CONVERGENCE

BLENDING GLOBAL FINANCE

BLENDED FINANCE SOLUTIONS

NORDIC INNOVATIVE FINANCE FORUM

MARCH 24, 2021

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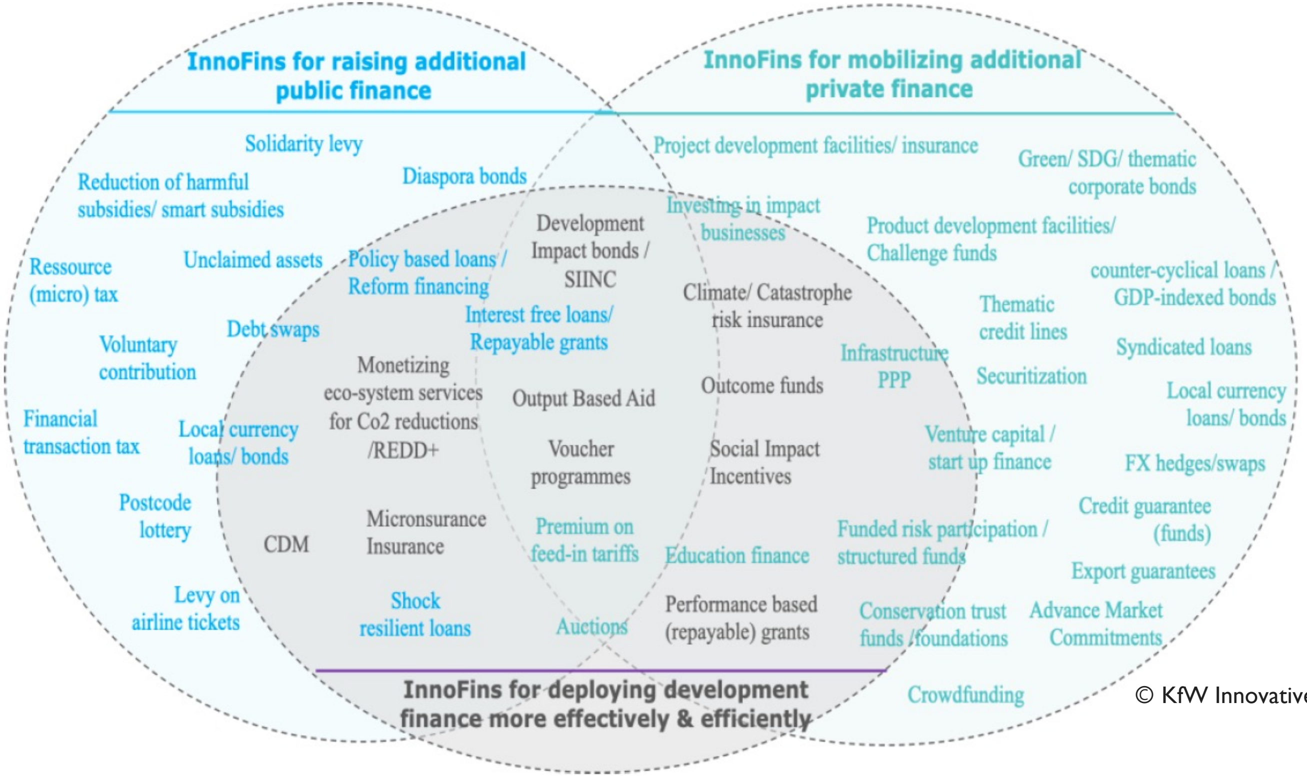
MAP OF INNOVATIVE FINANCE MECHANISMS

Innovative Finance is broader than Blended Finance: Blended finance is a development tool when private investment mobilization is a primary objective

Figure 7: InnoFins according to objectives



SDG INVESTMENT GAP

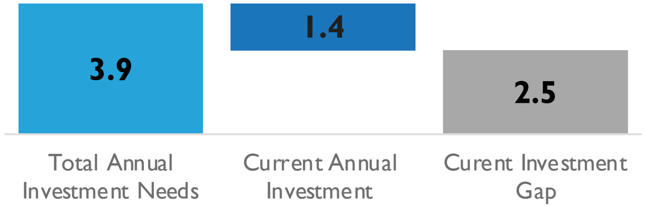
- UNCTAD estimates $4.0 trillion investment required annually to achieve SDGs in developing countries
- Actual investment around $1.5 trillion
- $2.5 trillion annual SDG Investment Gap

- Official development assistance (ODA) flows to developing countries around USD 150 billion annually globally

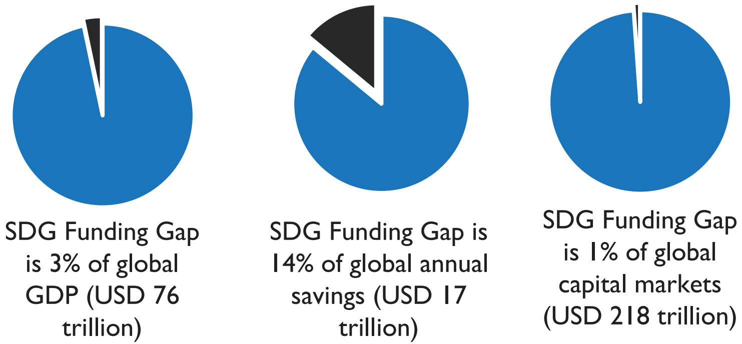
- Private investment must/can be attracted to finance projects in emerging markets that are aligned to the SDGs; "Billions to Trillions"

Estimated SDG Investment Gap 2015 - 2030

Trillions of USD, annual average



Putting the SDG Funding Gap in Perspective



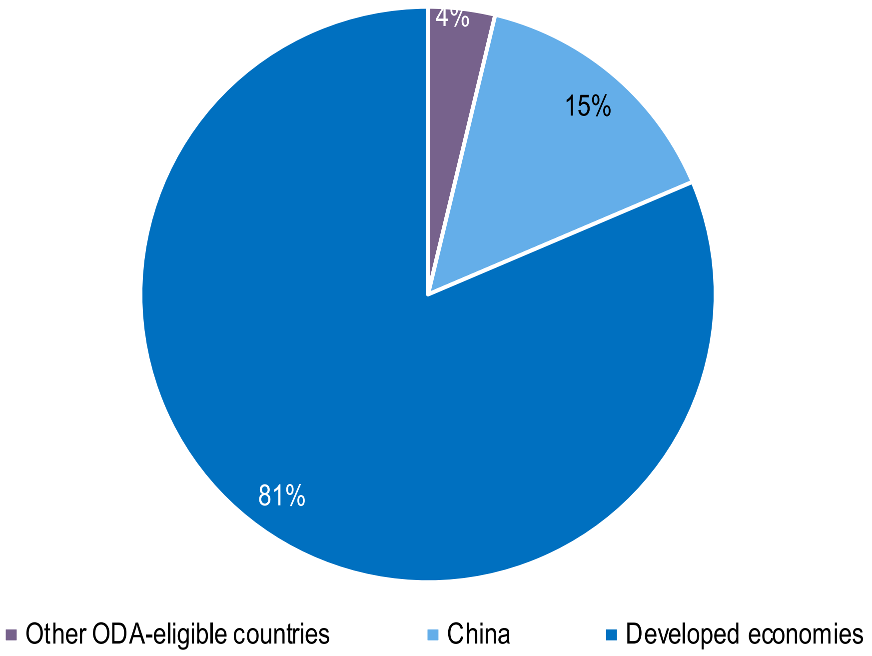
GLOBAL FINANCIAL ASSETS NOT INVESTED IN DEVELOPING CUNTRIES

Global financial assets (GFA) equal $379 trillion. Growing at 5% per annum.

Only 4% GFA located in developing countries (excluding China)

$2.5 trillion annual SDG Investment Gap:

- Huge relative to $16 trillion GFA in developing countries (ex China)
- Less than 1% of GFA in developed economies
- Less than annual growth of GFA in developed economies



Source: FSB and IMF, Apr 2020

DEVELOPING COUNTRY RISK TOO HIGH FOR MOST INVESTORS

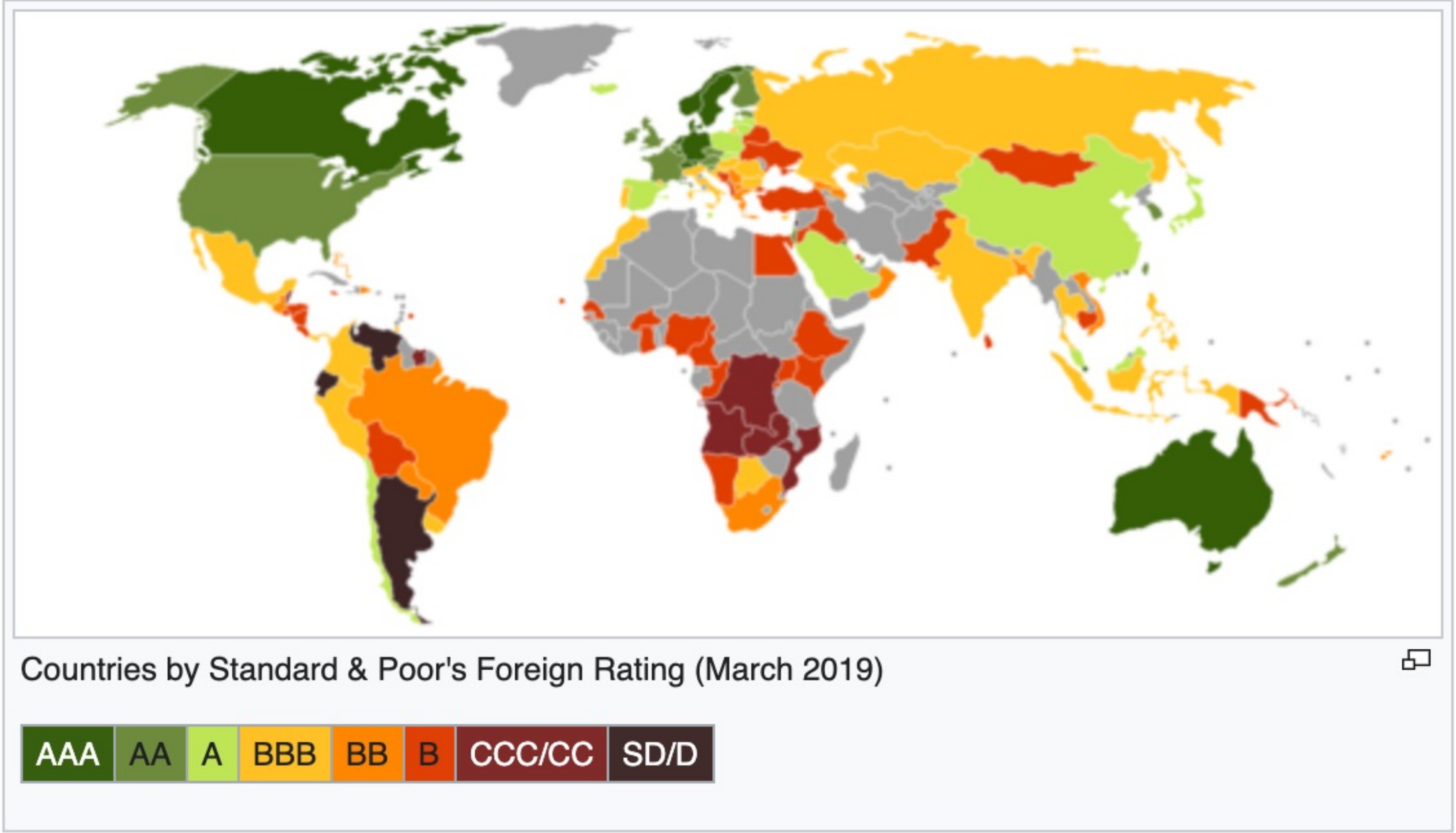
145 Developing Countries:

12% Investment Grade

88% Non-Investment Grade

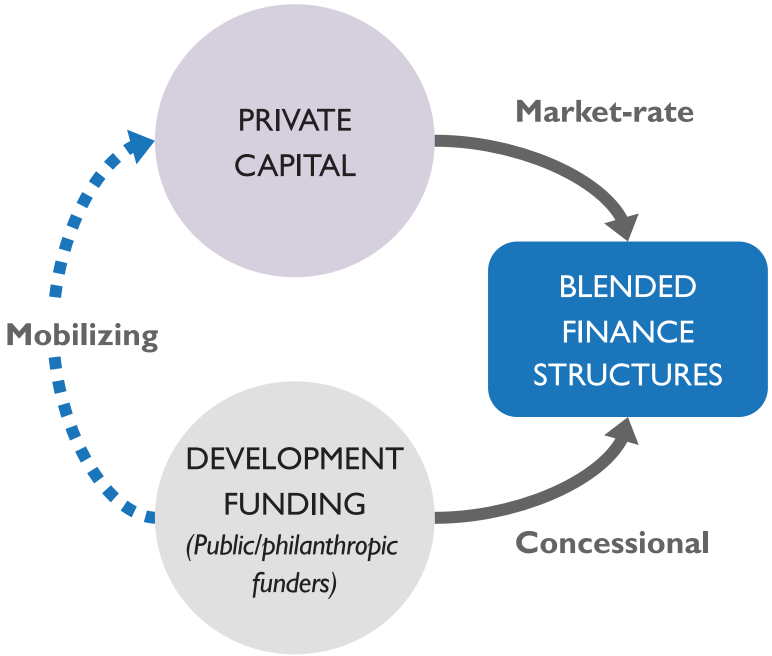
Median Sovereign Rating is "B"

Most investors don't have mandate to invest at this risk level.



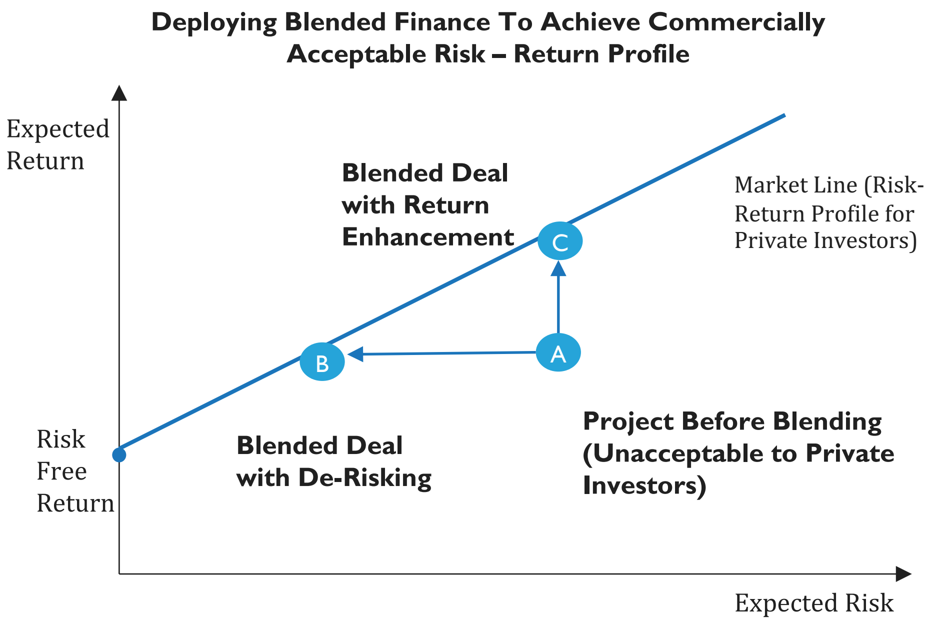
BLENDED FINANCE: MOBILIZING PRIVATE INVESTMENT

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



BLENDED FINANCE: CREATES "MARKET-EQUIVALENT" RISK-RETURN 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 mobilise private investment, concessional donors can increase returns or reduce risk of investments to market line.
- Large majority of projects in Convergence 500+ historical deals database reduce risk in preference to enhance returns.

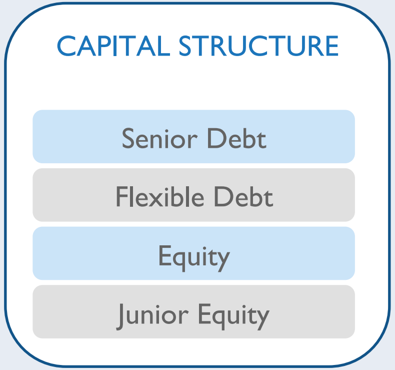


The goal of Blended Finance is to create acceptable risk-return profiles to mobilize private sector investment to SDG projects in developing countries.

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

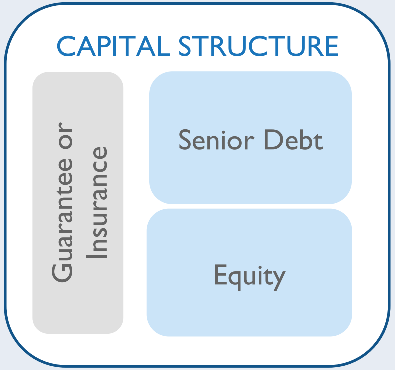
CONCESSIONAL DEBT OR EQUITY

- 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



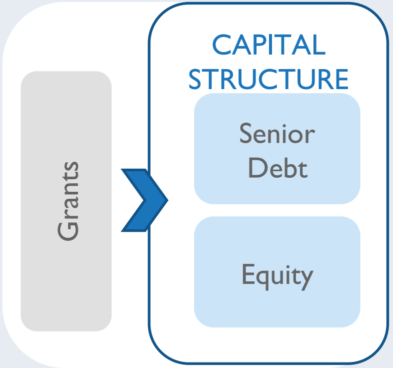
GUARANTEE OR INSURANCE

- 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 GRANT

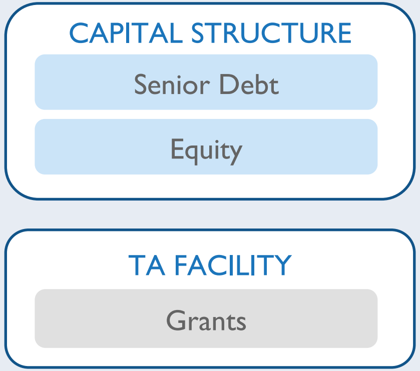
- Grant funding supporting costs and activities that lead to bankability and investability of projects
- Typically provided by those with a higher risk tolerance (eg: foundations)



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

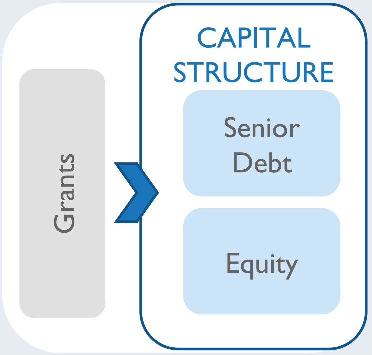
TECHNICAL ASSISTANCE FUNDS

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



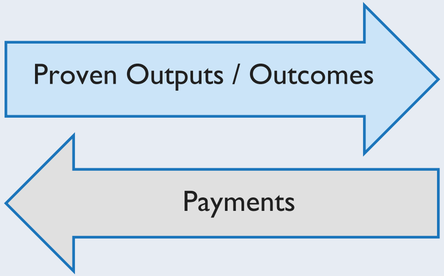
VIABIITY GAP FUNDING / SMART SUBSIDIES

- 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



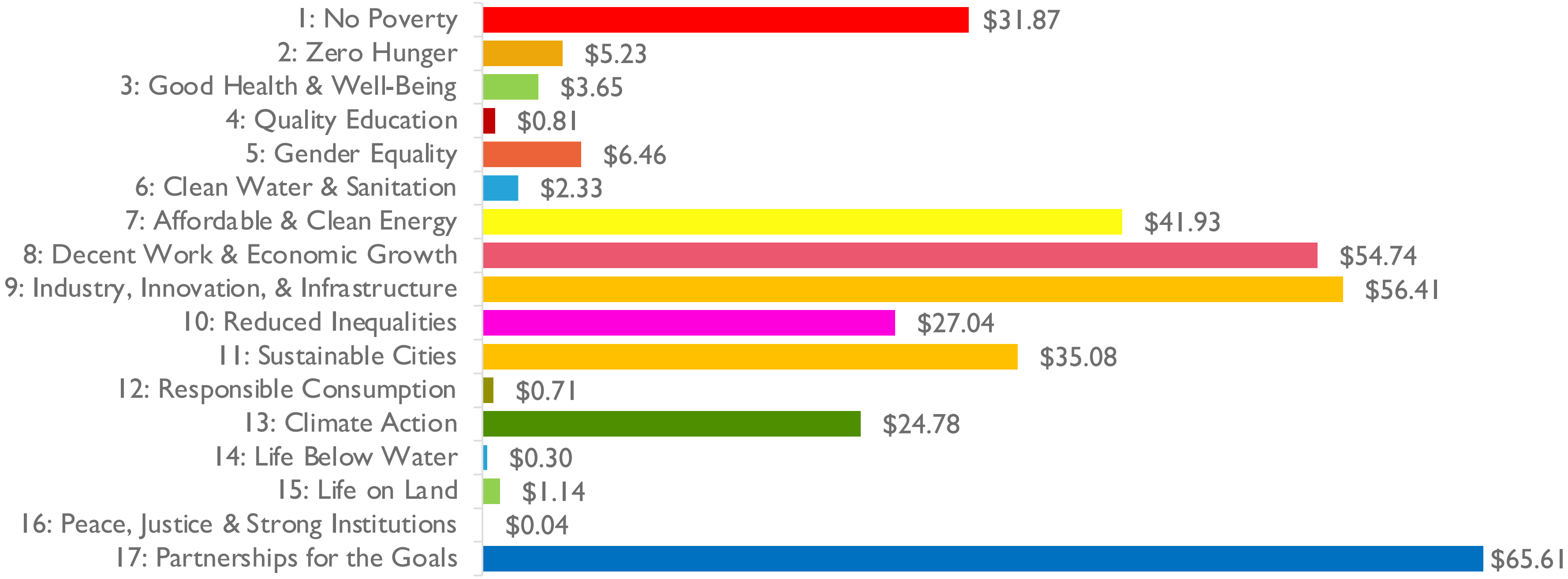
RESULTS BASED FINANCING

- 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 Impact Bonds & Social Impact Bonds



BLENDED FINANCE BEST ALIGNED TO SECTORS WITH UNDERLYING REVENUES

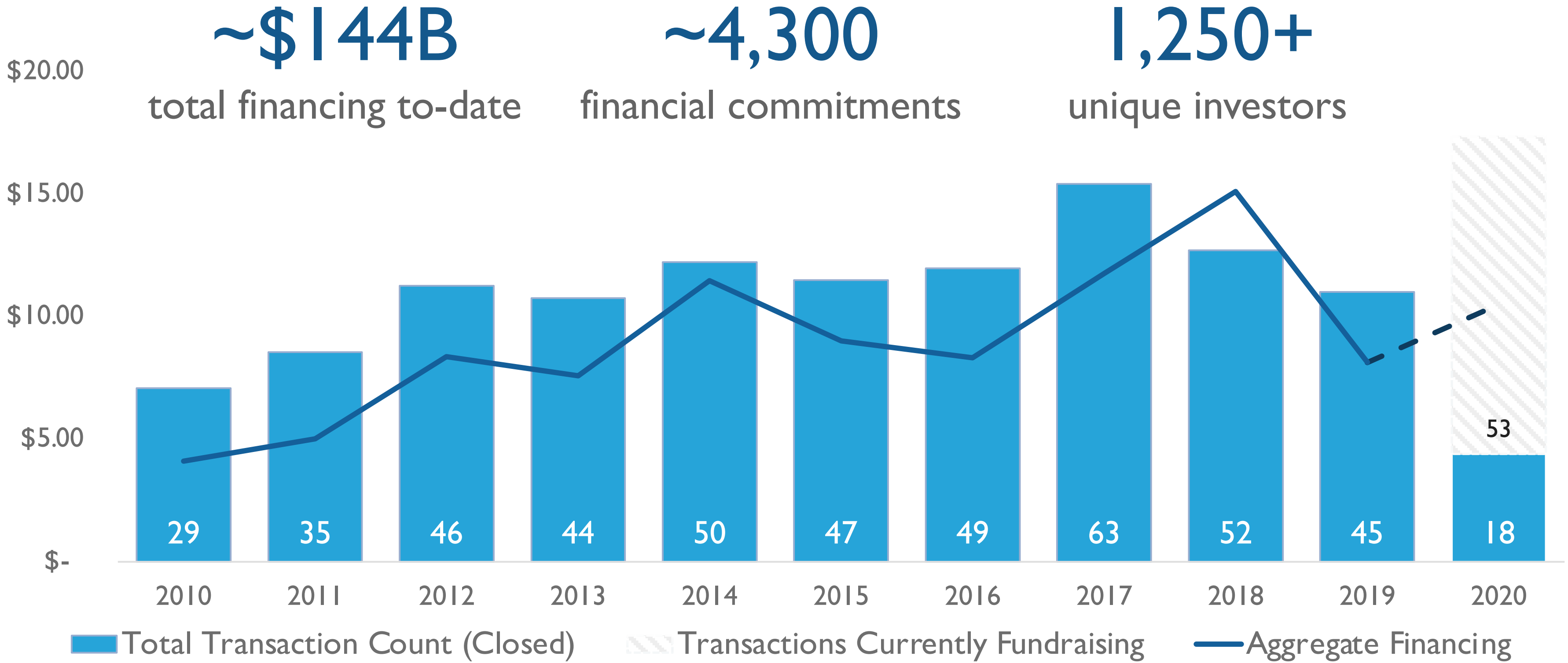
SDG ALIGNMENT



Committed Capital (USD, billions, 2014-2019)

Source: Convergence, The State of Blended Finance 2020

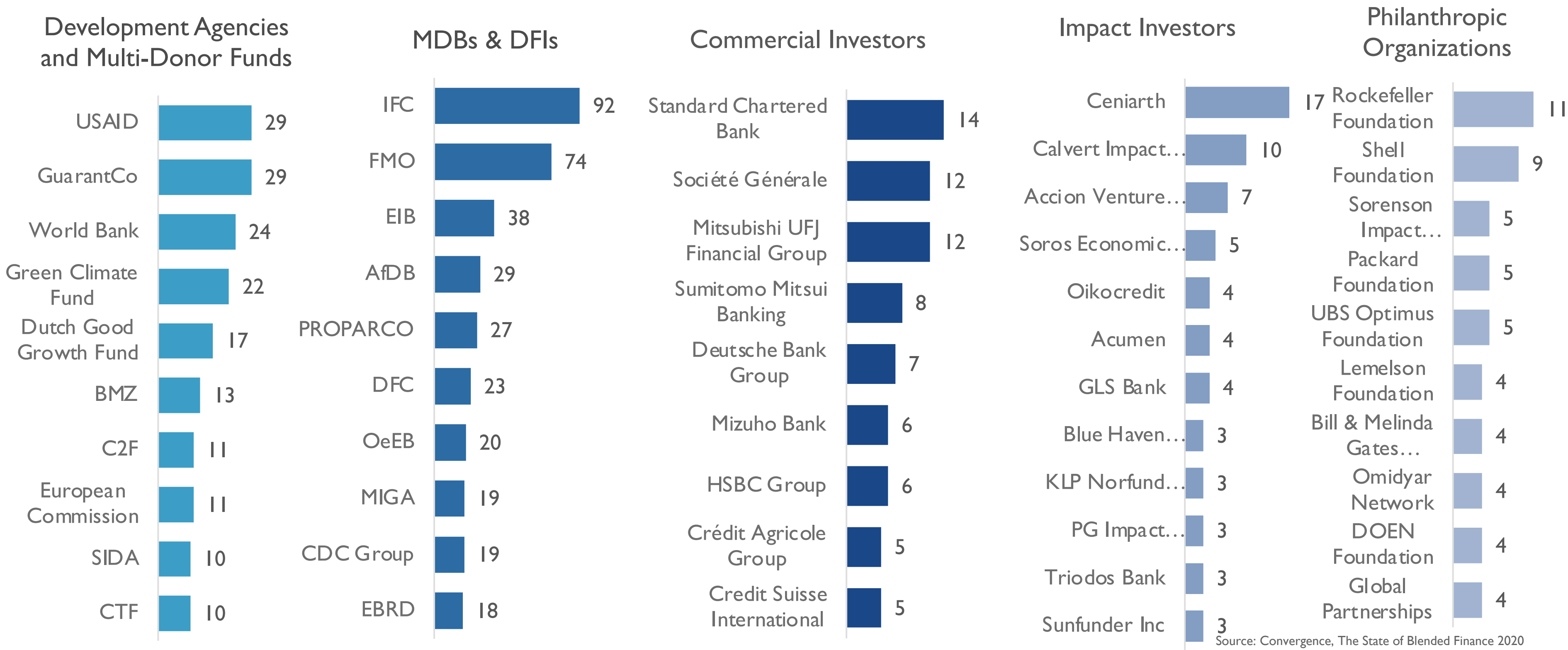
BLENDED FINANCE FLOWS REMAIN STEADY; BUT SCALE WILL BE KEY TO ACHIEVE "BILLIONS TO TRILLIONS"



Source: Convergence, The State of Blended Finance 2020

KEY PARTICIPANTS IN BLENDED FINANCE

TOP INVESTORS BY NUMBER OF FINANCIAL COMMITMENTS (2014-19)

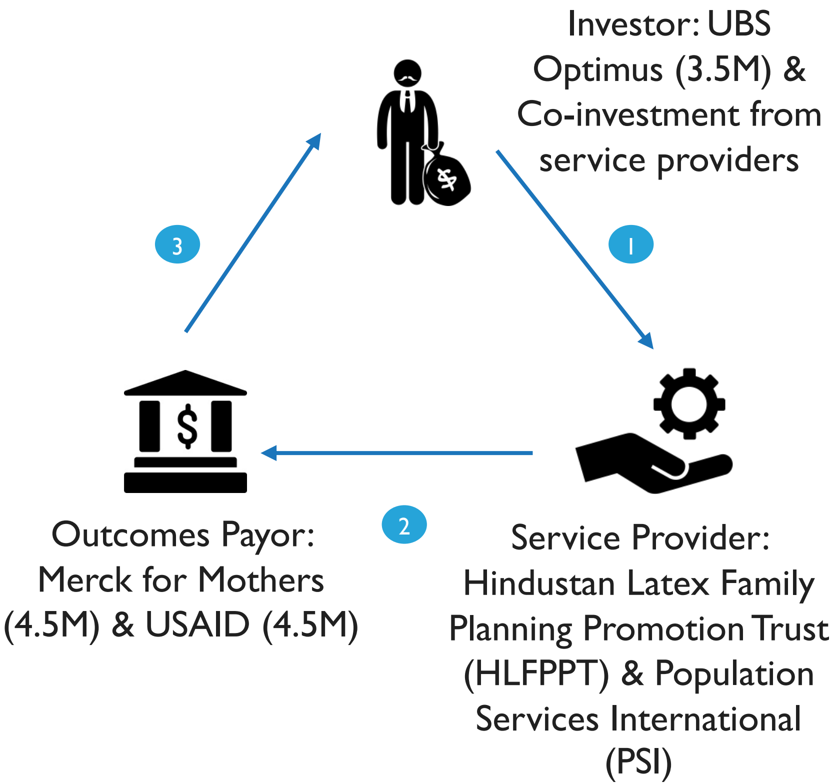


Source: Convergence, The State of Blended Finance 2020

EXAMPLE 1: UTKRISHT DEVELOPMENT IMPACT BOND (ARCHETYPE 6)

- 9M three-year impact bond to fund maternal and newborn interventions in Rajasthan
- Investors will fund service providers who will support private healthcare facilities to improve their systems and attain a quality certification
- Investors will be paid by outcome funders upon verification that a facility(s) is ready for accreditation under the new quality standard
- 7.1% expected IRR for UBS Optimus (capped at 8%)
- Projected to impact up to 600,000 pregnant women and save up 10,000 lives over a five-year period

Mechanics of Utkrisht Impact Bond



EXAMPLE 2: WOMEN'S WORLD BANKING (WWB) CAPITAL PARTNERS FUND 2 (ARCHETYPE 1) (1 OF 2)

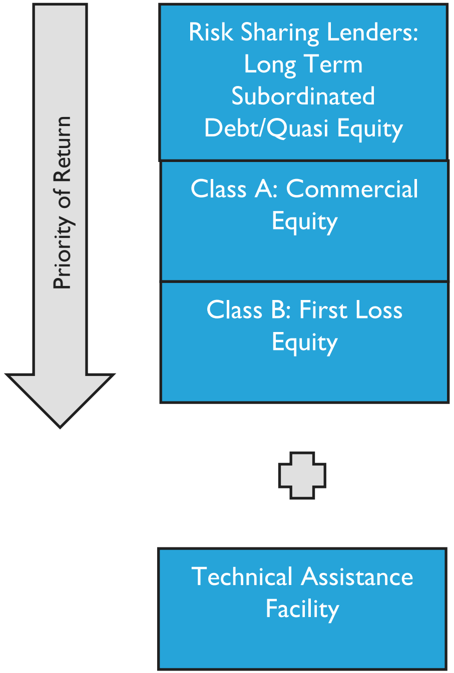
Women's World Banking

- WWB has designed a $100m blended finance fund that will invest in women focused financial services providers in low-income countries and fragile states (big focus on Sub-Saharan Africa)

- A concessional first loss equity tranche ($20M) funded by a development aid agency, will be used to attract commercial investors and DFI's into the Class A tranche ($50M)

- Fund structure divided into two investment pools to accommodate specific interest in investments in Sub-Saharan Africa; higher risk profile so capital will be drawn and distributed separately

- ~$28M in commitments till date from EU ($8M-Class B), USAID ($0.5M-Class B & $100K-TA), EIB ($11.5M-Class A), MEDA-SARONA ($1M-Class A), BMZ (6M-Class B), GP ($1M-Class A)

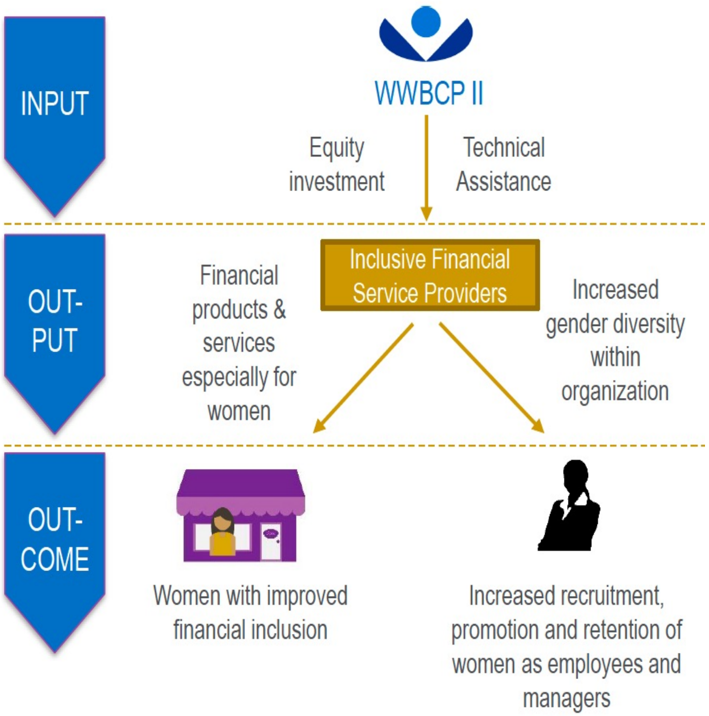


EXAMPLE 2: WOMEN'S WORLD BANKING (WWB) CAPITAL PARTNERS FUND 2 (2 OF 2)

- Fund will methodically support its investees in applying a critical gender lens to their operations; creation of Gender Assessment Methodology (GAM) that will evaluate a company's outreach to the low income women's market and the company's own gender diversity amongst staff and leadership

- TA facility will be grant funded and will support the implementation of GAM at the investee level

- Through its Design Funding program, Convergence has provided $300,000 in grant funding towards fund structuring and publication of the GAM



BLENDED FINANCE: JUNIOR TOOL IN DEVELOPMENT TOOLBOX

- 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**

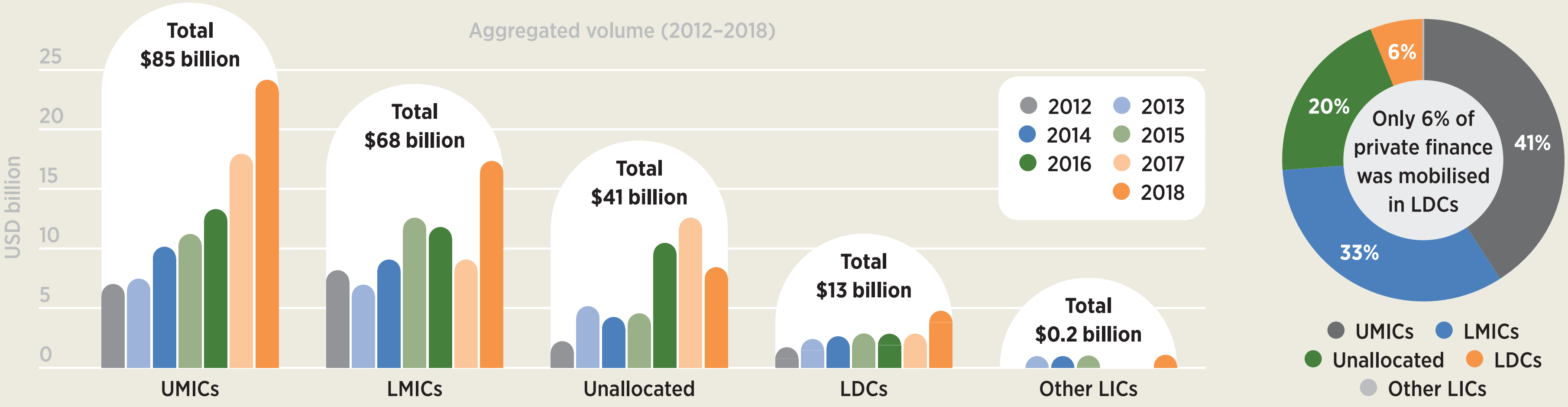
- Rationale: Aggregate of concessional funds and additional catalyzed finance (from the private sector) provides development impact on a self sustaining basis

ANNEX

BLENDED FINANCE SUPPORTS BANKABLE AND NEAR-BANKABLE TRANSACTIONS - DOES NOT SUPPORT UNBANKABLE

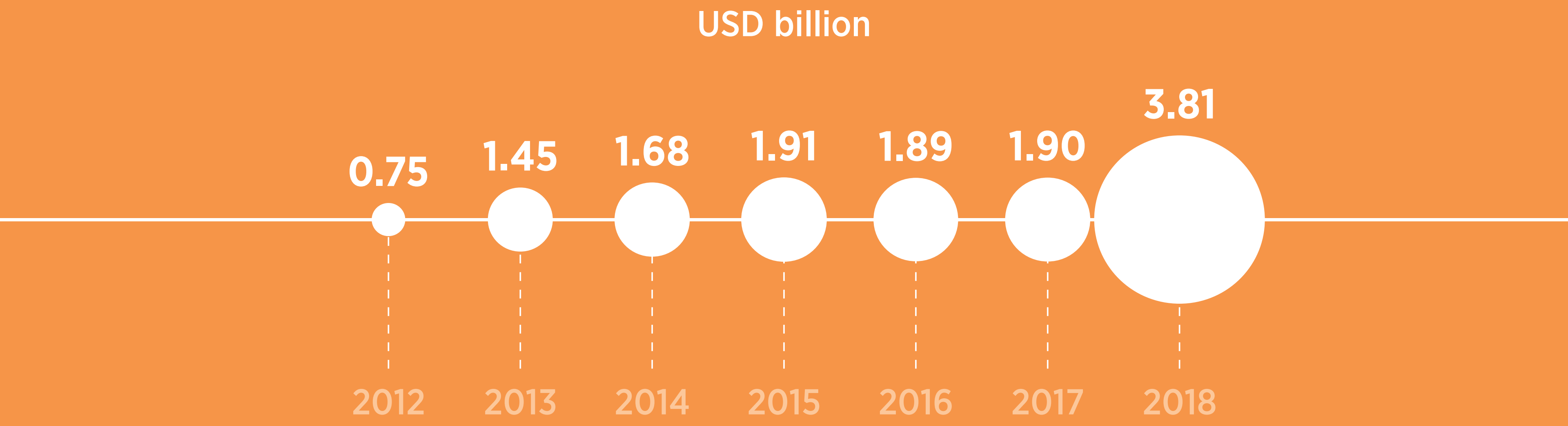
Transaction Category	Description	Blended Finance Solution
I) Bankable	Project is bankable on commercial terms	Many bankable SDG projects in developing countries go unfinanced due to a lack of capital. Blended finance solutions increase the supply of capital available to financial intermediaries, thereby increasing the number of SDG projects that can receive financing get off the ground.
II) Near-Bankable	Project is mostly bankable "as is," but requires a level of risk mitigation.	Without some risk mitigation to make the project bankable, these near-bankable projects will not receive financing and will not be implemented. Blended finance solutions can provide risk mitigation solutions to credit enhance transactions, transforming near-bankable projects to bankable initiatives.
III) Unbankable	Project is unbankable, probability of failure and financial loss is unacceptably high	There are many projects financial intermediaries would determine to be unbankable. **Blended finance solutions are not intended to mobilize finance to these types of projects.**

Private finance mobilised in LDCs, compared to other country groupings



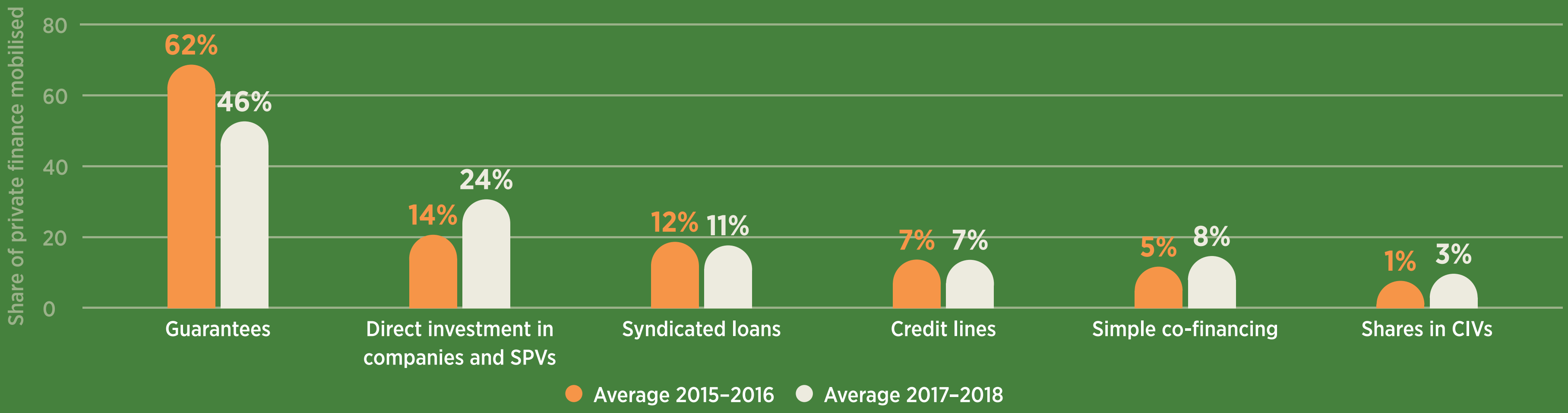
LDCs continue to receive the lowest, although increasing in volume, share of **only 6% of private finance mobilised** by official development finance interventions. Between 2012 and 2018, approximately USD **13.4 billion** was mobilised in LDCs. This compares with over 84 billion (41%) in UMICs and 68 billion (33%) in LMICs.

Amounts mobilised from the private sector in LDCs: 2012-2018



In 2018 private finance mobilised in LDCs more than doubled compared to the previous year – from USD **1.9 billion** in 2017 to USD **3.8 billion** in 2018.

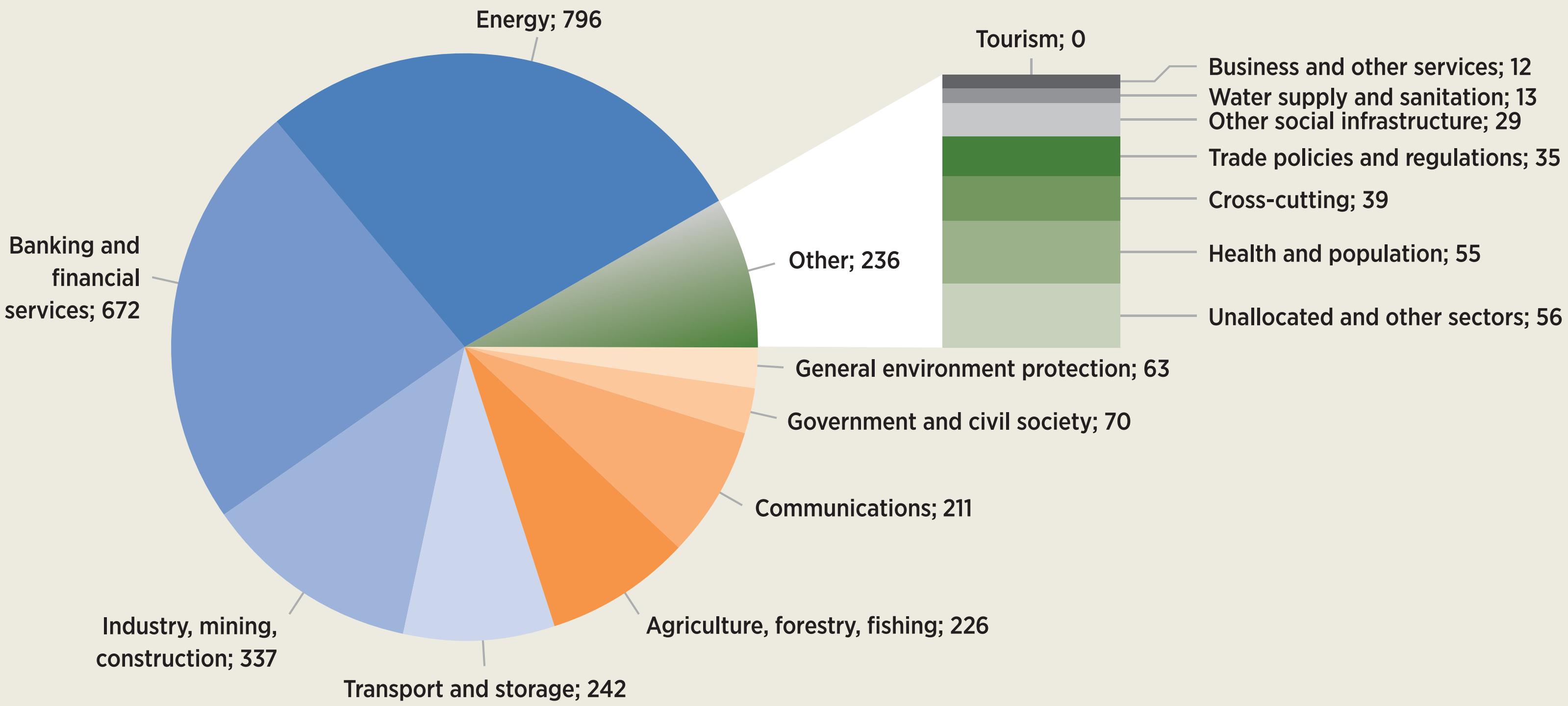
Private finance mobilised in LDCs by leveraging mechanism



Guarantees mobilised the largest amounts of private finance by official development finance interventions in LDCs, followed by direct investment in companies and SPVs and syndicated loans. Mobilisation through direct investment in companies and SPVs (i.e. equity investments) increased by over **10%** compared to previous years.

Private finance mobilised in LDCs by sector

Average 2017–2018, USD million



Private finance mobilised in LDCs is concentrated in a handful of **revenue-generating sectors** with higher profitability prospects, such as **energy, banking and financial services.** Sectors such as agriculture and water and sanitation are less targeted, despite their crucial role in LDCs' economies.