



NET ZERO ASSET  
OWNERS ALLIANCE

BLENDING FINANCE TO  
MOBILIZE PRIVATE  
INVESTMENT AT SCALE  
TO SDGS AND CLIMATE

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WEDNESDAY DECEMBER 15, 2021

# AGENDA (CET)

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9:40 **Welcome and Opening Remarks**

Elke Pfeiffer, Net-Zero Alliance

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9.45 **Objectives of Session and Collaboration in 2022**

Chris Clubb (Managing Director, Convergence)

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9.50 **Key Blended Finance and Mobilization Data/Information**

Chris Clubb (Managing Director, Convergence)

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9.55 **UK FCDO: COP 26 Blended Finance Platform & MOBILIST Program**

Rob Probyn (Deputy Team Leader, Mobilization & Infrastructure, UK FCDO)

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10.05 **Private Investor Recommendations to Increase Private Investment to SDGs and Climate**

Chris Clubb

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10.10 **Q&A and Open Discussion**

All Participants

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10.30 **Conclusions and Next Steps**

Elke Pfeiffer and Chris Clubb

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OPENING REMARKS:  
ELKE PFEIFFER



# OBJECTIVES OF SESSION AND COLLABORATION IN 2022

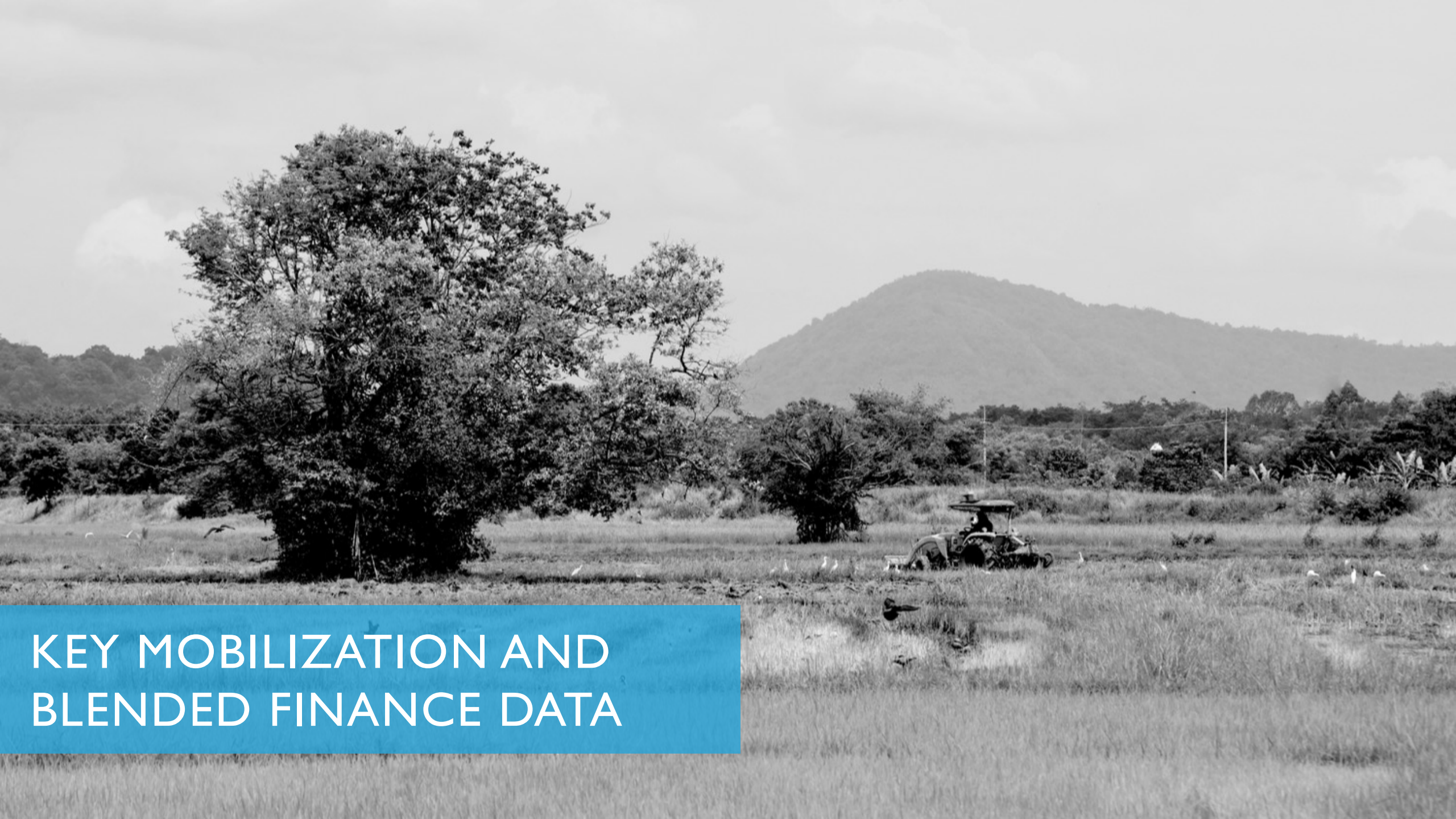
# OBJECTIVES OF SESSION AND COLLABORATION IN 2022

## **Objectives of December 15 Session:**

1. Describe main developments in blended finance market
2. Describe UK Government and donors' activities to boost private investment: COP 26 and MOBILIST
3. Identify best collaboration activities and modalities in 2022

## **Objectives of Collaboration in 2022:**

1. Increase Alliance members knowledge of mobilization and blended finance market
2. Increase Alliance members access to investment opportunities
3. Support Alliance's preferred blended finance vehicles to raise development and commercial funds
4. Increase direct engagement between Alliance and donor community to accelerate investment
5. Action Plan to realize Alliance's *Scaling Blended Finance* recommendations
6. Others of interest by Alliance members?



KEY MOBILIZATION AND  
BLENDED FINANCE DATA

# WHAT IS CONVERGENCE?

Convergence is the global network for blended finance. We generate blended finance data, intelligence, and deal flow to increase private sector investment in developing countries.



## A GLOBAL NETWORK

We have a global [membership](#) of over 200 public, private, & philanthropic institutions



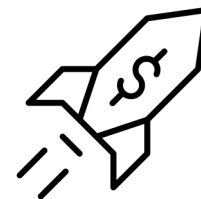
## DATA & INTELLIGENCE

Original [content](#) builds the evidence base for blended finance, including data on past deals, trend reports, case studies, region and sector briefs, and webinars.



## DEAL FLOW

An online match-making platform for investors and those seeking capital to connect on active deals.



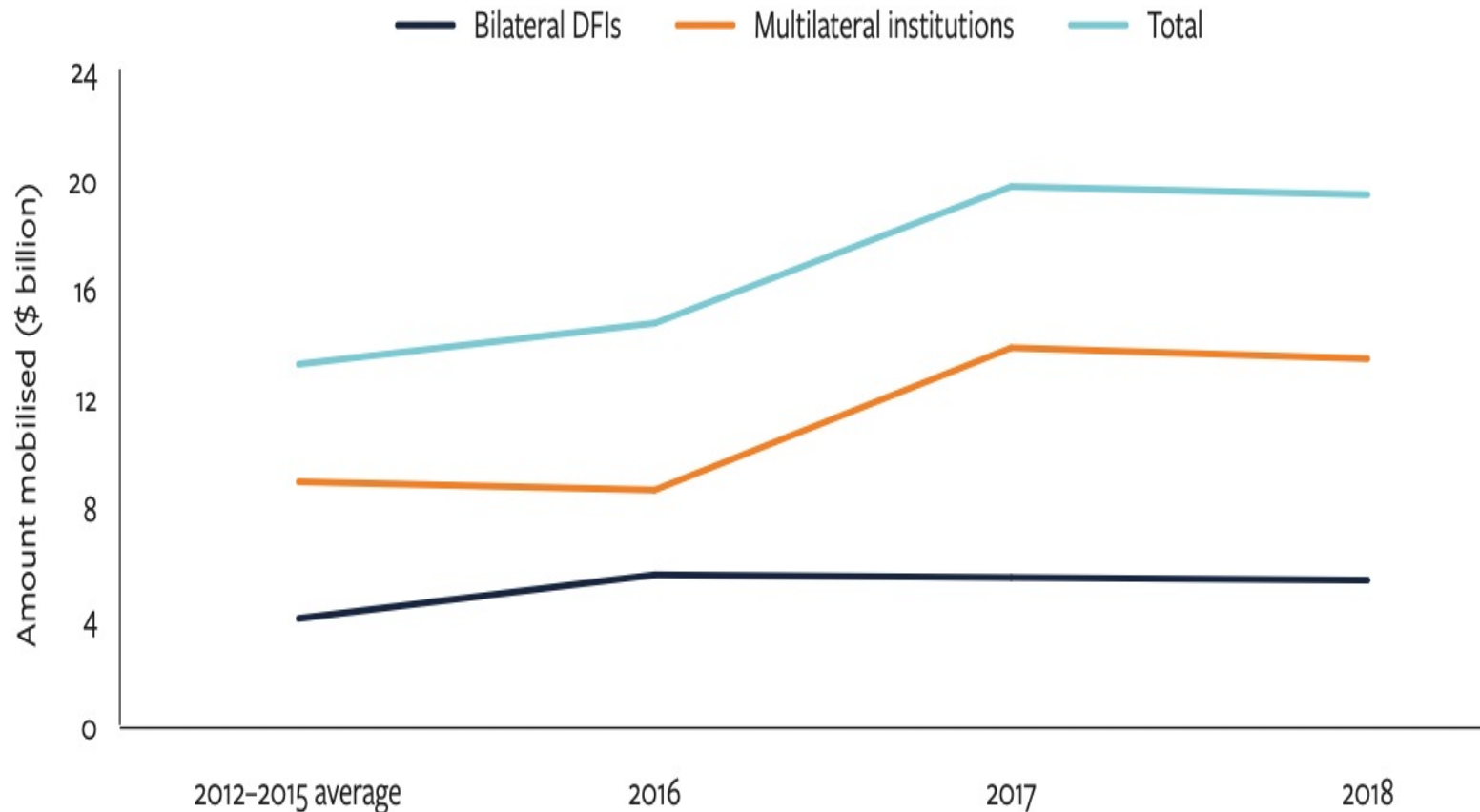
## MARKET ACCELERATION

Our [Design Funding](#) program awards grants for the design of innovative vehicles that aim to attract private capital to global development at scale.

# MDB AND DFI MOBILIZING COMMITMENTS (2021 ODI REPORT)

- MDB & DFI provide around \$110 billion loans to sovereign borrowers annually
- Around \$40 billion of debt and equity to private sector
- Nominal amounts mobilized in sovereign lending
- Around \$19 billion of “*Private Direct Mobilization*” for private sector - mostly debt

**Figure 16** Annual amount of private finance mobilised, 2012–2018



Source: Authors' calculations based on OECD data and MDB *Mobilization of private finance* report (IFC, 2019)

Source: ODI 2021 Report



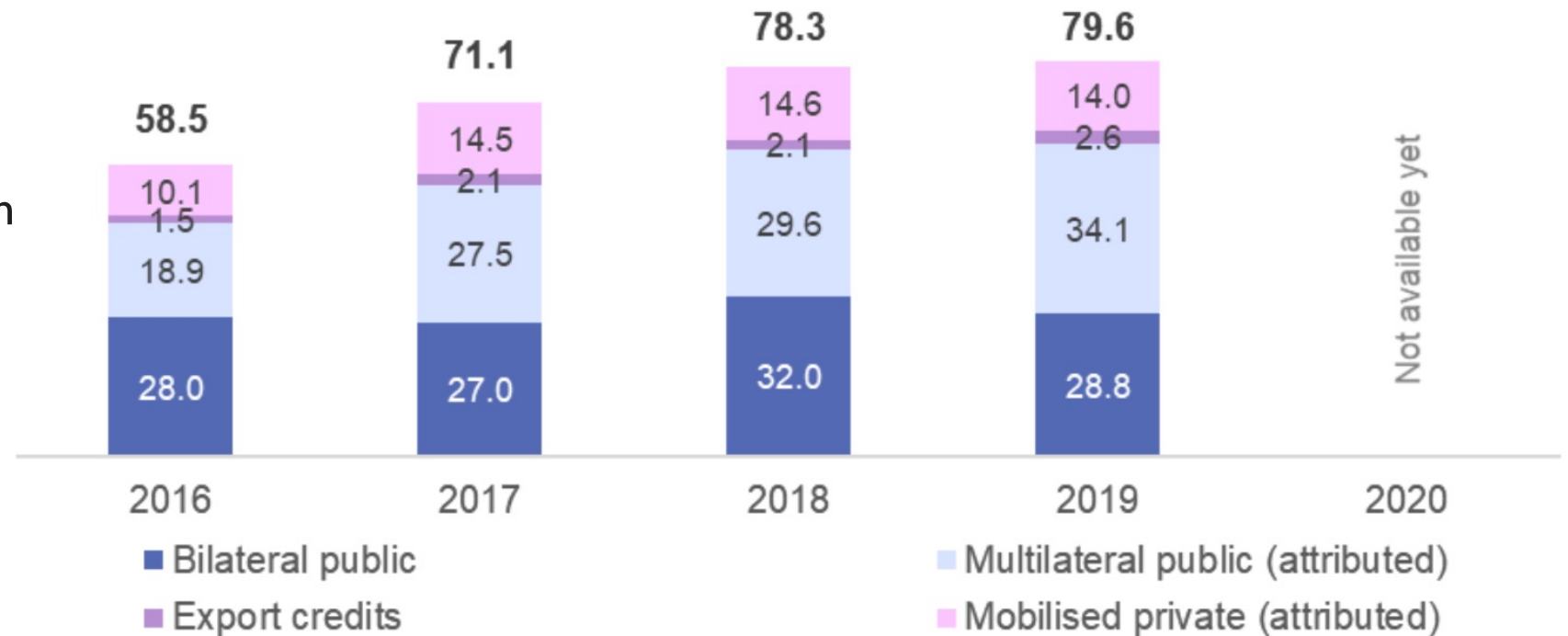
# CLIMATE FINANCE PROVIDED & MOBILISED BY DEVELOPED COUNTRIES: TOWARDS \$100 BILLION ANNUAL OBJECTIVE (2021 OECD REPORT)

OECD estimates total private sector investment mobilized around \$14 billion Annually

Private investment mobilization ratio of 0.22

Most is “Private Indirect Mobilization” by MDBs and DFIs, that is, co-investment by project sponsors in MDB & DFI private sector operations

Figure 1. Climate finance provided and mobilised by developed countries in 2016-19 (USD billion)



Note: Figures for 2020 will not be available before 2022 due to time lags in the reporting of the necessary official activity-level data.  
Source: (OECD, 2021<sup>[3]</sup>)

# EXTERNAL FINANCE TO DEVELOPING COUNTRIES PEAKED IN 2013

## 2013 TO 2018:

Official Development Finance: \$303 billion average (ODA, MDB & DFI)

Foreign Direct Investment: \$640 billion

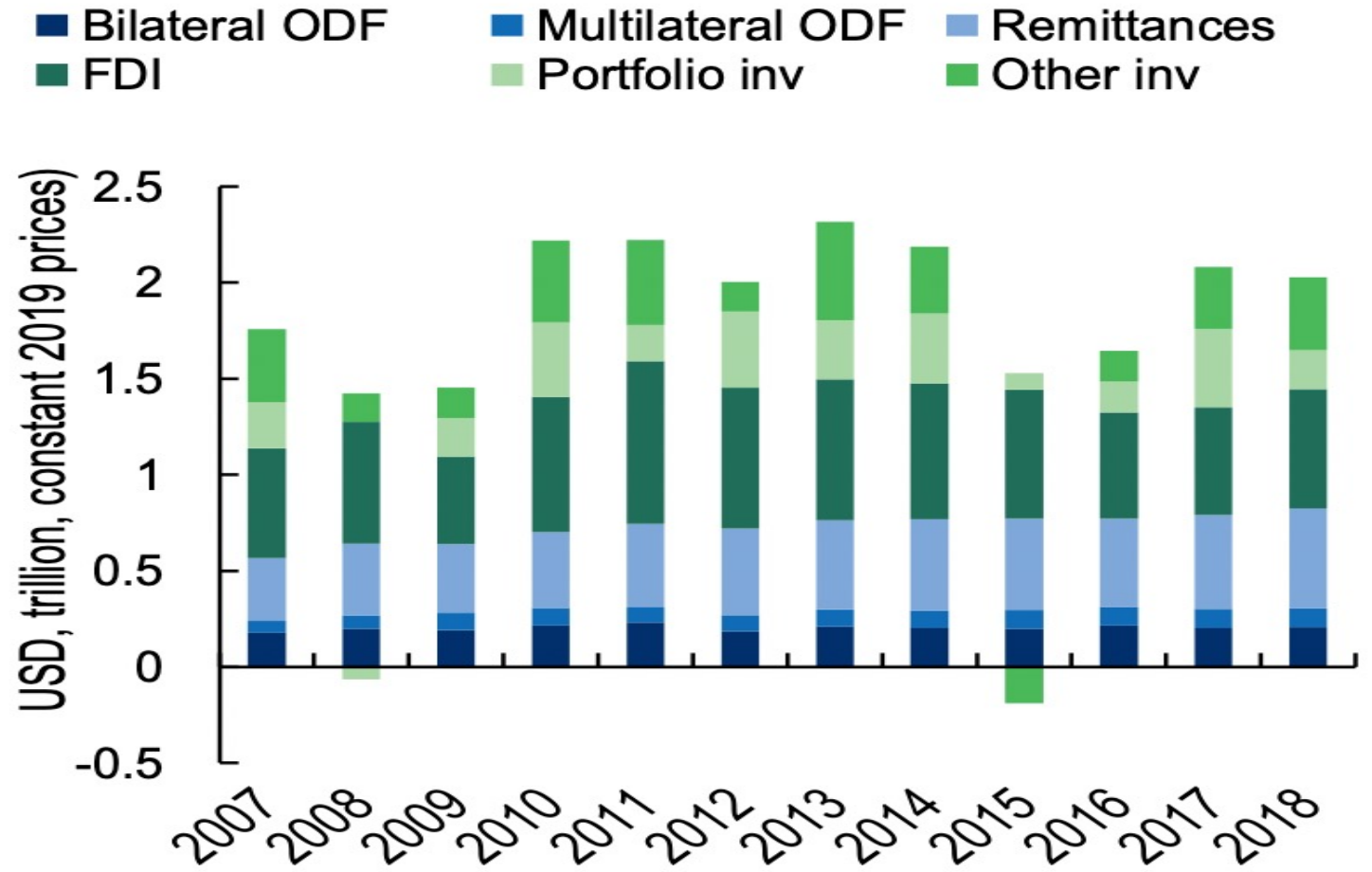
Net Portfolio Investment: \$250 billion

Net Debt from Private Sector: \$260 billion

Only significant increase is remittances:  
From \$460 billion to \$520 billion

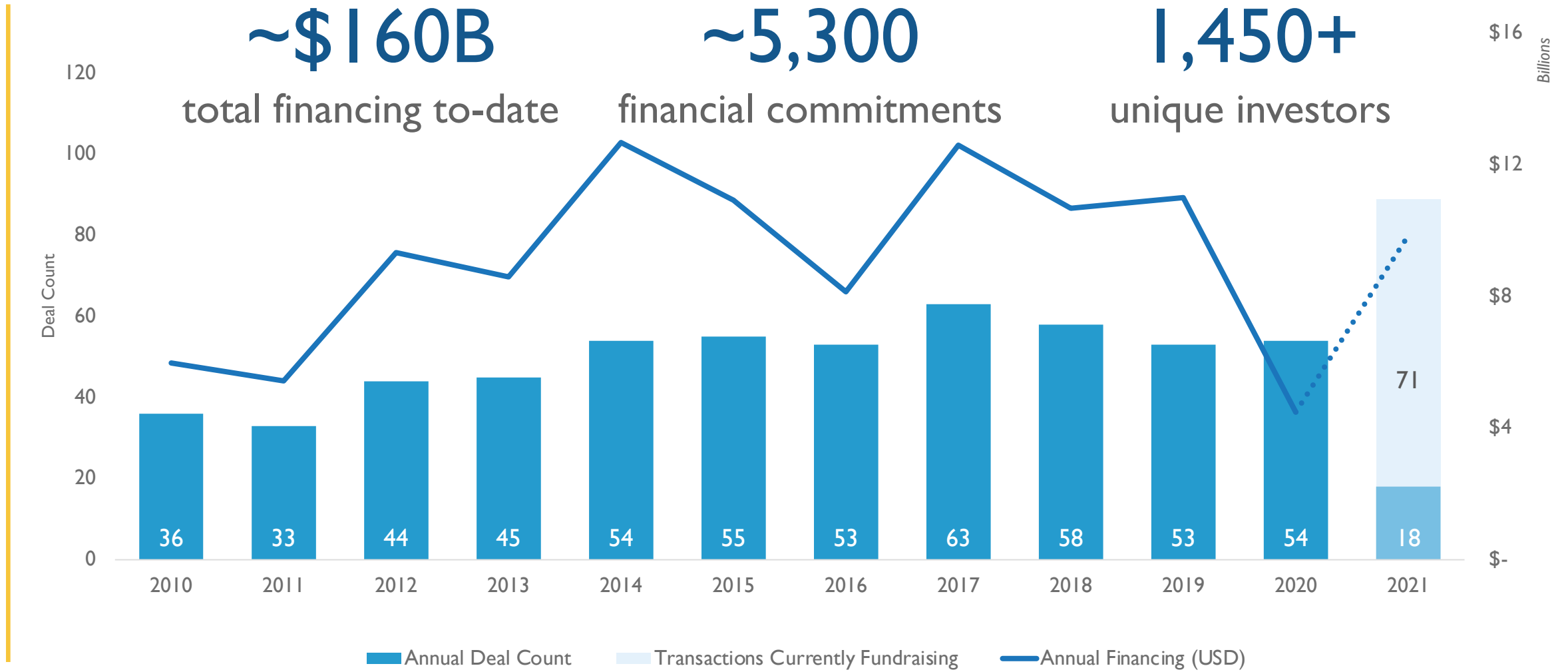
**Premise of blended finance:** More Official Development Finance allocated to mobilize FDI, Portfolio and Net Debt from Private Sector

## Aggregate trend in external finance, 2007-18



Source: OECD, FIGURE 2, GLOBAL OUTLOOK ON FINANCING 2021 REPORT

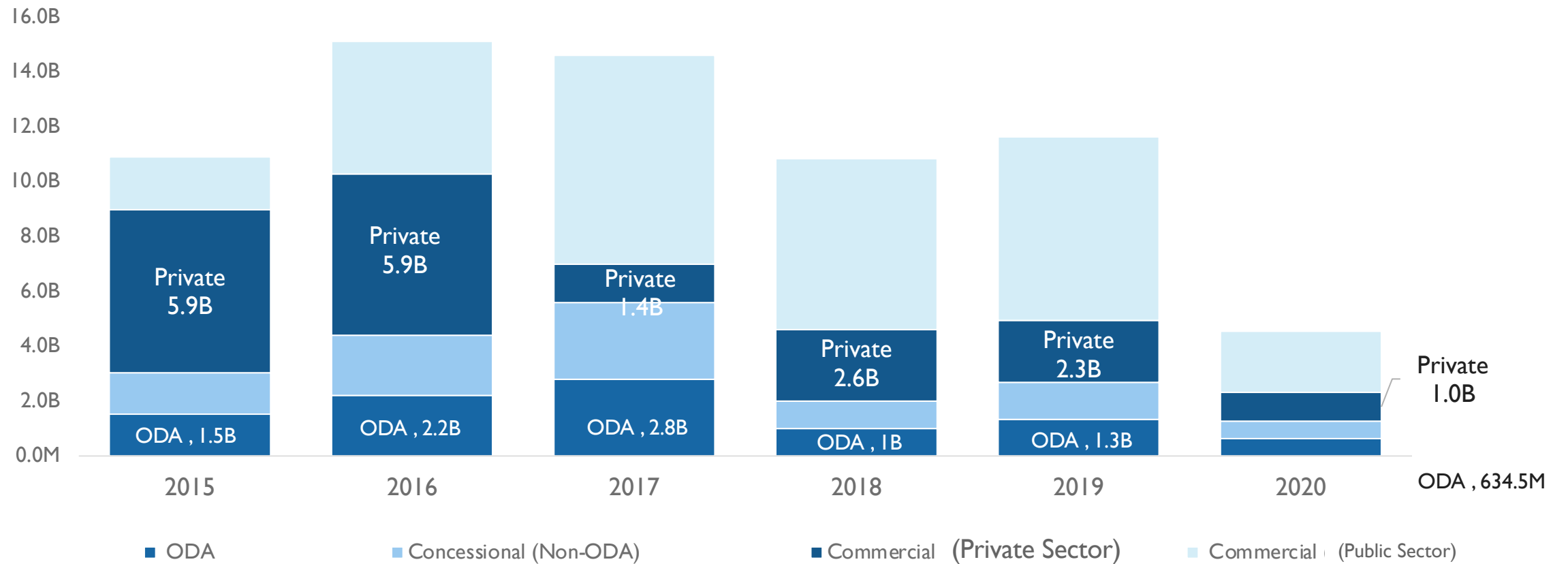
# CONVERGENCE ESTIMATES OF BLENDED FINANCE MARKET: TOTAL \$10 BILLION ANUALLY WITH CONCESSIONAL & PRIVATE INVESTMENT



Source: Convergence, The State of Blended Finance 2021

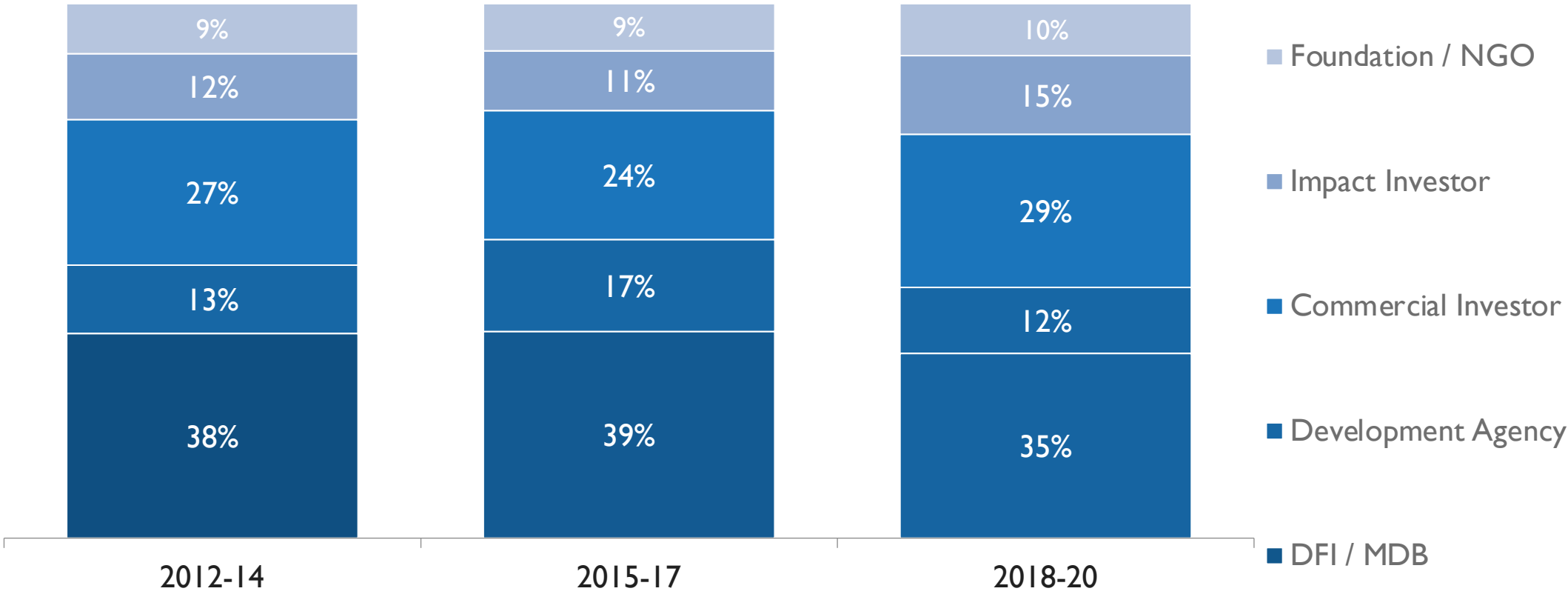
# OVERALL BLENDED FINANCE FLOWS AROUND \$10 BILION: PRIVATE FINANCE REMAINS FRACTION – DOMINATED BY MDBs & DFIs

SOURCES OF BLENDED FINANCE FLOWS



Source: Convergence, The State of Blended Finance 2021

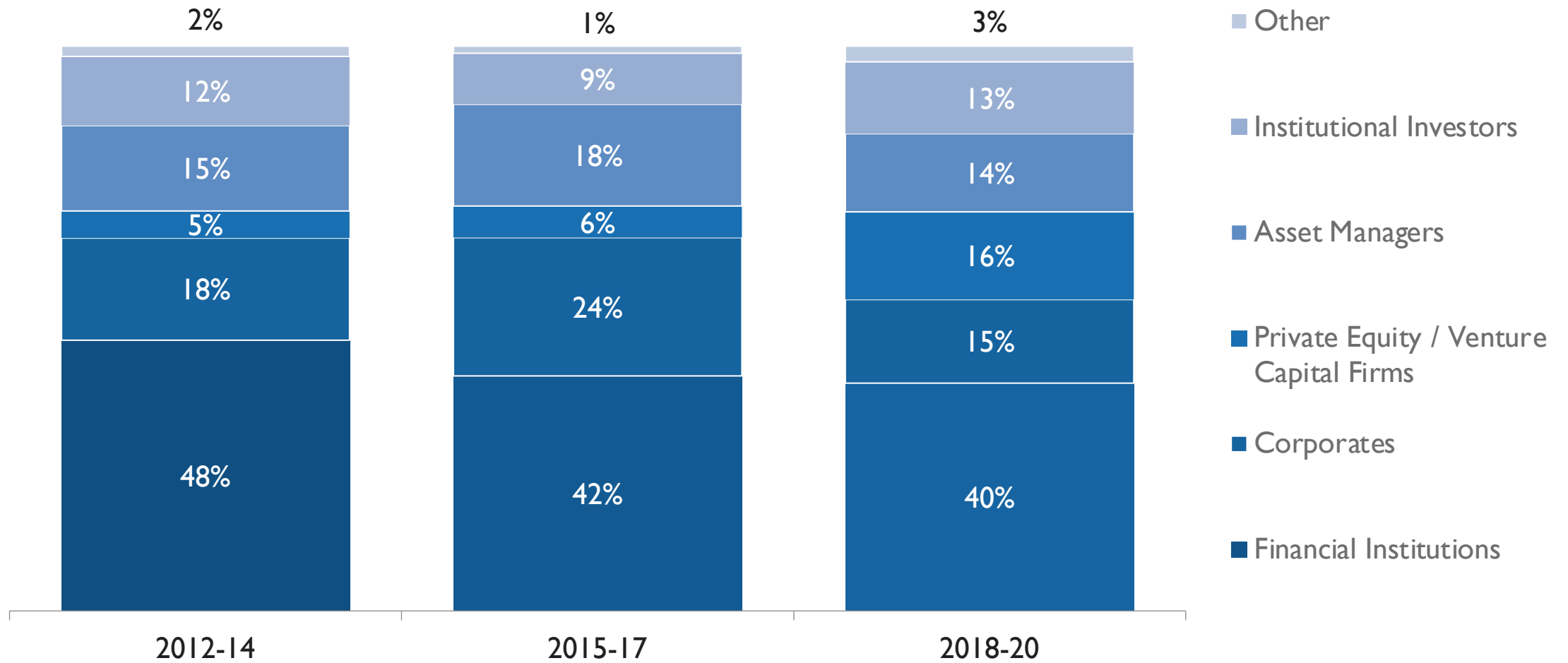
# MDBS / DFIS CONSISTENTLY REPRESENT LARGEST PROPORTION OF COMMITMENTS TO BLENDED FINANCE TRANSACTIONS: 35+ %



Sources of commitments to blended transactions, by proportion

Source: Convergence, The State of Blended Finance 2021

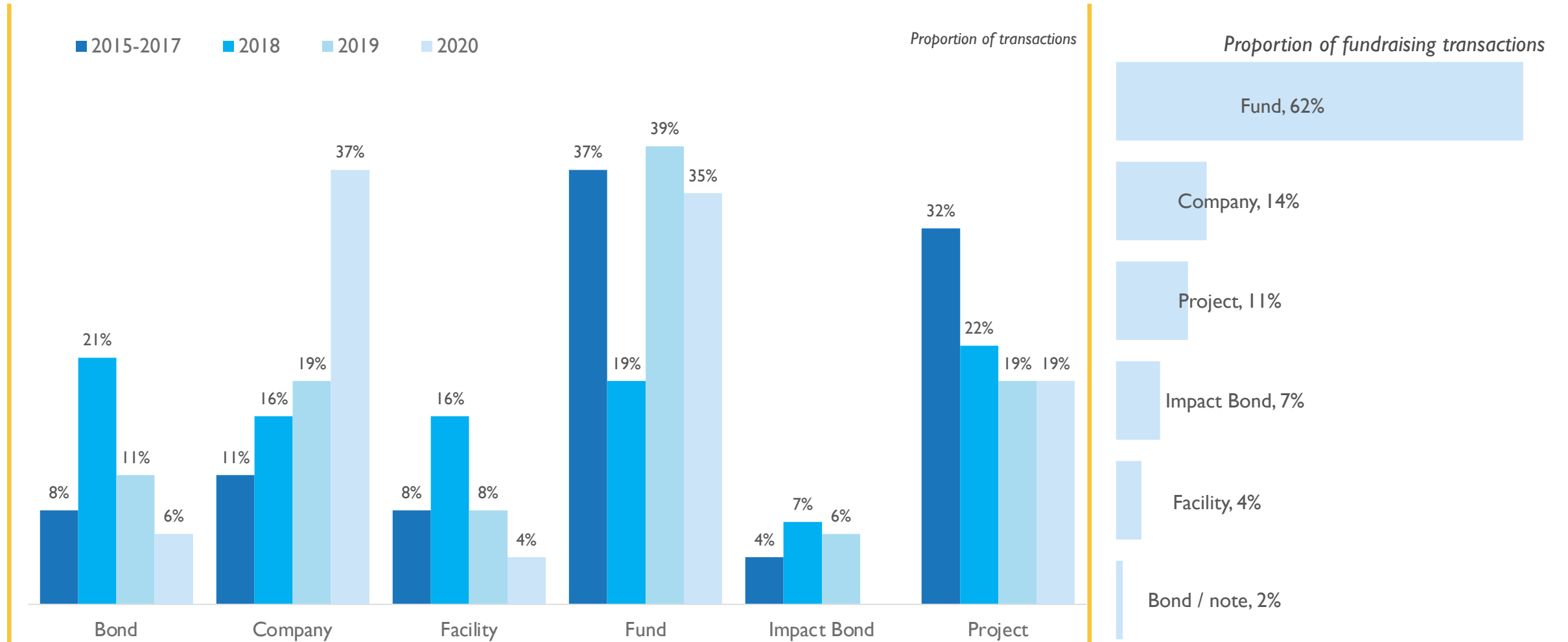
# PRIVATE SECTOR COMMITMENTS: FINANCIAL INSTITUTIONS WHILE INSTIUTIONAL INVESTORS LIMITED



*Percent of financial commitments*

Source: Convergence, The State of Blended Finance 2021

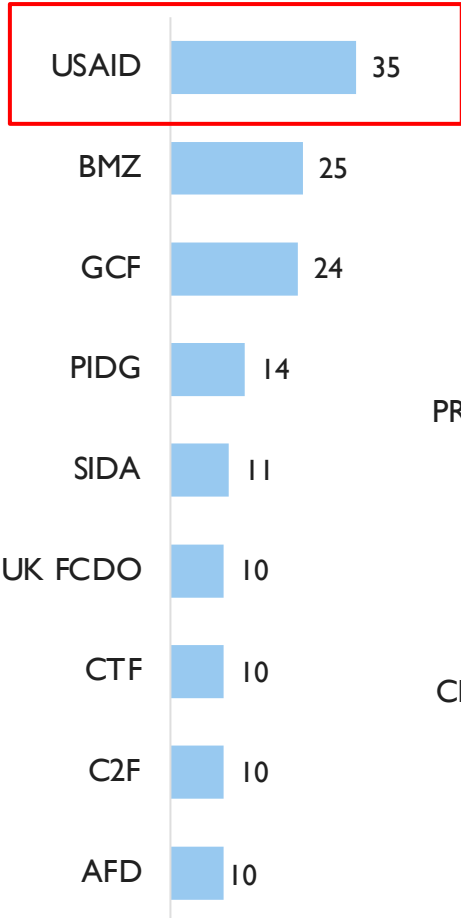
# FUNDS REMAIN THE MOST COMMON BLENDED FINANCE STRUCTURE, WHILE COMPANIES GAIN MOMENTUM



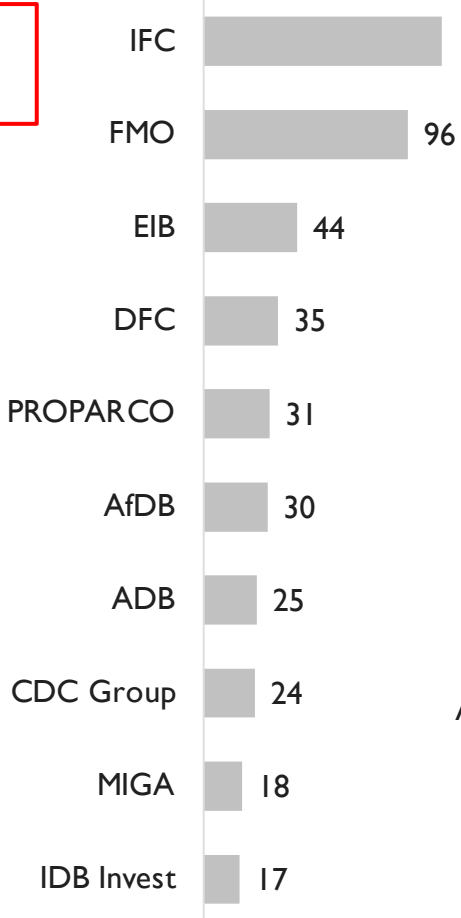
Source: Convergence, The State of Blended Finance 2021

# BLENDING FINANCE TRENDS: TOP INVESTORS (2015-20)

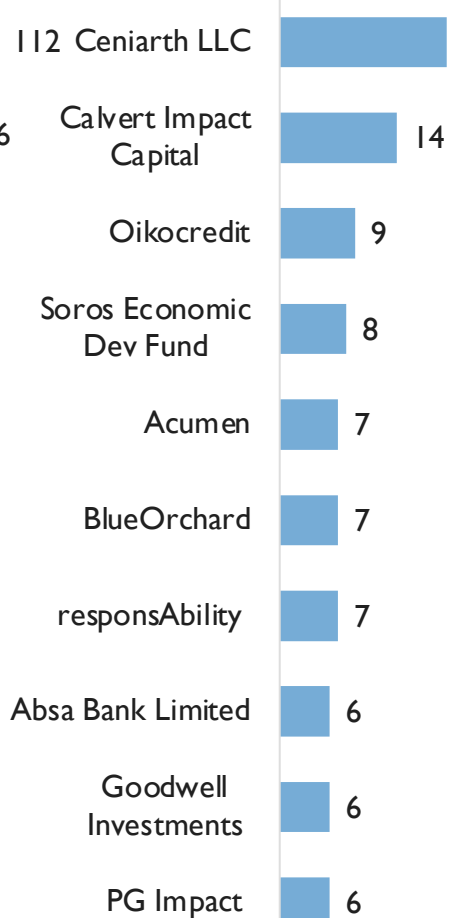
## DEVELOPMENT AGENCIES & MULTILATERAL FUNDS



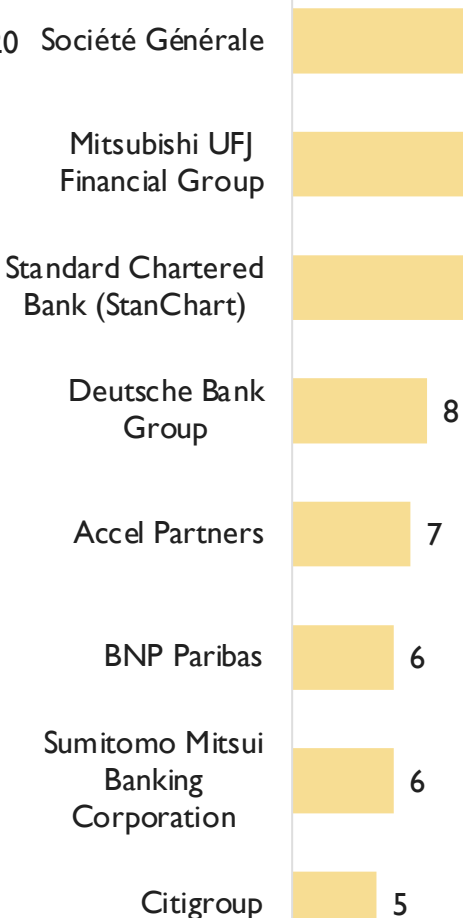
## MDBs & DFIs



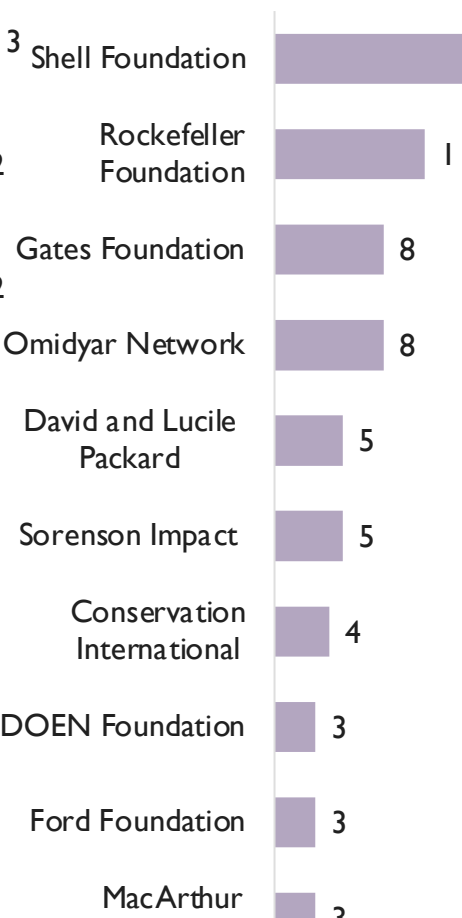
## IMPACT INVESTORS



## COMMERCIAL INVESTORS



## PHILANTHROPIC INVESTORS



Number of financial commitments

Source: Convergence, The State of Blended Finance 2021



# BLENDING FINANCE CREATES INVESTMENT ASSETS ALIGNED TO PRIVATE SECTOR INVESTMENT STRATEGIES

Investment professionals decide where capital is allocated based on market risk – return assessment

Eliminates risk of *green washing* and *impact washing* since development organizations have rigorous approval process to ensure strong development impact ex ante and ex post

Investment Strategy / Theme	Simplified Definition (Various sources)	Alignment with Blended Finance
SDG Investing	Investment to help reach ambitious Sustainable Development Goals' targets; across spectrum of health, education, access to finance and electricity, and more	Always
Social Investing	Managing investment which delivers a social dividend and an economic return	Always
Responsible Investing	Strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership	Almost always
Environment, Social & Governance Investing	Investing in companies with strong operational performance on ESG, or who aim to improve their ESG performance through the investment	Almost always
Impact Investing	Investments into a company, project or portfolio with intention of gaining a measurable social and environmental return, with or without a financial return	Almost always
Sustainable Finance	Any form of financial service integrating ESG criteria into the business or investment decisions for the lasting benefit of both clients and society at large	Majority
Green Finance	Finance to support the decrease in carbon emissions and increased resilience/adaptation to climate change risk	Substantial Minority

Source: Convergence



UK FCDO:  
COP 26 BLENDED FINANCE PLATFORM  
MOBILIST PROGRAM

# OVERVIEW OF COP 26 BLENDED FINANCE PLATFORM



## Challenges:

- Climate finance required in developing countries very high: Around \$1.3 – 1.9T annually
- Domestic financial resources insufficient; Despite 40% of blended finance flowing to climate, amounts still too low: Annual gap of 800M – 1.4B persists. Requires cross border investment

## Objectives:

- Identify effective blended finance structures/transactions that can mobilize higher levels of investment toward climate mitigation and adaptation, specifically from institutional investors
- Collaboration among development agencies and donors to co-fund blended finance transactions that mobilize finance for climate in the lead up to COP 26 in November 2021 (and after)
- Engagement with asset owners and asset managers to co-fund promising transactions (e.g., invest in good blended finance transactions supported by donors)

# EXECUTIVE SUMMARY OF COP 26 BLENDED FINANCE PROJECT

- Key Activities to date:

1. Collaboration amongst 18+ donors (e.g., Donor Working Group): Increase knowledge, collectively identify good blended finance transactions in fundraising mode and attempt to co-fund handful of transactions that can mobilize private investment at scale.
2. Collaboration with investors (e.g., Net Zero Asset Owners Alliance and Global Investors for Sustainable Development Alliance) to identify transactions preferred by both donors and investors – and then co-fund
3. Create COP 26 Blended Finance Knowledge Hub and Investment Platform to make it easier for donors and others to gain knowledge and access to transactions in fundraising mode
4. Convene project sponsor presentations to donors
5. Convene workshops for private investors, including showcasing donor-preferred transactions

Source: Convergence 2021

# OVERVIEW OF MOBILIST PROGRAM



Foreign, Commonwealth  
& Development Office

## Challenges:

- Domestic and cross-border private investment for SDGs in developing countries is very low.
- Innovative finance and blended finance solutions help increase flow, but almost all transactions are “private” not accessing public markets.

## Objectives:

- UK-led competition to identify innovative financial product proposals to mobilise investment in sustainable infrastructure in emerging and developing countries.
- Search for best proposals that list on public exchanges (e.g., London and Johannesburg)
- GBP 156 million from UK Government including GBP 136 million of risk capital
- Progress at October 31, 2021: 31 proposals submitted. 5 Phase III finalists autumn 2021, including: Green Guarantee Company, InfraCo-Helios & Thomas Lloyd. Partnership with USAID and NORAD.

# ILLUSTRATIVE SHORT LIST OF 13 DONOR-DERIVED BLENDED FINANCE TRANSACTIONS/VEHICLES

Project Name	Project Sponsor	Total Deal Size	Instrument to Deploy	Sector(s)	Region(s)	CATALYTIC CAPITAL
<a href="#">Sub national Climate Fund (SnCF Global)</a>	R20, BNPP, International Union for Conservation of Nature (IUCN)	\$778,750,000	Equity	Agriculture, Energy, Infrastructure (Non-Energy), Other	Global	Type C and D
Annycent Clean Energy Fund I (ACE I)	Annycent Capital	\$500,000,000	Equity	Energy	Global	Type A and D
<a href="#">Climate Finance Partnership (CFP)</a>	Blackrock	\$500,000,000	Equity	Energy, Infrastructure	Global	Type B or C
<a href="#">Export Finance Fund</a>	Acre Impact Capital	\$350,000,000	Debt	Financial Services	Africa	Type A and D
<a href="#">Emerging Markets Green Bond Fund</a>	Symbiotics and Jura Capital	\$500,000,000		Energy, Infrastructure	Global	Type B or C and D
<a href="#">Catalyst MENA Clean Energy Fund 2</a>	Catalyst Investment Management	\$200,000,000	Equity	Energy	MENA	Type B or C
Climate Credit Fund (Refinance)	Climate Fund Managers	\$400,000,000	Debt	Climate	Global	Type B
<a href="#">The Green Guarantee Company</a>	The Development Guarantee Group	\$250,000,000	Guarantee	Climate	Global	Type A or B
Emerging Market Climate Action Fund (EMCAF)	Allianz GI	\$500,000,000	Equity	Climate	Global	Type B or C
Allianz Climate Solutions Emerging Markets Debt vehicle (ACSEM)	Allianz GI	\$500,000,000	Debt	Various	Global	Type A, B and C
African Power Corporation	African Power Corporation (MOBILIST)	\$1,000,000,000	Debt	Energy, Infrastructure	Africa	Type B and C
XI	Fius Capital (MOBILIST)	\$500,000,000	Debt	Various	Global	Type A, B and C
ELIPSIS Investment Platform	First Rand / UNCDF (MOBILIST)	\$1,212,000,000	Debt	Climate	Africa	Type A, B and C

List derived in consultation with donors in Donor Working Group. Focus on Scale and Climate. Intended to reflect interest from one or more donors. Non-exhaustive.

SOURCE: CONVERGENCE 2021



PRIVATE INVESTOR  
RECOMMENDATIONS

# INVESTORS:

## ENGAGEMENT WITH 100+ INSTITUTIONAL INVESTORS IN UK & US PROJECTS

- Convergence, UK FCDO, USAID & SIDA held eight workshops with institutional investors in 2021 to encourage investment in blended finance and seek views on mobilization / blended finance
- Huge increase in appetite for “purpose” investment (e.g., ESG and Sustainable Finance) but continued low investment and appetite for developing countries
- Strong sentiment for blended finance, but low knowledge & frustration with low donor/MDB funding
- Prepared to invest more if their investment criteria are met (e.g., acceptable risk and market-equivalent risk-adjusted return)
- Two key take-aways:
  1. Institutional investors need scale – Invest \$100+ million - Blended finance vehicles should be \$500+ million
  2. Net-Zero, GSD and ILN: Frustrated with official development finance community. Discussion Papers published in October and November on how to mobilize investment at scale and to climate.

Source: Convergence 2021



# INVESTOR RECOMMENDATIONS TO DEVELOPMENT COMMUNITY TO MOBILIZE SDG & CLIMATE INVESTMENT AT SCALE

- Recommendations from 100+ investors to Official Development Finance Community: Most effective ways to mobilize private investment at scale
- **Global Investors for Sustainable Development Alliance:** 30 investors convened by UN Secretary General
  - [October 2021 Report](#)
- **Net-Zero Asset Owners Alliance:** 61 investors convened by UNEP and UN PRI
  - [November 2021 Report](#)
- **Investors Leadership Network:** 14 investors established by G7
  - [October 2021 Report](#)

# INVESTOR RECOMMENDATIONS TO DEVELOPMENT COMMUNITY TO MOBILIZE SDG & CLIMATE INVESTMENT AT SCALE (1 OF 2)

<b>Private Investors Recommendation (Primary – Most Common)</b>	<b>GISD</b>	<b>NZ</b>	<b>ILN</b>
<b>Development Community Strategy &amp; Action Plan to increase SDG &amp; Climate investment</b>	Y		
<b>MDBs &amp; DFIs: Improved governance and amended business model (mobilization)</b>	Y	Y	Y
<b>Mobilization at scale to attract institutional investors</b>	Y	Y	Y
<b>Donor collaboration to jointly fund most effective blended finance vehicles</b>	Y	Y	
<b>Standardize blended finance vehicles and investment assets</b>	Y	Y	
<b>Increase investor access to database of blended finance investments</b>	Y		Y
<b>Investment data for developing countries: Aggregate and fund best sources</b>	Y	Y	
<b>Increase collaboration: Donors, investors and fund managers/intermediaries</b>		Y	Y
<b>Increase use of guarantees and insurance</b>		Y	Y

# INVESTOR RECOMMENDATIONS TO DEVELOPMENT COMMUNITY TO MOBILIZE SDG & CLIMATE INVESTMENT AT SCALE (2 OF 2)

<b>Private Investors Recommendation (Secondary)</b>	<b>GISD</b>	<b>NZ</b>	<b>ILN</b>
<b>Align investment assets to investor priority interests (e.g., ESG)</b>	Y		
<b>Amend ODA Rules: Investment in blended finance vehicles and guarantees</b>		Y	
<b>Enhance universe of investable / bankable projects</b>		Y	
<b>Increase equity financing</b>		Y	
<b>Build capacity of local governments</b>		Y	
<b>Increase blended finance knowledge of investors</b>		Y	
<b>Establish rating methodology for blended finance structures</b>		Y	
<b>Create virtual tool-box to group all risk mitigants</b>		Y	
<b>Blended finance to mitigate currency risk</b>			Y



Q&A  
OPEN DISCUSSION

## Possible Collaboration Activities in 2022:

1. Increase Alliance members knowledge of mobilization and blended finance market: Creating market-equivalent, risk-adjusted returns
2. Increase Alliance members access to investment opportunities in EM & FM:
  - Convergence Matchmaking Platform, Shortlisting of Transactions and Presentation of Proposals: (1) Investment Grade Debt, (2) Non-IG Debt and (3) Equity
3. Convergence support Alliance's preferred blended finance vehicles to raise development funding and commercial investment
4. Increase engagement between Alliance and donor community to accelerate investment
  - January kick-off workshop focused on (i) co-funding vehicles and (ii) realizing improvements
5. Action Plan to realize Alliance's *Scaling Blended Finance* recommendations
6. Others of interest by Alliance members?



WRAP UP, NEXT STEPS &  
CLOSING REMARKS

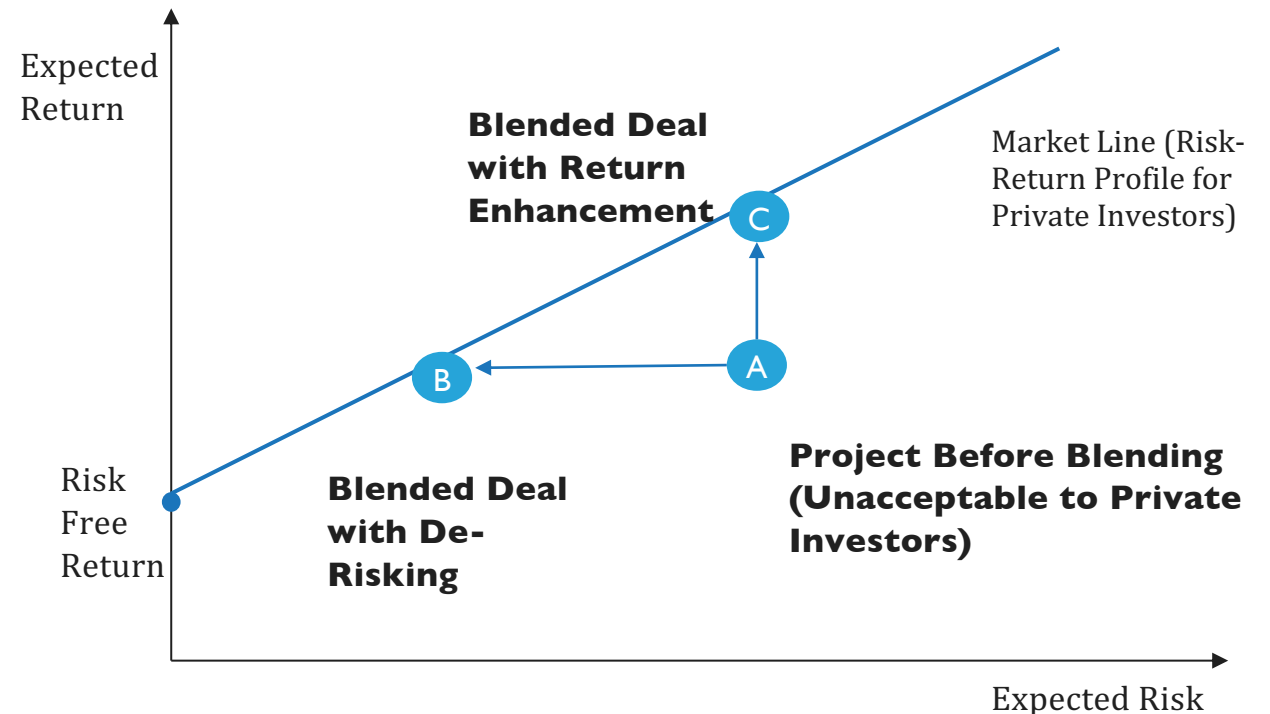


ANNEX

# BLENDED FINANCE: CREATING “MARKET” RISK-RETURN DEBT INVESTMENTS ACCEPTABLE TO PRIVATE SECTOR INVESTORS

- Blue line is the efficient range of risk & return combinations available to investors
- Investments below blue market line are below market and not acceptable due to fiduciary duties
- To mobilize private investment, concessional donors can increase returns or reduce risk of investments to market line.
- Large majority of projects in Convergence 630+ historical deals database reduce risk in preference to enhance returns.

**Deploying Blended Finance To Achieve Commercially Acceptable Risk – Return Profile**



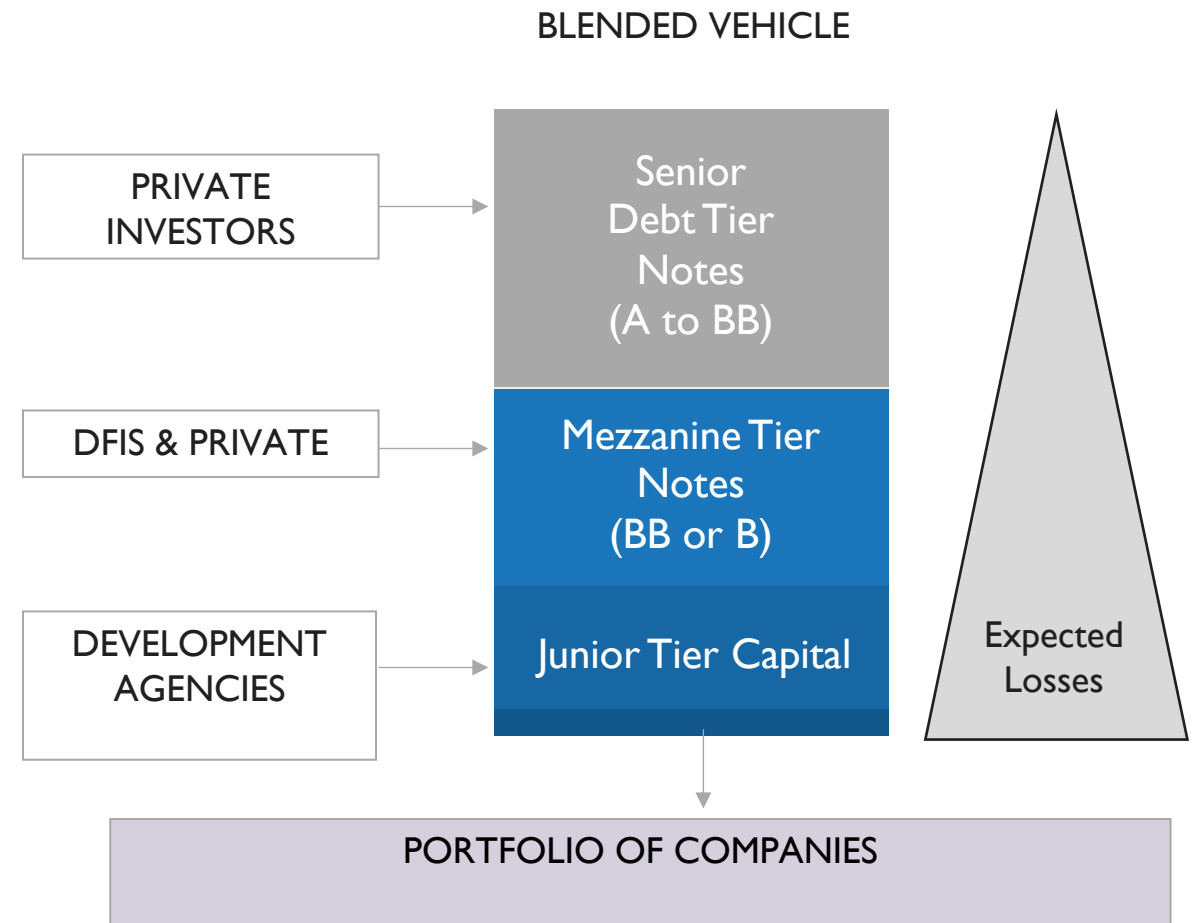
**The goal of Blended Finance is to create acceptable risk-return profiles to mobilize private sector investment to SDG projects in developing countries.**

© Convergence 2021



# STRUCTURE 1: BLENDED FINANCE VEHICLE PREFERRED BY DEBT INVESTORS

1. Establish Blended Finance Vehicle with 2-3 capital tiers
2. Vehicle typically a fund with experienced fund manager
3. Vehicle invests in portfolio of debt investments (loans) rated BB- to B-.
4. Diversification (1-2 notch uplift) and subordination (1-6 notch uplift) reduces probability of default and expected losses for senior tier investors.
5. Senior tier notes can achieve investment grade rating (e.g., A or BBB) and mezzanine notes good-quality non-investment grade rating (e.g., BB)
6. Investment grade rating allows a large universe of investors restricted by investment grade mandate



# STRUCTURE I: BLENDED FINANCE VEHICLE FOR DEBT INVESTORS

- Assume portfolio of 100 loans to borrowers with “B” risk rating
- Portfolio diversification can enhance risk rating to “BB-”
- Assume portfolio funded by three tiers of capital: (I) Senior Notes for [75]%, (ii) Mezzanine Notes for [15]% and Junior for [10]%
- Can credit enhance Senior Notes to equivalent of “Investment Grade” “BBB” subject to enough Mezzanine and Junior
- Junior and Mezzanine must be sufficient to absorb at least (1) the “expected losses” in this case between “BB-” and “BBB” or 0.63% per year (i.e., 0.79% less 0.16%) plus (2) some unexpected loss
- Possible to achieve Investment Grade “BBB” for Senior Notes with a minimum of 15% of subordinate capital (for a 10 year tenor)

Rating	Annual Expected Loss
BBB	0.16%
BBB-	0.29%
BB+	0.48%
BB	0.75%
BB-	0.79%
B+	1.21%
B	1.87%
B-	1.89%

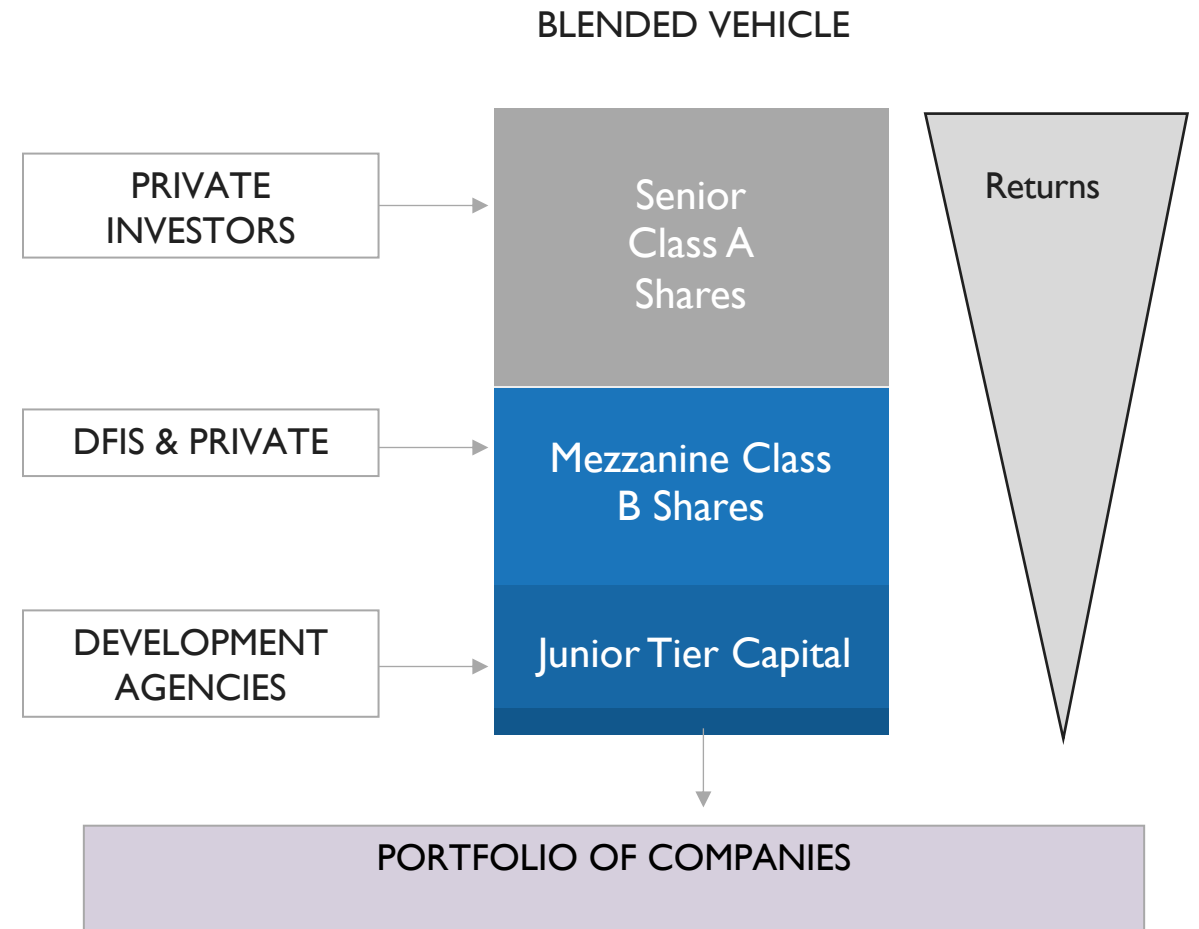
Diversification

Subordination

Source: Convergence 2020

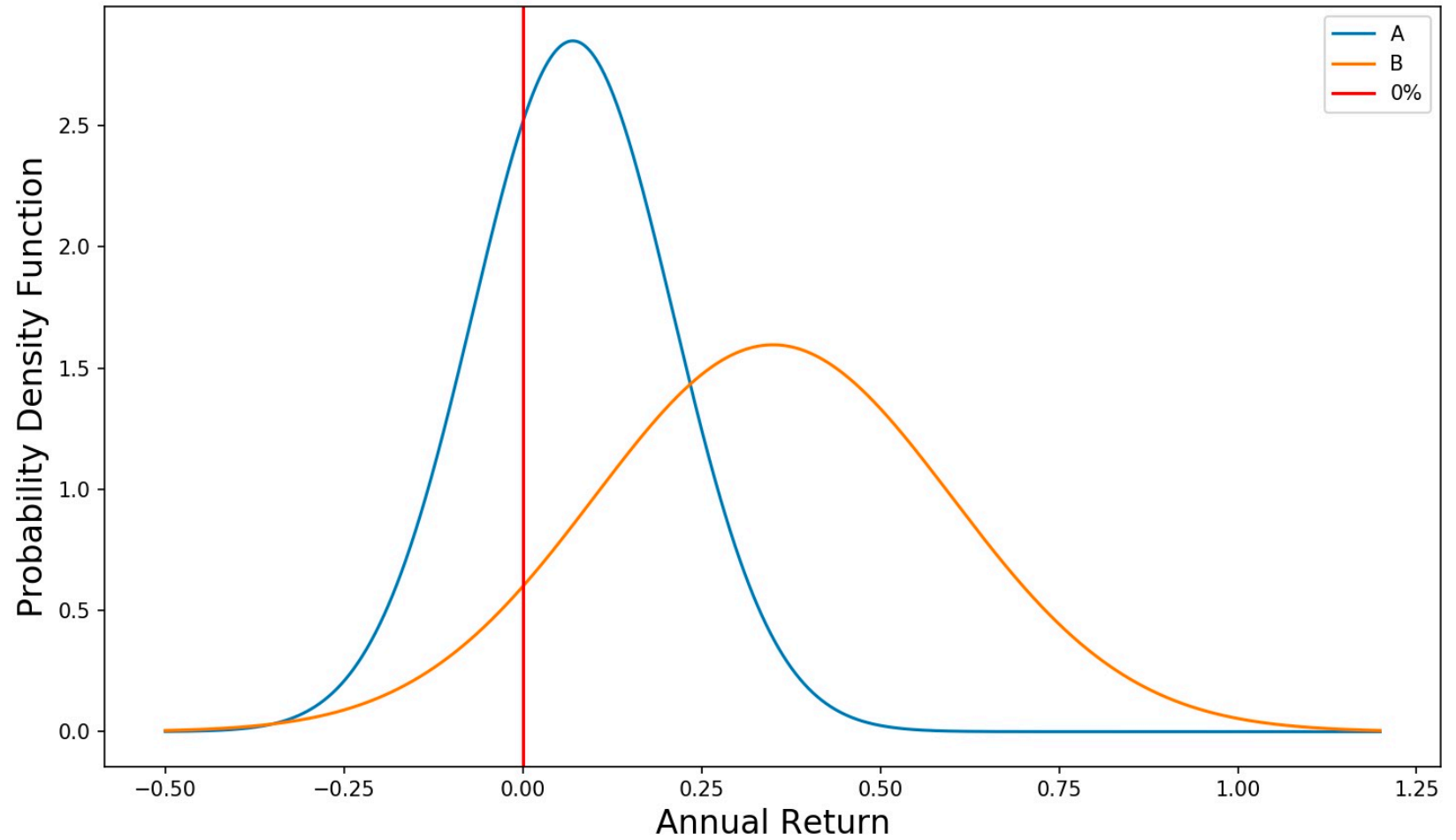
# STRUCTURE 2: BLENDED FINANCE VEHICLE PREFERRED BY EQUITY INVESTORS

1. Establish Blended Finance Vehicle with 2-3 capital tiers
2. Vehicle typically a fund with experienced fund manager
3. Vehicle invests in portfolio of equity investments in investee companies.
4. Prioritization of waterfall of distributions:
  1. First distributions to Class A until IRR of 0-5%
  2. Second distribution to Class B until IRR of 0%
  3. Third distribution to Junior Capital until IRR of 0%
  4. Fourth distribution to capital providers by negotiation.
5. Waterfall prioritization for Senior Class A Shares: (i) reduces likelihood of losses, (ii) increases likelihood of achieving market benchmark and (iii) increases likelihood of high IRRs



# STRUCTURE 2: BLENDED FINANCE VEHICLE FOR EQUITY INVESTORS

- LPs in conventional PE fund depicted by blue line: Too much distribution with negative IRR and expected IRR too low
- Introduce catalytic concessional funding – senior investors enhanced by junior investors
- LP returns in blended finance structure (orange line): Produces less distribution with negative IRR and higher expected IRR



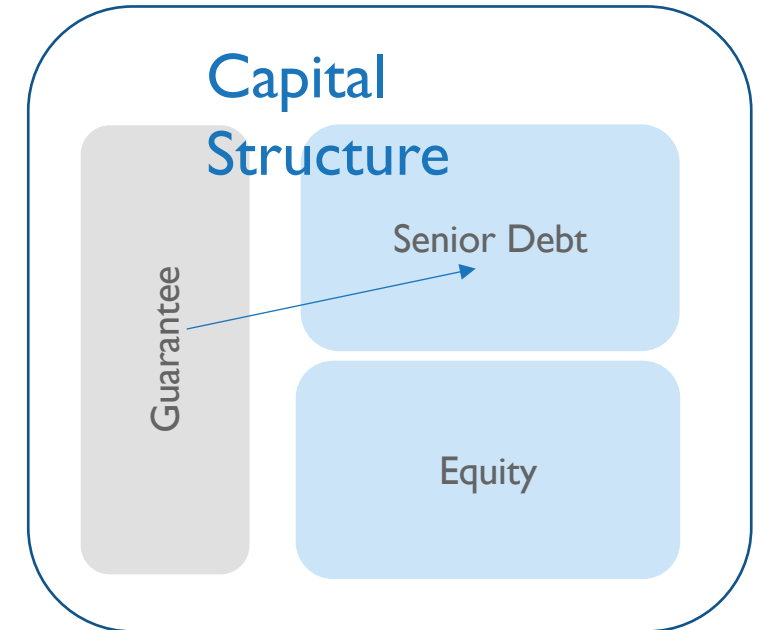
Source: Convergence 2020

## STRUCTURE 3: AGGREGATION VEHICLE TO INVEST IN MULTIPLE BLENDED VEHICLES

- Blended finance funds typically range between \$100-200 million
- Institutional investors seek to (i) invest \$100+ million and (ii) not hold more than (ii) 20% of capital
- Not many existing vehicles are \$500+ million – fall below the size preferred by institutional investors
- Create an aggregation vehicle (e.g., fund of funds) that can invest debt or equity in multiple blended finance vehicles
- Provides investors the minimum size and diversification across many projects and countries
- Example: Bamboo Capital is fund manager for six funds of \$100 million or less, and has created the SDG 500 “aggregation” fund where investors can invest around \$500 million

# STRUCTURE 4: GUARANTEE TO MOBILIZE DEBT AT PROJECT LEVEL

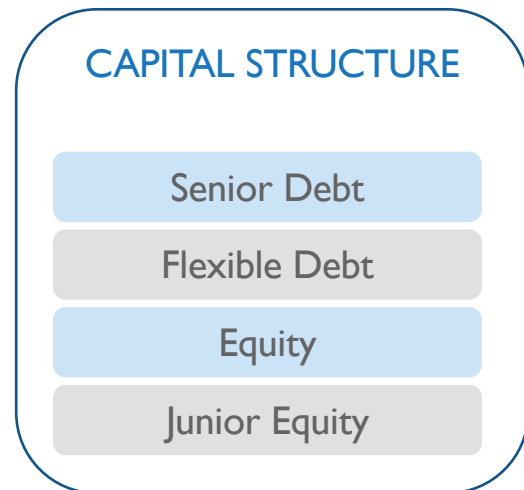
- Guarantee best deployed at project level to convert a “near-bankable” project to bankable
- Guarantor must be rated (Investment Grade, e.g., “A”)
- Guarantee can be for 100% of debt obligation or less
- Guarantee can be for all risks, or sub-set of risks (e.g., political risks)
- Big 3 Rating Agencies cap credit enhancement uplift for partial guarantees to 2 notches (e.g., “B” risk can become “BB-”)
- Proposition: Investors and project would benefit more from a 100% guarantee from an “A” listed entity (e.g., GuarantCo) more than from a “AAA” entity (e.g., development agency)



# MOST PREVALENT ARCHETYPES OF DEVELOPMENT CAPITAL / CONCESSIONAL FUNDS IN BLENDED FINANCE TRANSACTIONS (1/2)

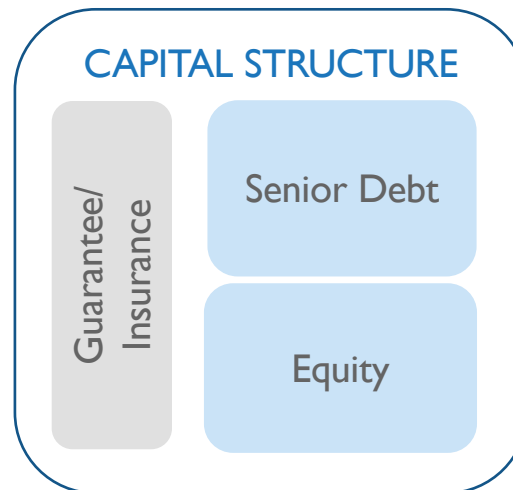
## CATALYTIC RISK CAPITAL FUNDED RISK PARTICIPATION

- Public or philanthropic investors concessional within capital structure; bear non-market risk-return
- Subordinate, junior less-commercial terms compared to private sector and MDB/DFI co-investors



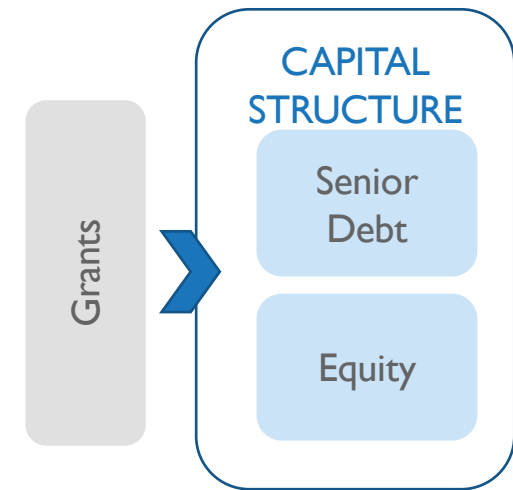
## CATALYTIC RISK CAPITAL UNFUNDED RISK PARTICIPATION

- Risk reduction tools protecting investors against loss of capital
- Helps to narrow gap between real and perceived risk
- Can cover all risks or a sub-set



## DESIGN / PREPARATION FUNDING GRANT

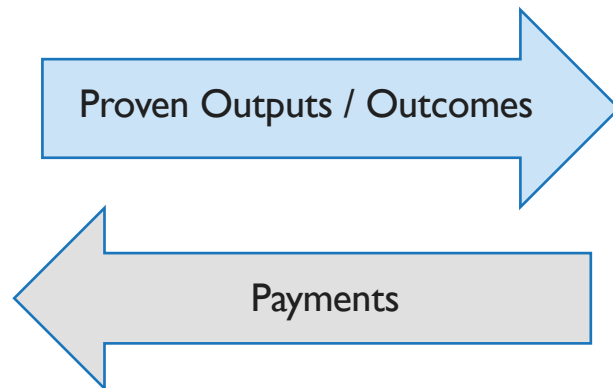
- Grant funding supporting costs and activities that lead to bankability and investability of projects
- Typically provided by those with a higher risk tolerance (eg: foundations)



# MOST PREVALENT ARCHETYPES OF DEVELOPMENT CAPITAL / CONCESSIONAL FUNDS IN BLENDED FINANCE TRANSACTIONS (2/2)

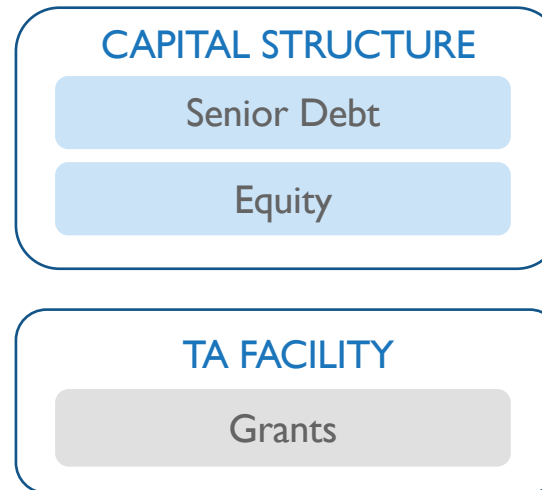
## RESULTS BASED FINANCING/OUTCOMES FUNDING

- Ties payment to achievement of pre-agreed measurable outputs and outcomes
- Donors pay for outputs and not inputs (the latter typical for grants)
- Examples include Development & Social Impact Bonds



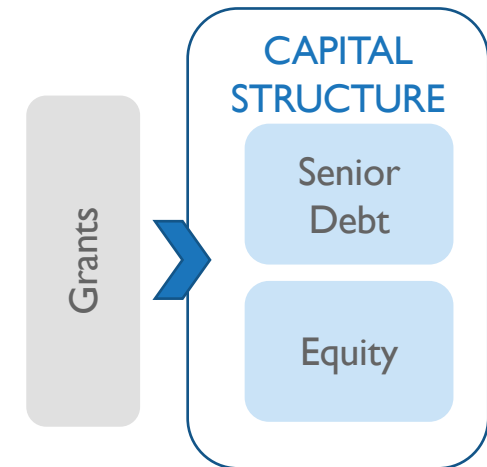
## TECHNICAL ASSISTANCE SUPPORT

- Funding to supplement the capacity of investees
- Aim is to maximize quality of project implementation



## GRANT FOR PROJECT COST SUPPORT

- Used to reduce total investment required or support economics / financing of project
- Deployed upfront (capital grant) or as ongoing payments (smart subsidies)
- Examples include viability gap funding and interest rate subsidies

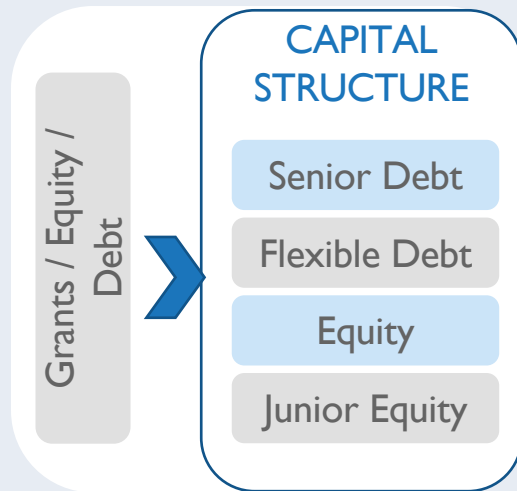




# OVERVIEW OF TYPES OF CATALYTIC RISK CAPITAL TO CREATE MARKET-EQUIVALENT RISK-RETURN INVESTMENTS

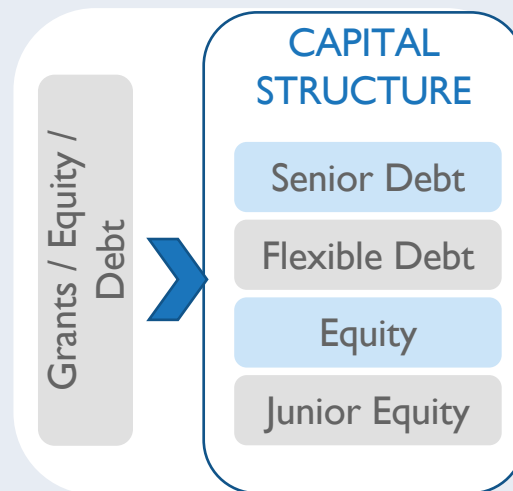
## TYPE A CONCESSIONAL RISK CAPITAL

- Grant or financial instrument as risk capital to create market-equivalent investment for private investors.
- Ex ante expected loss (negative Internal Rate of Return (IRR)).



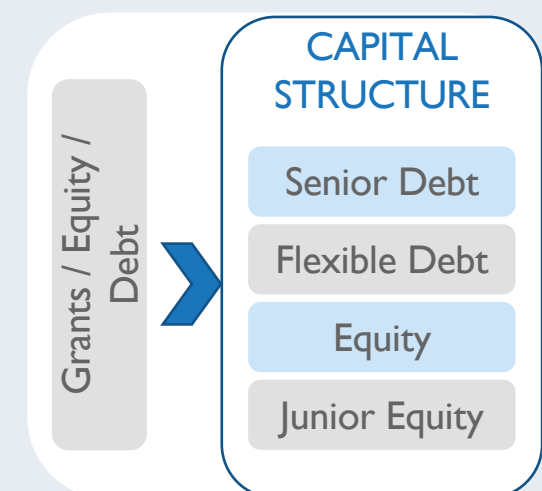
## TYPE B BREAK-EVEN RISK CAPITAL

- Grant or financial instrument as risk capital to create market-equivalent investment for private investors.
- Ex ante expected break-even or slightly better (+/- zero IRR).



## TYPE C MARKET RISK CAPITAL

- Financial instrument as risk capital to create market-equivalent investment for private investors.
- Ex ante expected market or near-market return (MDB/DFI IRR).





# OVERVIEW OF CONVERGENCE

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DECEMBER 2021

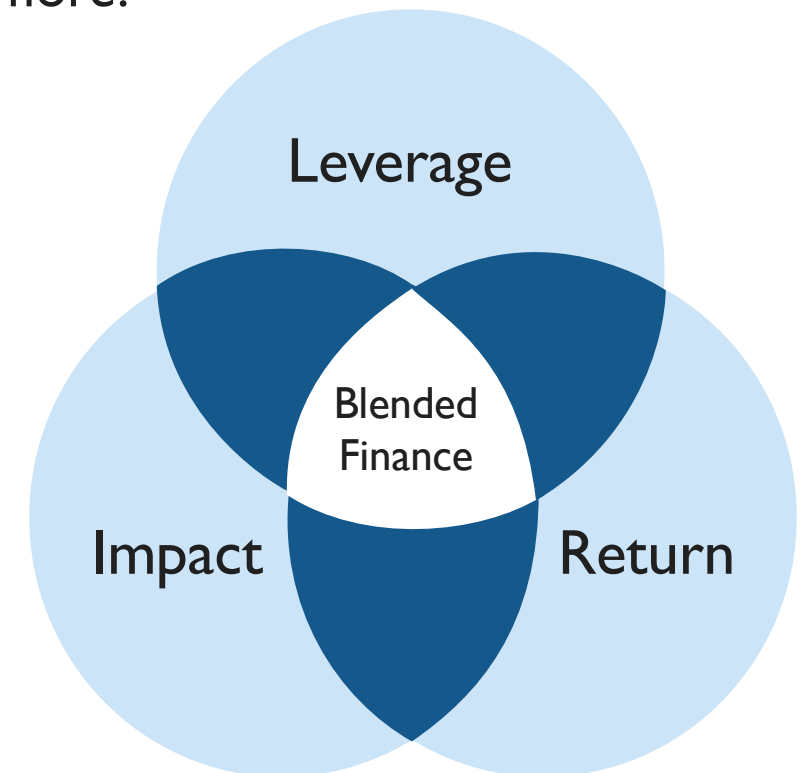
[www.convergence.finance](http://www.convergence.finance)

# WHAT IS BLENDED FINANCE?: DEFINITION & KEY CHARACTERISTICS

Private investment is crucial to close the US\$2.5 trillion annual funding gap threatening the success of the Sustainable Development Goals ([SDGs](#)). One way to attract this private capital is through blended finance – the use of catalytic capital from public or philanthropic sources to increase private sector investment in emerging markets. Read our [blended finance](#) primer for more.

Blended finance transactions should have three signature markings:

1. **RETURN:** Intended to yield (1) an overall financial return and (2) risk-return for private investors in line with market
2. **IMPACT:** Underlying activities contribute towards the SDGs in a developing country (*although not every participant needs to have that impact objective*)
3. **LEVERAGE:** Public/philanthropic parties leverage catalytic capital to make a deal happen that would otherwise attract little or no private capital



# BENEFITS OF CONVERGENCE MEMBERSHIP

Our members get access to blended finance data, intelligence, and deal flow, as well as exclusive networking events, tailored learning sessions and workshops with industry experts.

Members have their own tailored dashboard on our platform, where they can:

- Connect with active deals or post deals
- Generate market insights; understand trends
- Connect with other members
- Read the latest news & knowledge in the space
- Register for member-only events

The 2020 State of Blended Finance has Arrived  
The 2020 State of Blended Finance offers the latest data and analysis on blended finance. The report also reflects on the blended finance market's journey to scale, and the impact of COVID-19 on investment activity going forward.

[View Now](#)

Please take a few minutes and fill out our feedback survey. Your feedback will help us improve the experience for many members. [Take our brief survey](#)

[Profile](#) [Matched Fundraising Deals](#) [My Deals](#) [Submit Deal for Fundraising](#) [Messages](#)

## Quick Links

### Scale Development Impact and Mobilisation Working Group

Access to the DFID-Convergence Scale Development Impact and Mobilisation Working Group's documents on blended finance.

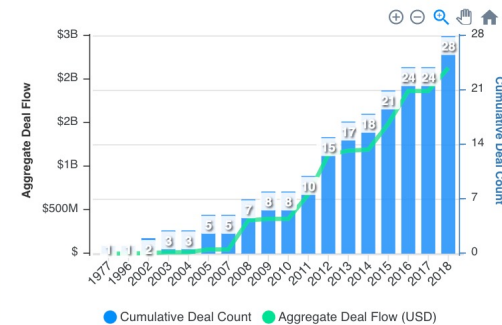
### Learn about Blended Finance

Everything you need to know about the blended finance market, including definitions, market size, and trends.

### Learn about Training

Convergence offers members a range of blended finance learning and capacity building programs.

Can blended finance help improve access to safe water?



- There has been a notable uptick in interest in the use of blended finance and other innovative financing mechanisms for the water and sanitation sector
- The size of the estimated financing gap, along with several recent examples of blending for the sector has caught the attention of development practitioners in the space
- We explore good practice and lessons learned in order to distil clear guidance on how to tailor blended finance instruments and mechanisms to different contexts and for different types of water investments.

## Scale Working Group Documents

[Agenda for April 17th Scale Working Group Meeting](#)  
17 Apr 20

[How to Mobilize Private Investment At Scale in Blended Finance](#)  
Policy and Research Reports • 09 Apr 20

[The Paris Acceleration Fund \(PAAF\)](#)  
29 Jan 20

[View All](#)

[View All](#)

## Most Recent Relevant Resources

[Blended Finance for Water Infrastructure Maintenance and Fecal Sludge Management](#)  
Policy and Research Reports • 11 Jan 21

[Aceli Africa Case Study](#)  
Case Studies • 17 Nov 20

[The development impact of concessional finance to agri-business - A rapid evidence review](#)  
Policy and Research Reports • 17 Sep 20

[Gender as Material to Infrastructure Projects: Reaching Better Outcomes by Applying a Gender Lens from Project Inception](#)  
Primers and Toolkits • 21 Jul 20

[Summarizing the key characteristics, enabling environment, and needs of women-owned businesses](#)  
Policy and Research Reports • 13 Jul 20

[View All](#)

# MEMBERSHIP COMPOSITION

Convergence members are part of a global community of institutions and businesses dedicated to driving capital to where it is needed most.

Member institutions include private investors looking to diversify their portfolios, businesses seeking capital, as well as public agencies and philanthropic foundations looking to make their funds go further.

Convergence has over 200 member institutions, and over 1,000 staff at member institutions actively using the Convergence platform.

MacArthur  
Foundation

Australian Government  
Department of Foreign Affairs and Trade

Rabobank

JICA

DFC

AFRICAN DEVELOPMENT BANK  
BANQUE AFRICAINE DE DEVELOPPEMENT  
AFRICAN DEVELOPMENT FUND  
FONDS AFRICAIN DE DEVELOPPEMENT

DBSA

WWF

Global Affairs  
Canada

TDB  
TRADE & DEVELOPMENT BANK

Citi

MILLENNIUM  
CHALLENGE CORPORATION  
UNITED STATES OF AMERICA

Global Green Growth  
Institute

USAID  
FROM THE AMERICAN PEOPLE

CARDANO  
DEVELOPMENT

CROSSBOUNDARY

Norsad  
FINANCE

BNP PARIBAS

Sida

responsAbility  
Investments for Prosperity

ceniARTH

Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra  
Swiss Agency for Development  
and Cooperation SDC

financeinmotion  
INVESTING IN DEVELOPMENT

European  
Investment  
Bank

IFC  
International  
Finance Corporation  
WORLD BANK GROUP

FinDev  
Canada

ADB

natureVest | The Nature  
Conservancy

CONVERGENCE

# DEAL FLOW

Our online deal platform gives members access to the only dedicated global blended finance deal pipeline in the world.

All deals are reviewed by our team for fit with our mission and criteria. Investors and deal sponsors can connect directly on the platform.

Members can post blended finance deals they are sponsoring, advising, or investing in. Deals must:

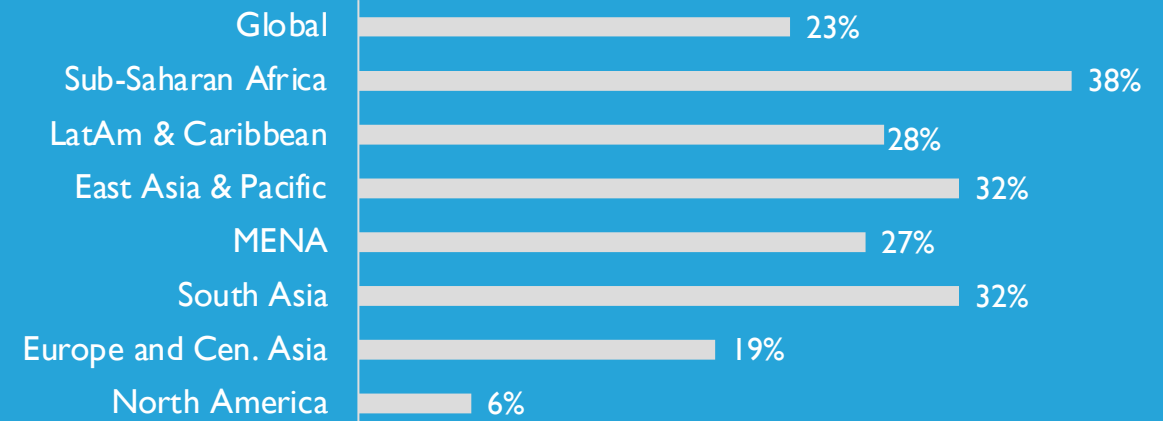
- a) Have a blended finance structure
- b) Have confirmed third party interest
- c) Have a minimum total deal size of USD 5 million
- d) Target at least one SDG in at least one developing country

**US\$6.3B**  
total funding  
sought

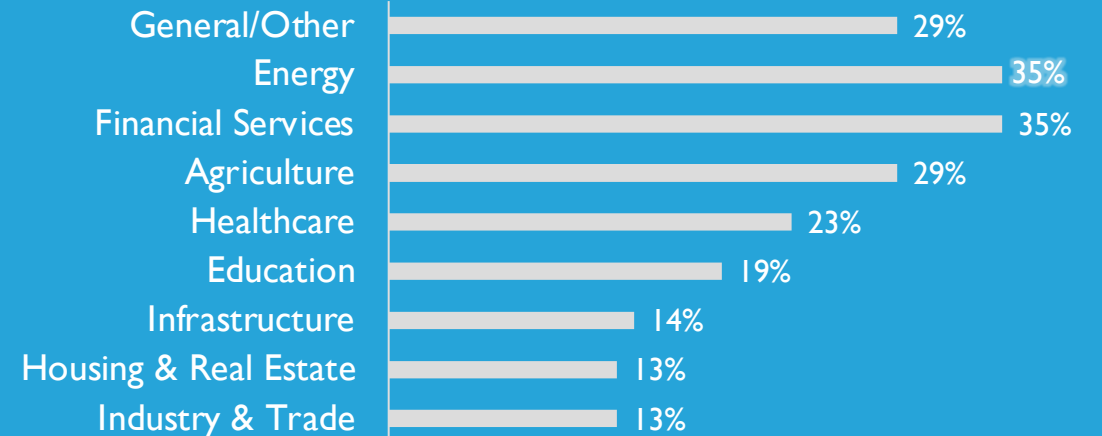
**US\$11.8B**  
total deal  
value

**US\$71M**  
median deal  
size

Region Frequency: % of all deals



Sector Frequency: % of all deals

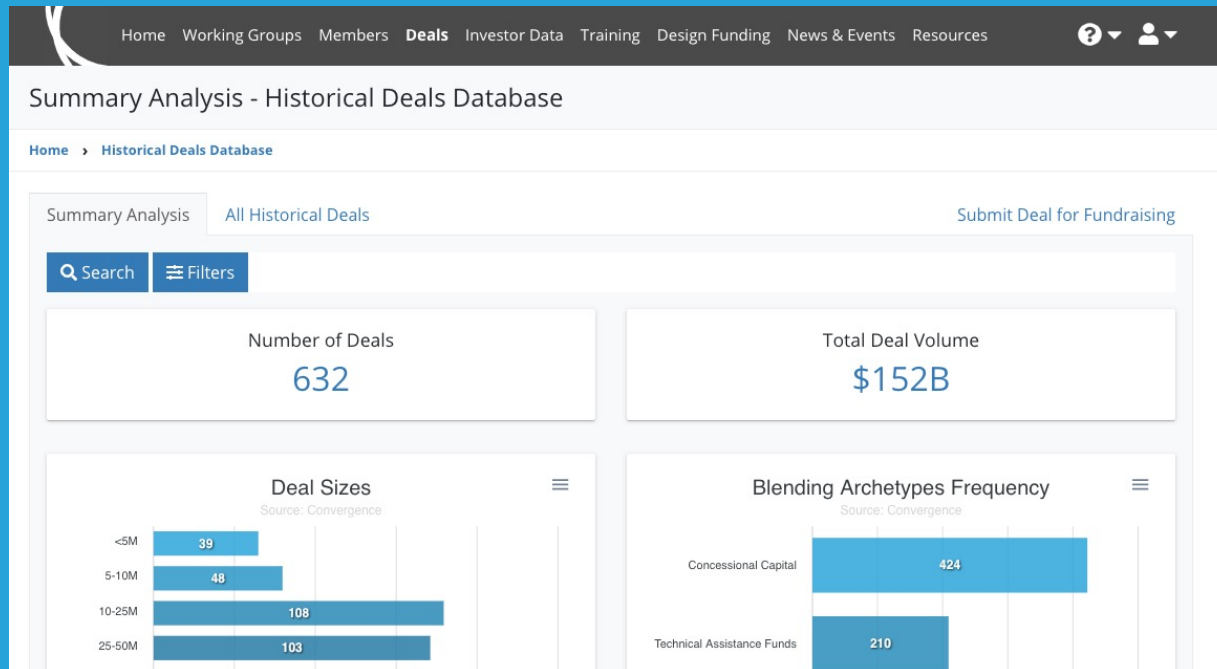


# DATA INSIGHTS

Our Historical Deals Database captures over 4,900 financial commitments to over 600 historical blended finance transactions. More than 1,300 different investors have participated in these transactions.

Members can generate unique insights about the blended finance market through this powerful comparables set that can be filtered and analyzed across sector, region, size, instrument, investor, impact objective, and a range of other filters.

On member request, Convergence is also able to provide additional analysis of our data.



# INTELLIGENCE

Convergence produces original research and insights on the market, including:

- Case studies on specific transactions,
- Data briefs on blended finance benchmarks
- Reports that give the state of play

Recent publications:

- [The State of Blended Finance 2021](#)
- [Blended Finance & Agriculture Data Brief](#)
- [Sistema.bio Case Study](#)
- [Designing Blended Finance Vehicles Report](#)

We also maintain a [Resource Library](#) where we curate key blended finance knowledge and resources in one centralized repository.







## LEARNING

We provide customized blended finance trainings and workshops for members to increase their knowledge of blended finance. Trainings are catered to organization needs and interests and include participation from industry experts and Convergence members. Past sessions took place at [AfDB](#), [OECD](#) & [Sida](#). Convergence [trainings](#) are also open to non-members seeking to further engage in blended finance. In 2020, to better respond to COVID-19, Convergence launched two [Virtual Training Seminar Series](#) to deliver comprehensive teachings on blended finance instruments and how to approach blended finance in key sectors.

## MARKET ACCELERATION

Convergence's [Design Funding](#) program offers practitioners feasibility study and proof of concept grant funding to design catalytic blended finance solutions that aim to attract private capital to global development at scale.

Open windows:

[Indo-Pacific Design Funding Window](#) – Focused on climate finance and gender equality (funded by DFAT).

[Asia Natural Capital Design Funding Window](#) – Focused on natural capital in Asia (funded by RS Group).

## ACTIVITIES TO-DATE

The Design Funding program has a total pool of US\$18M to draw from.

To date, Convergence has awarded US\$7M+ in funding to support 24 blended finance solutions aligned to the SDGs, which have gone on to raise over US\$650M+ of capital from public, philanthropic, and private investors.

Convergence acts as the sole independent evaluator to the United Nations Joint SDG Fund in catalyzing public private sector investment towards the SDGs. US\$41M has been awarded in funding to 4 UN country teams to design financial structures to catalyze additional investment for the SDGs, based on Convergence recommendations.

# EXAMPLES OF DESIGN FUNDING GRANTS

**Asia Natural Capital Window**

SPV to aggregate adjacent forest concessions in Indonesia

**Indo-Pacific Window**

  
**BASE**


Remittance-based financing vehicle for micro-infrastructure investments in the Pacific Islands

**Indo-Pacific Window**

  
**allotrope**  
PARTNERS

Local Utility Project Aggregator (LUPA) to support affordable and clean energy in the Philippines

**Asia Natural Capital Window**

  
**Blue finance**

Blended Blue Finance Facility for Marine Protected Areas in Southeast Asia

**Global Emerging Markets Window**

  
**Palladium**  
MAKE IT POSSIBLE

Impact bond to fund maternal and newborn health interventions in India

**Global Emerging Markets Window**

  
**ACELI**  
AFRICA

Facility to unlock capital for agricultural SMEs in Africa

**Global Emerging Markets Window**

  
CLIMATE POLICY INITIATIVE

Green FIDC to finance green projects through securitization of receivables in Brazil

**Global Emerging Markets Window**

  
DEVELOPING WORLD MARKETS


WASH Impact Note to finance water, sanitation, & hygiene activities globally

**Global Emerging Markets Window**

  
**ADM CAPITAL**  
ADM CAPITAL FOUNDATION

Finance facility for renewable energy and livelihood projects in Indonesia

**Global Emerging Markets Window**

  
**DBSA**

Developing the world's first Green Bank – the Climate Finance Facility

**Global Emerging Markets Window**

  
Women's World Banking

A fund to invest in women-focused financial services providers in emerging markets

**Global Emerging Markets Window**

  
**CLARMONDIAL**

Food Securities Fund, an open-ended investment fund for private credit in agriculture

To see the full grant portfolio, go to [www.convergence.finance/design-funding](http://www.convergence.finance/design-funding)