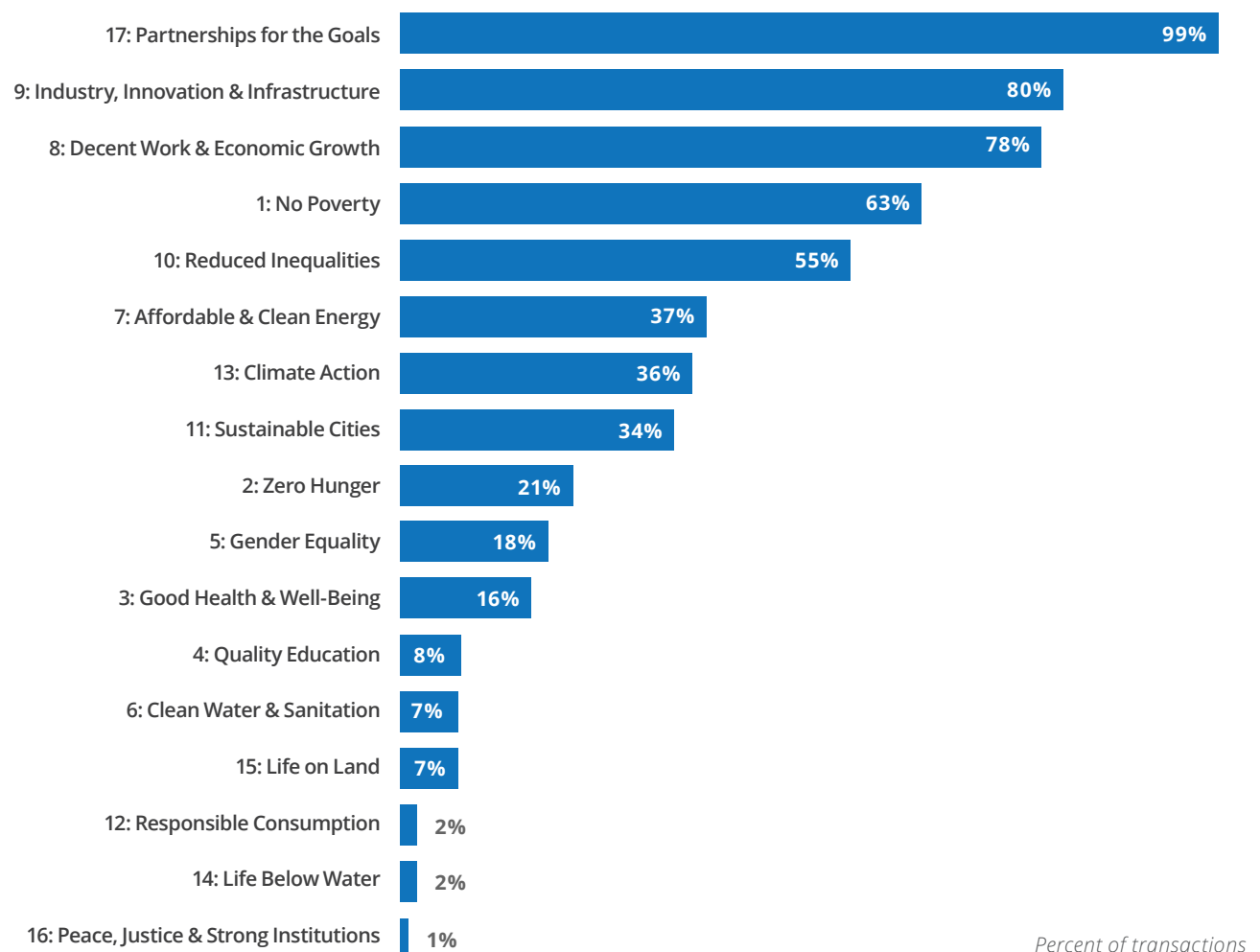


Concessional capital and guarantee / risk insurance are used by the public or philanthropic sector to create an investment opportunity with an acceptable risk-return profile for the private sector by (i) de-risking the investment or (ii) improving the risk-return profile to bring it in line with the market for capital. Concessional funding includes scenarios where the public or philanthropic funder takes on a higher risk profile for the same or lower rate of return or the same risk profile for a lower rate of return. Design-stage grants are not direct investments in the capital structure but improve a transaction's probability of achieving bankability and financial close; similarly, technical assistance funds operate outside the capital

structure to enhance the viability of the endeavor and improve impact measurement.

It is important to note that blended finance is only suitable for a subset of SDG targets that are investable. According to analysis conducted by the Sustainable Development Solutions Network (SDSN, a global initiative of the UN), approximately half the funding required to achieve the SDGs in developing countries can be in the form of investment capital. For example, blended finance is highly aligned with goals such as Goal 8 (Decent Work and Economic Growth) and Goal 13 (Climate Action), while less aligned with SDGs such as Goal 16 (Peace, Justice and Strong Institutions).

**FIGURE 3** ALIGNMENT BETWEEN BLENDED FINANCE TRANSACTIONS AND THE SDGS (2013-2018)





# About Convergence

Convergence is the global network for blended finance. Convergence generates blended finance data, intelligence, and deal flow to increase private sector investment in developing countries and sustainable development. Convergence works to make the SDGs investable through transaction and market building activities:

- **A Global Network:** We have a global membership of over 200 public, private, and philanthropic organizations like USAID, IDB Invest, Credit Suisse, CeniARTH, and the John D. and Catherine T. MacArthur Foundation. We create many opportunities for Convergence members to connect, including through the Convergence deal and investor match-making platform and exclusive networking events.
- **Data & Intelligence:** We curate and produce original content that builds the evidence base for blended finance and supports practitioners in their efforts to execute blended transactions, including (i) data on transactions and investors, (ii) case studies, intelligence briefs, and market reports, and (iii) workshops, trainings, and webinars.
- **Deal Flow:** We have built an online match-making platform for investors and those seeking

capital to connect. As of July 2019, there are live opportunities seeking to raise over \$2.3 billion, representing over \$4 billion in aggregate deal value. All deals are screened by our team to ensure fit with our mandate.

- **Market Acceleration:** Our Design Funding program offers grants for the design of innovative blended finance vehicles that aim to attract private capital at scale. As of July 2019, grantees have raised \$400 million of additional capital, a 64x multiple on the \$6 million Convergence has awarded.

Convergence focuses exclusively on blended finance to catalyze private investment. Other important stakeholders and initiatives, such as the DFI Working Group on Blended Concessional Finance for Private Sector Projects (DFI Working Group), focus on a broader scope of blended finance that includes the use of development funding to mobilize commercially-oriented public capital (e.g., capital from MDBs and DFIs). Convergence works closely with the OECD, DFI Working Group, and other key stakeholders to coordinate blended finance activity. Convergence recently collaborated with the OECD on the “Blended Finance Funds and Facilities: 2018 Survey Results.”<sup>4</sup>

<sup>4</sup> OECD. (2019). Blended Finance Funds and Facilities: 2018 Survey Results. Paris: OECD. August 2, 2019. Accessed August 8, 2019. [https://www.oecd-ilibrary.org/development/blended-finance-funds-and-facilities\\_806991a2-en](https://www.oecd-ilibrary.org/development/blended-finance-funds-and-facilities_806991a2-en)

# Report Methodology and Overview

The State of Blended Finance is Convergence's annual report on blended finance trends, opportunities, and challenges. It builds on the inaugural report released in July 2017.<sup>5</sup> The State of Blended Finance 2019 provides an updated analysis of the blended finance market based on Convergence's continuous data and intelligence collection efforts and outlines key blended finance trends and developments over the past year. The report includes input from Convergence's member institutions and other key market participants.

Convergence curates and maintains the largest and most detailed database of historical blended finance transactions to help build the evidence base for blended finance. Given the current state of information reporting and sharing, it is not possible for this database to be fully comprehensive, but it is the best repository globally to understand blended finance scale and trends. Convergence continues to build out this database to draw better insights about the market and disseminates this information to the development and finance communities to improve the efficiency and effectiveness of blended finance to achieve the SDGs. The data in this report reflects Convergence's collection efforts as of July 2019.

Information is collected from i) credible public sources such as press releases, ii) information sharing agreements with key data aggregators like the OECD, and iii) validation exercises with Convergence members and partners.<sup>6</sup> To be included in Convergence's database, a deal must meet three main criteria:

1. The transaction attracts financial participation from one or more private sector investor(s)
2. The transaction uses catalytic funds in one or more of the following ways:
  - Public or philanthropic investors provide catalytic and concessional capital, bearing risk at below market returns to mobilize private investment, or provide guarantees or other risk mitigation instruments
  - Transaction design or preparation is grant funded
  - Transaction is associated with a technical assistance facility (e.g., for pre- or post-investment capacity building)
3. The transaction aims to create development impact related to the SDGs in developing countries

This report has four main sections:

1. **Deal Trends** provides an updated analysis of blended finance solutions in the market, including blending approaches, sectors, regions, and development impact.
2. **Investor Trends** highlights the most active organizations in blended finance, including key investment trends and notable activities over the past year.
3. **Ecosystem Trends** provides an overview of progress towards the 'better blending' agenda as well as emerging trends and themes in the market.
4. **Reflections** looks back on progress that has been made in the practice of blended finance over the past year and key challenges and considerations for scaling the most impactful development solutions.

<sup>5</sup> The State of Blended Finance 2017 was jointly produced by Convergence and the Business and Sustainable Development Commission's Blended Finance Taskforce (BFT). The purpose of the working paper was twofold: (i) to expand the evidence base around the potential of blended finance to help close the SDG funding gap and (ii) to inform the recommendations the BFT intended to deliver to unlock systemic barriers in the blended finance ecosystem that were preventing the flow of mainstream capital into blended finance transactions at scale. Based on the work of Convergence and others, the BFT produced an Action Programme in early 2018.

<sup>6</sup> While Convergence works with our members to validate and improve the database, this should not be interpreted as an endorsement.



# Deal Trends

Convergence curates and maintains the largest and most detailed database of historical blended finance transactions that mobilize private investment towards the SDGs in developing countries. The Deal Trends section and the following Investor Trends section present an updated market analysis and review of key developments and trends to help practitioners who are considering or evaluating new blended finance transactions.

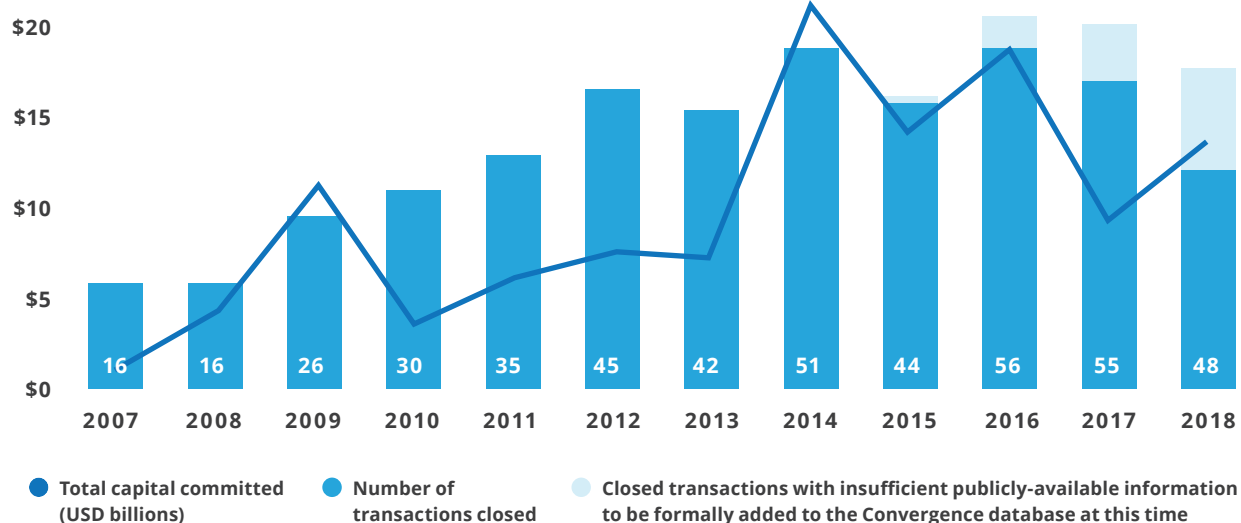


# Overall Market

This report looks at over 3,700 financial commitments to more than 500 blended finance transactions, with aggregate financing of around \$140 billion. The majority of these blended finance transactions were launched after 2005 (92% were launched between 2006-2019) and particularly after 2009 (79% were launched between 2010-

2018). We have seen steady growth in blended finance, by both the number of transactions closed<sup>7</sup> and annual financing, with a notable acceleration beginning in 2009. Still, the approximate \$15 billion in annual blended finance is only a small fraction of annual development finance from MDBs and DFIs and ODA from the 30 OECD DAC members.

**FIGURE 4** GROWTH OF ANNUAL BLENDED FINANCE ACTIVITIES (2007-2018)<sup>8</sup>



Sustained momentum can be seen following the adoption of the SDGs in 2015. We anticipate a rise in the number of SDG-focused blended finance transactions reaching financial close in the next several years given the current uptick in interest and the time lag in the design and fundraising of such innovative instruments. Forty percent of Convergence members that responded to our State of Blended Finance survey reported an intention to

“Significantly increase blended finance activities over the next year”, with the remaining 60% reporting an intention to “Somewhat increase blended finance activities”.<sup>9</sup> Convergence maintains an online deal and investor match-making platform where more than 60 blended finance projects are seeking approximately \$2.3 billion in financing to deliver SDG projects in developing countries.

<sup>7</sup> Convergence captures historical blended finance transactions that have reached a minimum of first financial close, where conditions have been satisfied or waived, documents executed, and draw-downs become available.

<sup>8</sup> Due to the nature of data collection, there can be a time lag in capturing recently closed deals. Therefore, we anticipate that the 2017 figures are higher than captured in this figure – both in terms of deal count and aggregate value.

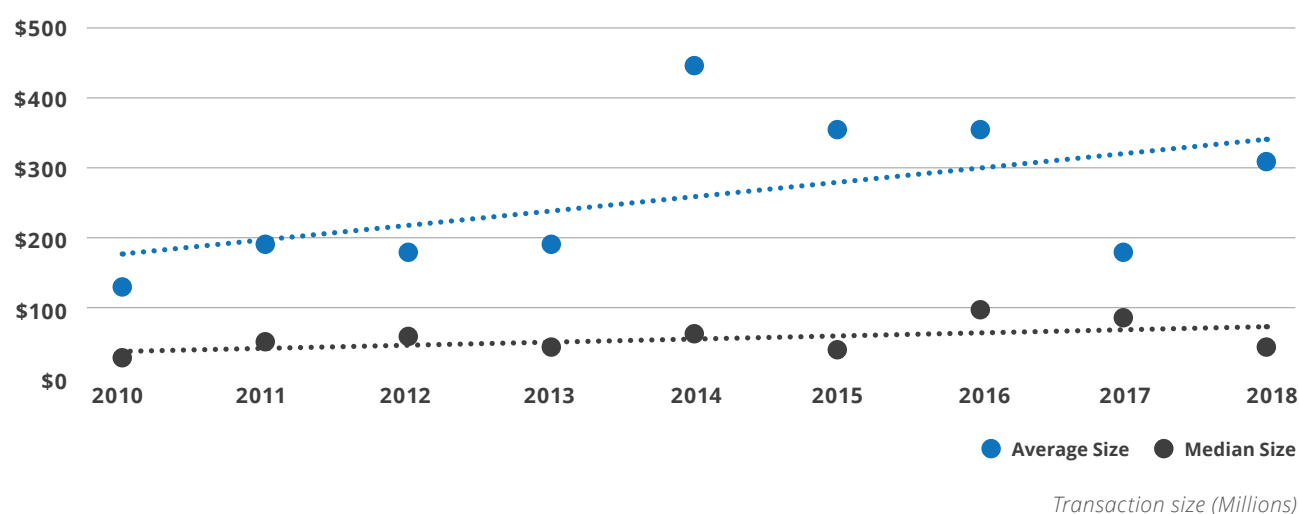
<sup>9</sup> As part of our research for the State of Blended Finance 2019, Convergence asked our member organizations to provide input through a short survey. Convergence members are part of a global community of institutions and businesses dedicated to driving capital to where it is needed most.

# Deal Sizes and Types

Blended finance transactions range considerably in size, from a minimum of \$110,000 to a maximum of \$8 billion. The median blended finance transaction has been \$64 million in total size (2010-2018). Both the median and average transaction size have increased over the past nine years. The median size has increased modestly from \$31.5 million in 2010 to \$50 million in 2018. Meanwhile, the average deal size has increased more notably from \$130 million in 2010 to \$300 million in 2018, although

average deal size varies considerably year-on-year given the effect that large-scale, multi-billion-dollar initiatives have on the figure. There are many potential explanations for this relatively steady trend in median size; this may reflect a comfortable fund size for fund managers or that blended finance is best suited to this scale of activity. A key consideration is whether it is the size or the number of blended finance transactions that should be increased in the effort to progress towards the 'billions to trillions' agenda.<sup>10</sup>

**FIGURE 5** AVERAGE AND MEDIAN SIZE OF BLENDED FINANCE TRANSACTIONS (2010-2018)

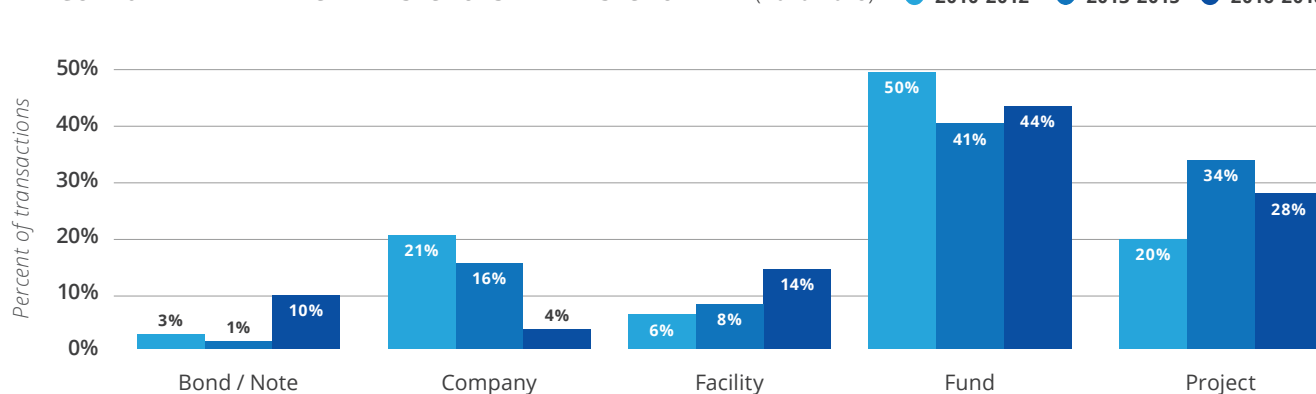


Convergence collects data on five common transaction types: bonds / notes, companies, facilities, funds, and projects. Funds (e.g., equity funds, debt funds, and funds-of-funds) have consistently accounted for the largest share of blended finance transactions, although we have seen more diversification across transaction types in recent years. Specifically, there has been an increase in the proportion of projects, as well as facilities

and bonds / notes. Projects are most commonly infrastructure projects and have increased as a proportion of transactions, from 20% in 2010-2012 to approximately 28% in 2016-2018. Projects have the second largest median size at \$104 million (2010-2018). Facilities<sup>11</sup> have also increased as a proportion of blended finance transactions, and have the largest median size at \$110 million (2010-2018).

<sup>10</sup> The World Bank. (2015). From Billions to Trillions: Transforming Development Finance. Washington, DC: The World Bank. April 2, 2015. Accessed on August 8, 2019. [https://siteresources.worldbank.org/DEVCOMMIT/Documentation/23659446/DC2015-0002\(E\)FinancingforDevelopment.pdf](https://siteresources.worldbank.org/DEVCOMMIT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf)

<sup>11</sup> Convergence captures facilities that are themselves blended, not those facilities that are pools of purely concessional capital earmarked to blend at the operations level.

**FIGURE 6** BLENDED FINANCE TRANSACTIONS BY TRANSACTION TYPE (2010-2018)

In addition, there has been a moderate uptick in the proportion of publicly traded blended finance transactions, like bonds / notes. While it is too early to draw conclusions, this would certainly be a positive trend from the perspective of attracting more institutional investors that require higher liquidity. To date, the bonds / notes observed in the market have been relatively small, with a median size of

\$29 million (2010-2018). In contrast, there has been a relative decrease in the proportion of companies, primarily privately held companies, with blended finance structures in recent years. This could reflect a natural time lag: companies that receive early-stage design funding or concessional capital may not raise commercial capital until several years later.

## Regions and Countries

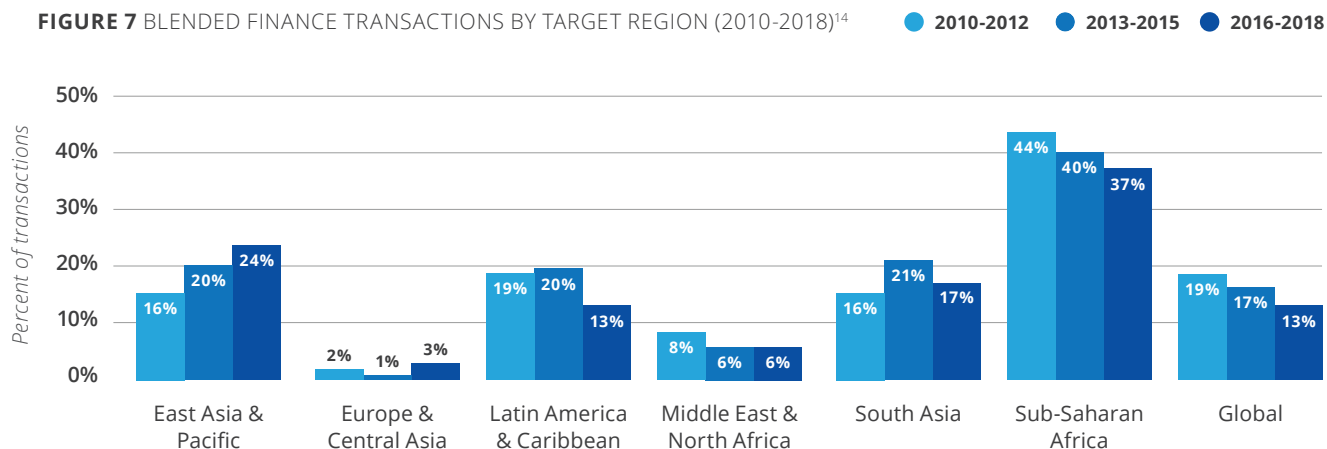
While Sub-Saharan Africa has been the region most frequently targeted<sup>12</sup> by blended finance transactions, the proportion has declined from 44% of transactions in 2010-2012 to 37% in 2016-2018 as blended finance is increasingly used in other regions as well. The median blended finance transaction targeting the region has consistently been on the small side, around \$55 million in total size (2010-2018). Similarly, the Latin America and the Caribbean region has also received a declining proportion of transactions; however, these transactions have grown considerably in size over time, from a median of \$49.5 million in 2010-2012 to \$115 million in 2016-2018. Moreover, the average leverage ratio of a sample of blended funds in Latin America and the Caribbean was larger than in any other region, at 5.1x, as measured by the number of commercially priced dollars to the number of dollars of concessional capital.

Meanwhile, Asia has been established as the new frontier for blended finance. The proportion of blended finance transactions targeting Asia – both East Asia and the Pacific and South Asia – has increased from 27% in 2010-2012 to 31% in 2016-2018. The median blended finance transaction targeting South Asia has consistently been around the \$50 million mark (2010-2018), while transactions targeting East Asia and Pacific have decreased in median size from \$117 million in 2010-2012 to \$77 million in 2016-2018. Notably, transactions targeting Asia have been relatively more likely to be bond / notes (7% in Asia versus 3% across all regions) and projects (31% in Asia versus 24% across all regions).<sup>13</sup> While India has been the most frequently targeted country (~50% of transactions in the region), nearly all of the blended finance transactions launched in the past two years have targeted countries beyond India.

<sup>12</sup> Convergence tracks regional data by stated region(s) of focus at the time of financial close, not actual investment flows.

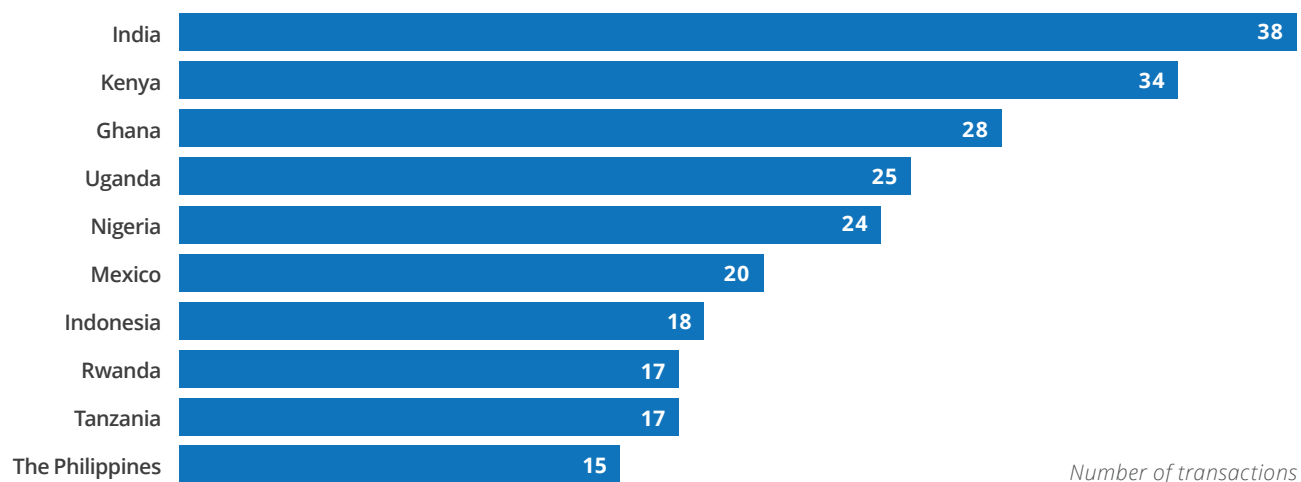
<sup>13</sup> Convergence. (2019). Blended Finance in Asia. Toronto: Convergence. June 18, 2019. <https://www.convergence.finance/knowledge/19pfwjHA0vyvzehDttm9Yv/view>



**FIGURE 7** BLENDED FINANCE TRANSACTIONS BY TARGET REGION (2010-2018)<sup>14</sup>

Looking at the most frequently targeted countries<sup>15</sup> over the past five years, the top countries for blended finance have been India (38 transactions), Kenya (34), Ghana (28), Uganda (25), and Nigeria (24). Notably, Uganda is the only low-income country in the top five, although Tanzania and Rwanda also appear in the top

10. While countries in Africa continue to dominate the list of most frequently targeted countries, Indonesia and the Philippines represent just two examples of Asian markets that have seen more blended finance flows in recent years.

**FIGURE 8** BLENDED FINANCE TRANSACTIONS BY MOST FREQUENTLY TARGETED COUNTRIES (2013-2018)

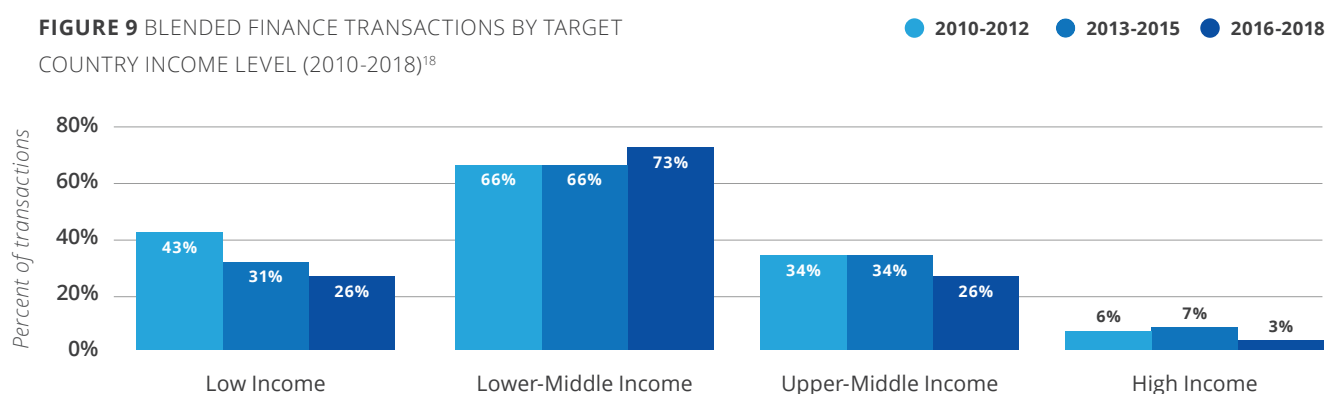
<sup>14</sup> Data in each time period will add up to more than 100% because blended finance transactions may target one or more regions.

<sup>15</sup> Convergence tracks country data by stated countries of focus at the time of financial close, not actual investment flows. Often, countries of eligibility are broader than those explicitly stated as investment targets. Convergence uses the World Bank classification for regions.

There has been considerable focus over the past year on blended finance for the least developed countries (LDCs), which exhibit the lowest indicators of socio-economic development. While there is appetite from some policymakers and concessional capital providers to make blended finance work in more LDCs, we have not yet seen sustained momentum around mobilizing additional private investment for these countries. Convergence's database confirms the finding that the majority of blended finance transactions have mobilized capital for middle-income countries. 73% of blended finance

transactions closed in the last three years have targeted one or more lower middle-income countries, which is an increase from the two previous three-year periods from 66%. According to our analysis, the proportion of blended finance transactions targeting low-income countries<sup>16</sup> has been declining, mirroring the trend in global foreign direct investment (FDI). FDI to both low-income countries – and also middle-income countries – fell during this period (2010-2017), with flows highly concentrated in China, Brazil, India, Mexico, and Russia.<sup>17</sup>

**FIGURE 9** BLENDED FINANCE TRANSACTIONS BY TARGET COUNTRY INCOME LEVEL (2010-2018)<sup>18</sup>



## Sectors and Sub-Sectors

Energy and financial services, two commercially-oriented sectors<sup>19</sup>, continue to be the most frequent focus sectors for blended finance. There has been an uptick in the proportion of transactions focused on the energy sector, from 35% in 2010-2012 to 44% in 2016-2018. Renewable energy accounts for the majority of these transactions, reflecting the alignment between project finance and blended finance: blended finance is one tool for creating project financing structures (i.e., investment opportunities) that are

attractive to investors. Moreover, renewable energy is one of the most effective tools we have in the fight against climate change, and therefore benefits from the significant momentum and multinational commitments around clean energy. We have seen a modest increase in the proportion of energy projects in Asia (from 9% in 2010-2012 to 14% in 2016-2018), where China, India, and Japan have been leading the call for more renewable energy.

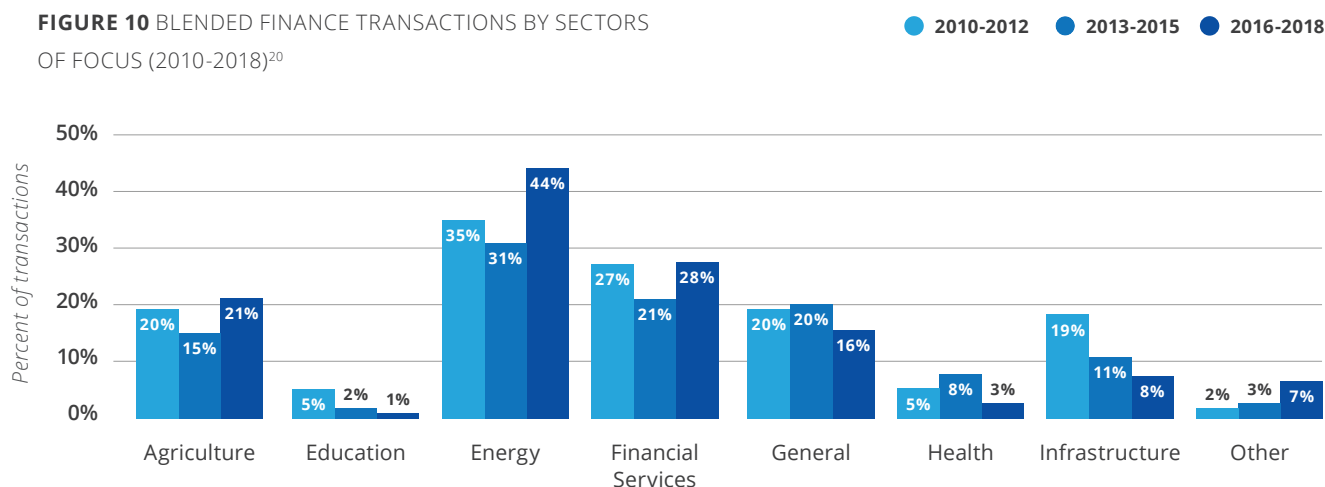
<sup>16</sup> It should be noted that Least Developed Country (LDCs) and low-income country are not synonymous. LDCs are a subset of low-income countries that are suffering long-term impediments to growth.

<sup>17</sup> The World Bank. (2019). "Foreign direct investment, net flows (% of GDP)." Washington, DC: The World Bank. Accessed August 8, 2019. <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2018&start=2010>; The World Bank. (2018). "Globally, foreign direct investment decreased in 2016." Washington, DC: The World Bank. August 13, 2018. Accessed August 8, 2019. <https://datatopics.worldbank.org/world-development-indicators/stories/global-fdi-inflows-decreased-in-2016.html>

<sup>18</sup> Data in each time period will add up to more than 100% because blended finance transactions may prioritize one or more countries. Convergence uses the World Bank classification for income level.

<sup>19</sup> Convergence tracks sector data by stated sector(s) of focus at the time of financial close, not actual investment flows.

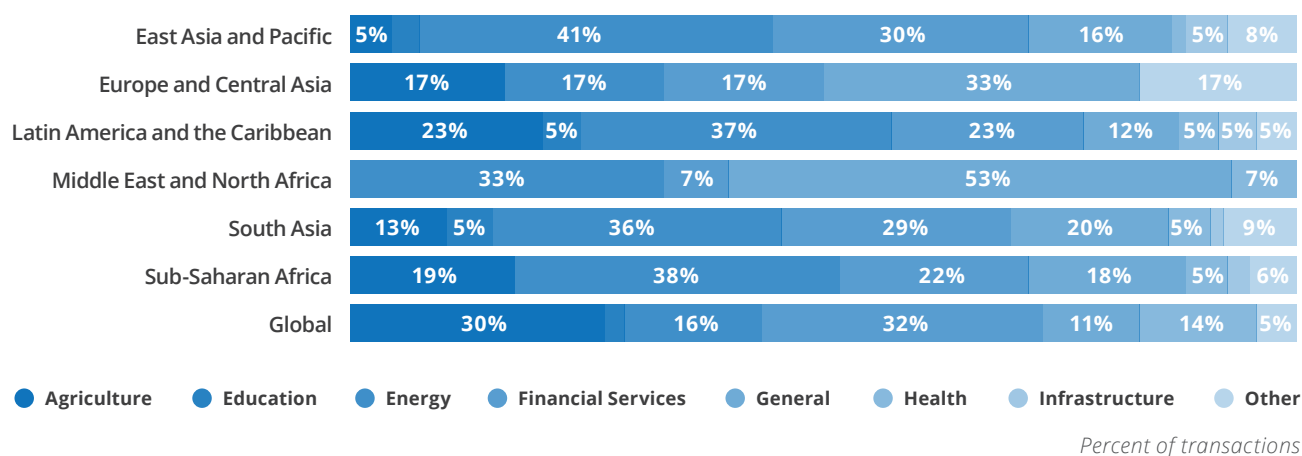
**FIGURE 10** BLENDED FINANCE TRANSACTIONS BY SECTORS OF FOCUS (2010-2018)<sup>20</sup>



On the other hand, the proportion of blended finance transactions focused on the financial services sector has remained steady at around 28% since 2010. We have seen a relative increase in blended finance transactions focused on financial sector deepening (i.e., efforts to develop the capacity of local capital markets through the issuance of corporate bonds and financing for local banks) as well as SME finance, both intermediated and direct. In contrast, we have

seen a decline in the proportion of transactions focused on financial inclusion (i.e., microfinance), which had historically been a common focus area for blended finance. In terms of regional trends, the most significant increase in the focus on financial services has been in East Asia and the Pacific (rising from 3% of blended finance transactions targeting the region in 2010-2012 to 30% in 2016-2018).

**FIGURE 11** BLENDED FINANCE TRANSACTIONS BY TARGET REGION AND SECTOR OF FOCUS (2010-2018)<sup>21</sup>



<sup>20</sup> Data in each time period will add up to more than 100% because blended finance transactions may focus on one or more sectors.

<sup>21</sup> Data for each region will add up to more than 100% because blended finance transactions may focus on one or more regions.

Beyond these traditional sectors for blended finance, concessional capital providers are poised to lead a transition towards higher impact sectors for projects that can still generate revenues with which to repay investors. The most notable momentum is in the agriculture sector, which has cross-cutting impact on rural livelihoods, food security, and sustainable land use. Convergence's online match-making platform may signal the upcoming growth in this area: nearly 40% of listed blended finance transactions have been focused, in part or full, on the agriculture sector. As just one example, Clarmondial's Food Securities Fund recently announced a commitment from the leading Swiss bank Lombard Odier, which follows a guarantee from USAID and design-stage grants from Convergence and Climate-KIC. Blended finance continues to play an undersized role in the health sector from our point-of-view, although USAID is among those that have signalled their interest in supporting more blended finance solutions for the sector.

Finally, there has been a relative decline in the proportion of blended finance transactions in the infrastructure sector, from 19% of transactions in 2010-2012 to 8% in 2016-2018. This may reflect the commercialization of infrastructure projects in these regions over time, especially in middle-income countries. An Overseas Development Institute (ODI) report found that 'standalone' private financing (financing devoid of any public policy support) has accounted for 78% of total financing to the sector over the past decade; however, these levels of private finance are only 10% of what is needed.<sup>22</sup> Infrastructure development is critical for sustainable development, which is hindered by a shortage of reliable electricity supply, transportation, telecommunications, and water and sanitation. Despite the relative decline in blended finance for the infrastructure sector, we have seen a notable focus on water and sanitation in the past several years, with the majority of blended finance transactions launched in the infrastructure sector in 2016-2018 focused, in part or full, on water and waste management.

## Blending Approaches

Convergence identifies four common blended finance approaches: (i) public or philanthropic investors provide funds on below market terms within the capital structure to lower the overall cost of capital or to provide an additional layer of protection to private investors (i.e., "concessional debt or equity"), (ii) public or philanthropic investors provide credit enhancement through guarantees or insurance on below market terms (i.e., "guarantees or risk insurance"), (iii) transaction is associated with a grant-funded technical assistance facility that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact (i.e., "technical assistance funds"), and (iv) transaction design or preparation is

grant funded (i.e., "design-stage grants"). The financial instruments that have been most commonly provided to blended finance structures are concessional debt and equity as well as technical assistance funds, often in conjunction.

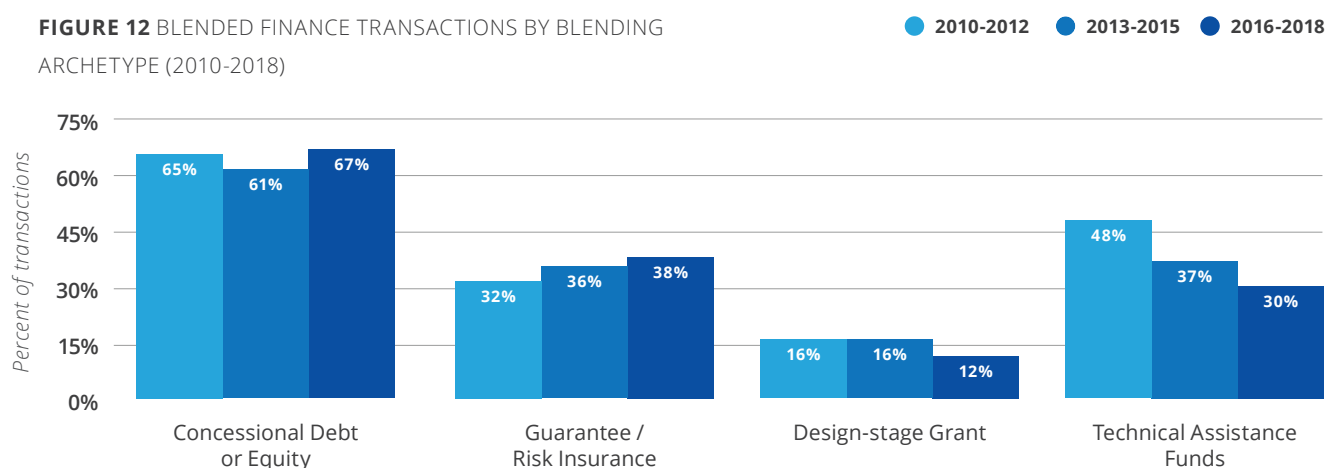
Concessional debt or equity was present in 67% of transactions in 2016-2018. Concessional debt or equity comes in many shapes and sizes, including first-loss debt or equity, investment-stage grants, and debt or equity that bears risk at below-market financial returns to mobilize private sector investment. Convergence members intend to scale their use of first-loss equity, with 44% of survey respondents

<sup>22</sup> Overseas Development Institute (ODI). (2018). Private infrastructure financing in developing countries: Five challenges, five solutions. London: ODI. August 2018. Accessed August 8, 2019. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12366.pdf>

intending to deploy that instrument over the next 12 months.<sup>23</sup> The proportion of blended finance transactions with guarantees or risk insurance has also increased modestly, from 32% in 2010-2012 to 38% in 2016-2018. Guarantees have been used most frequently for blended finance transactions sized at \$100-\$250 million and have been associated with

mobilizing the greatest volume of private sector capital.<sup>24</sup> The increase in both concessional debt or equity and guarantees or risk insurance likely reflects the increased focus on these forms of concessional capital from both the public and philanthropic sectors to mobilize additional financing for the SDGs.

**FIGURE 12** BLENDED FINANCE TRANSACTIONS BY BLENDING ARCHETYPE (2010-2018)



Relative to formal participation in blended finance structures, the use of grants outside of the financial structure to support commercial investments has decreased. Technical assistance funds were used in nearly 50% of transactions in 2010-2012, but only 30% of blended finance transactions in 2016-2018. Technical assistance facilities have most commonly focused on post-investment support to investees (53% of facilities), often for the purposes of integrating environmental, social, and governance (ESG) principles (or other reporting frameworks) or providing capacity building and training for operational efficiency. Pre-investment support (28% of facilities) and support for the costs of investments (17%) have been used to lesser degrees.<sup>25</sup> Design-stage grants have been used in 16% of blended finance transactions since 2009,

with a slight decline in use between 2010-2012 and 2016-2018. Nonetheless, there is a continued need for early-stage concessional capital, especially for tailoring blended finance to new sectors and countries (e.g., the LDCs).

Concessional, or catalytic, capital in all forms is provided primarily by development agencies (i.e., donor governments), foundations, and NGOs. Development agencies, including multi-donor funds, are the most frequent providers of concessional capital to blended finance transactions. In select cases, development agencies and multi-donor funds may provide commercial capital to a transaction, often for the purposes of gap or bridge financing. Foundations and NGOs are also important catalytic capital

<sup>23</sup> As part of our research for the State of Blended Finance 2019, Convergence asked our member organizations to provide input through a short survey. Convergence members are part of a global community of institutions and businesses dedicated to driving capital to where it is needed most.

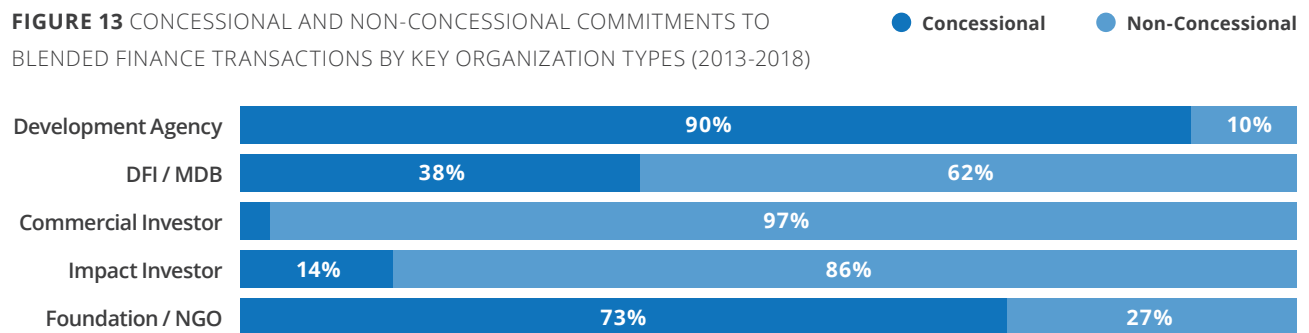
<sup>24</sup> OECD. (2019). Amounts mobilised from the private sector by development finance interventions. Paris: OECD. June 2019. Accessed August 8, 2019. <https://www.slideshare.net/OECDdev/amountsmobilisedfromthepriatesectorbydevelopmentfinanceinterventionsin201217-june17>

<sup>25</sup> Convergence. (2019). Blending with Technical Assistance. Toronto: Convergence. February 19, 2019. <https://www.convergence.finance/knowledge/9ncqGGGACPGY9QonSWGSm/view>

providers, although there are a number of foundations that provide program-related investments or invest their endowments in blended finance transactions on commercial terms. MDBs and DFIs have provided both concessional and commercial capital to blended finance transactions, with concessional capital primarily

provided from donor-funded pools of concessional capital (e.g., Climate Investment Funds). Notably, impact investors have primarily invested on commercial terms (86% of financial commitments to blended finance transactions), albeit with a strong focus on both social and financial returns on their investments.

**FIGURE 13** CONCESSIONAL AND NON-CONCESSIONAL COMMITMENTS TO BLENDED FINANCE TRANSACTIONS BY KEY ORGANIZATION TYPES (2013-2018)



*Percent of financial commitments*

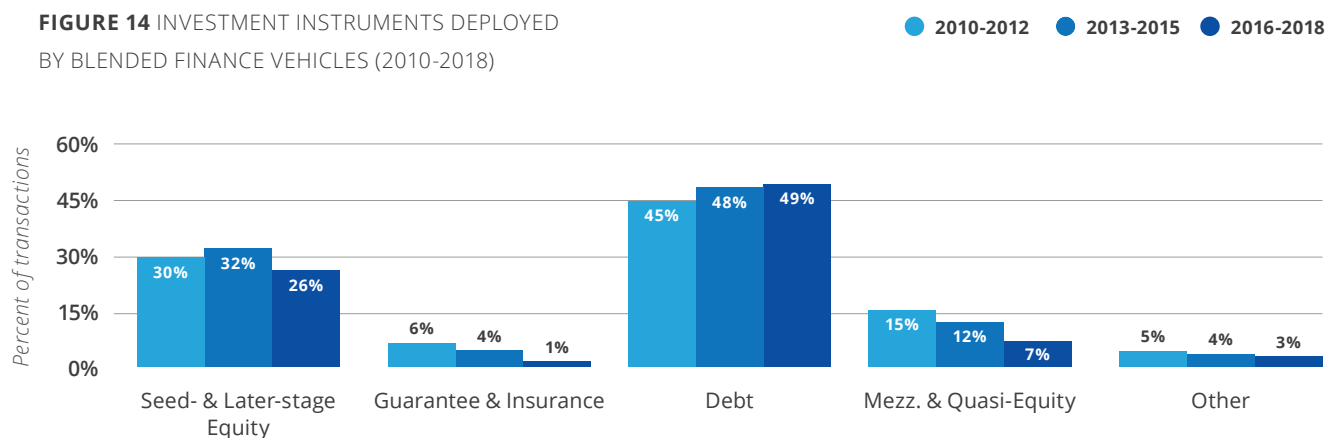
## Investment Instruments and Target Beneficiaries

Blended funds, facilities, bonds / notes, and, to a lesser degree, companies provide financing to a set of direct beneficiaries, from entrepreneurs and small business owners to financial institutions. The majority of this financing has been provided in the form of debt: debt was the primary investment instrument for 45% of blended vehicles in 2010-2012 and increased to 49% in 2016-2018. Seed-stage and later-stage equity have been provided by approximately 30% of blended finance vehicles. In contrast, there

has been a decline over time in the proportion of blended vehicles placing guarantees as well as mezzanine and quasi-equity instruments. Blended vehicles deploying capital have most commonly targeted 1-5 investments (59% of transactions), with another 9% targeting 6-15 investments. The remaining third (32%) have targeted 16-30 investments, which may reflect longer-term or evergreen blended vehicles that recycle capital.



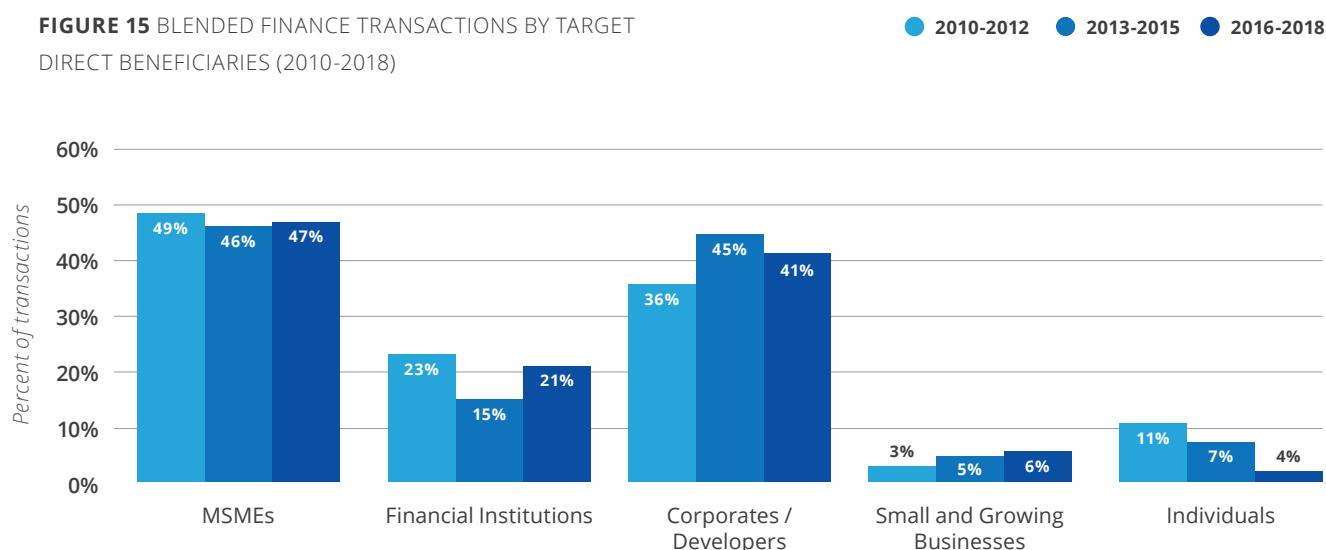
**FIGURE 14** INVESTMENT INSTRUMENTS DEPLOYED  
BY BLENDED FINANCE VEHICLES (2010-2018)



The most common target direct beneficiary<sup>26</sup> of blended finance transactions – including those where the business or project itself absorbs the capital raised and those where the entity lends or invests the funds downstream – has been entrepreneurs and small businesses. This includes entrepreneurs and small businesses operating across diverse sectors, including microfinance institutions, social enterprises,

and farmer cooperatives. 43% of blended finance transactions, on average, have targeted mid-sized businesses and project developers, which can be largely correlated with the number of blended finance transactions that support one or more infrastructure projects in developing countries. Only 7% of blended finance transactions have directly served their targeted end beneficiary.<sup>27</sup>

**FIGURE 15** BLENDED FINANCE TRANSACTIONS BY TARGET DIRECT BENEFICIARIES (2010-2018)



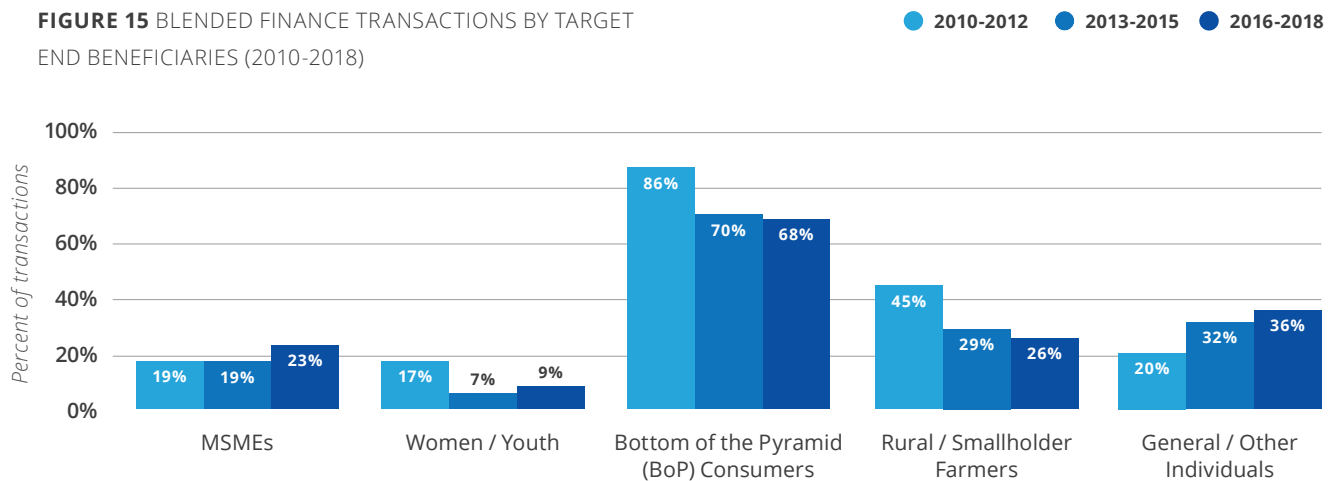
<sup>26</sup> Direct beneficiaries are the institutions and/or individuals who are the direct recipients of the financing, goods, and/or services supported by the blended finance transaction. Definition adapted from: United Nations Development Programme (UNDP) Independent Evaluation Office. (2019). "Glossary". New York: UNDP. Accessed August 8, 2019. <http://web.undp.org/evaluation/documents/mae-glo.htm>

<sup>27</sup> End beneficiaries are the main sectors of the population that a development programme or project aims to reach in order to address their needs based on gender considerations or socio-economic characteristics. Definition adapted from the UNDP (Ibid).

The majority (68%) of blended finance transactions have ultimately aimed to reach low-income populations and base of the pyramid (BoP) consumers. 36% of blended finance transactions, on average, have targeted smallholder farmers as the end beneficiary, which strengthens the assertion that blended finance can help to address the agribusiness financing gap. Entrepreneurs and small businesses

also represent an important end beneficiary for blended finance transactions, including those that are supported through financial institutions as well as through mid-sized businesses (e.g., value chain finance). To date, women and girls as well as youth and children have been the target end beneficiary for only a small number of blended finance transactions.

**FIGURE 15** BLENDED FINANCE TRANSACTIONS BY TARGET END BENEFICIARIES (2010-2018)



## Sustainable Development Goals and Impact Measurement

Naturally, blended finance is highly aligned<sup>28</sup> to Goal 17 (Partnerships for the Goals), in particular to target 17.3 “mobilize additional financial resources for developing countries from multiple sources” and indicator 93 “private net flows for sustainable development at market rates as share of high-income country GNI, by sector”. More tangibly, blended finance has been most concentrated to date on Goal 8 (Decent Work and Economic Growth), Goal 9 (Industry, Innovation, and Infrastructure), Goal 1 (No Poverty), and Goal 10

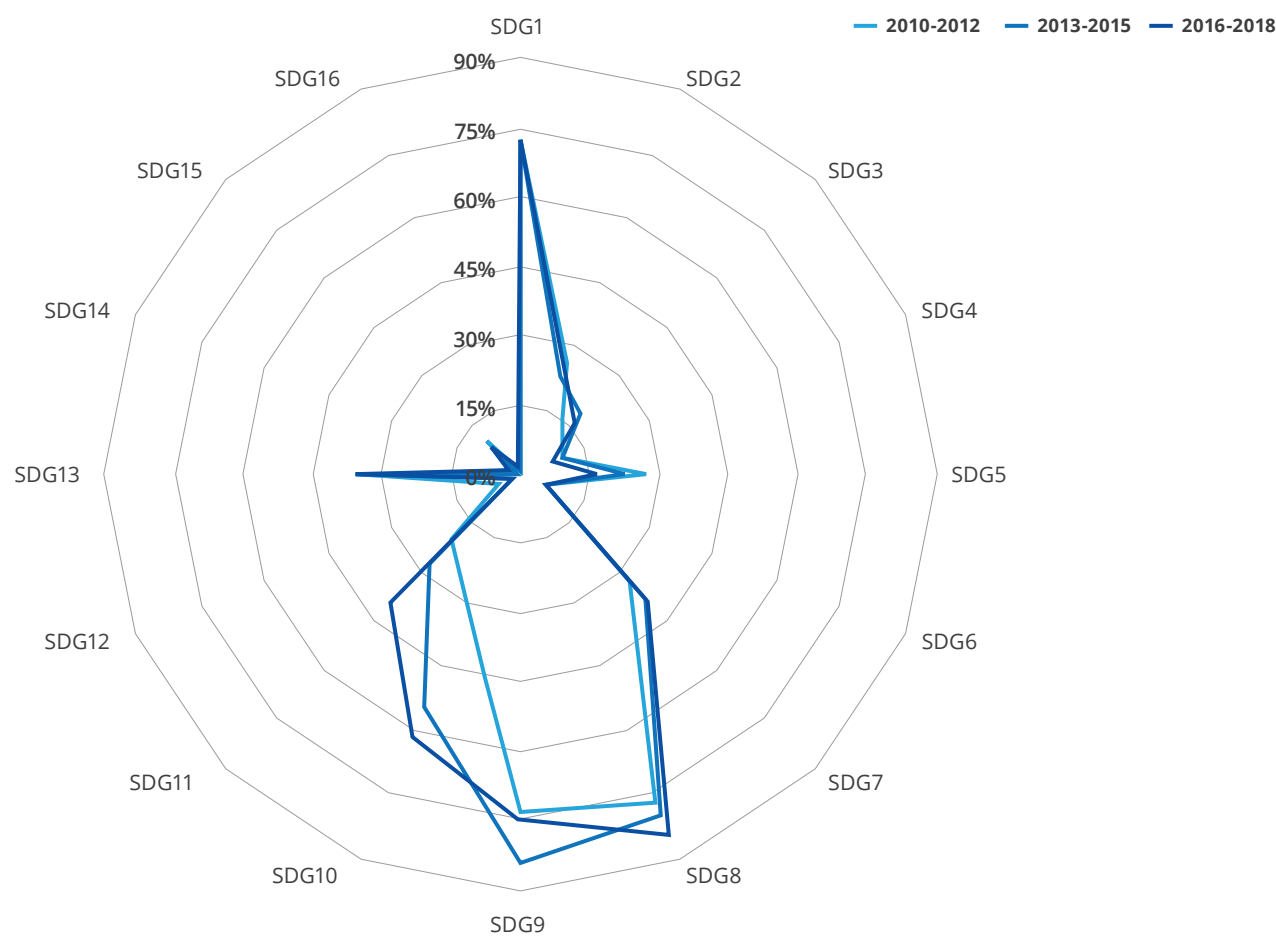
(Reduced Inequalities). We have seen an increase in the proportion of blended finance transactions aligned to Goal 10 (Reduced Inequalities) from 25% in 2010-2012 to 52% in 2016-2018 and a decrease in the proportion of transactions aligned to Goal 9 (Industry, Innovation, and Infrastructure) from 82% in 2010-2012 to 70% in 2016-2018. The concentration on Goal 1 (No Poverty) and Goal 8 (Decent Work and Economic Growth) has remained steady.

<sup>28</sup> Convergence maps the alignment of each historical blended finance transaction to one or more SDGs. This is based on a qualitative assessment against a matrix using keywords and SDG sub-goals / targets.

Blended finance has also been demonstrated to be a good development tool for climate- and environment-related SDGs, including Goal 13 (Climate Action), Goal 7 (Affordable and Clean Energy), Goal 11 (Sustainable Cities), and Goal 15 (Life on Land). In particular, there has been an increase in the proportion of blended finance transactions aligned to Goal 7 (Affordable and Clean Energy) from 27% in 2010-2012 to 37% in 2016-2018 as well as Goal 11 from 22% in 2010-2012 to 28% in 2016-2018. Aggregate blended finance

deal flow (i.e., volume of earmarked capital) has been greatest for Goal 11 (Sustainable Cities), followed by Goal 7 (Affordable and Clean Energy) and Goal 13 (Climate Action). Climate mitigation and adaptation was selected by 60% of survey respondents<sup>29</sup> as a focus area for blended finance activities over the next 12 months. In contrast, the proportion of transactions aligned with Goal 5 (Gender Equality) has declined from 35% in 2010-2012 to 19% in 2016-2018, although it is unclear why we are seeing this trend.

FIGURE 16 ALIGNMENT BETWEEN BLENDED FINANCE TRANSACTIONS AND THE SDGs (2010-2018)

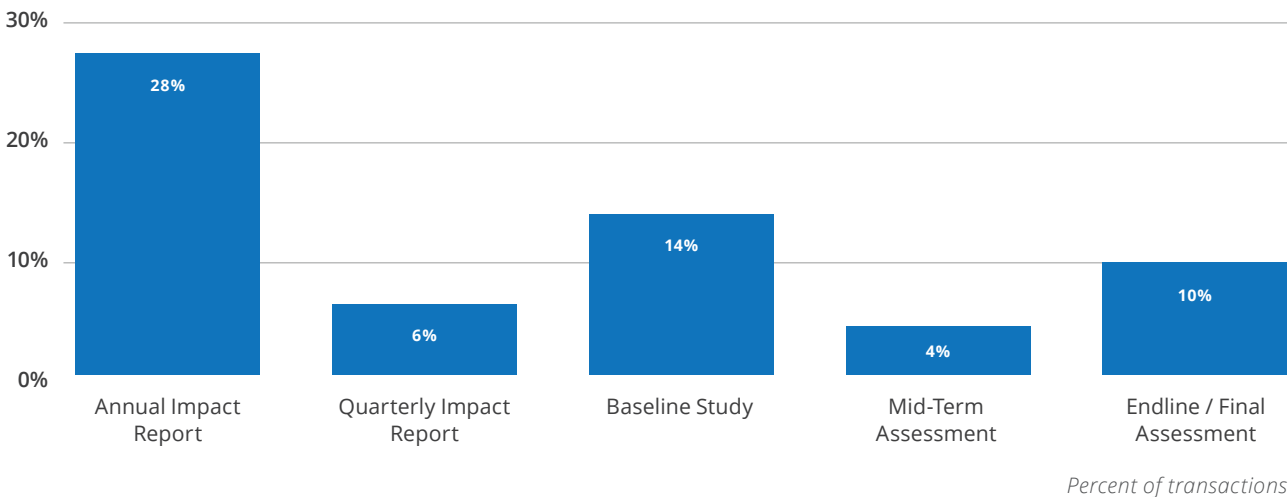


<sup>29</sup> As part of our research for the State of Blended Finance 2019, Convergence asked our member organizations to provide input through a short survey. Convergence members are part of a global community of institutions and businesses dedicated to driving capital to where it is needed most.

There has been an increased focus on impact measurement and reporting practices for blended finance. The calls for better impact measurement and reporting are part of a global trend towards promoting greater accountability and improving the effectiveness of development finance more broadly. Our analysis shows that reporting on impact has been limited in blended finance to date. Nearly 40% of blended finance transactions do not publicly disclose impact outcomes at any interval, although some or all of these transactions may report impact outcomes directly to their stakeholders. For those

blended finance transactions that do publicly disclose impact outcomes, it is most commonly through an annual report (28% of transactions). A modest 14% of blended finance transactions to date have published a baseline study and only 10% have published an endline or final evaluation. However, it is important to note that this trend is not unique to blended finance. The ‘impact imperative’ and need for better measuring and monitoring of the end-results has been an important theme for the development finance community over the past year or so.<sup>30</sup>

**FIGURE 17** TYPE AND FREQUENCY OF PUBLICLY-DISCLOSED IMPACT REPORTING BY BLENDED FINANCE TRANSACTIONS (2013-2018)



<sup>30</sup> Gary Forster. (2019). “Can You Measure What You Can’t See?” London: Publish What You Fund. January 9, 2019. Accessed August 8, 2019. <https://www.publishwhatyoufund.org/2019/01/can-measure-cant-see/>



# Investor Trends

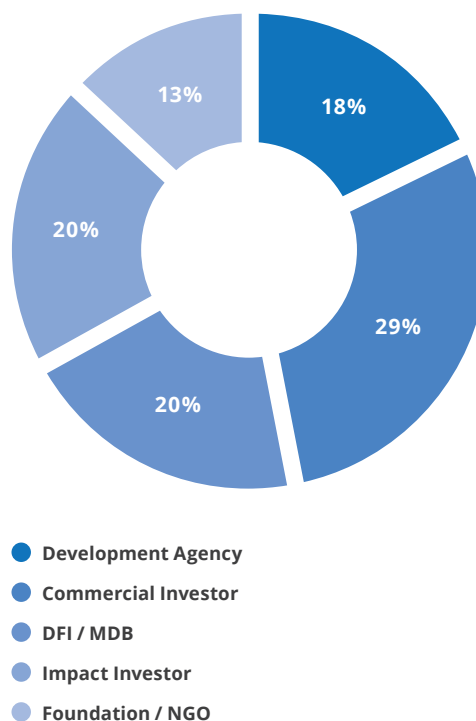


# Overall Landscape

Convergence's database identifies over 1,100 unique organizations across the public, private, and philanthropic sectors that have made financial commitments<sup>31</sup> to one or more blended finance transactions. Approximately 20% of these organizations can be considered 'active investors', or those that have invested in three or more such transactions. The private sector accounts for the largest proportion of active investors (49%) and can be classified into two groups: (i) those with a traditional commercial mandate (i.e., commercial investors) and (ii) those with an additional impact mandate (i.e., impact investors). The public sector accounts for more than a third (38%) of active investors in blended finance and includes both (i) organizations with a pure development mandate (i.e., development agencies) and (ii) organizations with a commercial development mandate (i.e., some MDBs and DFIs). The philanthropic sector (i.e., foundations and NGOs) represent less than 15% of active organizations in blended finance transactions.

Notably, the private sector has been providing an increasing share of the 3,700 financial commitments to over 500 blended finance transactions (see Figure 19). Commercial investors accounted for 27% of the 665 financial commitments made to the 130 blended finance transactions established in 2016-2018, compared to only 19% of the 765 financial commitments made to the 110 blended finance established in 2010-2012. MDBs and DFIs have also become more active over time, responsible for 39% of all

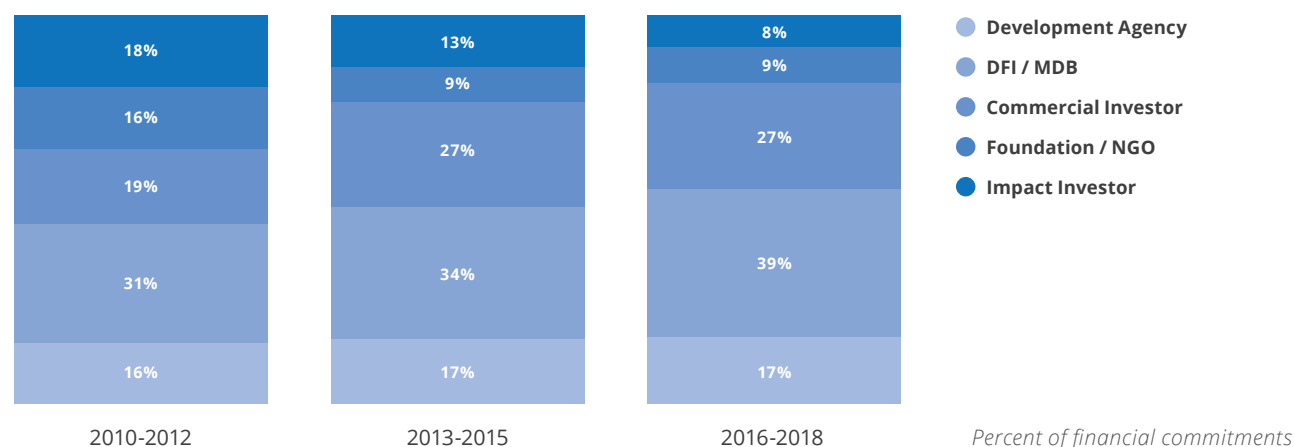
**FIGURE 18** ACTIVE INVESTORS IN BLENDED FINANCE BY ORGANIZATION TYPE (2013-2018)



financial commitments made to blended finance transactions in 2016-2018. In contrast, impact investors, foundations, and NGOs appear to be playing a relatively smaller role over time. For example, impact investors accounted for just 8% of all financial commitments made to blended finance transactions in 2016-2018, compared to 18% in 2010-2012.

<sup>31</sup> Convergence uses the term financial commitment to refer to any concessional or non-concessional capital provided to a blended finance transaction, including, but not limited to, grants, debt, equity, and guarantees.



**FIGURE 19** SOURCES OF FINANCIAL COMMITMENTS TO BLENDED FINANCE TRANSACTIONS (2010-2018)

## Development Agencies and Multi-Donor Funds

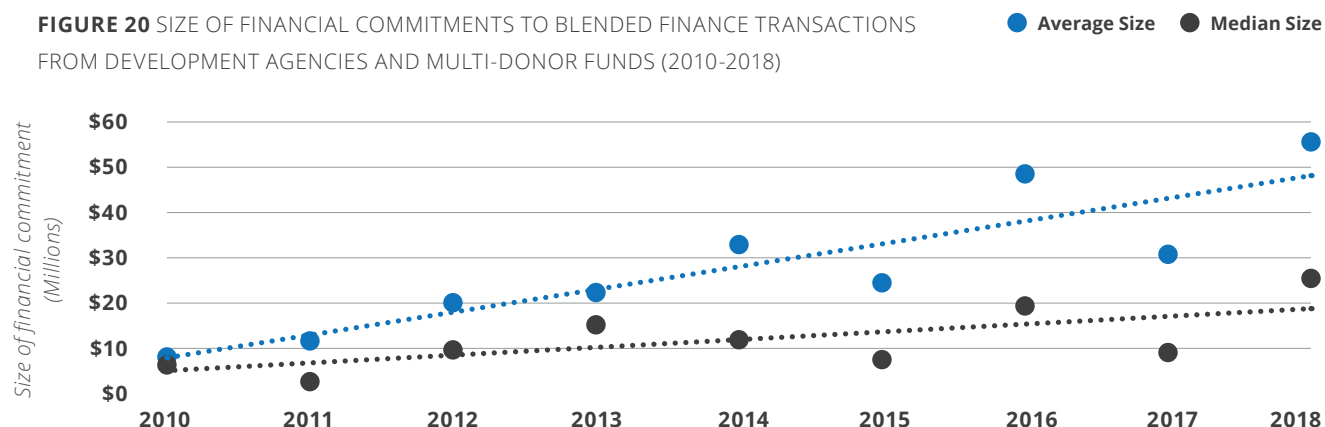
Donor governments play a multi-faceted role in blended finance, providing capital to blended finance transactions both 'directly' (i.e., in-house) as well as 'indirectly' (e.g., through contributions to multilateral organizations, funds and programs), which makes their activities complex to map. Development agencies are the primary entity through which donor governments provide direct commitments to blended finance transactions. To lesser degrees, other government ministries (e.g., ministries of finance) as well as specialized government funds / programmes (e.g., Dutch Good Growth Fund) have also funded direct commitments to blended finance transactions. Donor governments can also support blended finance transactions 'indirectly' through their contributions to a variety of multilateral vehicles that use blended finance approaches for some or all of their activities, including (i) multilateral development banks (MDBs), (ii) multilateral organizations, and (iii) multi-donor funds and programs.<sup>32</sup>

Development agencies and multi-donor funds have participated in more than half of all blended finance transactions (59%) in the past five years. These organizations have primarily provided grants to blended finance transactions. To a lesser extent, development agencies and multi-donor funds have provided concessional debt or equity and, even more rarely, non-concessional debt or equity as gap or bridge financing. Development agencies and multi-donor funds have steadily increased the average size of financial commitments to blended finance transactions over the past five years, with a median investment size of \$6 million in 2010 and \$25 million in 2018 (see Figure 20). It is important to note that donor governments allocate only a small fraction of ODA to blended finance annually (e.g., less than 3%).

Over the past five years, the most active development agencies and multi-donor funds have been USAID, GuarantCo, the Green Climate Fund, the UK

<sup>32</sup> Convergence. (2019). How Donor Governments Blend. Toronto: Convergence. May 22, 2019. <https://www.convergence.finance/knowledge/6whwVWYNT7Q2dFDKGjF2Fw/view>

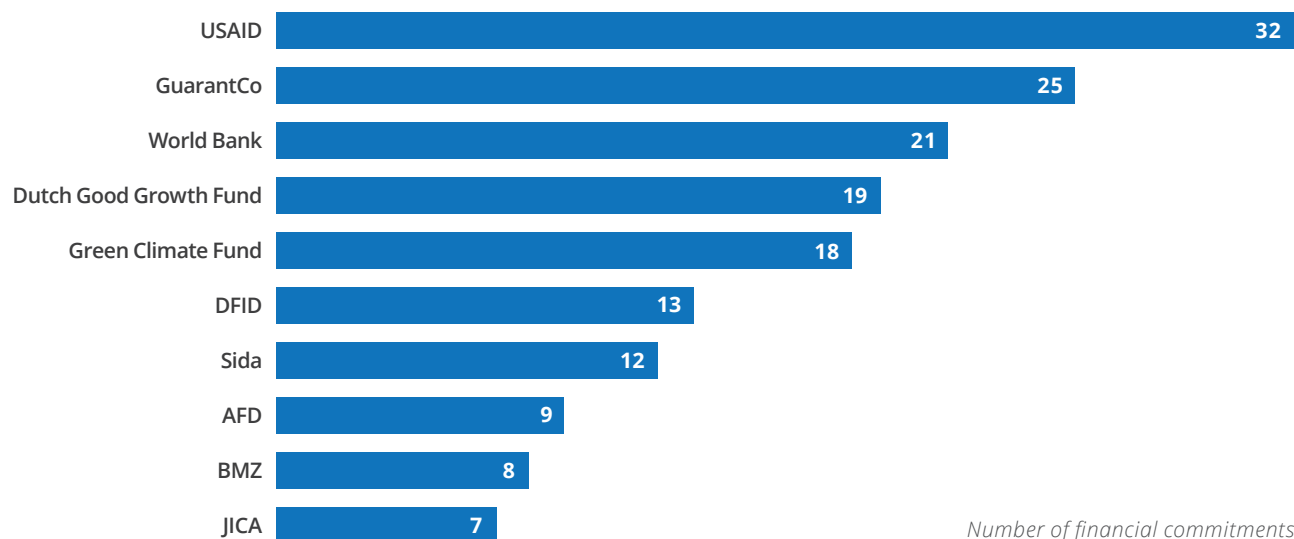
**FIGURE 20** SIZE OF FINANCIAL COMMITMENTS TO BLENDED FINANCE TRANSACTIONS FROM DEVELOPMENT AGENCIES AND MULTI-DONOR FUNDS (2010-2018)



Department for International Development (DFID), and the Dutch Good Growth Fund. USAID has primarily supported blended finance initiatives using grants (e.g., technical assistance grants and grants for design-funding) and guarantees through its Department of Credit Authority (DCA). In December 2018, USAID launched a new private sector engagement policy that will focus on market-based approaches.<sup>33</sup> DFID also plans to increase private sector engagement as

part of a broader strategy to become the largest G7 investor in Africa by 2020. While equity has been rarely invested by development agencies and multi-donor funds, the Dutch Good Growth Fund has frequently used this instrument in blended finance transactions. Specialized multi-donor funds continue to play an important role in blended finance, often focusing on a single instrument (e.g., GuarantCo) or sector (e.g., Green Climate Fund).

**FIGURE 21** TOP DEVELOPMENT AGENCIES AND MULTI-DONOR FUNDS IN BLENDED FINANCE BY NUMBER OF COMMITMENTS (2013-2018)



<sup>33</sup> U.S. Agency for International Development (USAID). (2019). "Private Sector Engagement Policy." Washington, DC: USAID. April 1, 2019. Accessed August 8, 2019. <https://www.usaid.gov/work-usaid/private-sector-engagement/policy>

There has been a visible scale-up in blended finance activity from development agencies and multi-donor funds over the past year. Global Affairs Canada launched the International Assistance Innovation Program (IAIP), which aims to disburse \$900 million into blended finance vehicles over five years.<sup>34</sup> The European Commission (EC) announced the first 12 guarantees issued under its new External Investment Plan (EIP), which has committed a total of €1.5 billion

for guarantees to support 28 projects and attract €8-9 billion in additional private and public investment.<sup>35</sup> The Green Climate Fund (GCF) committed its support to the Development Bank of Southern Africa's (DBSA) Climate Finance Facility (CFF).<sup>36</sup> Finally, the Indonesian Ministry of Finance launched an integrated blended finance investment platform called SDG Indonesia One, which will support large-scale SDG-aligned projects in Indonesia.<sup>37</sup>

## Multilateral Development Banks and Development Finance Institutions

MDBs and DFIs are critical to the success of blended finance. One key role they play is as lead arranger and manager for debt and equity transactions that can be co-financed by private sector investors, with many subject to blended finance structures. In addition, MDBs and DFIs can provide guarantees and risk insurance to attract private investment, albeit not necessarily on concessional terms. They are also increasingly acting as a deal sponsor, such as in the case of IFC and the Managed Co-Lending Portfolio Program (MCP). Looking ahead, MDBs and DFIs are well-positioned to arrange larger amounts of financial assets that can be co-financed by the private sector if enhanced via blended finance. This capacity is a great but under-deployed public resource to achieve the SDGs. The DFI Working Group is one mechanism through which the MDBs and DFIs are coordinating to increase development impact, crowd in private investments while ensuring minimum concessionality, and enhance trust and transparency.

MDBs and DFIs have been the most active type of organization to date, as measured by number of financial commitments to blended finance transactions. MDBs and DFIs have typically invested in modestly larger blended finance transactions (a median transaction size of \$90 million), compared to development agencies and multi-donor funds (a median transaction size of \$70 million). We have seen an increase in the frequency with which MDBs and DFIs offer debt, and a decline in the use of equity. Only 34% of financial commitments from MDBs and DFIs in 2016-2018 were in the form of equity, compared to 40% of financial commitments in 2010-2012. To a much lesser degree, MDBs and DFIs have also placed guarantees, as well as grants using donor-funded concessional resources like the Climate Investment Funds. According to the Joint Report October 2018 Update, MDBs and DFIs provided \$1.2 billion in concessional resources (e.g., debt, guarantees, grants, and equity) to mobilize \$3.9 billion in "regular pricing investments" from MDBs and DFIs and \$3.3 billion from the private sector.<sup>38</sup>

<sup>34</sup> Government of Canada. (2019). "International Assistance Innovation Program." Ottawa: Government of Canada. July 29, 2019. Accessed August 8, 2019. <https://www.international.gc.ca/world-monde/funding-financement/iaip-piai.aspx?lang=eng>

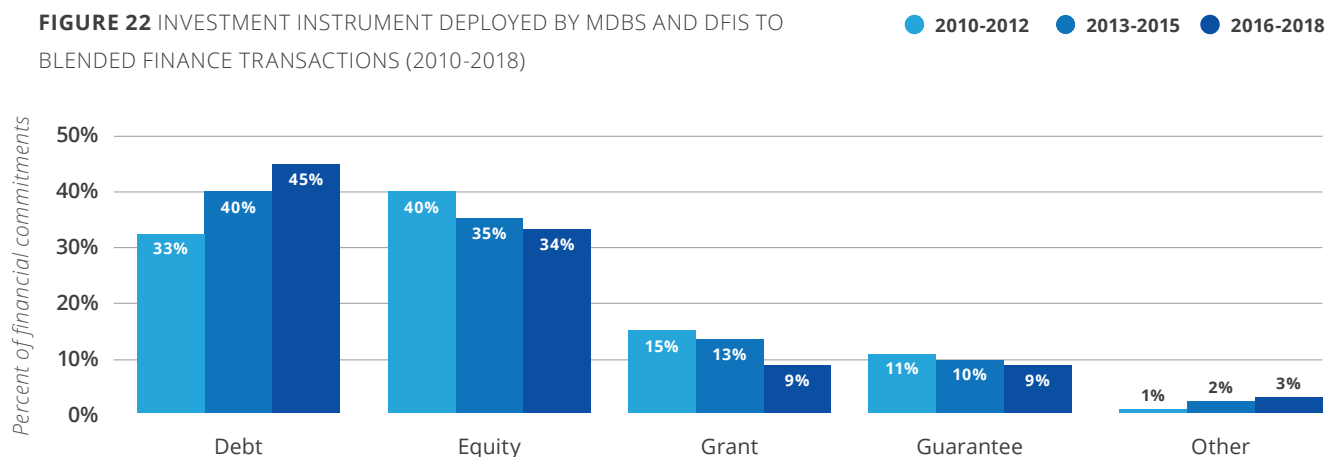
<sup>35</sup> Convergence. (2018). "European Commission issues €800 million in guarantees for blended finance projects." Toronto: Convergence. July 30, 2018. <https://www.convergence.finance/news-and-events/news/5e1Wx3mInqYAa6CE6QSYqA/view>

<sup>36</sup> Convergence (2018). "Convergence supports efforts to establish the first Green Bank in an emerging market." Toronto: Convergence. April 5, 2018. <https://www.convergence.finance/news-and-events/news/3Qol8pv4jKCcc60uQSYuMS/view>

<sup>37</sup> The Jakarta Post. (2018). "Indonesia launched platform to support SDGs achievement." Jakarta: The Jakarta Post. October 5, 2018. Accessed August 8, 2019. <https://www.thejakartapost.com/news/2018/10/05/indonesia-launches-platform-to-support-sgds-achievement.html>

<sup>38</sup> International Finance Corporation (IFC) et al. (2018). DFI Working Group on Blended Concessional Finance for Private Sector Projects: Joint Report, October 2018 Update. October 30, 2018. Accessed August 8, 2019. <https://www.adb.org/documents/dfi-blended-concessional-finance-report-2018>

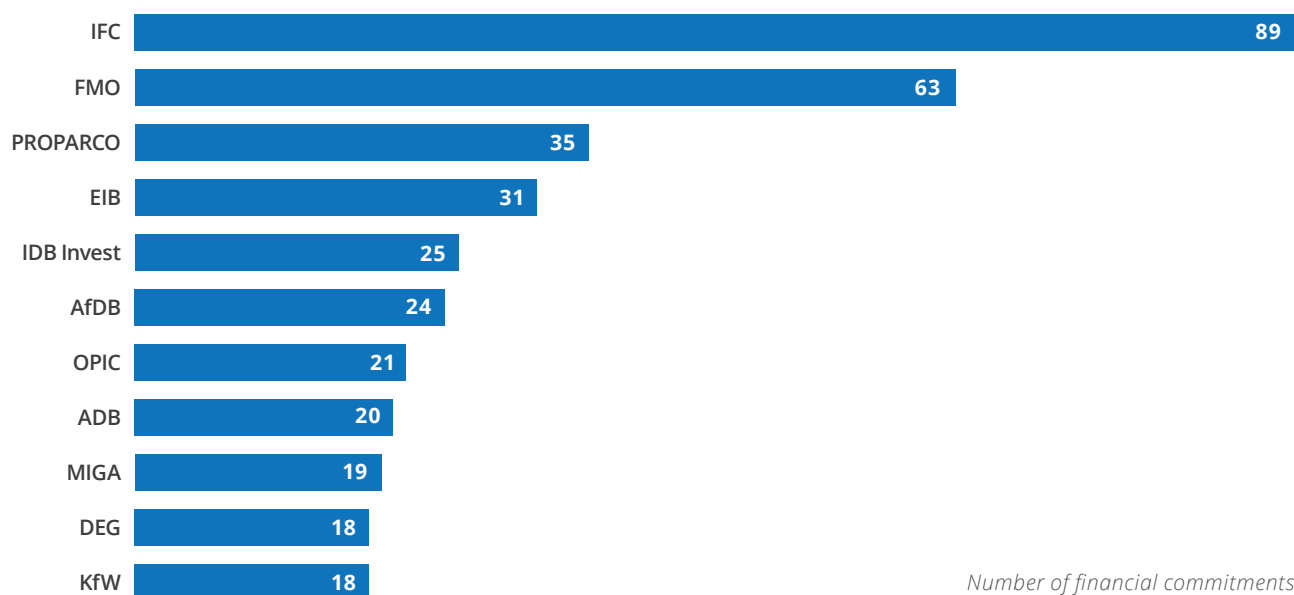
**FIGURE 22** INVESTMENT INSTRUMENT DEPLOYED BY MDBS AND DFIS TO BLENDED FINANCE TRANSACTIONS (2010-2018)



Over the past five years, the most active MDBs and DFIs have been IFC, the Dutch Development Finance Company (FMO), PROPARCO, the European Investment Bank (EIB), and IDB Invest. IFC continues to play a leadership role in blended finance, arranging and participating in a healthy number of blended finance transactions year-over-year. IFC has provided both debt and equity to blended finance transactions, which mirrors the activities of PROPARCO and EIB. Over the past five years, FMO and KfW have been

relatively more likely to take equity positions, while IDB Invest, the African Development Bank (AfDB), and the Asian Development Bank (ADB) have been relatively more likely to act as lenders. While MDBs and DFIs have primarily provided commercial capital to blended finance transactions, FMO, supported by BMZ, has played a notable role as a concessional capital provider, including through the Micro and Small Enterprise Fund (MASSIF) that provides higher-risk, early-stage investments to the financial services sector.

**FIGURE 23** TOP MDBS AND DFIS IN BLENDED FINANCE BY NUMBER OF COMMITMENTS (2013-2018) <sup>39</sup>



<sup>39</sup> Convergence captures blended finance transactions whereby the MDB or DFI arranges both concessional and commercial financing (i.e., blended concessional finance) as well as transactions where concessional capital is provided by a third-party and the MDB or DFI is simply participating.

MDBs and DFIs continued to arrange, manage, and invest in blended finance transactions over the last year, with a number of notable activities undertaken by MDBs and DFIs based outside of North America and Europe. The Development Bank of Southern Africa (DBSA) announced the Climate Finance Facility, the first green bank in a developing country.<sup>40</sup> AfDB was particularly active in blended finance, launching Room2Run, an innovative \$1 billion synthetic securitization, as well as adopting a new blended finance policy to guide its use of concessional financing in blended finance investments.<sup>41</sup> While

not specific to blended finance, various MDBs and DFIs have flagged capital mobilization as a priority. ADB unveiled its Strategy 2030, which includes a commitment that every \$1 of financing in its private sector operations will be matched by \$2.50 in long-term co-financing by 2030, amongst other targets.<sup>42</sup> IFC developed and launched the Operating Principles for Impact Management (the Principles), with signatories including the Development Bank of Latin America (CAF), EIB, and IDB Invest.<sup>43</sup>

## Impact Investors

Impact investors play a strategic role in blended finance transactions, bridging the gap between fully concessional and commercial capital. Impact investing is an investment philosophy, where investors are guided by the desire to make a positive impact. This differs from blended finance, which is first and foremost a structuring approach. In the last decade, impact investing has grown exponentially, with impact investors becoming an increasingly established group. Blended finance has benefitted significantly from the momentum and established practices in the impact investing market.

Impact investors represent nearly 25% of active investors captured in the Convergence database, and include family offices (e.g., Ceniarth), investment management firms (e.g., Calvert Impact Capital), and impact-oriented financial institutions (e.g., Triodos

Bank). Over the last five years, impact investors have played a relatively smaller role in blended finance. This may be due to the increased participation of commercial investors in blended finance (see Figure 24). In 2010, impact investors accounted for 51% of the financial commitments to blended finance transactions from the private sector and now impact investors account for only 26% of financial commitments from the private sector. While this demonstrates the success of blended finance in crowding in commercial investment, it also likely reflects the adoption of in-house impact investing practices by traditional commercial investors. Nonetheless, impact investors remain a key source of capital for blended finance with almost half of impact investors captured in our database having participated in three or more transactions.

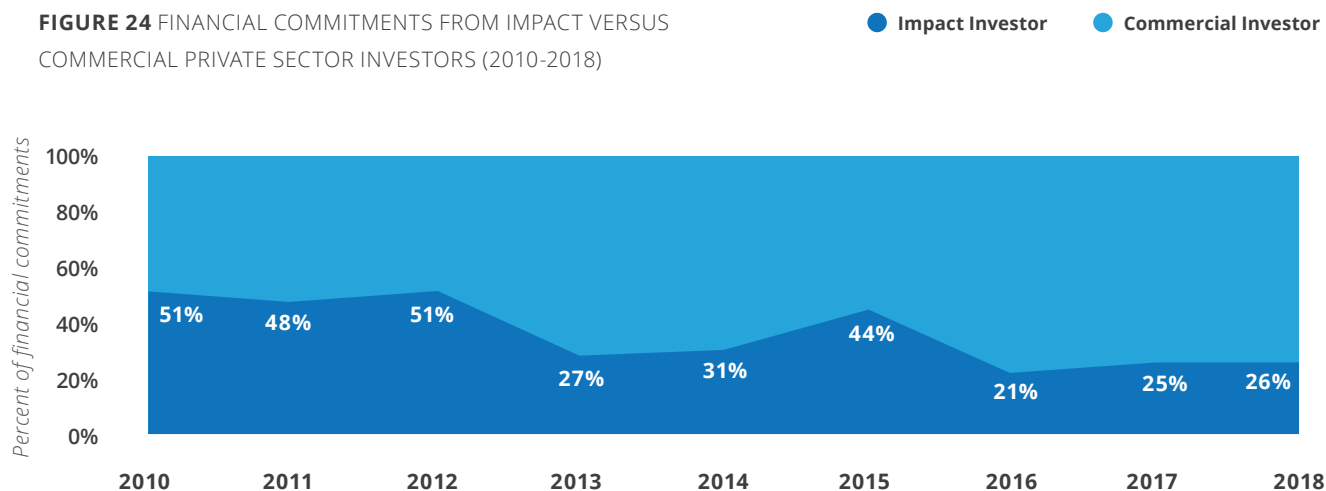
<sup>40</sup> Development Bank of Southern Africa (DBSA). (2018). "Development Bank of Southern Africa to set up a Climate Finance Facility." Midrand: DBSA. October 22, 2018. Accessed August 8, 2019. <https://www.dbsa.org/EN/DBSA-in-the-News/NEWS/Pages/20181022DBSA-to-set-up-Climate-Finance-Facility.aspx>

<sup>41</sup> African Development Bank (AfDB). (2018). "African Development Bank and partners' innovative Room2Run securitization will be a model for global lenders." Abidjan: AfDB. October 14, 2018. Accessed August 8, 2019. <https://www.afdb.org/en/news-and-events/african-development-bank-and-partners-innovative-room2run-securitization-will-be-a-model-for-global-lenders-18571>

<sup>42</sup> Asian Development Bank (ADB). (2018). Strategy2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific. Manila: ADB. July 2018. Accessed August 8, 2019. <https://www.adb.org/sites/default/files/institutional-document/435391/strategy-2030-main-document.pdf>

<sup>43</sup> International Finance Corporation (IFC). (2019). "The Principles". Washington, DC: IFC. April 12, 2019. Accessed August 8, 2019. [https://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/Impact-investing/Principles/](https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Impact-investing/Principles/)

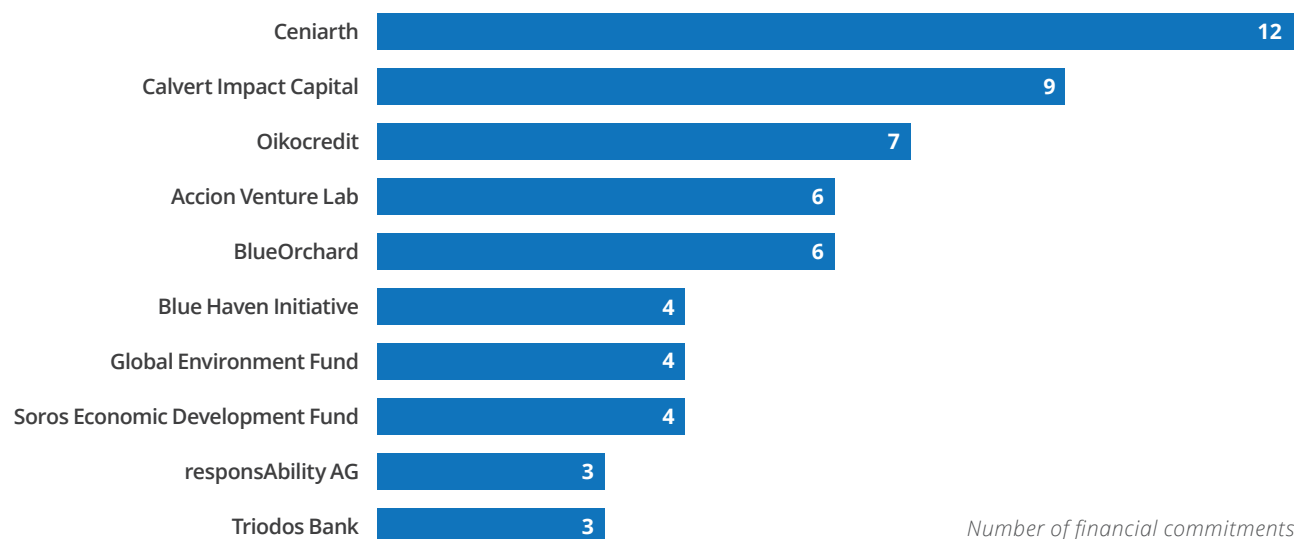
**FIGURE 24** FINANCIAL COMMITMENTS FROM IMPACT VERSUS COMMERCIAL PRIVATE SECTOR INVESTORS (2010-2018)



Over the past five years, the most active impact investors in blended finance transactions have been Ceniarth, Calvert Impact Capital, Oikocredit, Accion Venture Lab, and BlueOrchard. These impact investors each have distinct impact mandates and investment approaches. For example, Accion Venture Lab is the impact investing arm of a global non-profit organization, while BlueOrchard is a commercial impact investment manager delivering both social

impact and attractive financial returns. Ceniarth, Oikocredit, and Calvert Impact Capital have provided both debt and equity, primarily on commercial terms, to blended finance transactions. Certain impact investors, such as Accion Venture Labs and Blue Haven Initiative have largely been equity investors in blended finance to date, while others, like Soros Economic Development Fund and Triodos Bank, have acted primarily as lenders.

**FIGURE 25** TOP IMPACT INVESTORS IN BLENDED FINANCE BY NUMBER OF COMMITMENTS (2013-2018)





Both impact investors that are familiar with and new to blended finance have been active in the past year. Calvert Impact Capital has remained active, both investing in new blended finance vehicles as well as establishing a new blended finance framework, which provides a map for how impact investors can play a catalytic role.<sup>44</sup> BlueOrchard and Schroders announced an agreement under which Schroders will acquire a majority stake of BlueOrchard to support the expansion of BlueOrchard's blended finance activities.<sup>45</sup> WaterEquity closed its first blended

finance fund, WaterCredit Investment Fund 3 (WCIF3), which aims to increase the affordability of water and sanitation services for families in poverty.<sup>46</sup> Climate Fund Managers reached its third and final close for Climate Investor One, raising \$850 million in total financing for renewable energy projects including in wind, solar, and hydro power generation.<sup>47</sup> Sarona Asset Management, a private equity firm focused on frontier and emerging markets, made several commitments to blended finance transactions.

## Commercial Investors

Commercial investors are core to the promise of blended finance. Blended finance offers the possibility to scale up commercial financing for developing countries; just one percent of the \$200 trillion dollars<sup>48</sup> held by institutional investors globally would go a long way towards filling the annual SDG financing gap. Yet commercial investors face real constraints to invest in projects in developing countries, including high risk, unattractive risk-return profiles and liquidity requirements. For example, only 85 of the 145 countries eligible for ODA have been rated by at least one of the "big three" credit rating agencies, and the median sovereign rating for these countries is a relatively high risk rating of "B+". Moreover, commercial investors are a diverse group, each operating with unique mandates, constraints, and risk-adjusted return preferences.

To date, blended finance has achieved the greatest traction with financial institutions (i.e., commercial banks) and corporates (i.e., multinational companies). The proportion of private sector commitments to blended finance transactions from commercial banks has steadily increased over the past decade, from 26% of private sector investments in 2010-2012 to 46% of private sector investments in blended finance transactions in 2016-2018 (by count). This is also reflected in Figure 27 below, in which nine out of 12 of the most active commercial investors are commercial banks. In addition, corporates also represent a greater share of private sector investments in blended finance transactions today, from 23% of private sector investments in 2010-2012 to 29% in 2016-2018. Corporates are particularly active in their respective sector; for example, multinational food and beverage companies have been most active in the agriculture sector.

<sup>44</sup> Calvert Impact Capital. (2018). "Blended Finance: what is it, what it isn't and how to use it for maximum impact." Bethesda: Calvert Impact Capital. August 17, 2018. Accessed on August 8, 2019. <https://www.calvertimpactcapital.org/blog/822-blended-finance-what-is-it-what-it-isnt-and-how-to-use-it-for-maximum-impact>

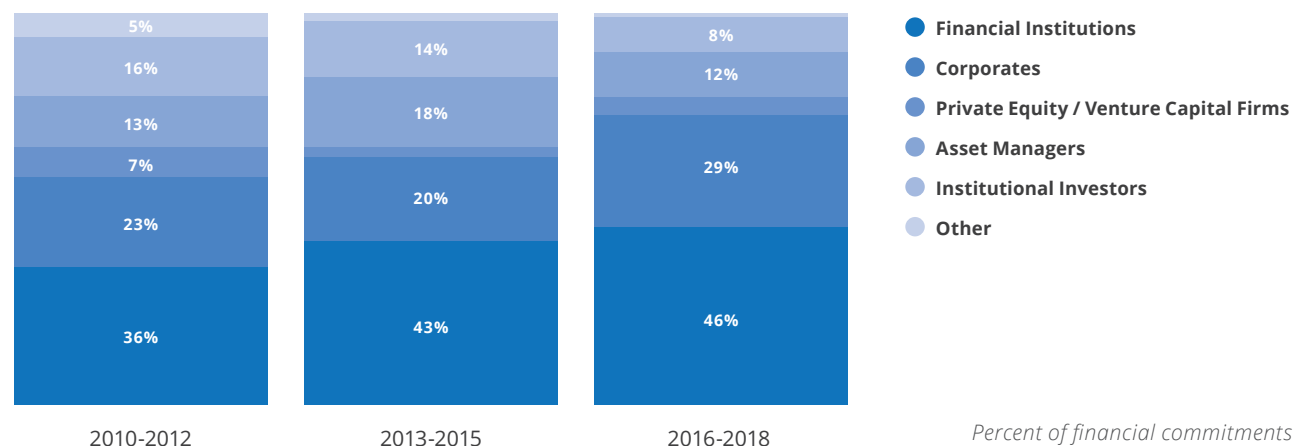
<sup>45</sup> BlueOrchard. (2019). "Schroders acquires majority stake in leading impact investor BlueOrchard." Zurich: BlueOrchard. July 26, 2019. Accessed August 8, 2019. <https://www.blueorchard.com/schroders-acquires-majority-stake-leading-impact-investor-blueorchard/>

<sup>46</sup> Convergence. (2019). WaterCredit Investment Fund 3 Case Study. Toronto: Convergence. July 30, 2019. <https://www.convergence.finance/knowledge/4VLkTKyP0IzPzDhp6loqF0/view>

<sup>47</sup> ESI Africa. (2019). "Climate Investor One closes \$850m Fund." Cape Town: ESI Africa. June 25, 2019. Accessed August 8, 2019. <https://www.esi-africa.com/industry-sectors/finance-and-policy/climate-investor-one-closes-850-million-fund/>

<sup>48</sup> Convergence. (2018). Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital through Blended Finance. January 16, 2018. <https://www.convergence.finance/knowledge/1hYbzLsUbAYmS4syyWuqm6/view>

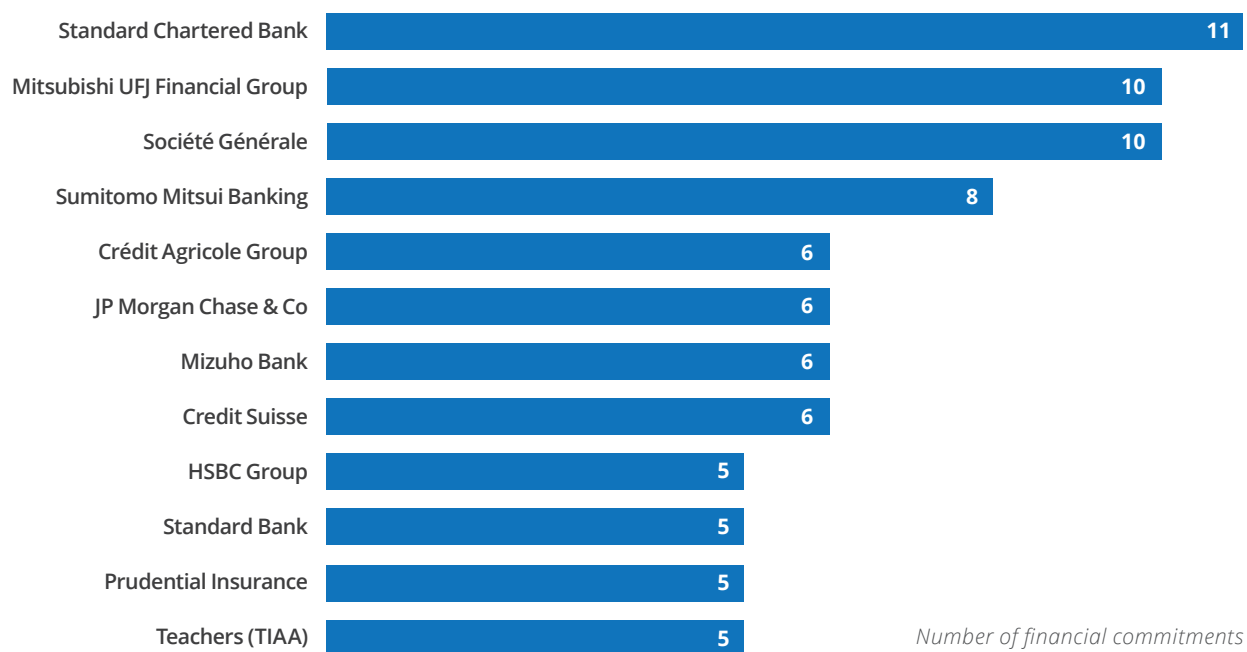
**FIGURE 26** FINANCIAL COMMITMENTS FROM COMMERCIAL INVESTORS TO BLENDED FINANCE TRANSACTIONS BY ORGANIZATION TYPE



In contrast, institutional investment in blended finance has been limited. Many institutional investors have invested in one or two blended finance transactions, but very few can be classified as active investors. Private equity / venture capital firms, asset managers, and other institutional investors (e.g., insurance companies and pension funds) all represent declining proportions of private sector investments in blended finance transactions between 2010-2018. This may reflect the current outsized role of financial institutions in blended finance transactions, the mismatch between their investment preferences and current investment opportunities (e.g., transaction size and type), as well as the downturn in investments in emerging markets in recent years. Nonetheless, there are a few signals that institutional investors may be gaining familiarity with blended finance as a structuring tool, including Teachers Insurance and Annuity Association's (TIAA) presence on the list of most active commercial investors and Allianz'

\$120 million commitment to the Emerging Africa Infrastructure Fund (EAIF).

The most active commercial investors in blended finance over the past five years have been Standard Chartered (StanChart), Mitsubishi UFJ Financial Group, Société Générale (SocGen), Sumitomo Mitsui Banking Corporation, and Crédit Agricole Group. These financial institutions have almost exclusively injected debt into these blended finance transactions, primarily in the energy and infrastructure sectors. As evidenced by this list, there has been a heavy concentration of commercial investors from the U.S. and Europe, as well as Japan, with only limited activity from local investors. While blended finance holds the potential to unlock more domestic capital, a concerted effort is needed to engage these organizations in blended finance. Local investors often face additional and unique barriers to investing in blended finance transactions, which need to be better understood and addressed.

**FIGURE 27** TOP COMMERCIAL INVESTORS IN BLENDED FINANCE BY NUMBER OF COMMITMENTS (2013-2018)

In the past year, the world's largest asset manager, BlackRock, announced its participation in the Climate Finance Partnership (CFP), alongside leading philanthropic organizations and governments.<sup>49</sup> The Ocean Fund, launched by Circulate Capital in June 2019, has raised more than \$100 million from corporates such as Unilever, P&G, and Danone to invest in solutions to plastic pollution in South and Southeast Asia.<sup>50</sup> Bank of America announced a 'Blended Finance Catalyst Pool' with an initial allotment of \$60 million to essentially encourage 'private on private' blending

for developed and developing countries.<sup>51</sup> Moreover, commercial investors are increasingly looking to invest in projects and transactions that are aligned to labels like impact investing, responsible or sustainable investment, green finance, and the SDGs. As just two examples, IFC estimated that the total global demand for "impact investing assets" is \$26 trillion<sup>52</sup> and more than 2,400 organizations managing \$90 trillion of assets under management<sup>53</sup> have signed the UN Principles for Responsible Investing.

<sup>49</sup> Convergence. (2019). "Aligned Intermediary awarded grant to support Climate Finance Partnership." Toronto: Convergence. April 10, 2019. <https://www.convergence.finance/news-and-events/news/F7wKMfkm3yrtOshsAxUcU/view>

<sup>50</sup> Ocean Conservancy. (2018). "Circulate Capital Announces US\$90 Million in Expected Funding to Combat Ocean Plastic." New York: Ocean Conservancy. October 25, 2018. Accessed on August 8, 2019. <https://oceanconservancy.org/news/circulate-capital-announces-us90-million-expected-funding-combat-ocean-plastic/>

<sup>51</sup> Bank of America. (2018). "Bank of America Launches \$60 Million Blended Finance Catalyst Pool to Stimulate More Sustainable Finance and Development." New York: Bank of America. November 29, 2018. Accessed on August 8, 2019. <https://newsroom.bankofamerica.com/press-releases/environment/bank-america-launches-60-million-blended-finance-catalyst-pool-stimulate>

<sup>52</sup> International Finance Corporation (IFC). (2019). Creating Impact: The Promise of Impact Investing. Washington, DC: IFC. April 2019. Accessed August 8, 2019. <https://www.ifc.org/wps/wcm/connect/66e30dce-0cdd-4490-93e4-d5f895c5e3fc/The-Promise-of-Impact-Investing.pdf?MOD=AJPERES&CVID=mHZTSds>

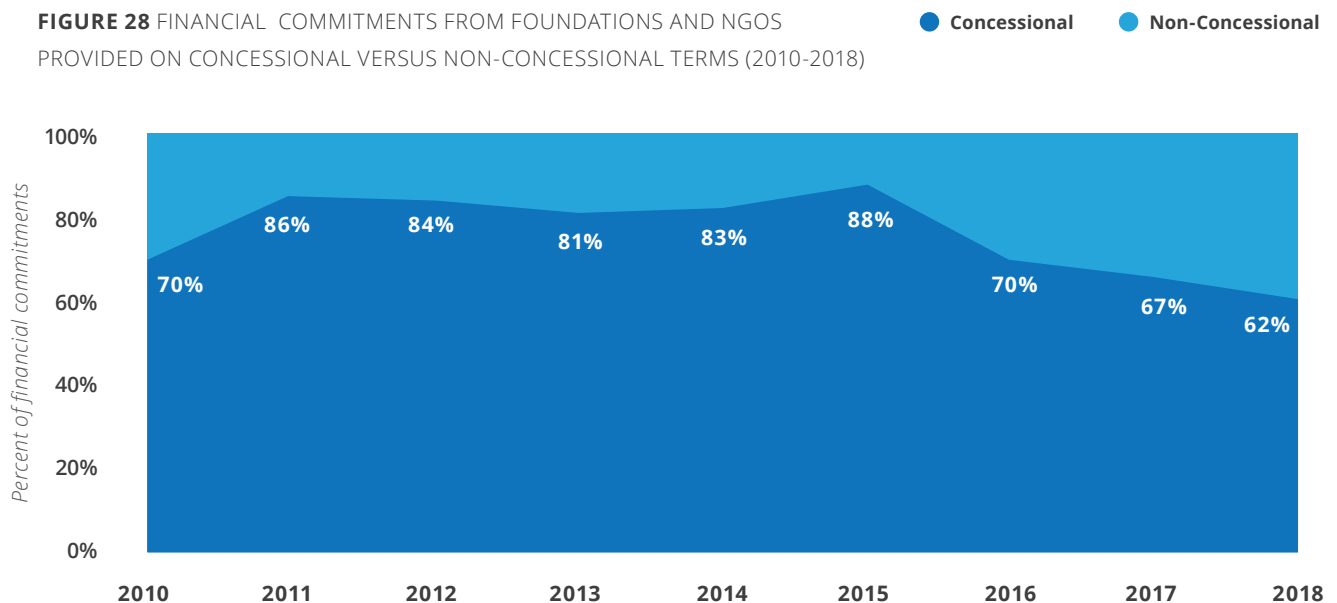
<sup>53</sup> United Nations Principles for Responsible Investment (UNPRI). (2019). "About the PRI". London: UNPRI. Accessed August 8, 2019. <https://www.unpri.org/about-the-pri>

# Philanthropic Organizations

Foundations and NGOs can play an important role in blended finance given their aptitude for flexible financing and long-term vision for achieving development impact. Foundations, including both private and corporate foundations, have been key players in blended finance and have demonstrated an increasing focus on deploying catalytic capital. Foundations most commonly provide small amounts (e.g. less than \$4.5 million) of highly catalytic capital (e.g., first-loss capital or design-stage grants) for the purposes of mobilizing larger volumes of additional capital. NGOs are increasingly considering their potential roles in blended finance, including as blended finance sponsors (e.g., Global Partnerships), pipeline developers (e.g., Water.org), and investors (e.g., Conservation International).

Foundations and NGOs have most frequently provided grants to blended finance transactions (36% of financial commitments), as well as debt (33%), and equity (26%). To date, these organizations have primarily provided capital on concessional terms (72% of financial commitments); however, we have seen a slight uptick over the past five years in foundations providing non-concessional capital to certain blended finance transactions that are well-aligned to their operational mandates. This trend may also reflect the alignment of endowment investments to their more traditional grant-making activities. For example, the Ford Foundation has committed \$1 billion from its endowments to mission-related investments.<sup>54</sup>

**FIGURE 28** FINANCIAL COMMITMENTS FROM FOUNDATIONS AND NGOS PROVIDED ON CONCESSIONAL VERSUS NON-CONCESSIONAL TERMS (2010-2018)

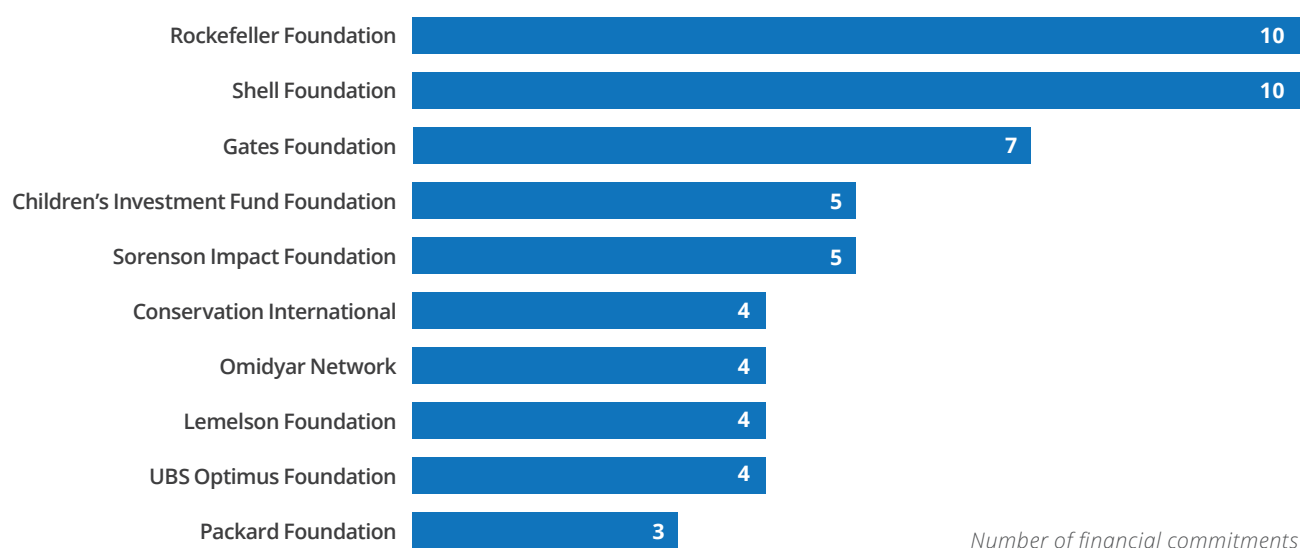


<sup>54</sup> Ford Foundation. (2017). "Ford Foundation commits \$1 billion from endowment to mission-related investments." New York: Ford Foundation. April 5, 2017. Accessed on August 8, 2019. <https://www.fordfoundation.org/the-latest/news/ford-foundation-commits-1-billion-from-endowment-to-mission-related-investments/>

The most active foundations and NGOs over the past five years have been the Rockefeller Foundation, the Shell Foundation, the Bill and Melinda Gates Foundation, the Children's Investment Fund Foundation (CIFF), and Conservation International (CI). Some of these organizations are focused around a specific sector or development challenge: Conservation International invests in conservation solutions, while the Shell Foundation has a specific focus on access to energy and affordable

transport. Other organizations have focused their blended finance activities more around specific vehicles; for example, UBS Optimus Foundation has demonstrated a strong interest in impact bonds. The majority of foundations and NGOs have participated in blended finance on a more opportunistic basis; however, commitments have been concentrated in higher impact sectors, including agriculture and healthcare.

**FIGURE 29** TOP FOUNDATIONS AND NGOS IN BLENDED FINANCE BY NUMBER OF COMMITMENTS (2013-2018)



The philanthropic sector has become more active in blended finance over the past year. The Rockefeller Foundation, Omidyar Foundation, and the MacArthur Foundation announced the launch of the Catalytic Capital Consortium, which will allocate up to \$150 million for funds or intermediaries that demonstrate a powerful use of catalytic capital.<sup>55</sup> Women's World Banking (WWB) raised \$50 million for its women-centric blended finance fund, with the aim of reaching a final close at \$100 million.<sup>56</sup> British Asian Trust,

along with UBS Optimus, and the Michael and Susan Dell Foundation launched Quality Education India, which is the largest development impact bond in the education sector and aims to improve learning outcomes for primary school children in India.<sup>57</sup> Other foundations and NGOs actively pursuing blended finance approaches over the past year include AV Ventures Ghana (a subsidiary of ACDI/VOCA), the World Food Bank, and the Rockefeller Foundation through their Zero Gap portfolio.

<sup>55</sup> MacArthur Foundation. (2019). "Catalytic Capital Consortium." Chicago: MacArthur Foundation. March 2019. Accessed on August 8, 2019. <https://www.macfound.org/programs/catalytic-capital-consortium/>

<sup>56</sup> Philanthropy News Digest (PND). (2019). "Bank of America Commits \$50 Million in Support of Women Entrepreneurs." New York: PND. March 11, 2019. Accessed on August 8, 2019. <https://www.philanthropynewsdigest.org/news/bank-of-america-commits-50-million-in-support-of-women-entrepreneurs>

<sup>57</sup> British Asian Trust. (2019). "Development Impact Bond: Quality Education India". London: British Asian Trust. June 2019. Accessed on August 8, 2019. <https://www.britishasiantrust.org/our-work/education/quality-education-india-dib/>



# Ecosystem Trends

## Towards 'Better Blending'

Both established and new communities of practices are advancing the field of blended finance. Building on the OECD Blended Finance Principles adopted by the 30 OECD DAC members in 2017, the Tri Hita Karana (THK) Roadmap for Blended Finance is a shared value system and action plan launched in late 2018.<sup>58</sup> The THK Roadmap is built on the recognition that market-wide coordination is necessary to more effectively and efficiently deliver the financing and development impact needed to achieve the SDGs. Over the course of 2019, five working groups have been established around each of the five action areas: Practice, Mobilisation, Transparency, Inclusive Markets, and Impact. These working groups include a diverse set of blended finance stakeholders, including development agencies, MDBs and DFIs, and private foundations as well as research institutions and a credit rating agency. Convergence actively supports this initiative and co-chairs two of the working groups.

Another well established body, the DFI Working Group continues to harmonize blended finance practices and principles among the MDBs and DFIs and this year released an updated Joint Report.<sup>59</sup> The report builds on the 2017 report with a strengthened methodology for blended concessional finance, using more refined definitions, accounting methodology, and reporting. Meanwhile, the Global Impact Investing Network (GIIN) launched a new Blended Finance Working Group in 2018, which seeks to address the bespoke nature of designing blended finance structures with the goal of decreasing costs and increasing the frequency and scale of blended finance investments. In addition to quarterly meetings, the GIIN has also supported learning and sharing through webinars and a “Resource for Structuring Blended Finance Vehicles”, which was published in October 2018.<sup>60</sup>

<sup>58</sup> Organisation for Economic Cooperation and Development (OECD). (2018). Tri Hita Karana Roadmap for Blended Finance: Blended Finance & Achieving the Sustainable Development Goals. Paris: OECD. October 2018. Accessed August 8, 2019. [https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/\\_THK%20Roadmap%20booklet%20A5.pdf](https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/_THK%20Roadmap%20booklet%20A5.pdf)

<sup>59</sup> International Finance Corporation (IFC) et al. (2018). DFI Working Group on Blended Concessional Finance for Private Sector Projects: Joint Report, October 2018 Update. October 30, 2018. Accessed August 8, 2019. <https://www.adb.org/documents/dfi-blended-concessional-finance-report-2018>

<sup>60</sup> Global Impact Investing Network (GIIN). (2018). A Resource for Structuring Blended Finance Vehicles. New York: GIIN. October 2018. Accessed August 8, 2019. <https://thegiin.org/assets/upload/Blended%20Finance%20Resource%20-%20GIIN.pdf>



In addition to the GIIN's introductory-level guide, there have been a number of useful research reports and policy documents produced on blended finance in the past year. Stratigos published an "ABCs of Innovative Finance" to demystify key terms.<sup>61</sup> Area experts also considered the role of blended finance in their fields: the Consultative Group to Assist the Poor (CGAP) looked at blended finance for financial inclusion<sup>62</sup> and USAID's Center for Innovation and Impact outlined a roadmap for blended finance and global health<sup>63</sup>. BlueOrchard conducted a survey of its investors to get their views on blended finance 2.0<sup>64</sup> and IFC reviewed its own activities to reflect on scaling up private investment in lower-income countries<sup>65</sup>. On that note, UNCDF and a consortium of partners, including Convergence, launched two reports on blended finance in the LDCs.<sup>66</sup>

Other voices have been even more urgent in the call for 'better blending', with a number of critical reports published in the past year. ODI, an independent, global think tank, released a critical report entitled "Blended finance in the poorest countries: the need for a better approach".<sup>67</sup> The report provides a sharp reality check, noting that, on the current track, 'billions to billions' is much more plausible than 'billions to trillions'. The non-profit organization

Oxfam released a report, "Faith is Not Enough", focused more broadly on the growing trend amongst donors to channel aid into partnerships with the private sector, emphasizing the importance linking interventions to SDGs or climate objectives.<sup>68</sup>

Alongside greater collaboration around the 'better blending' agenda over the last year, we are also seeing the entrenching of multiple blended finance definitions and approaches. It has been broadly recognized that there are multiple definition for blended finance, with some citing up to 15 variations of the definition in the market<sup>69</sup>. Figure 30 highlights some of the differences between three blended finance definitions: the World Economic Forum / Redesigning Development Finance Initiative (RDFI) definition established in 2015, and adopted by Convergence, the OECD DAC definition adopted in 2017, and the DFI Working Group definition published in 2018. Nonetheless, three common characteristics can be seen across most definitions: (i) the use of concessional capital (i.e., official or public finance, philanthropic capital); (ii) additional non-concessional capital, most commonly from private investors, and (iii) some form of intended development impact or alignment to the SDGs.

<sup>61</sup> Stratigos. (2018). The ABCs of Innovative Finance. Sharjah: Stratigos. October 17, 2018. Accessed August 8, 2019. <https://www.convergence.finance/knowledge/31sDWnYzrGAiUo2oOWScuM/view/relevant-deals>

<sup>62</sup> Consultative Group to Assist the Poor (CGAP). (2018). Navigating the Next Wave of Blended Finance for Financial Inclusion. Paris: CGAP. August 22, 2018. Accessed August 8, 2019. <https://www.cgap.org/research/publication/navigating-next-wave-blended-finance-financial-inclusion>

<sup>63</sup> USAID Center for Innovation and Impact (CII). (2019). Greater than the Sum of its Parts: Blended Finance Roadmap for Global Health. Washington, DC: USAID. February 28, 2019. Accessed August 8, 2019. <https://www.usaid.gov/cii/blended-finance>

<sup>64</sup> BlueOrchard. (2018). Blended Finance 2.0 – Giving voice to the Private Sector. Zurich: BlueOrchard. October 1, 2018. Accessed on August 8, 2019. <https://www.blueorchard.com/blended-finance-2-0-giving-voice-private-sector-insights-blueorchard-survey-private-investors/>

<sup>65</sup> International Finance Corporation (IFC). (2018). Blended Concessional Finance: Scaling Up Private Investment in Lower-Income Countries. Washington, DC: IFC. November 1, 2018. Accessed August 8, 2019. [https://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/financial+institutions/resources/blended+concessional+finance+scaling+up+private+investment+in+lower-income+countries](https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/blended+concessional+finance+scaling+up+private+investment+in+lower-income+countries)

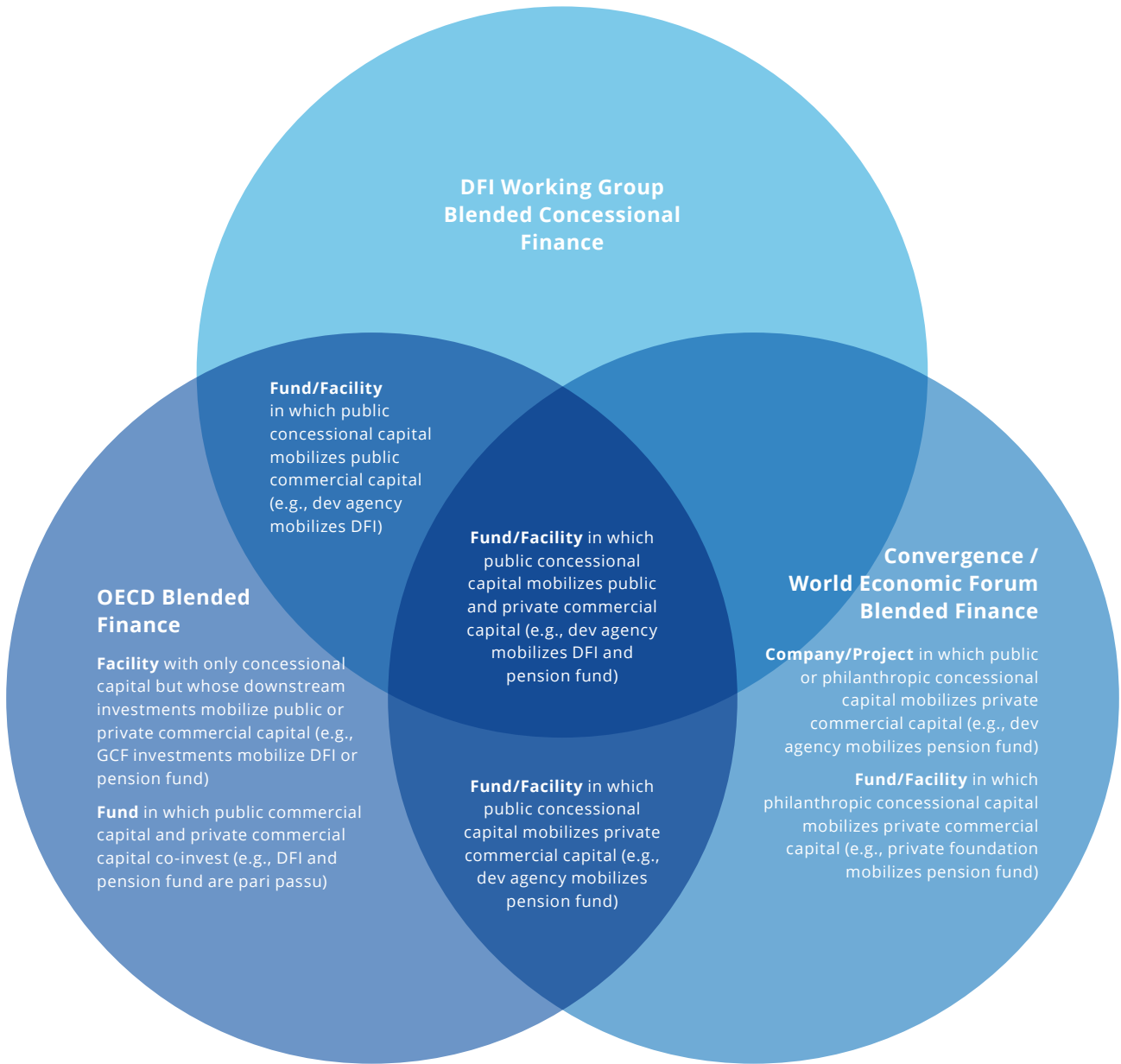
<sup>66</sup> United Nations Capital Development Fund (UNCDF) et al. (2018). Blended Finance in the Least Developed Countries. New York: UNCDF. November 5, 2018. Accessed August 8, 2019. <https://www.un.org/ldcportal/new-report-on-blended-finance-in-ldcs/>; UNCDF et al. (2019). Blended Finance in the Least Developed Countries in 2019. New York: UNCDF. July 15, 2019. Accessed August 8, 2019. <https://www.uncdf.org/bfldcs/home>

<sup>67</sup> Overseas Development Institute (ODI). (2019). Blended finance in the poorest countries. London: ODI. April 2019. Accessed August 8, 2019. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12666.pdf>

<sup>68</sup> Oxfam International. (2019). Faith is Not Enough: Ensuring that aid donor-private sector partnerships contribute to sustainable development. Oxford: Oxfam International. July 2019. Accessed August 8, 2019. <https://policy-practice.oxfam.org.uk/publications/faith-is-not-enough-ensuring-that-aid-donor-private-sector-partnerships-contrib-620839>

<sup>69</sup> Development Initiatives. (2016). The role of blended finance in the 2030 Agenda: Setting out an analytical approach. London: Development Initiatives. July 19, 2016. Accessed August 8, 2019. <http://devinit.org/post/the-role-of-blended-finance-in-the-2030-agenda-setting-out-our-analytical-approach/>

**FIGURE 30** OVERVIEW OF DIFFERENCES BETWEEN THREE KEY BLENDED FINANCE DEFINITIONS



# Emerging Trends and Themes

We see significant potential for blended finance in the agriculture sector. Blended finance has been and will continue to be critical in closing the agri-finance gap, particularly in Africa. There have been a number of notable blended finance activities in the sector over the past year. At the beginning of the year, Clarmondial announced that a leading Swiss bank, Lombard Odier, would invest in the Food Securities Fund, a first-of-its-kind blended finance product that seeks to address the market gap for affordable finance for local agricultural companies. The International Fund for Agricultural Development (IFAD) launched a new fund in February 2019 to de-risk investments in agriculture value chains and mobilize \$250 million in private capital in Africa. We have also seen a growing community of practice looking to lead 'better blending' for the sector, including the Smallholder and Agri-SME Finance and Investment Network (SAFIN) and OECD who are leading on research and policy efforts around blended finance for agriculture.

Building on existing momentum behind climate finance, the field of conservation finance is increasingly exploring blended finance solutions. To date, the majority of climate-related blended finance solutions have focused on climate mitigation, specifically clean energy and energy efficiency. About 70% of blended finance deals for climate have been funds and projects focused on renewable energy. Less than 20% of blended finance deals have targeted climate adaptation, with the majority of those deals focused on resilient agriculture (including agro-forestry and fisheries).<sup>70</sup> Conservation of biodiversity and ecosystems offers a nature-based solution to climate change, including a cost-effective and scalable way to increase global resilience. Over the past year, the Coalition for Private

Investment in Conservation (CPIC) has released new conservation finance blueprints and there has been early discussion on leveraging blended finance to mobilize private sector investment in REDD+ projects.<sup>71</sup>

Blended finance for water and sanitation continues to be an area of strong interest. The size of the estimated financing gap, along with several recent examples of blending for the sector (e.g., WaterCredit, Kigali Bulk Water Supply Project), have caught the attention of development practitioners in the space. The OECD and others have highlighted the urgent need – and the opportunities – to address the obstacles to mobilize commercial finance for water-related investments.<sup>72</sup> However, more replication is needed given the wide variety (i.e., from large-scale water and water treatment projects to community-level projects) and small sample size of blended finance projects to date. Overall, a gradual move towards mobilizing more commercial finance will require improved financial performance from local utility companies through (i) creating technical and commercial efficiencies and (ii) broader governance and regulatory reforms.

The role of blended finance in the LDCs continues to be a priority for many policymakers and concessional capital providers. Admittedly, blended finance – and, in fact, investment of any type – is more challenging in the context of LDCs, where private investors face significant real and perceived risks to doing business. The UNCDF has been a leading voice on the topic of blended finance in the LDCs, aiming to foster conversation around how to implement and adapt existing approaches to LDCs to maximize their

<sup>70</sup> Convergence. (2018). "Changing climate means growing demand for 'adaptation finance'." Toronto: Convergence. December 12, 2018. <https://www.convergence.finance/news-and-events/news/50GxtmIUuAUUUMgU8wUaG6/view>

<sup>71</sup> Coalition for Private Investment in Conservation (CPIC). (2019). "CPIC Releases New Blueprints to Boost Investment in Nature Conservation". New York: CPIC. January 10, 2019. Accessed on August 8, 2019. <http://cpicfinance.com/press-release-cpic-releases-new-blueprints-to-boost-investment-in-nature-conservation/>

<sup>72</sup> OECD et al. (2018). Blended Finance for Water Investment – Conference Outcomes document. Paris: OECD. October 2018. Accessed August 8, 2019. <https://www.oecd.org/water/Background-Paper-3rd-Roundtable-Financing-Water-GIZ-OECD-Conference.pdf>

effectiveness in crowding in private capital while minimizing risks. Anecdotally, we see a clustering of blended finance transactions focused on LDCs that are smaller-scale and attract capital from impact-oriented investors, and another clustering of blended finance transactions in middle-income countries that are focused on mobilizing institutional capital.

Meanwhile, there is a growing appetite for blended finance in developed countries too, and the resulting cross-fertilization of ideas could accelerate advances in the field. The GIIN Blended Finance Working Group is one example of an effort focused on facilitating blended finance for both developed and developing countries. Bank of America's new Blended Finance Catalyst Pool will prioritize emerging markets, but also fund select opportunities in developed markets. The Forest Resilience Bond is one innovative blended finance vehicle already active in the United States. In November 2018, The Forest Resilience Bond raised private capital (including from the Rockefeller Foundation, the Gordon and Betty Moore Foundation, Calvert Impact Capital, and CSAA Insurance Group) to fund the upfront costs of forest restoration in the U.S.<sup>73</sup>

Finally, we are beginning to see the early stages of more meaningful outreach to and engagement with the private sector by the impact community. In BlueOrchard's survey on private investors, they note that the vast majority of publications on blended finance have largely focused on the rationale for concessional capital providers, with limited research available on the primary objective of private investors.<sup>74</sup> It is critical to understand their motivations in order to successfully design and improve blended finance to unlock private capital. For example, the private sector needs quantitative information on financial and impact performance of transactions. And we are seeing some traction too: in January 2019, Bank of America published an article on blended finance and why it matters.<sup>75</sup>

<sup>73</sup> World Resource Institute (WRI). (2018). "Forest Resilience Bond to Help Fund \$4.6 Million Restoration Project to Mitigate Wildfire Risk in Tahoe National Forest." Sacramento: WRI. November 1, 2018. Accessed on August 8, 2019. <https://www.wri.org/news/2018/11/release-forest-resilience-bond-help-fund-46-million-restoration-project-mitigate>

<sup>74</sup> BlueOrchard. (2018). Blended Finance 2.0 – Giving voice to the Private Sector. Zurich: BlueOrchard. October 1, 2018. Accessed on August 8, 2019. <https://www.blueorchard.com/blended-finance-2-0-giving-voice-private-sector-insights-blueorchard-survey-private-investors/>

<sup>75</sup> Bank of America. (2019). "What is Blended Finance, and Why It Matters." New York: Bank of America. January 16, 2019. Accessed August 8, 2019. <https://about.bankofamerica.com/en-us/what-guides-us/blended-finance.html#fbid=2C4nkP9G14N>



A wide-angle aerial photograph of a city skyline. In the foreground, there's a dense residential area with many small houses and apartment buildings. Behind them, a cluster of tall, modern skyscrapers rises into a clear blue sky. The word 'Reflections' is overlaid in large white text on the left side of the image.

# Reflections

- Blended finance is familiar in name, but not common in definition
- Resource managers are becoming resource mobilizers
- 'Billions to billions', not 'billions to trillions'?
- Middle-income countries critical to reach the poor
- Building good practice to scale blended finance

# Blended Finance is Familiar in Name, But Not Common in Definition

Blended finance is an increasingly familiar concept to a diverse set of stakeholders, from development agencies to private foundations, impact investors to commercial banks. This is enabling more sophisticated multi-stakeholder conversations about blended finance – beyond simply ‘what’ and ‘how’ to more nuanced consideration of ‘where’ and ‘when’. Blended finance practitioners across the public, private, and philanthropic sectors are coordinating to improve the blended finance market, including by identifying good practices as well as scaling existing approaches and solutions. We also see deeper clusters around specific themes or questions, where industry experts are having intelligent discussions on the role of blended finance in their field (e.g., conservation finance, water and sanitation).

However, there is no consensus around the definition or practice. While blended finance is

a recognized term, the way it is understood and discussed differs widely in various circles. There are as many as 15 blended finance definitions publicly available, which collectively describe blended finance as a mechanism, approach, instrument, and asset class. In some cases, blended finance is used to refer to any ‘blending’ of public and private resources, while others use blended finance to refer to specific structures or sets of structures that allow organizations with different objectives to invest alongside each other while achieving their own objectives. Ultimately, the onus is on blended finance practitioners to be mindful about the way they describe blended finance opportunities. Beyond the general use of the term, it is more important to communicate and create understanding around the specific structure, including efforts to mitigate risk and/or maximize returns for private investors.

# Resource Managers are Becoming Resource Mobilizers

Concessional capital providers are establishing the physical, financial, and strategic resources to mobilize additional private sector investment. Public and philanthropic organizations can play a critical role in unlocking additional financing for the SDGs – and an increasing number of them are embracing this role. Recent examples include USAID’s Private-Sector Engagement Policy; Global Affairs Canada’s Impact and Innovative Finance Bureau; and the Catalytic Capital Consortium led by the MacArthur Foundation,

the Rockefeller Foundation, and Omidyar Network. These mark distinct efforts to build capacity and good practices for engaging the private sector through blended finance and other innovative approaches to scale impactful development solutions. A key to success will be the ability of concessional capital providers to bring their existing skills and comparative advantage around development impact while establishing new capacity around private sector engagement and innovative finance.



As concessional capital providers become more sophisticated in their strategies and practices, we anticipate a positive impact on the practice of blended finance. The status quo of blended finance will not result in material improvements for people living in developing countries; concessional capital providers should allocate greater funding to blended finance and increase coordination to scale blended finance solutions with demonstrated development impact. These organizations hold the potential to

draw blended finance towards higher-impact sectors (e.g., agriculture, health) and lower-income countries (e.g., LDCs, Small Island Developing States). Moreover, they can ensure higher standards for (i) development impact and impact measurement; (ii) environmental, social, and governance (ESG) criteria; (iii) transparency and accountability; and (iv) potentially, benchmarking blended finance approaches against more traditional forms of development finance.

## ‘Billions to Billions’, Not ‘Billions to Trillions’?

Admittedly, blended finance is not currently achieving its full potential for achieving development impact and mobilizing additional financing for certain SDG targets. The current practice is still at relatively low leverage ratios, with much room for improvement in structuring transactions that effectively and efficiently draw in private sector capital. According to Convergence research from October 2018, the average leverage ratio for blended finance funds with concessional capital has been 4x.<sup>76</sup> Leverage ratios of this dataset ranged from a minimum of 0.3x to a maximum of 22x, with a median of 2.7x. This is well below some ambitious estimates; although ultimately, leverage ratios must be right-sized to the conditions of the transaction. For example, we have seen larger leverage ratios with blended finance funds targeting Latin America and the Caribbean, compared to Sub-Saharan Africa.<sup>77</sup>

We do not see evidence that blended finance is scaling at an efficient rate. ODI most clearly articulated this concern, arguing that “‘billions-to-billions’ is more plausible than ‘billions to trillions.’” Indeed, blended finance transactions to date have represented a drop in the bucket compared to the promise of the potential resources available from global financial markets. Yet, we have seen the potential for commercial capital to be mobilized towards the SDGs in developing countries if the right investment opportunities are created. Moreover, there has never been a better time to create blended finance structures given the momentum behind impact investing, responsible and sustainable investment, and the SDGs. But we need to walk before we can run – and setting reasonable and right-sized expectations are key.

<sup>76</sup> Leverage ratios are calculated as the ratio of commercial capital to concessional capital, including commercial (i.e., non-concessional capital) from public, philanthropic, and private sources.

<sup>77</sup> Convergence. (2018). Leverage of Concessional Capital. Toronto: Convergence. October 17, 2018. <https://www.convergence.finance/knowledge/35t8IVft5uYMOGOaQ42qgS/view>

# Middle-Income Countries are Critical to Reaching the Poor

Blended finance must be aligned to inclusive growth and development. With the adoption of the 2030 Agenda, UN Member States pledged to ensure “no one will be left behind” and to “endeavour to reach the furthest behind first”. As blended finance gains momentum, there has been a strong call from policymakers to consider if and how blended finance can work to ‘leave no one behind’. So far this has been realized through an increased attention on blended finance for the LDCs, with less than 7% of blended finance flowing to these countries according to some estimates.<sup>78</sup> While concessional capital providers should consider innovative ways to take more risk and experiment with new solutions that are tailored to LDC-specific contexts, this is not the only area where we are at risk of leaving people behind.

There are still important opportunities for blended finance in middle-income countries where the majority of the world’s extremely poor people live. While historically nine out of 10 extremely poor people generally lived in low-income countries, we’ve seen a dramatic shift.<sup>79</sup> As of 2015, only four out of 10 lived in low-income countries, while the rest lived in middle-income countries, over half of them in India, Nigeria, Bangladesh, Indonesia, Kenya, Yemen, South Africa, China, Pakistan, and Zambia. More than a dozen of these middle-income countries are likely to transition away from multilateral concessional assistance in the next several years, if they have not already. Blended finance has an important role to play in mobilizing additional financing for these countries.



<sup>78</sup> United Nations Capital Development Fund (UNCDF) et al. (2019). Blended Finance in the Least Developed Countries in 2019. New York: UNCDF, July 15, 2019. Accessed August 8, 2019. <https://www.uncdf.org/bfildcs/home>

<sup>79</sup> Rohini Pande, Vestal McIntyre, and Lucy Page. (2019). “A New Home for Extreme Poverty: Middle-Income Countries.” New York: New York Times Opinion. January 28, 2019. Accessed August 8, 2019. <https://www.nytimes.com/2019/01/28/opinion/inequality-poverty-global-aid.html>

# Building Good Practice to Scale Blended Finance

Blended finance practitioners across the public, private, and philanthropic sectors are coordinating to identify and scale good practices. There is a need to promote and exchange good practices for blended finance, including how to (i) engage and manage stakeholders; (ii) structure investment terms and conditions; and (iii) right-size approaches to high-impact sectors and countries. On the concessional capital side, public and philanthropic organizations seek to mobilize without subsidizing, deploying scarce resources to those blended finance solutions with the potential to achieve development impact and attract private investment at scale. On the commercial capital side, private sector investors seek investment-grade opportunities that align with their fiduciary responsibilities and require more data and standardization in order to develop appropriate allocation and pricing models.

We need to increase blended finance volumes beyond \$15 billion annually through scale. This report reviews more than 500 blended finance transactions that represent an aggregate \$140 billion in financing for the developing countries, with around 50 new transactions and \$15 billion recorded annually. To achieve development impact and private sector mobilization at scale, focus should shift away from creating new solutions and towards scaling up or refining existing solutions. The terms and structures of existing approaches, such as first-loss guarantees, should be standardized as much as possible across public and philanthropic funders to reduce transaction costs. Blended finance practitioners should also consider and build on successful models for scaling blended finance to higher-impact sectors and countries, although additional seed funding to identify, develop, and implement new vehicles will be required.



[www.convergence.finance](http://www.convergence.finance)