

DATA BRIEF | JANUARY 2022

Blended Finance for Health & Education

HIGHLIGHTS

- The COVID-19 pandemic has exacerbated existing challenges in achieving SDGs 3 (Good Health) and 4 (Quality Education). The pre-pandemic estimate of the annual funding gap for health stood at \$134 billion, while the pandemic could grow the annual funding gap for education from \$148 billion towards \$200 billion.
- Institutional investors generally prefer more mature and commercially viable sectors like finance and energy to health and education, but blended finance can de-risk vehicles and attract investors to these more emergent and fragile sectors.
- Convergence's database has recorded 83 transactions targeting SDG 3 (Good Health) and 36 transactions targeting SDG 4 (Quality Education), representing \$15.8 billion and \$1.46 billion in total committed financing, respectively.
- To date, blending for health has focused on health services (51% of health transactions). While pharmaceuticals and vaccinations account for only 12% of health transactions by number, they account for 62% by value.
- Meanwhile, blending for education has focused on education finance (31% of education transactions), with ed-tech likely to become more prominent given the rise of remote learning during the pandemic.
- The median sizes of health and education transactions are smaller in comparison to the overall market, and while funds predominate, the health and education sectors account for most impact bonds deployed in blended finance.
- Scaling private financing into health and education will require the development community to deploy catalytic financing to launch funds of funds that can fully develop a broader investment ecosystem in the space.

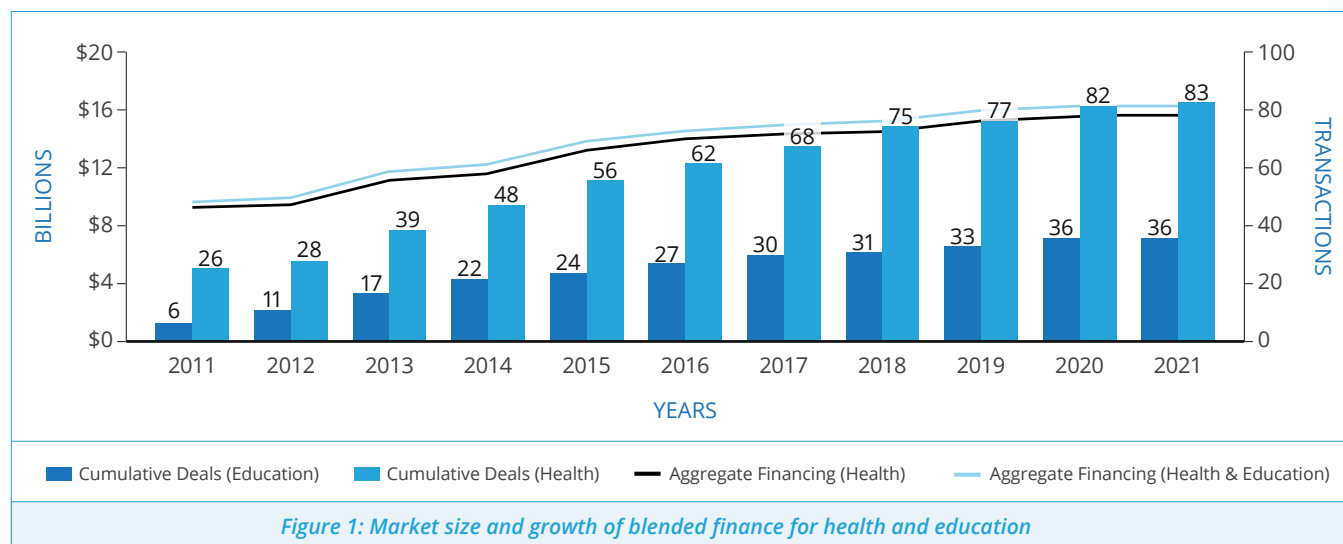
Introduction

BLENDING FINANCE CAN HELP FILL THE FINANCING GAP FOR HEALTH AND EDUCATION

With at least half of the world's population [still lacking access](#) to essential health services and [up to 53%](#) of ten year-olds in low- and middle-income countries unable to read and understand a short age-appropriate text, the urgency of achieving SDGs 3 (Good Health) and 4 (Quality Education) by 2030 remains acute. The COVID-19 pandemic has exacerbated existing challenges in both sectors, [straining](#) health systems globally and closing schools in many parts of the world. [Lagging vaccination rates](#) in many developing countries threaten to further disrupt health and education services. Indeed, with the projection of the annual funding gap for education already [rising](#) from \$39 billion in 2015 to \$148 billion in 2020, the COVID-19 pandemic could further increase this gap towards \$200 billion. Meanwhile, the pre-pandemic estimate of the annual funding gap for health stood at [\\$134 billion](#), a figure that has likely expanded given the impact of the pandemic.

What role can blended finance play in addressing some of these challenges? To date, factors like relatively small investment ticket sizes, insufficient returns, limited in-house expertise, and transactions being time- and resource-intensive have complicated the mobilisation of private investors into health and education, with institutional [investors typically preferring](#) larger-scale, more established sectors like financial services and energy. Health and education have also traditionally been perceived by some investors as public services reserved for the government and beyond their traditional mandates. However, blended finance approaches (e.g., technical assistance) can be critical to creating de-risked vehicles capable of attracting private investors to these more emergent and fragile sectors.

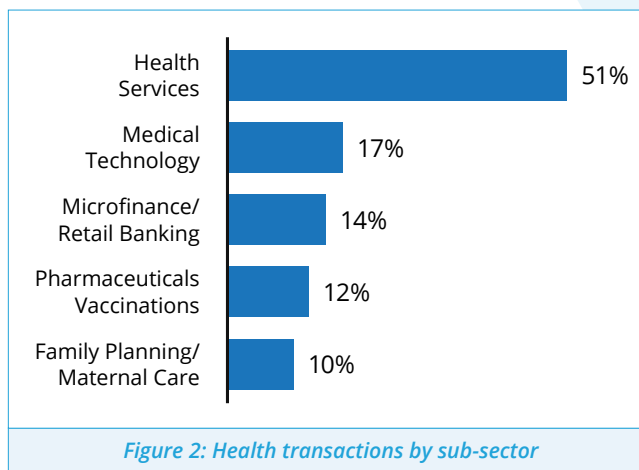
This brief analyzes the 83 transactions targeting SDG 3 (Good Health) and the 36 transactions targeting SDG 4 (Quality Education) recorded by the Convergence database, representing \$15.8 billion and \$1.46 billion in total committed financing, respectively. This brief also presents insights from interviews with key stakeholders.



Blending for Health: Analysis

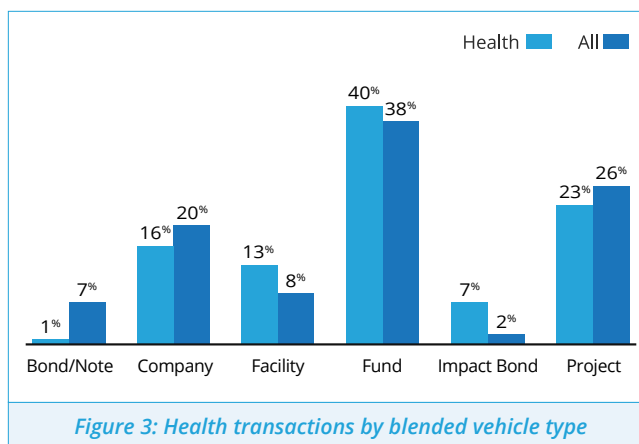
HEALTH SERVICES IS THE MOST TARGETED SUB-SECTOR

Health-related transactions have mostly targeted basic healthcare services (51%), with health SMEs providing primary care services often [not well supported](#) by the public or private sectors. Pharmaceuticals and vaccinations focused deals account for only 12% of health transactions by number, but 62% by value, with such transactions often structured as large-scale international facilities like the [International Finance Facility for Immunisation](#). While donors have [traditionally targeted](#) infectious disease, and the private sector chronic disease, there is potential for both to address the other grouping. Health-related transactions have mainly targeted Sub-Saharan Africa (43%), but South Asia (24%) and Global (18%) are also popular target regions.



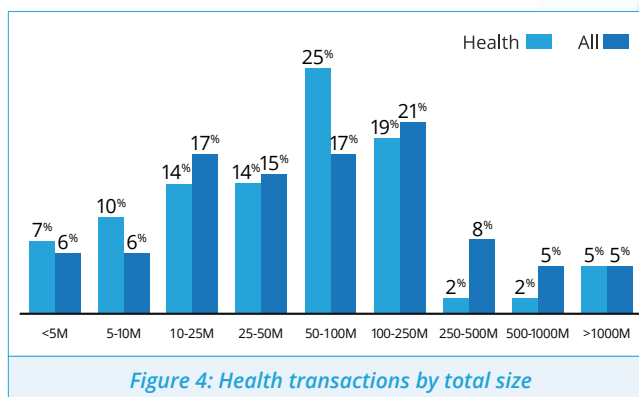
IMPACT BONDS MORE PROMINENT IN BLENDED FINANCE FOR HEALTH

A plurality of developing market impact bonds has [targeted](#) health (including the treatment of cataracts, nutritional education for prediabetic women, and improved maternity care). Impact bonds allow financial payments to be tied to specific development interventions but can be resource intensive and less scalable. While institutional investors [are more likely](#) to target sectors with proven investment track records like financial services as opposed to health, impact bonds have received institutional backing. One example is the \$27 million [ICRC Programme for Humanitarian Impact Investment](#), launched in 2017 to build physical rehabilitation centers in conflict-affected countries in Africa.



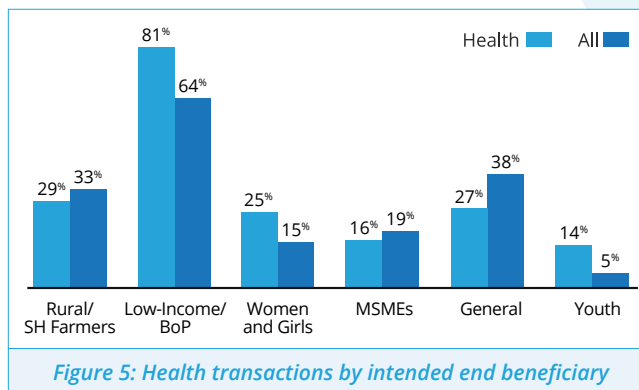
HEALTH TRANSACTIONS ARE TYPICALLY SMALLER IN SIZE, BUT HAVE THE POTENTIAL FOR SCALE

Health transactions have a median transaction size of \$50 million compared to \$57.8 million for the overall market. However, with 29% of transactions being over \$100 million in size, there is some potential for scale. Larger transactions include the [Africa Medical Equipment Facility](#), a \$150 million unfunded risk sharing facility launched in 2020 by IFC, in partnership with local participating financial institutions and original equipment manufacturers. The facility is supported by an \$18 million loan from the IDA Private Sector Window Blended Finance Facility and a \$6 million first-loss guarantee from the Global Financing Facility.



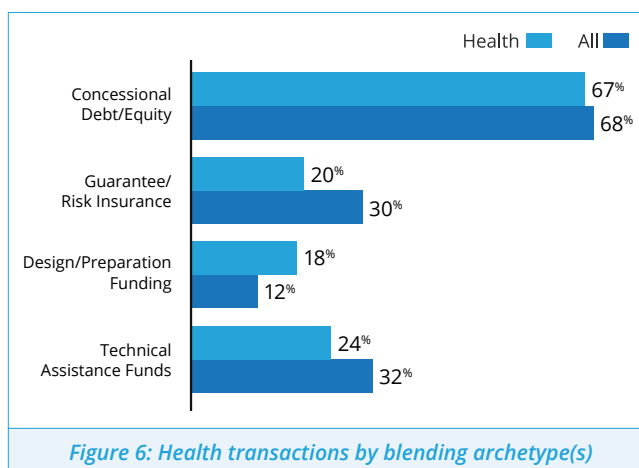
WOMEN ARE OFTEN KEY BENEFICIARIES OF BLENDING FOR HEALTH

Health-related transactions overwhelmingly target low-income and base of the pyramid populations (81% vs 64% of all deals) as end beneficiaries, but are also likelier to support women and children compared to the overall market. Examples include the \$2.8 million Cameroon Kangaroo Mother Care Development Impact Bond, launched in 2018 to [reduce](#) neonatal mortality and morbidity by implementing the Kangaroo Mother Care practice across public hospitals in Cameroon. Cameroon's Ministry of Public Health and Nutrition International [served](#) as the impact bond's outcome funders.



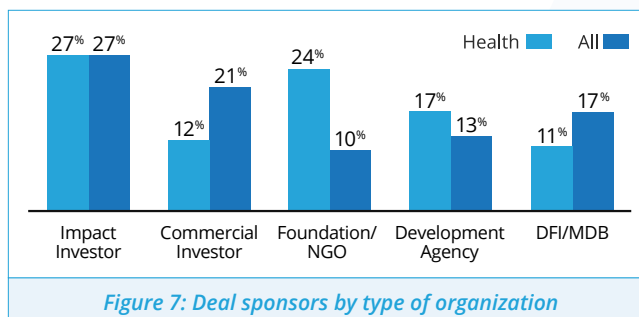
CONCESSIONAL DEBT OR EQUITY: THE PRIMARY BLENDING ARCHETYPE

Blended health transactions most often include concessional debt or equity (67% of transactions), while design-stage grants account for a higher proportion of health transactions than the overall market (18% vs 12% of all transactions). Health transactions featuring design-stage grants include the Utkrisht Impact Bond, the world's first health development impact bond. Launched in 2017, it looks to [support private healthcare facilities](#) in Rajasthan, India to decrease maternal and newborn mortality. In 2016, Convergence [awarded](#) one of its inaugural design funding grants to Palladium to complete the design of the impact bond. Our correspondents also noted that technical assistance is more needed in health and education than in more established sectors.



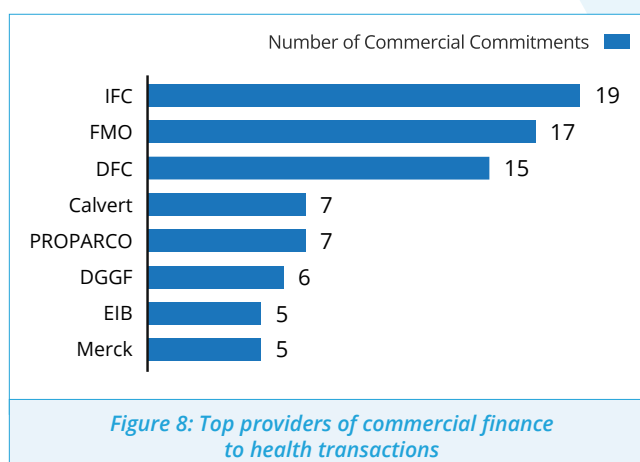
IMPACT INVESTORS AND FOUNDATIONS: KEY DEAL SPONSORS IN HEALTH

Impact investors and foundations / NGOs as a class are the most prominent deal sponsors of health transactions, with foundations / NGOs more prominent as deal sponsors of health transactions than within the market overall (24% vs 10%). On an individual level, leading deal sponsors of health transactions go beyond that category and include the World Bank (5), USAID (4) and IFC (3), alongside PharmAccess Group (4) and Global Partnerships (3). Major deal sponsor domiciles include the USA (34 transactions), the Netherlands (9), and India (8).



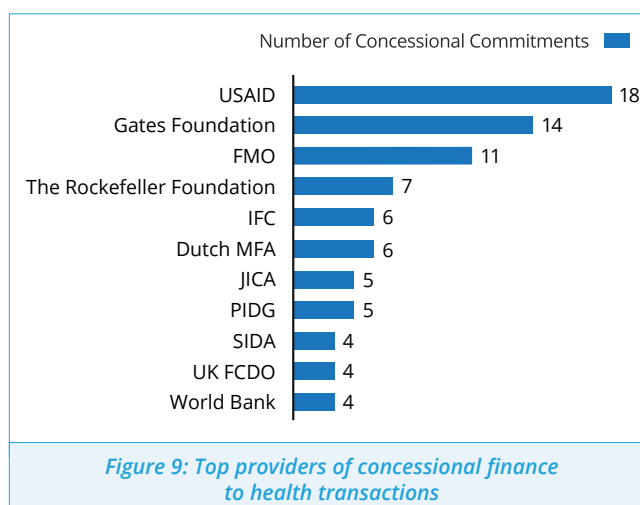
IFC, FMO, & DFC: THE TOP COMMERCIAL INVESTORS IN HEALTH

IFC (19 commercial commitments), FMO (17), and DFC (15) are the most active providers of commercial (i.e., market-priced) financing to health transactions (with the deal sponsors leading the transactions potentially being third parties). Elsewhere, Alecta, Sweden's largest pension fund, [recently committed](#) \$100 million to a new blended social bond focusing on health, financial inclusion, and renewable energy projects in developing markets. The 'Financing for Healthier Lives' bond, issued by a responsibility-backed non-profit, is the first privately funded social bond guaranteed by Sida, Sweden's development agency.



USAID & GATES FOUNDATION: TOP CONCESSIONAL FUNDERS IN HEALTH

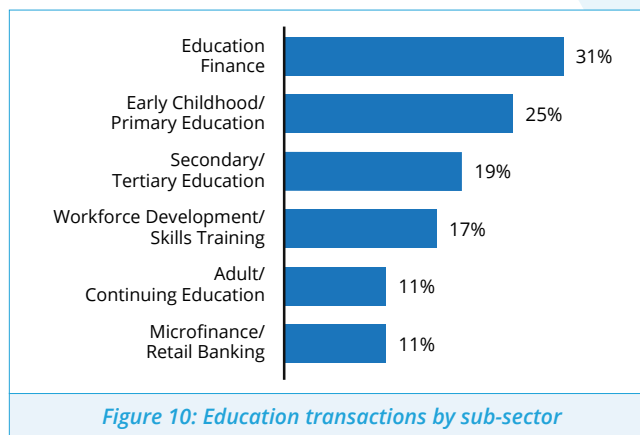
USAID (18 concessional commitments), Gates Foundation (14) and FMO (11) have been the most active providers of concessional financing to health transactions. Elsewhere, catalytic funding from the US President's Malaria Initiative, a loan guarantee from DFC, and other philanthropic funders supported the creation by the Health Finance Coalition of the [Open Doors African Private Healthcare Initiative](#). Launched in 2021, the \$30 million emergency guarantee facility enables healthcare providers in five African countries to continue to offer essential health services, addressing the economic crunch caused by the lockdowns of the COVID-19 pandemic.



Blending for Education: Analysis

EDUCATION FINANCE, PRIMARY & SECONDARY EDUCATION MOST TARGETED

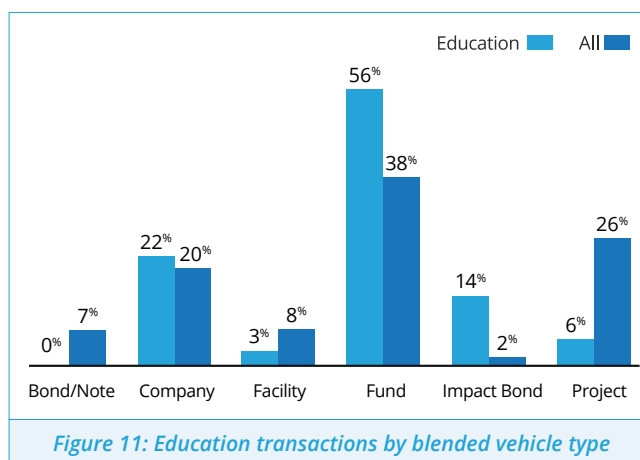
Education transactions have mostly targeted education finance, which covers segments like school building and SME financing (mainly ed-tech, likely boosted by the rise of remote learning during the pandemic). With non-state enrollment [increasing](#) in regions like South Asia and Sub-Saharan Africa, education transactions have mostly targeted sub-Saharan Africa (33%) and South Asia (33%). The Oasis VC Capital Fund, a \$50 million, Ghana and Côte d'Ivoire-focused vehicle backed by investors like IFC, is an example of a generalist fund active in education, [recently investing](#) in the Joyce Ababio College of Creative Design, a Ghanaian college teaching fashion and graphic design.



FUNDS, IMPACT BONDS, AND COMPANIES POPULAR FOR EDUCATION DEALS

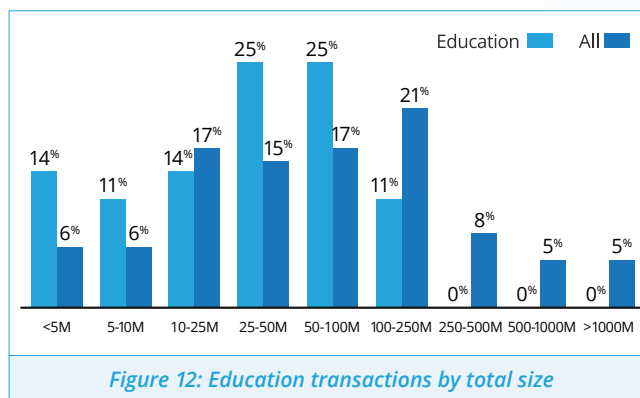
Funds, impact bonds, and companies are more prominent within education than the wider market. Like [elsewhere](#), evergreen structures may be useful within education, as Emilie Debled of Investisseurs & Partenaires notes:

“Evergreen structures or specific terms for closed-end funds are particularly appropriate for education: business models in the sector are still new, so firms require time to break even and be well positioned in the market; and cycles are longer, with impact only being assessable in the long-term, e.g., are graduates getting jobs relevant to the training received? However, the market isn’t ready for evergreen structures; most of the market is structured with closed-ended funds, and LPs need to recycle their capital, so they’re generally just looking at 5-7 year holding periods.”



EDUCATION TRANSACTIONS ARE TYPICALLY SMALLER COMPARED TO MARKET

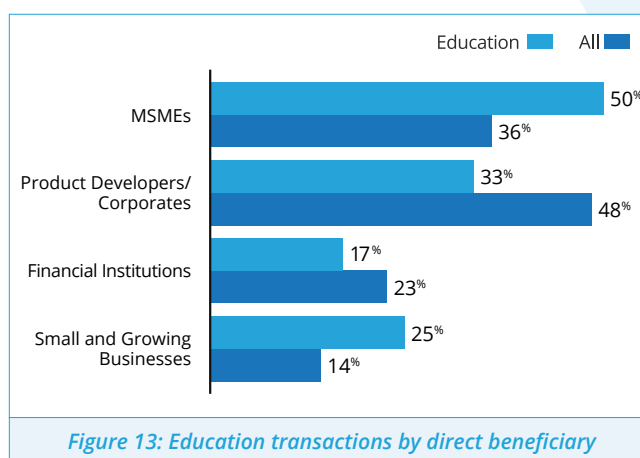
Education transactions have a median size of \$31.5 million, with 64% being below \$50 million. The global private K-12 sector is highly fragmented and defined by a multiplicity of small-scale proprietors, [with only around 15 for-profit companies](#) with revenues over \$100 million existing globally. [Most schools](#) are local catchment-driven entities, with few having significant scale. One example of a larger-scale transaction, however, is [Bridge International Academies](#), a primary and pre-primary education provider in Kenya, Uganda, Nigeria, and India, which has raised over \$100 million from the Gates Foundation, IFC, and others.



EDUCATION TRANSACTIONS COULD BETTER MOBILIZE LOCAL FINANCIAL INSTITUTIONS

Financial institutions have been the direct beneficiaries of only 17% of education transactions (compared to 23% in the wider market), but our USAID CATALYZE respondents note that mobilizing local financial institutions could be the key to scaling education finance:

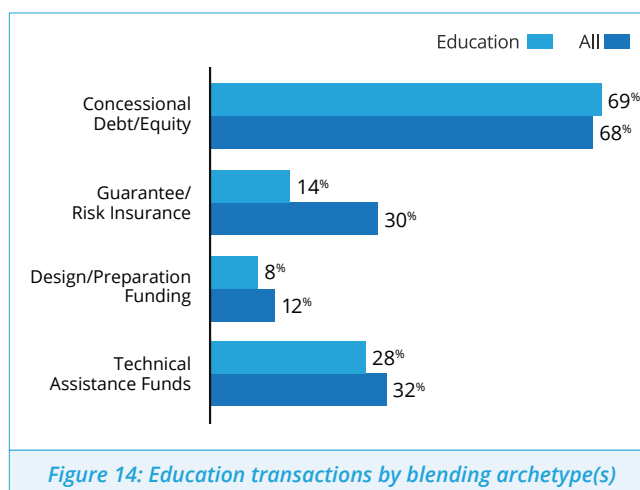
“There’s a very high demand for finance amongst private schools that can be met through local financial institutions, but they often don’t recognise education as an investable sector. If we can steer these organizations towards education, particularly K-12 schools in need of financing, and show them their investability and safety, they can begin to develop products for this market and we can mobilize a lot more local investment, which can be more efficient and lower cost.”



CAN GUARANTEES HELP CATALYZE FINANCING FOR EDUCATION?

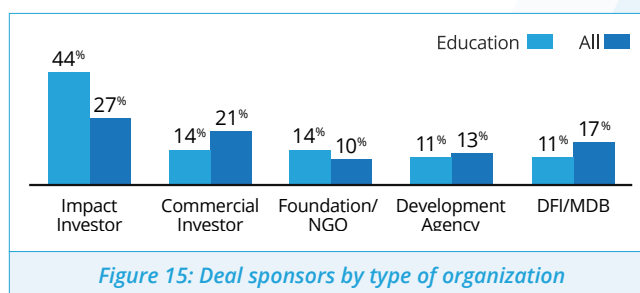
As Figure 14 shows, guarantees and risk insurance have been underutilized in education compared to the broader market (14% vs 30%). However, our USAID CATALYZE respondents note their potential value:

“Guarantees could be huge in the education business; they just haven’t had a good track record historically. More attention needs to be paid to trying out new and improved guarantee structures. Schools today can’t provide the types of collateral that are necessary to support large loans, and so banks see them as higher risk, and since many local banks don’t have the appropriate products and tools to assess the risk, they have a blanket response of not investing. If there were more guarantors of education loans, this would take away some of the key barriers that the banks face in appraising and underwriting private schools.”



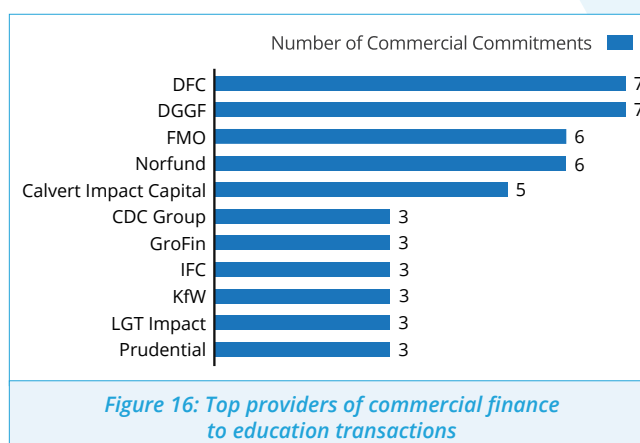
IMPACT INVESTORS: THE LEADING DEAL SPONSORS IN EDUCATION

Impact investors appear as deal sponsors of blended education transactions at a higher frequency than for transactions in other sectors (44% vs 27%), with GroFin (4 transactions) being the only deal sponsor of multiple education transactions within our dataset. Prominent deal sponsor domiciles include the United States (10 transactions), as well as developing countries such as India (6), Mauritius (4), and Kenya (4).



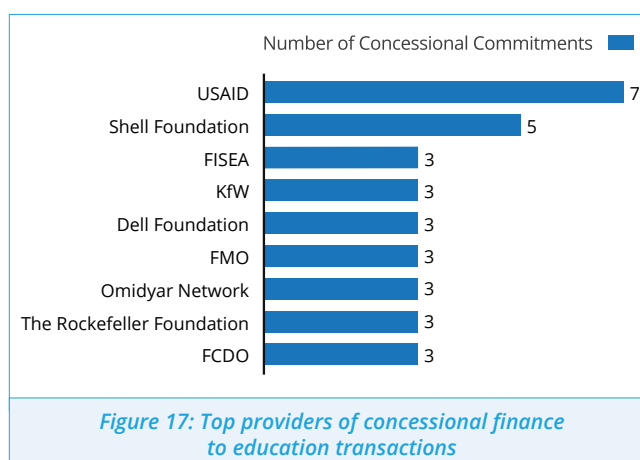
DFC AND DGGF: TOP COMMERCIAL INVESTORS IN EDUCATION

DFC (7 commercial commitments), the Dutch Good Growth Fund (DGGF - 7), FMO (6), and Norfund (6) have been the most active providers of commercial financing to education transactions. In response to the educational disruption caused by the COVID-19 pandemic, commercial investors have backed newly-formed international partnerships such as the [Global Education Coalition](#), established to help countries safeguard learning outcomes by offering in-kind support (e.g., technical expertise) as well as financial support.



USAID AND SHELL FOUNDATION: TOP CONCESSIONAL FUNDERS IN EDUCATION

USAID (7 concessional commitments) and Shell Foundation (5) have been the most active providers of concessional financing to education transactions. With up to [\\$40 billion](#) needed annually to finance education in Africa and resources largely focusing on pre-tertiary education, leaving segments like technical and vocational education underserved, the African Development Bank is looking to establish the [African Education, Science, Technology & Innovation Fund \(AESTIF\)](#). The fund would address these market failures by de-risking investment opportunities to catalyze funding for selected education projects across Africa.



Reflections

The mobilisation of private capital into health and education remains confronted by numerous challenges. Beyond the existing difficulties leaving institutional investors generally predisposed to sectors like finance and energy, Annie Theriault of Grand Challenges Canada notes further complications in attracting attention to the social sectors:

"Things are getting worse in terms of the allocation of investment capital towards sectors like health. A lot of capital that might have previously been tagged as general impact is now specifically focused on sectors like climate change, and health is not receiving the same attention."

New opportunities do exist for private investors in the social sectors. Consider education; as Nandita Ganapathy of Kaizenvest notes, the education sector has undergone a significant disruption in which new opportunities have arisen.

"The widespread school closures caused by the COVID-19 pandemic accelerated some of these shifts, but what we're now seeing is a new era of self-learning. Education is no longer seen as a time-limited process of exchanging knowledge in specified settings, but more of a continuous learning process focused on acquiring and improving skills, in which learning is personalised and can be acquired anywhere, at any time. Private capital can look beyond just funding schools or education institutions to entities operating within a broader ecosystem of learning development, from tech-based learning solutions to vocational upskilling. This is the direction we see the market going over the next 3-5 years."

Debled agrees, noting the opportunity presented by the rise of e-learning:

"The education sector is undergoing a digital revolution. With most schools having to close in 2020 due to the COVID-19 pandemic, they had to switch to e-learning platforms. Part of the ongoing challenge is ensuring that schools and education companies have sufficient access to digital tools, in addition to students living in more remote locations and more vulnerable students without the means to attend schools in person. This presents a great opportunity for private investors to support and scale better access to quality education."

Various steps must be taken by the development community for the private sector to be mobilized into these opportunities. Ganapathy argues that clearly defined metrics would bring in greater participation across the board:

"This is very doable in a sector like education, where things like learning outcomes and employability improvements because of interventions can be easily translated into metrics that can help to engender increased attention from impact-focused investors."

Meanwhile, Theriault makes a more structural point, noting that concessional capital should launch funds of funds to build out the investment ecosystem of the global health sector:

"What we see in global health is a lot of foundations or donor groups directly investing in deals rather than participating through vehicles, and while this is incredibly positive for the ecosystem, it does not have the same potential for mobilizing large amounts of capital for the sector since funds tend to attract new players. Currently, the health landscape is defined by single fund managers, foundations, and donors, without that layer of funds of funds that can mobilize capital at scale toward health or education, as can be found in other sectors like technology. Investors that do commit to vehicles like funds in global health tend to do so on a one-off basis, preventing the further growth of the ecosystem."

Overall, the mobilisation of private capital into health and education will require the development community to take action, committing catalytic capital towards building out an ecosystem of funds of funds that can begin to mobilize capital at scale.

Methodology and Notes

1. **Convergence's database:** Convergence maintains the largest and most detailed database of blended finance transactions that have reached financial close. Given the current state of information sharing, it is not possible for this database to be fully comprehensive. We have made efforts to capture all relevant blended finance transactions; however, there are likely more transactions that have not been captured.
2. **Scope of available data:** This brief analyzes 83 transactions targeting SDG 3 (Good Health) and 36 transactions targeting SDG 4 (Quality Education). This brief also draws upon stakeholder interviews conducted with Nandita Ganapathy, Partner at Kaizenvest; Emilie Debled, Executive Director - Strategic Developments & Partnerships, Investisseurs & Partenaires; Katie Smith, Deputy Education Finance Specialist, CATALYZE at Palladium, and Amit Brar, former Education Finance Specialist, CATALYZE at Palladium; and Annie Theriault, Chief Investment Officer, Grand Challenges Canada.
3. **Target regions and countries:** Convergence tracks region and country data by stated region(s) and countries of focus at the time of financial close, not actual investment flows. Often, regions and countries of eligibility are broader than those explicitly stated.

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About 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.



BLENDED FINANCE uses catalytic capital from public or philanthropic sources to scale up private sector investment in emerging markets to realize the SDGs.



Our **GLOBAL MEMBERSHIP** includes public, private, and philanthropic investors as well as sponsors of transactions and funds. We offer this community a curated, online platform to connect with each other on blended finance transactions in progress, as well as exclusive access to original market intelligence and knowledge products such as case studies, reports, trainings, and webinars. To accelerate advances in the field, Convergence also provides grants for the design of vehicles that could attract private capital to global development at scale.

