



AN OVERVIEW OF THE BLENDED FINANCE ECOSYSTEM AND TRENDS

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Defining Blended Finance

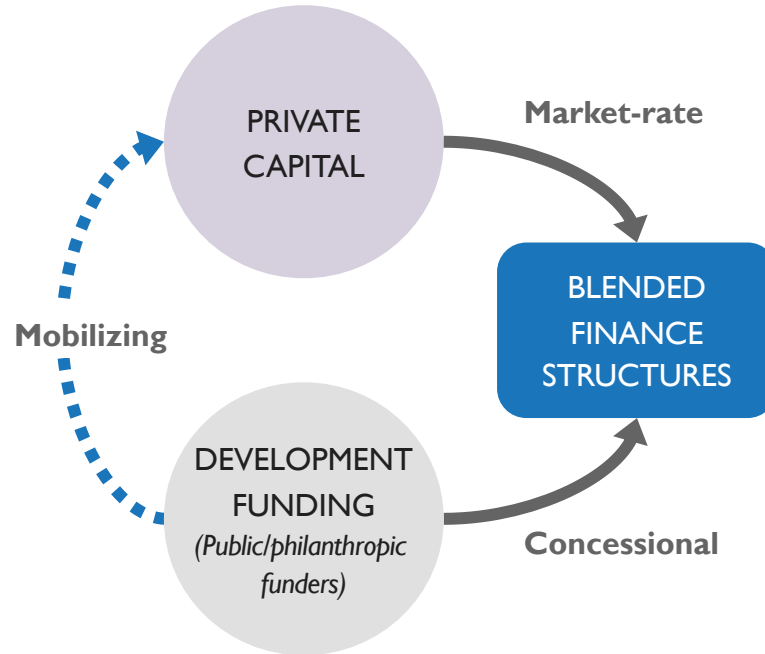
Poll Question:

Blended Finance is best described as...

- A. An approach to **investing**, like impact investing
- B. An approach to **structuring transactions**, bringing in public and private investors
- C. An approach to **contracting**, like Public-Private Partnerships

DEFINING BLENDED FINANCE

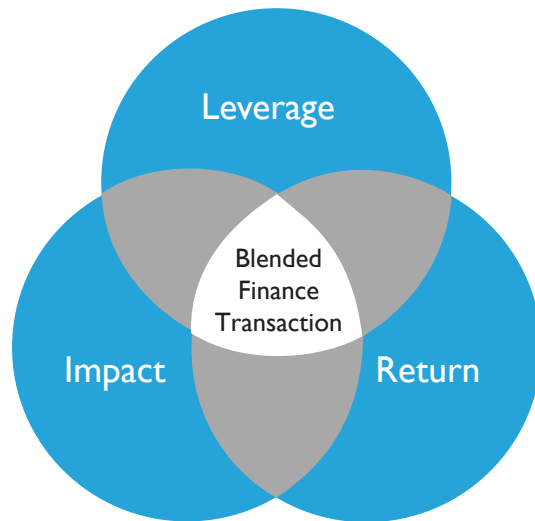
Blended finance is the use of **catalytic capital** from public or philanthropic sources to increase **private sector investment** in sustainable development



KEY CHARACTERISTICS OF A BLENDED FINANCE TRANSACTION

Three signature markings that Convergence believes are important to a blended finance transaction

1. **Leverage** - Commercial capital mobilized by concessional capital
2. **Impact** - Underlying activity contributes to the SDGs in a developing country; however not all parties need to have development intent
3. **Return** - Transaction expected to achieve a positive financial return; returns range from concessional to market rate and depend on the type of private sector investor in the deal



BLENDING FINANCE COMPARED TO OTHER FORMS OF FUNDING

TYPICAL FORMS OF FUNDING

	Aid / Philanthropy	Impact & Social Investors	Commercial Investment
Returns	Social returns; 100% financial trade-off	Social and financial returns (in the context of a social market) and preservation of original capital investment	Market beating net returns (on top of preservation of capital) and no real consideration of social returns
Impact targets	Embedded	Variable	Variable
Risk appetite	Risk-seeking	Neutral to averse	Risk averse
Liquidity required	Low	Medium	High
Vehicles	Grants, Returnable Grants, Concessional Loans, Guarantees	Growth Equity, Debt, Mezzanine, Structured Finance	Growth Equity, Debt, Mezzanine, Structured Finance
Key actors	Aid Agencies, Donors, NGOs, HNI's	Impact Investment Firms	Banks, Institutional investors

Social Enterprises / Financial Institutions

BLENDING FINANCE

Aid / Philanthropy	Impact & Social Investors	Commercial investment
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Blended finance structure (eg: Fund, Facility, Bond, Note)

Social Enterprises / Financial Institutions

Blended Finance combines these disparate approaches into one structure, where each actor takes on a risk-return profile that is acceptable to them while concurrently achieving their objectives

BLENDING ACROSS DIFFERENT LEVELS

1. Project Level - Public & private capital blended within a single project or company's financial structure

2. Fund Level - Public and private investors pool resources to be invested in multiple projects or companies

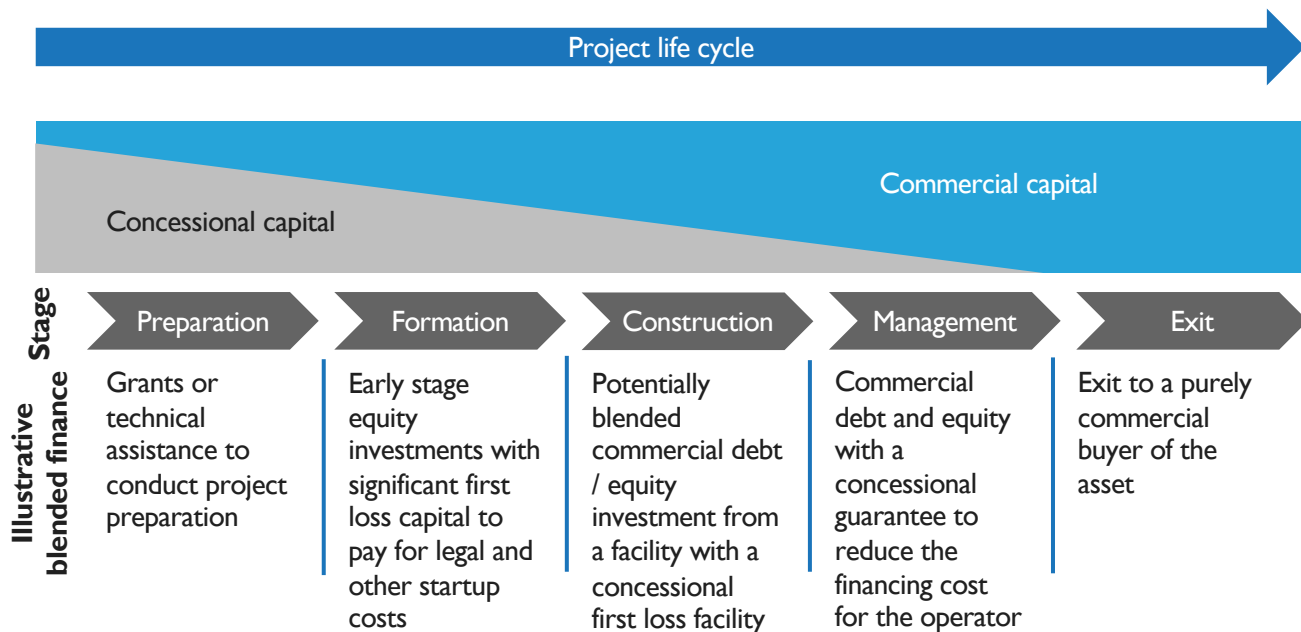
3. Fund-of-Funds - Funds that invest in other funds

4. Facility - Long term institution set up to blended different forms of capital

Examples of Blending Across Different Levels	
Project Level	<ul style="list-style-type: none">• M-Kopa Solar• Kigali Bulk Water Project
Fund Level	<ul style="list-style-type: none">• Climate Investor One• Danish Climate Investment Fund
Fund-of-Funds	<ul style="list-style-type: none">• Sarona Frontier Markets Fund 2• Global Energy Efficiency & Renewable Energy Fund
Facility	<ul style="list-style-type: none">• Global Environment Facility• GuarantCo

BLENDED FINANCE CAN BE DEPLOYED ACROSS PROJECT LIFE CYCLE

- Blended finance can be used to support full project lifecycle until project reaches commercial viability
- Blended finance can be tailored to each stage - minimize concessionality



Illustrates the proportion of concessional vs commercial capital at each stage

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BLENDED FINANCE CAN SUPPORT YOUR ORGANIZATIONS WITH.....



BLENDED FINANCE IS NOT A PANACEA

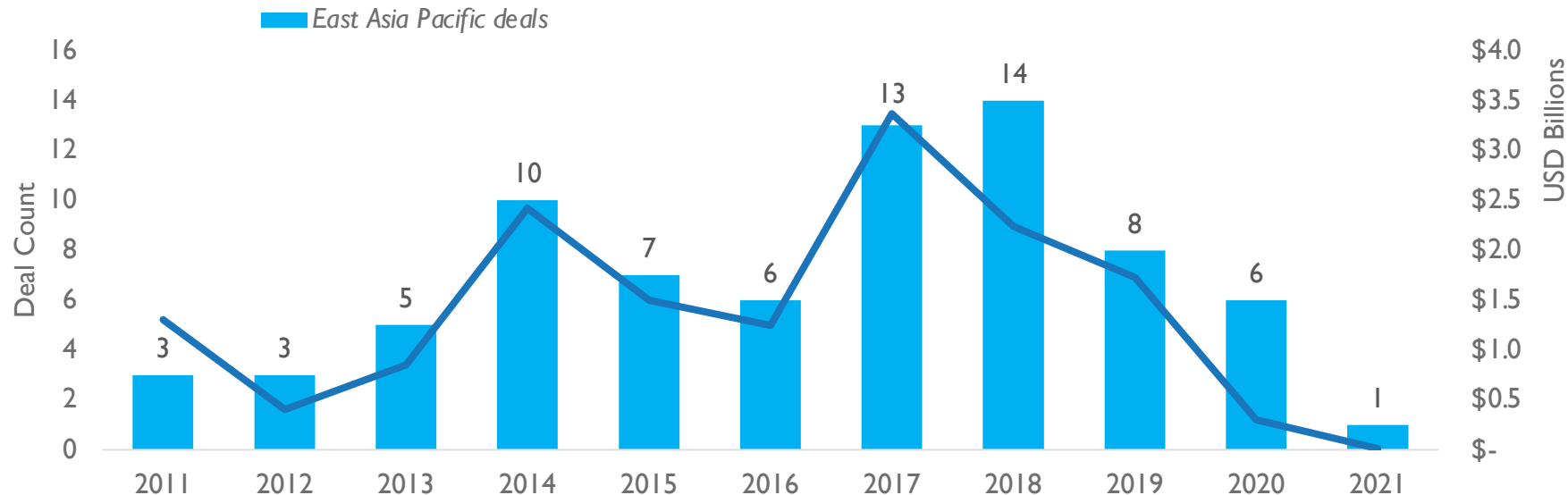
- Development capital providers (development aid agencies & foundations) have multiple tools to finance SDGs grants, development finance and blended finance
- Blended finance is a good development tool only if:
 1. Goal is to catalyze additional finance
 2. Transaction adheres to best practices
- Blended finance best deployed to mobilize commercial finance that otherwise would not have invested in developing countries to achieve SDGs
- Rationale: Aggregate of concessional funds and additional catalyzed finance (from the private sector) provides development impact on a self sustaining basis



Adapted from OECD Blended Finance reports

Blended Finance Deal Trends

COVID-19 SEVERELY IMPACTED FDI INFLOWS TO SOUTHEAST ASIAN ECONOMIES; THE REBOUND WILL DICTATE THE EVOLUTION OF BLENDED FINANCE IN THE REGION



87

Total number of **closed deals** captured by Convergence targeting East Asia Pacific

US\$ ~18.4 billion

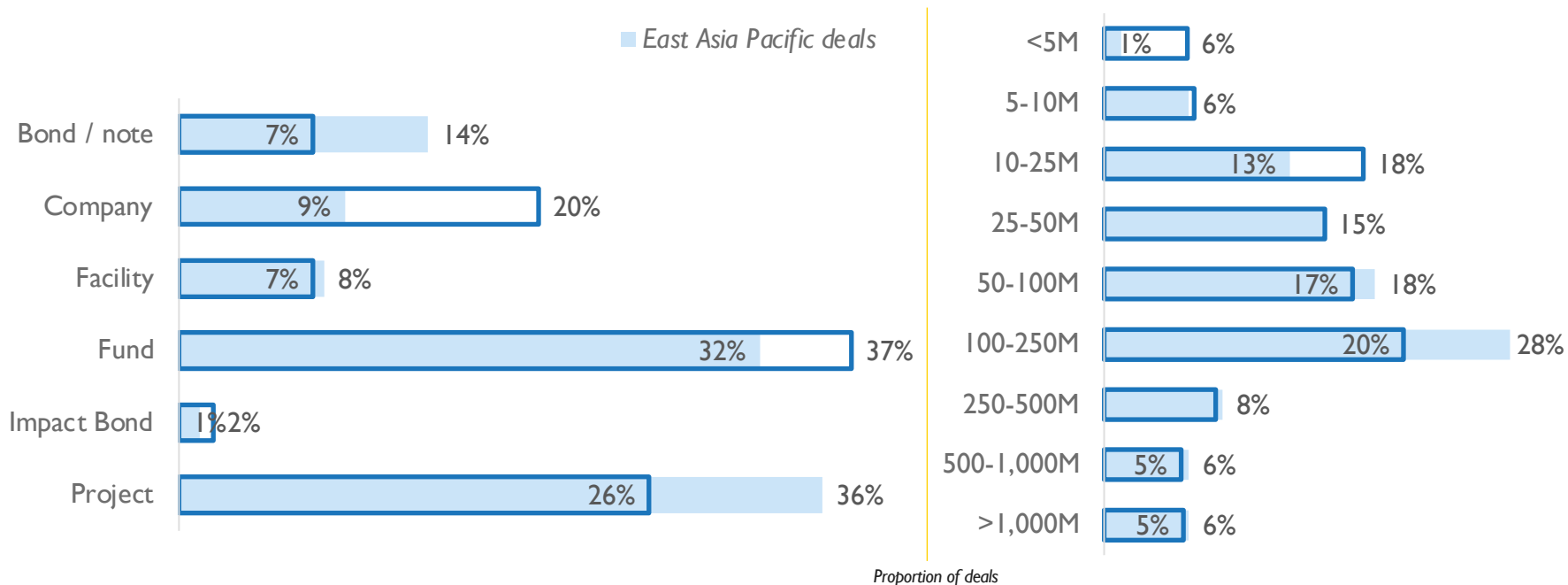
Total aggregate financing towards East Asia Pacific transactions

US\$ 161 billion

Aggregate financing of **all transactions** in Convergence's historical deals database

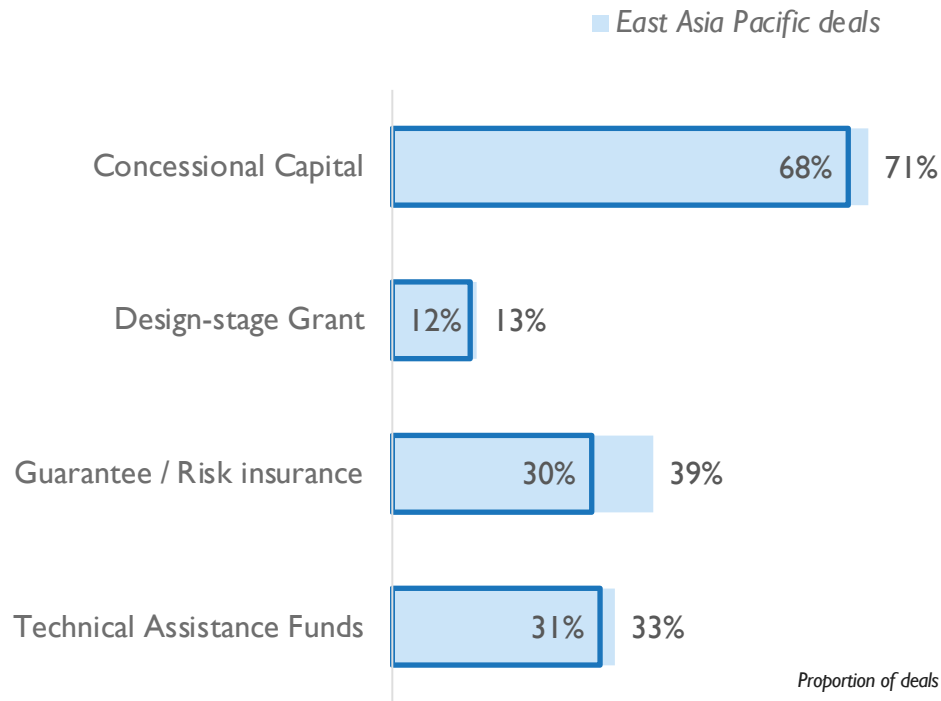
Sources: Convergence Historical Data. Note: Data snapshot as of March 2022.

THE MARKET IS PRIMARILY FOCUSED ON LARGE-SCALE CRITICAL INFRASTRUCTURE AND RENEWABLE ENERGY PROJECTS; ISSUANCES ON PUBLIC CAPITAL MARKETS ARE ALSO SURGING



Source: Convergence Historical Data. Note: Data snapshot as of March 2022

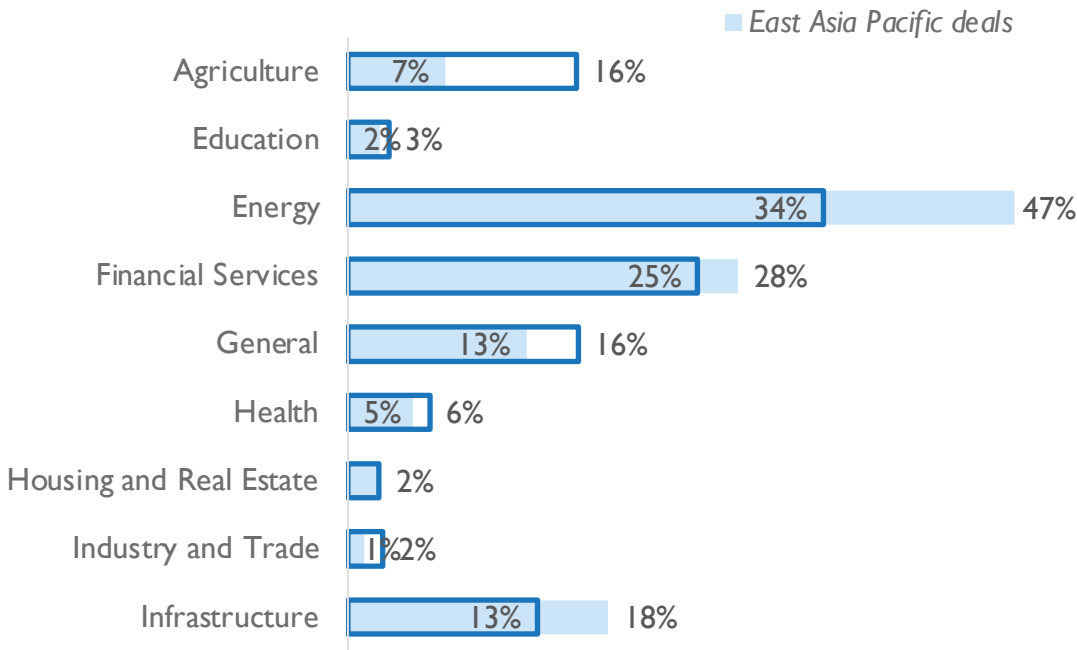
GUARANTEES AND OTHER RISK INSURANCE PRODUCTS ARE COMMONLY DEPLOYED TO MAXIMIZE PRIVATE SECTOR INVESTMENT INTO LARGE-SCALE PROJECTS



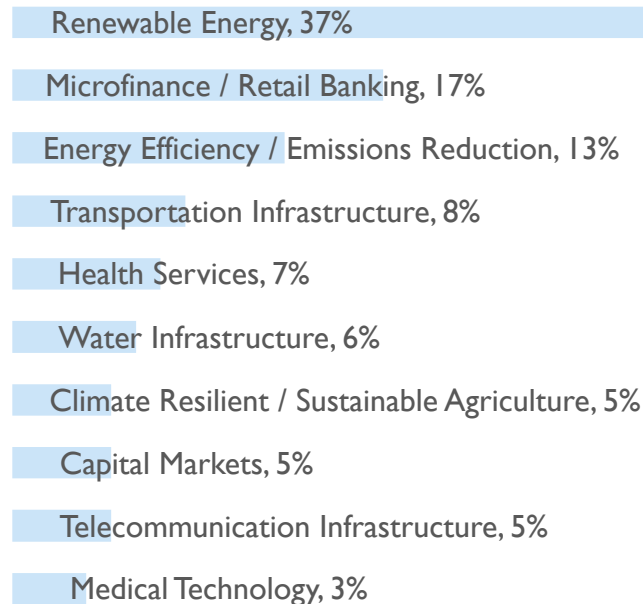
Source: Convergence Historical Data. Note: Data snapshot as of March 2022.

BLENDED FINANCE SEES STRONG APPLICATION IN RENEWABLE ENERGY ASSET CREATION; PROMOTING ACCESS TO FINANCIAL SERVICES IS ALSO A COMMON GOAL

SECTORS



SUB-SECTORS

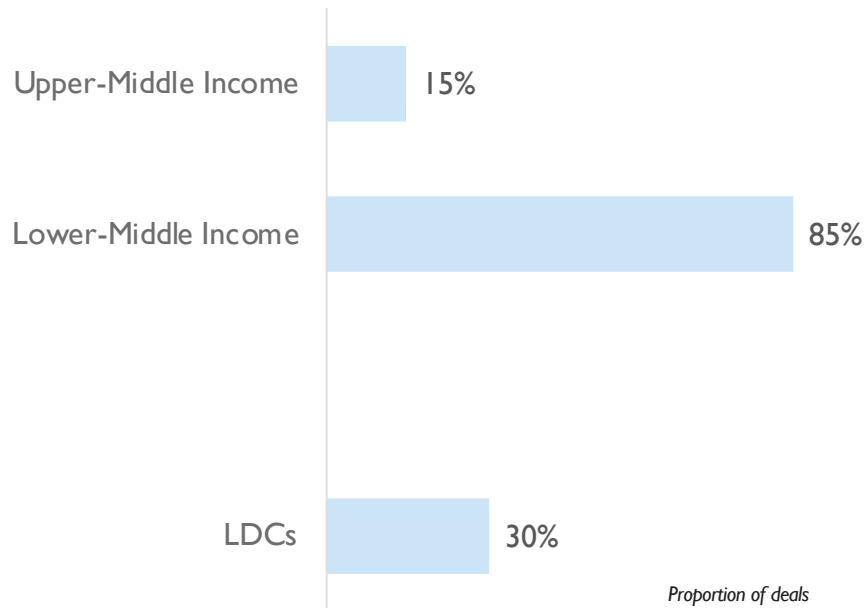


Proportion of deals

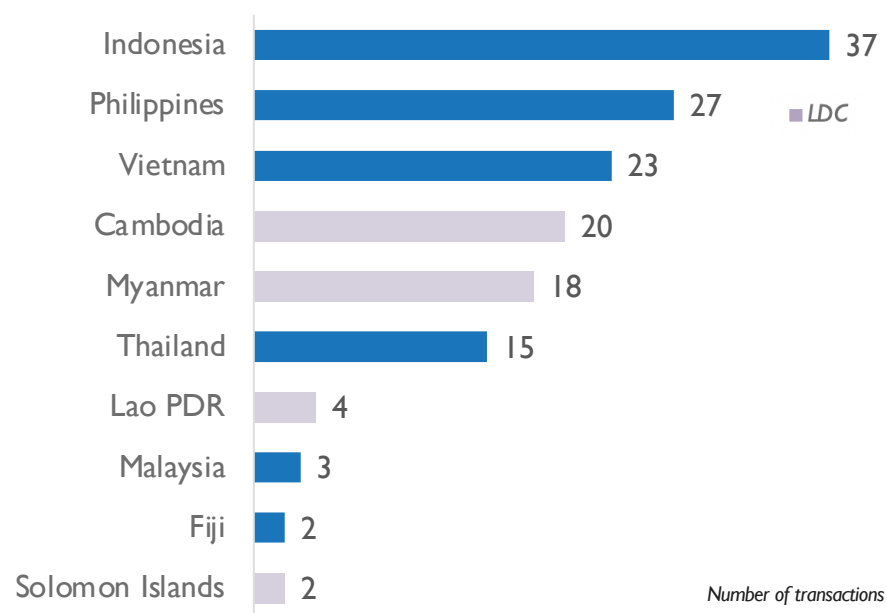
Source: Convergence Historical Data. Note: Data snapshot as of March 2022

INDONESIA IS A RAPIDLY GROWING HUB OF BLENDED FINANCE ACTIVITY ACROSS SECTORS, WHILE SMALL ISLAND STATES IN THE PACIFIC ARE YET TO EXPERIENCE SUSTAINED ATTENTION

RECIPIENT COUNTRY INCOME LEVEL

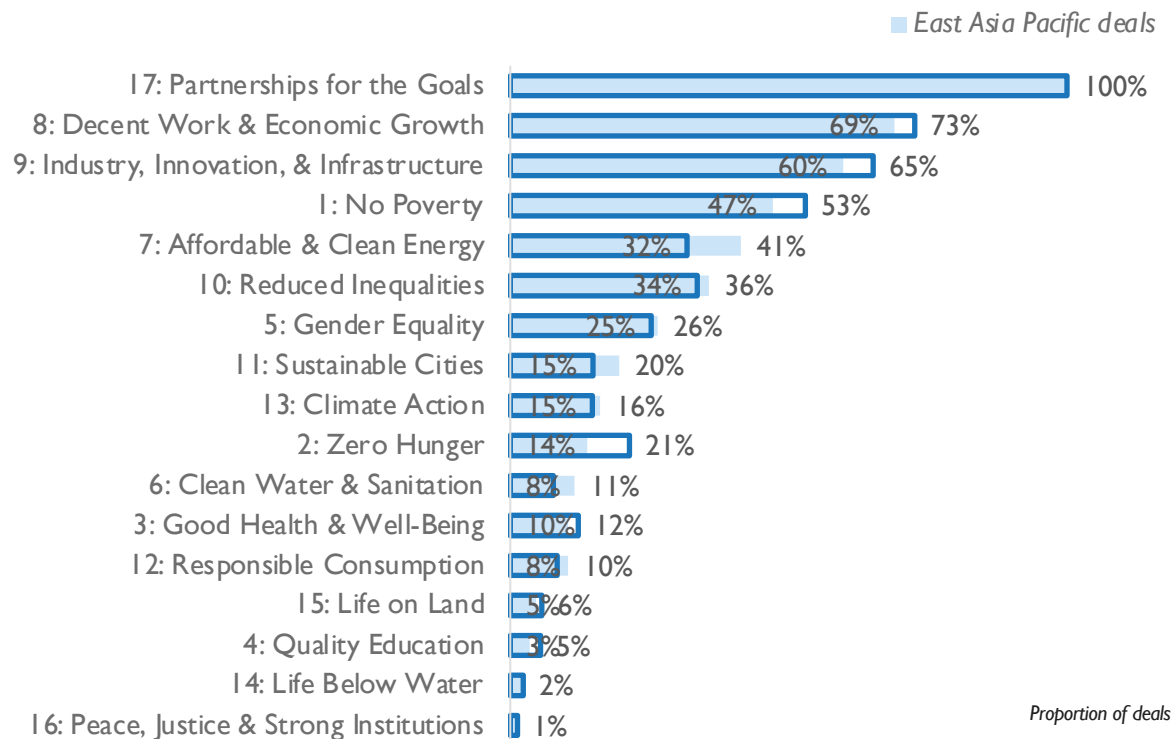


RECIPIENT COUNTRIES BY TRANSACTION COUNT



Source: Convergence Historical Data. Note: Data snapshot as of March 2022.

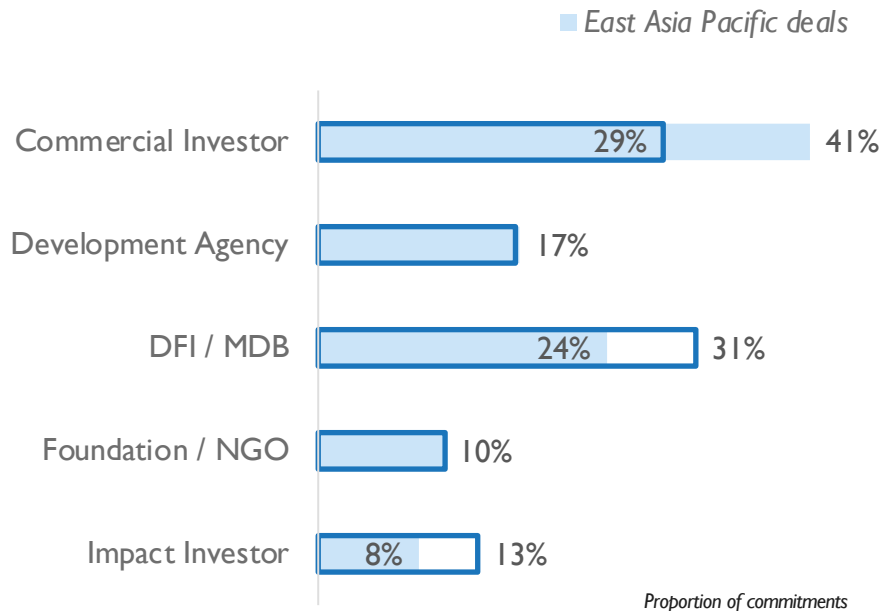
SDG ALIGNMENT WITH BLENDED FINANCE DEAL TRENDS



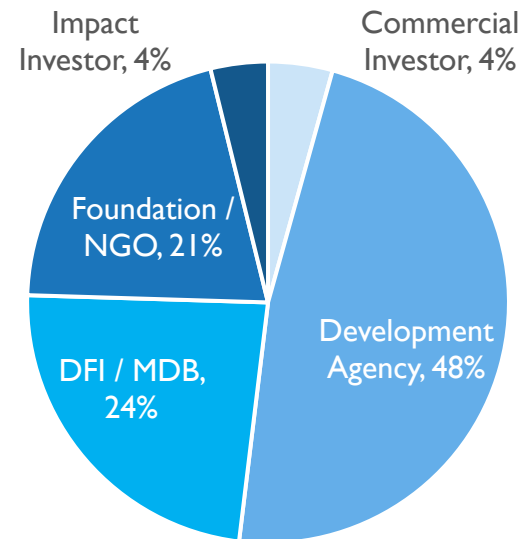
Source: Convergence Historical Data. Note: Data snapshot as of March 2022.

COMMERCIAL INVESTORS ARE KEY FINANCIERS IN THE REGION, WHILE DEVELOPMENT AGENCIES ACT AS CRITICAL CAPITAL MOBILIZERS

ALL COMMITMENTS

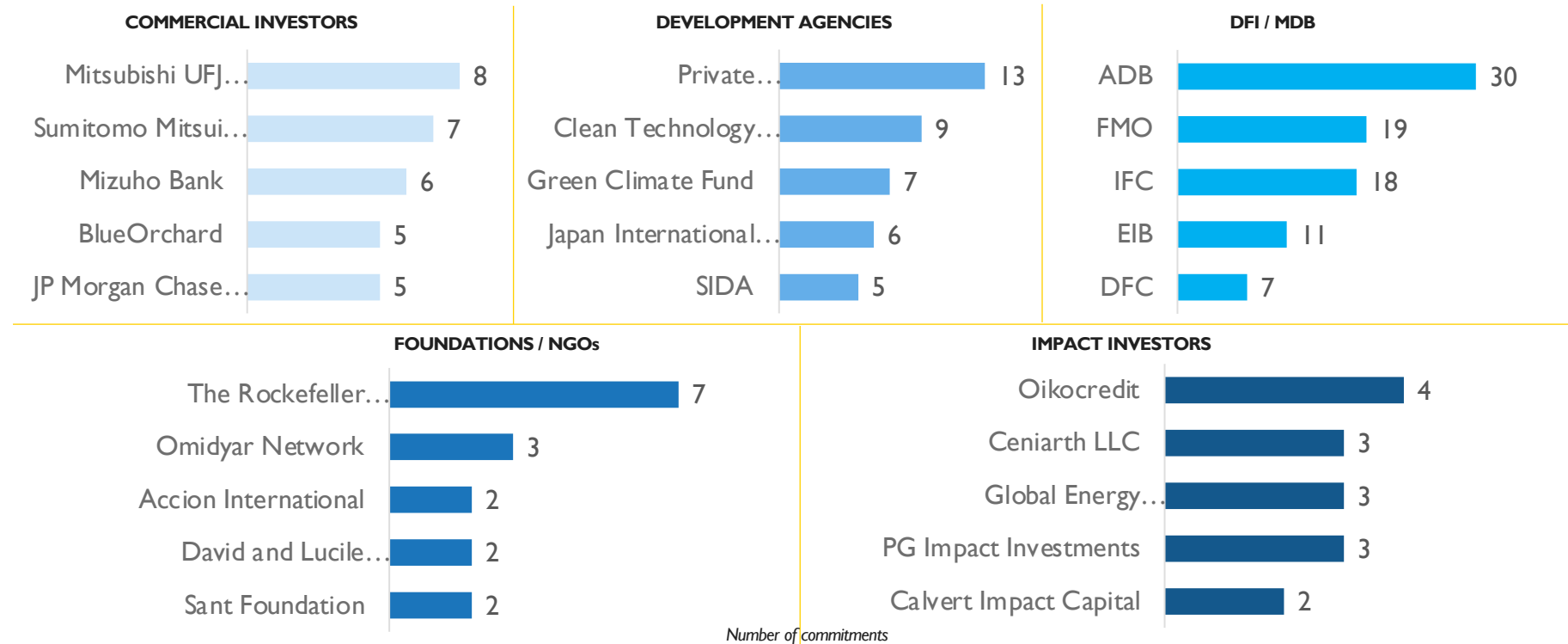


CONCESSIONAL COMMITMENTS



Source: Convergence Historical Data. Note: Data snapshot as of March 2022.

DFIs / MDBs REPRESENT THE MOST ACTIVE INVESTORS, BUT INFRASTRUCTURE REFINANCING OPPORTUNITIES ARE DRAWING INTEREST FROM COMMERCIAL BANKS



Source: Convergence Historical Data. Note: Data snapshot as of March 2022.

Mainstreaming Blended Finance

DEVELOPMENT FINANCE IS MOVING TOWARDS BLENDED FINANCE TO SCALE DEVELOPMENT IMPACT

Addis Ababa Action Agenda

The UN member countries agreed on the importance of deploying public funds to attract private investment

Blended Finance 2.0

More strategic use of approaches to mobilize commercial capital at scale and target it towards SDG projects in developing countries



Sustainable Development Goals

The global community needs to move from “Billions” in ODA to “Trillions” (\$2.5 trillion) in investments of all kinds: public, private, philanthropic



Blended Finance 1.0

Different forms of development capital to increase efficiency and make projects more viable



SIGNIFICANT EFFORT UNDERWAY TO INSTITUTIONALIZE, SCALE AND MAINSTREAM BLENDED FINANCE

1

OECD Blended Finance Principles and Development Cooperation Directorate Workplan

2

Creation of MDB & DFI working group on Blended Finance for Private Sector Projects

3

G20 – Multilateral Development Bank Balance Sheet Optimization Workplan; ongoing effort until 2025

4

IDA Replenishment 18 - \$2.5 billion of concessional funds to support IFC/MIGA to do more in low income countries

5

EU External Investment Plan Allocates ~€3 billion for blended finance activities and comprises of Africa investment platform

6

2x Challenge announced by G7 DFI's, aim to leverage blended finance to address gender issues

7

Launch of Tri Hita Karana Roadmap for Blended Finance, a multi-stakeholder process to standardize good practices and establish global benchmarks

NEXT STEPS TO INSTITUTIONALIZE, SCALE AND MAINSTREAM BLENDED FINANCE

- 1 Public funders require greater knowledge and capacity to invest in blended finance transactions
- 2 Align assets to investors requirements and preferences
- 3 Intermediaries required to build market and disseminate trends and best practices
- 4 Build capacity of developing country governments and organizations to originate and participate in blended finance transactions
- 5 There is a continued need for early stage concessional capital
- 6 Donors & investors require actionable blended finance data