THE STATE OF BLENDED FINANCE

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WORKING PAPER

BUSINESS & SUSTAINABLE DEVELOPMENT COMMISSION

CONVERGENCE
BLENDING GLOBAL FINANCE

DISCLAIMER

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EXECUTIVE SUMMARY

Achieving the Sustainable Development Goals (SDGs) would create a world that is comprehensively sustainable: socially fair, environmentally secure, economically prosperous, and more inclusive. But this ambitious set of 17 goals and 169 targets will require a new level of global cooperation. The United Nations estimates that the annual funding required to achieve the SDGs is $3.9 trillion, but current levels of official development assistance (ODA) and international investment towards the SDGs will leave an annual funding gap of $2.5 trillion. To help close the funding gap, the international development community must tap additional sources of capital, including from the private sector. Blended finance – the strategic use of public and/or philanthropic funding to catalyze private sector investment in SDG-related investments in developing countries – holds much promise.

The State of Blended Finance aims to expand the evidence-base around the potential of blended finance to help close the SDG funding gap by summarizing blended finance deal trends and identifying ongoing blended finance-related efforts of key actors in the space. This working paper (report) has been jointly produced by the Blended Finance Breakthrough Taskforce (BFBT), convened by the Business & Sustainable Development Commission, and Convergence. This report will inform the recommendations the BFBT intends to deliver to unlock systemic barriers in the blended finance ecosystem that are currently preventing the flow of mainstream capital into blended finance transactions at scale.

To validate the promise of blended finance, Convergence has collected extensive data on past blended finance transactions. In total, these transactions have mobilized $51.2 billion towards sustainable development. While Sub-Saharan Africa is the focus region of approximately 40% of blended finance transactions, the median deal size is relatively small compared to other regions and Sub-Saharan Africa only accounts for 16% of total capital mobilized by blended finance. Financial services, clean energy, and climate finance account for half of blended finance deals. The majority, 73%, of blended finance deals leverage either i) junior/subordinate capital, ii) a technical assistance facility, or iii) both junior/subordinate capital and a technical assistance facility. Half of blended finance deals are those associated with a technical assistance facility. The International Finance Corporation (IFC) and the European Commission (EC) are the largest public funders of blended finance. The EC largely operates through the European Development Finance Institutions (DFIs). Private investors in blended finance could include commercial banks, insurance companies, and institutional investors. These investors in blended finance are more fragmented, and few take prominent roles across blended finance transactions.

There is a substantial amount of activity in blended finance, with hundreds of active organizations. There are several activities that merit particular note. The Organization for Economic Cooperation and Development (OECD) is in the process of establishing blended finance principles to guide the blended finance activities of aid agencies and donors. In addition, the OECD is developing a new measure called Total Official Support for Sustainable Development, a metric that will capture development aid flows beyond ODA, like blended finance. The World Bank Group is one of the largest channels of blended finance funds from multilateral and bilateral donors and recently approved the International Development Association (IDA) Private Sector Window (PSW). Through the PSW, IDA donors have agreed to provide $2.5 billion of blended finance funds to be implemented under four facilities by the IFC and Multilateral Investment Guarantee Agency. The EC's new External Investment Plan (EIP) will promote investment in developing countries, with a focus on Africa and the EU Neighbourhood. The EIP makes provision for significantly more blended finance through the European Fund for Sustainable Development, including a EUR 75 million guarantee facility and a EUR 2.6 billion blended facility. While private sector investors have participated in select deals, there has been no significant momentum in attracting these investors to blended finance at scale.

This report concludes with several insights based on the trends analysis and activity mapping. First, blended finance activities are fragmented and there is a lack of scale. There is a need to ensure that blended finance initiatives remain aligned and complementary. Further, stakeholders are encouraged where possible to invest in existing solutions that have the potential to scale, as opposed to creating new solutions. Second, current investment opportunities in developing countries do not have an attractive risk-return profile for private sector investors. For private investors to participate, absolute risk must be acceptable, the risk-return profile of investments must be at market prices or better, and diversification through the pooling of assets and projects across countries and sectors is required. Third, donors require better enabling conditions to participate in blended finance. Donor organizations need a proper understanding of blended finance and the capacity to invest in blended finance transactions, as well as effective metrics for evaluating additionality, value-for-money, and leverage. Finally, MDBs and DFIs should allocate more capital to higher-risk activities, including targeting low-income countries, participating more in subordinated positions, and providing more risk participation products.

INTRODUCTION

The Blended Finance Breakthrough Taskforce (BFBT) has been convened by the Business & Sustainable Development Commission (BSDC) and key public and private stakeholders to develop a report and set of recommendations by January 2018 that includes i) a roadmap to halve the Sustainable Development Goal (SDG) financing gap; ii) clear principles and best practices on effectively deploying blended finance; and iii) evidence that blended finance is being deployed effectively.

Convergence is an institution that connects, educates, and supports investors to execute blended finance transactions that increase private sector investment in emerging markets. Convergence features three service offerings: i) Design Funding: Grant funding for practitioners to design catalytic blended finance vehicles that aim to attract private capital to development at scale, ii) Investment Network: An online platform where investors connect with blended finance deals in emerging markets, and iii) Market Building Tools: Workshops, trainings, knowledge, and data to help investors execute blended finance transactions.

The BFBT and Convergence have partnered to review existing blended finance materials and initiatives to ensure the BFBT builds off work conducted to-date. The following research methodology was employed for the report:

- Literature review of existing blended finance research
- Desk research on activities of key blended finance initiatives and practitioners
- Online survey of over 100 key blended finance stakeholders
- Phone interviews with select key blended finance stakeholders

This report aims to expand the evidence-base around the potential of blended finance to help close the SDG funding gap, and includes four main sections. The first section provides an overview of blended finance and its potential to support the SDGs. The second section provides analysis of blended finance deal trends based on Convergence's historical deals database, including a breakdown of region, sector, instrument, investor, and SDG trends. The third section is a mapping of existing blended finance activities by key practitioners. This analysis does not present a comprehensive mapping of all actors involved in blended finance and does not present all blended finance-related activities of those actors that are profiled. The final section provides summary insights from the trends analysis and activity mapping. These insights are intended to highlight areas of improvement for the field of blended finance with the end goal of scaling best practice blended finance activities that can contribute to the achievement of the SDGs by 2030.

THE POTENTIAL OF BLENDED FINANCE

The United Nations (UN) estimates that the annual funding needed to achieve the SDGs is $3.9 trillion. Official aid flows and philanthropic contributions will not be sufficient to achieve the SDGs. For 2016, the Organization for Economic Cooperation and Development (OECD) reported total development assistance (ODA) from the OECD Development Assistance Committee (DAC) members at $142 billion annually and total philanthropic contributions to developing countries are estimated at around $30 billion annually. The total funding gap is estimated by the UN at more $2 trillion per annum.

To help close the annual SDG funding gap, the international development community has been looking to tap new sources of capital, particularly from private investors. Blended finance is recognized as an important tool within the development toolbox to mobilize new capital sources to achieve the SDGs. The UN member countries reached consensus on the importance of deploying public funds to attract private sector investment at the International Conference on Financing for Development in 2015: *"An important use of international public finance, including ODA, is to catalyse additional resource mobilization from other sources, public and private. It can be used to unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development.*[1]*"*

Similarly, blended finance practitioners consider blended finance and foreign direct investment (FDI) as the top sources of development finance.

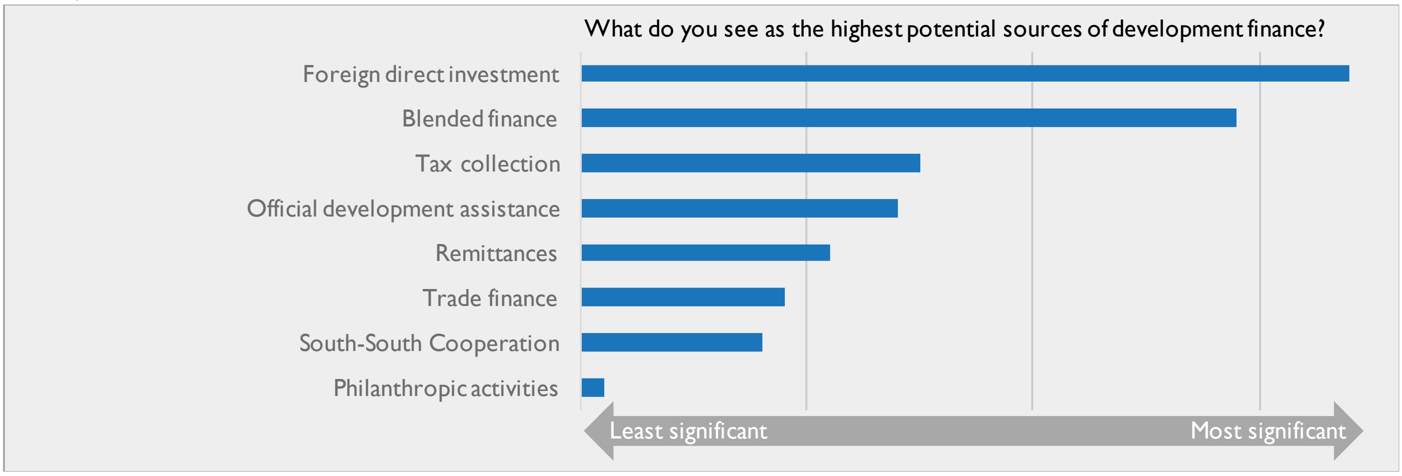

Figure 1: Survey response – What do you see as the highest potential sources of development?

For the purposes of this report, blended finance is defined as the strategic use of public and/or philanthropic concessional funding to catalyze private sector investment in SDG-related investments in developing countries. Most of the blended finance community agrees with the core elements of this definition, even though the nuances of exact definitions differ across organizations. To illustrate the potential of blended finance, an allocation of 10% of the OECD DAC annual funding (i.e., $14.2 billion) to blended finance solutions with an average leverage ratio of 7 could crowd-in $100 billion per annum of financing to developing countries. This is three times the current amount of annual aggregate Multilateral Development Bank (MDB) and Development Finance Institution (DFI) financing to the private sector in developing countries.

[1] General Assembly resolution 69/313, Addis Ababa Action Agenda of the Third International Conference on Financing for Development, A/RES/69/313 (27 July 2015), available from undocs.org/A/RES/69/313.

ANALYSIS: BLENDED FINANCE DEAL TRENDS

The analysis is based on Convergence's database of historical blended finance deals, and draws insights from three other major blended finance survey efforts by Development Initiatives, the OECD, and the World Economic Forum (WEF)[2]. Overall, the number of blended finance deals varies across surveys significantly—from 74 deals collected by WEF to 187 deals captured in Convergence's database. A methodology review of these four main efforts can be found in the annex. Despite variations in the number of blended finance deals profiled, there is consensus around key trends, including regional and sectoral trends. All statistics are based on analysis of Convergence's database, unless stated otherwise.

VOLUME AND SIZE

Convergence's database includes 187 blended finance deals that have mobilized $51.2 billion towards the SDGs. Blended finance deals can be classified as funds and facilities or projects and businesses. 74% of blended finance deals collected are funds and facilities and account for 64% of capital mobilized. The other 26% of blended finance deals collected are projects and businesses, which account for 34% of capital mobilized. Despite being fewer in number, projects and businesses contribute a greater proportion to total capital mobilized due to large-scale infrastructure projects.

While the number of blended finance deals profiled varies across surveys, there are multiple trends that are aligned across datasets. The first of these trends is the growth of blended finance deals. All reports find that the number of blended finance deals executed each year is growing significantly, as more actors begin to adopt blended finance as one tool in the development toolbox. For example, the Development Initiatives' report finds that "private investments mobilized by blended finance grew by around 20% annually between 2012 and 2014". Similarly, Convergence finds that the number of blended finance transactions is growing steadily, accelerating since 2007-2008, which reflects the emergence of the innovative financing for development agenda.

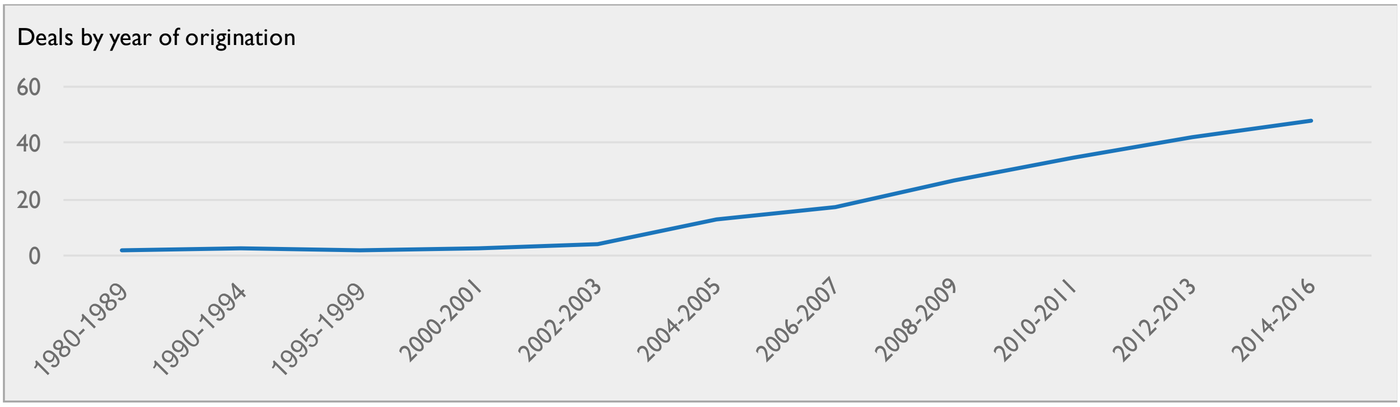

Figure 2: Deals by year of origination

REGIONS AND COUNTRIES

Sub-Saharan Africa has received the largest share of blended finance by number of deals and percentage of capital mobilized compared to other regions (excluding globally focused deals). Sub-Saharan Africa has been the focus region for approximately 40% of blended finance deals; however, the median deal size ($36 million) is small compared to other regions. As a result, the capital mobilized through blended finance in the region has been only 28% of the global total. This reaffirms the importance of crowding in additional investment sources to Africa, particularly to sub-Saharan Africa, and may also reflect the limitations of African markets to attract and support large-scale blended finance deals.

Global blended finance transactions that do not have a regional focus make up the next largest proportion. Global deals account for approximately 25% of deals and are the absolute largest percentage of capital committed. As expected, global blended finance deals have a much larger median deal size of $100 million. Asia and Latin America receive the

[2] While there are four surveys and four accompanying datasets, three surveys leverage the OECD survey data.

next largest proportion of blended finance at 20% and 17%, respectively. The median deal size in these regions is $50.5 million and $30 million, respectively.

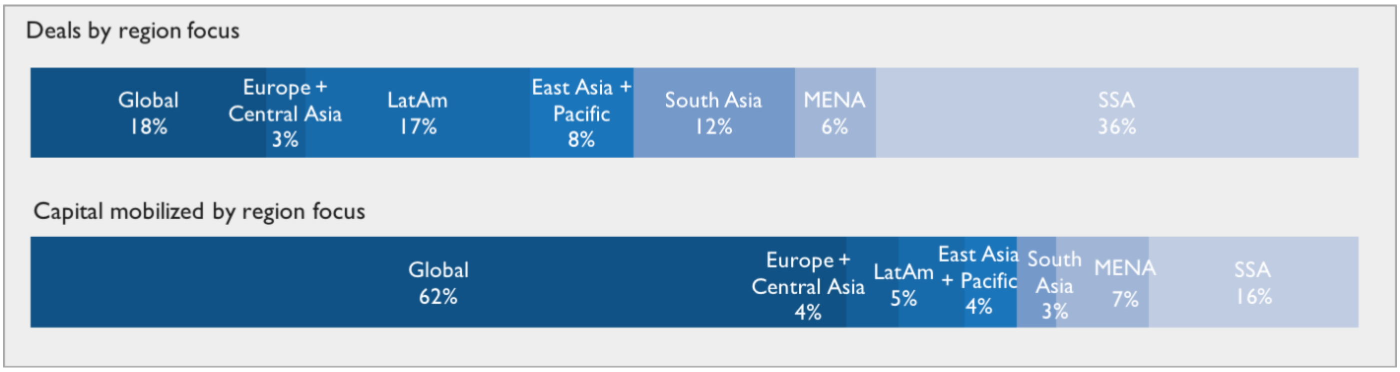

Figure 3: Deals and capital mobilized by region focus

Beyond regional trends, a key discussion point in existing studies is the proportion of blended finance targeted towards low-income countries. As indicated in previous surveys, blended finance commonly flows to middle-income countries, which receive 70% of targeted[3] capital flows. However, more than half of those flows are targeted at the lower-middle income countries (e.g., Kenya, Tanzania, India, and Uganda), and together low- and lower-middle income countries account for 66% of targeted flows.

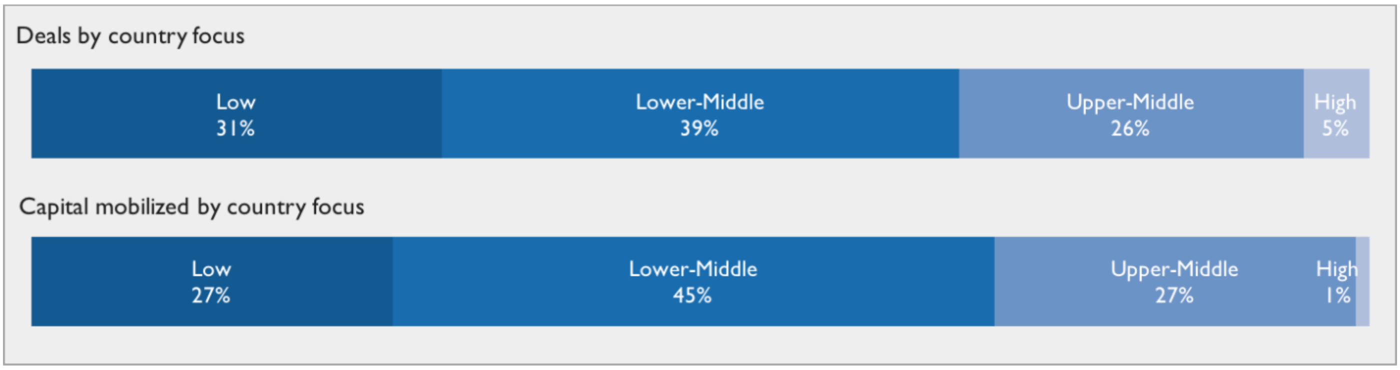

Figure 4: Deals and capital mobilized by country focus

SECTORS

There is a greater level of diversity in sectoral trends, particularly around financial services, clean energy, and climate finance. The data also demonstrates the potential wide reach of blended finance, including agriculture, education, and healthcare. The largest proportion of blended finance deals focus on the financial services sector, followed by clean energy and climate finance. Infrastructure sector deals have the largest median deal size at $72.6 million, double the median size of financial services sector deals.

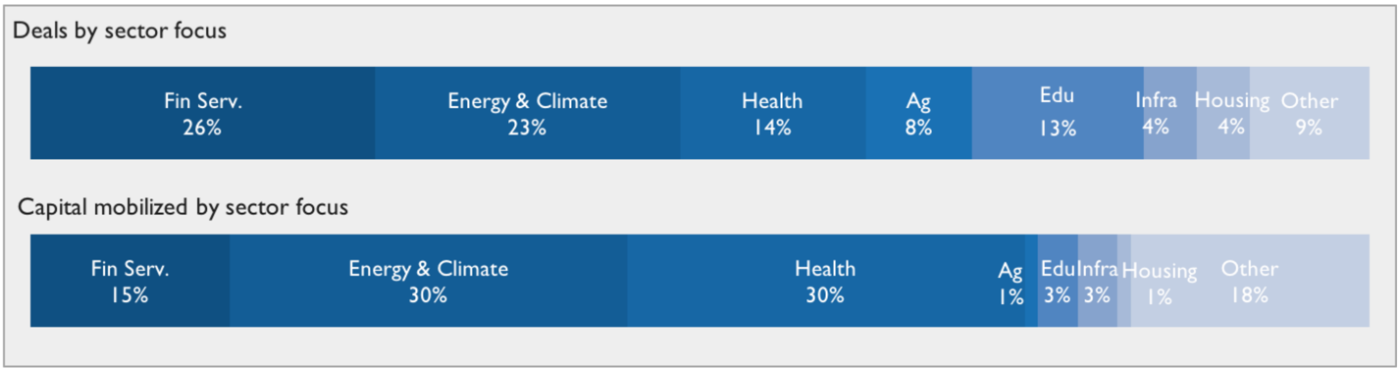

Figure 5: Deals and capital mobilized by sector focus

[3] Convergence tracks country data by stated countries of focus, not actual investment flows. Often, countries of eligibility are broader than those explicitly stated.

26% of blended finance deals focus on financial services sector projects, with a relatively small median deal size of $36 million. Financial services sector deals vary from private equity and debt funds to commercial microfinance companies, as well as hedging products and risk-sharing instruments. It is expected that the financial services sector will be one of the largest blended finance sectors. Most investors understand how a typical financial institution or insurer operates and the risks inherent in those businesses, making it easier to determine the appropriate amount of blending, and as a result, easier to structure transactions.

Private Equity Funds	Debt Funds	Microfinance Companies	Hedging/Risk-Sharing Instruments

Figure 6: Illustrative financial services focused deals

23% of blended finance deals focus on clean energy and climate finance projects, with a median deal size of $56 million. Clean energy and climate finance projects may include equity and debt funds, energy service providers, financing providers, and large-scale infrastructure projects. These structures generally fund renewable energy and low-carbon projects. The OECD notes, "Climate action, in particular, is emerging as an important issue to be addressed through blended finance, with approximately one in five facilities being directed to promoting clean energy"[4]. Design or preparation grant funding and guarantee and risk-sharing mechanisms hold high potential for crowding in private sector investment to the climate space. Blended finance can help rebalance the risk-reward profile of pioneering projects through senior debt, mezzanine capital structures, and risk capital provision.

Private equity funds	Debt funds	Energy providers	Finance providers	Large-scale projects

Figure 7: Illustrative clean energy and climate finance deals

While more commercially oriented sectors like financial services and clean energy and climate finance draw a large proportion of blended finance, social infrastructure sectors like healthcare and education also benefit from private investment mobilized through blended finance. There have been several healthcare-focused blended finance deals. The OECD survey identified healthcare as a focus sector for blended finance deals, amounting to nearly 30% of blended funds and facilities. Other high-impact sectors that can benefit from blended finance include agriculture and education. Together these sectors account for 20% of blended finance deals.

INVESTORS

To date, the top investors in blended finance deals have been MDBs and national DFIs. DFIs, including FMO, KfW and OPIC, account for around 45% of public investors. MDBs, including the IFC, EIB, AfDB, and ADB, are also commonly involved in blended finance deals, making up about 30% of public investors. DFIs play several roles within a blended finance deal, often providing guarantees and risk-insurance. DFIs are well-positioned to have an even greater impact on scaling blended finance by channeling a larger amount of public funds towards blended finance transactions.

[4] DCD/DAC(2017), Blended Finance for Sustainable Development: moving the agenda forward. Paris: OECD. February 24, 2017. Accessed June 24, 2017. http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2017)9&docLanguage=En.

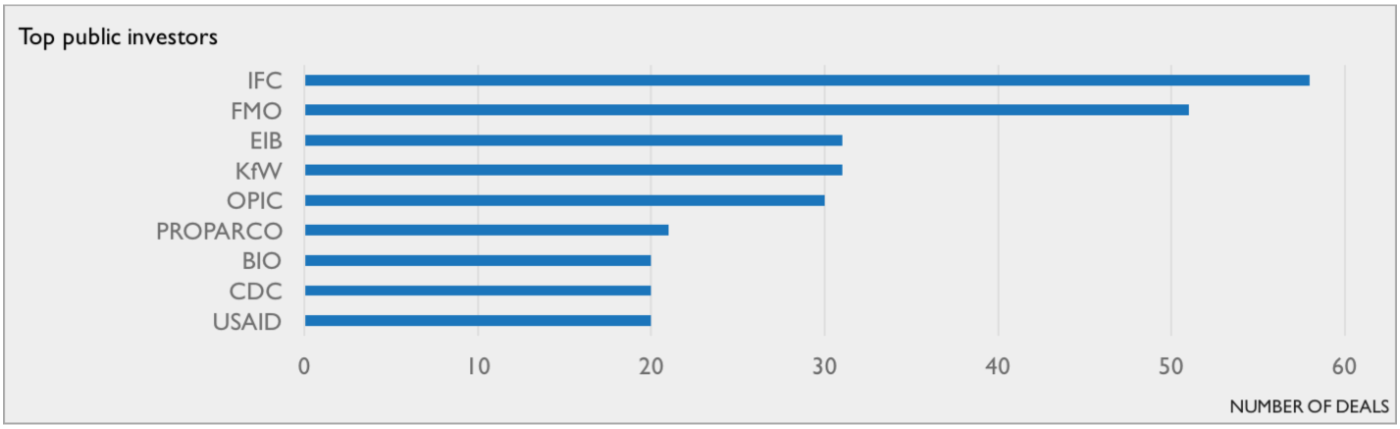

Figure 8: Top investors by number of deals

The top philanthropic investors in blended finance deals are primarily private foundations, including Bill & Melinda Gates Foundation, Calvert Foundation, and Shell Foundation, which account for 56% of philanthropic investors. The remaining 44% include international organizations, non-governmental organizations, and philanthropic funds like the African Enterprise Challenge Fund (AECF).

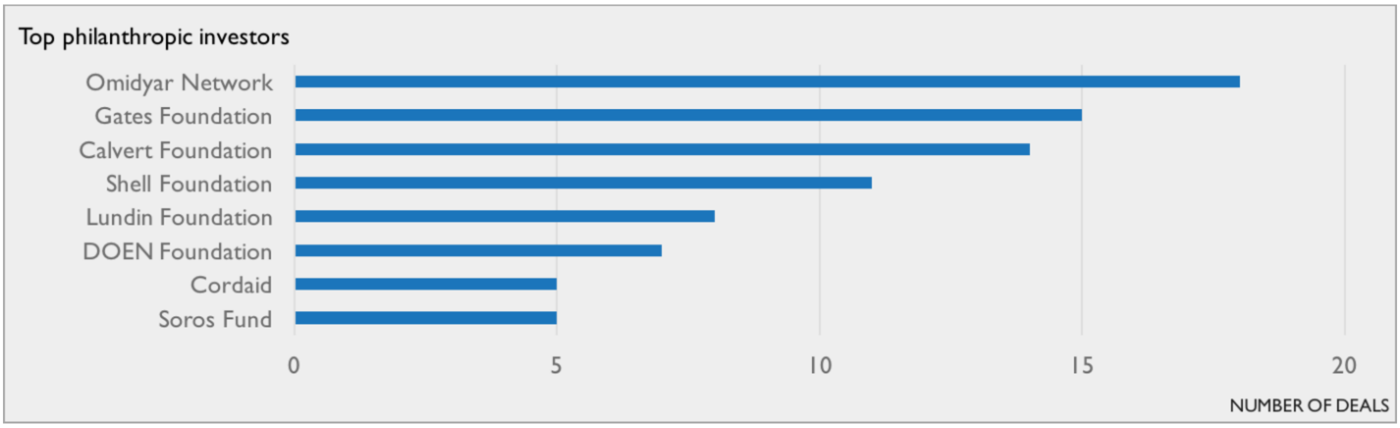

Figure 9: Top philanthropic investors

Private investors in blended finance are more fragmented. Commercial banks like JP Morgan Chase & Co and Deutsche Bank have been involved in multiple blended finance transactions. Private investors in blended finance deals are often impact-driven investors—looking for both a financial and social return—such as Calvert Investments, Oikocredit, and responsAbility. Institutional investors often remain undisclosed, which precludes accurate analysis. Overall, there are few institutional investors that take a prominent role in blended finance.

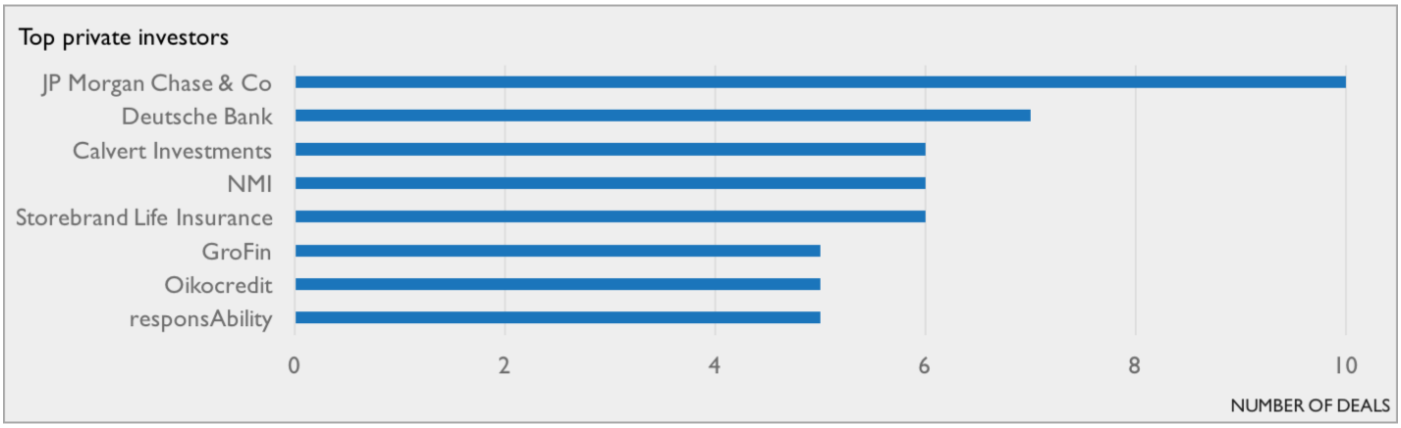

Figure 10: Top private investors

INSTRUMENTS

Blended finance deals can also be analyzed by the blending instrument deployed. Convergence identifies four types of blending instruments: 1) junior/subordinate capital, 2) guarantees and risk-insurance mechanisms, 3) donor-funded technical assistance facilities, and 4) design or preparation grant-funding. Junior/subordinate capital and guarantees and risk-insurance mechanisms are traditional first-loss blended finance tools, deployed by the public and philanthropic sector to de-risk investment opportunities for private sector investors. Junior/subordinate capital also includes scenarios where the public or philanthropic investor takes the same risk profile but accepts a lower rate of return. Technical assistance funding and design or preparation funding are not direct investments in the capital structure, but improve a project's probability of reaching financial close.

73% of blended finance deals deploy either i) junior/subordinate capital, ii) a technical assistance facility, or iii) both junior/subordinate capital and a technical assistance facility. This finding aligns with other studies. For example, one study states "technical assistance and risk underwriting are effective mechanisms for leveraging significant amounts of private capital from a minimum of 5x to over 20x for one outlier."

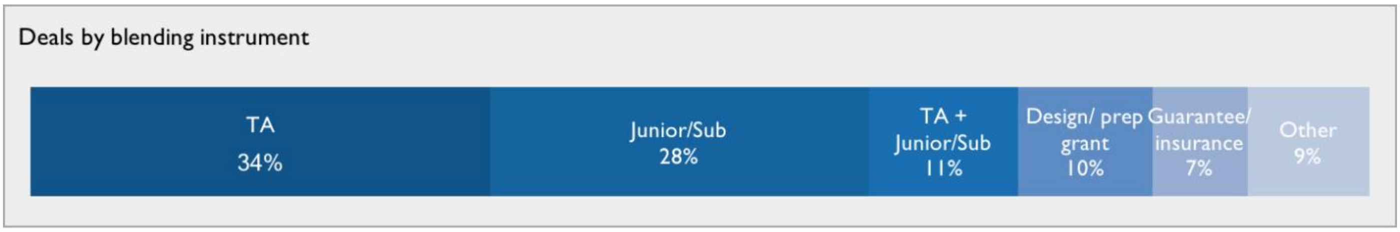

Figure 11: Deals by blending instrument

The largest proportion (50%) of blended finance deals are those associated with technical assistance. Technical assistance builds the capacity of investees and lowers origination and transaction costs[5]. 42% of blended finance deals leverage junior/subordinate capital from public or philanthropic investors. Subordinated arrangements can be made in the form of debt, equity, or a hybrid like convertible debt. Only 12% of blended finance deals leverage a guarantee or insurance mechanism. The majority of junior/subordinate capital and guarantees and risk-insurance mechanisms are provided on concessional terms where the party has earned a below-market or nonexistent return for the risk borne.

DEVELOPMENT IMPACT

Early analysis of the alignment of blended finance transactions with the SDGs illustrates core alignment with four goals and strong alignment with another seven goals.[6] Blended finance deals best align with Goal 17 (Partnerships), Goal 9 (Industry and Innovation), Goal 1 (No Poverty), and Goal 10 (Decent Work and Economic Growth).

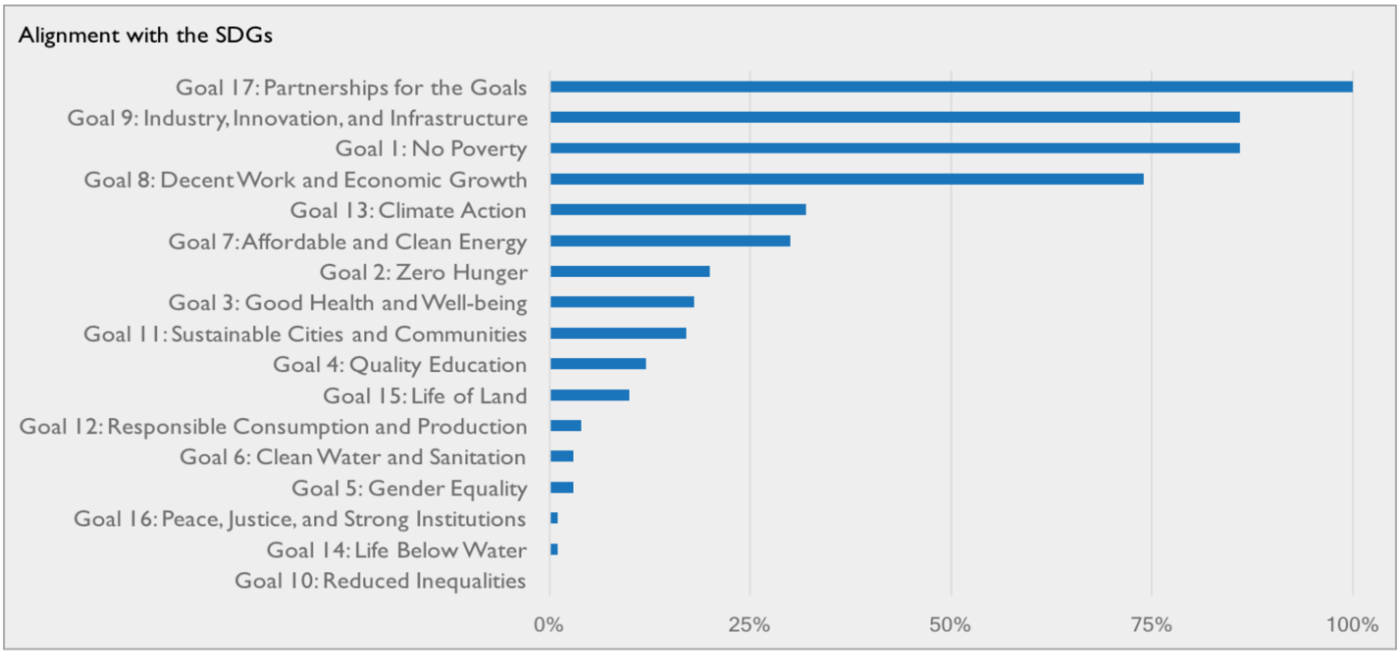

Figure 12: Alignment with the SDGs

[5] World Economic Forum. *Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders.* Geneva: WEF. July 14, 2015. Accessed June 24, 2017. http://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders_report_2015.pdf

[6] Based on Convergence's historical deals database.

However, the alignment of blended finance to development sectors is subject to individual interpretation. The survey results on which goals should be prioritized by blended finance do not perfectly align with the desk study results. The survey results indicated that Goal 7 (Clean Energy), Goal 6 (Water and Sanitation), Goal 9 (Industry and Innovation), and Goal 13 (Climate Action) should be prioritized. The survey results did not call out Goal 17 (Partnerships) or Goal 1 (No Poverty). The exclusion of Goal 1 (No Poverty) may reflect current pause around the potential for blended finance to contribute to reducing poverty and the need for best practice principles to ensure development impact.

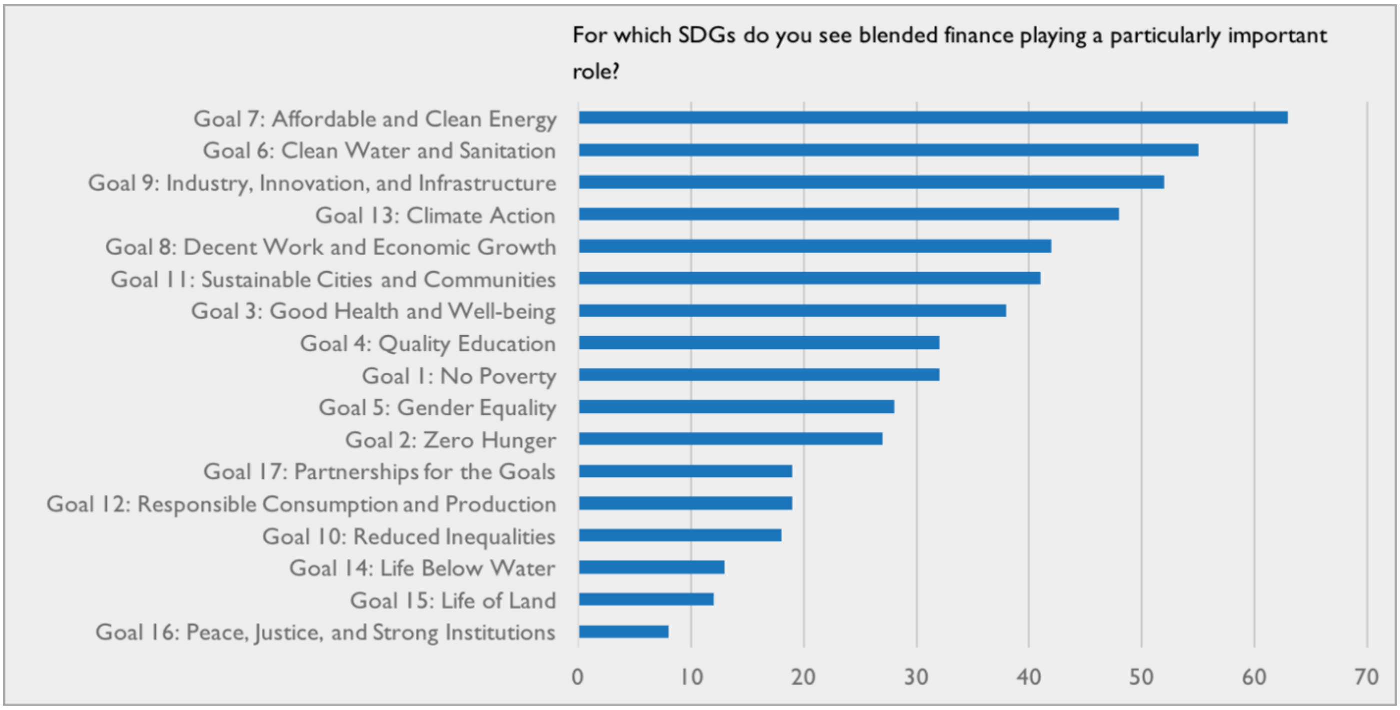

Figure 13: Survey response – For which SDGs do you see blended finance playing a particularly important role?

MAPPING: EXISTING BLENDED FINANCE ACTIVITIES

There is a substantial amount of activity in blended finance, with hundreds of active organizations. For the scope of the mapping, this report includes organizations that currently deliver, or have the potential to deliver, large amounts of financing towards blended finance and/or organizations with activities that can have systematic impact on blended finance from an enabling environment or convening perspective. The graphic below includes many but not all key organizations. It must be noted that this mapping is not comprehensive.

The organizations are segmented into nine categories: 1) multi-stakeholder convening and advocacy organizations, 2) aid agencies / donors, 3) multilateral development banks, 4) national development finance institutions, 5) private foundations, 6) commercial banks and insurers, 7) institutional investors, 8) think tanks, and 9) NGOs. These categories are an imperfect abstraction to highlight behavioral trends among broad practitioner types.

Figure 14: Organizations included in blended finance activity mapping

MULTI-STAKEHOLDER CONVENING AND ADVOCACY ORGANIZATIONS

This report includes the activities of multi-stakeholder convening and advocacy organizations that at their core aim to support blended finance's primary objective: leveraging public and/or philanthropic funding to attract private investment. It is important to note that some stakeholders may not define their work as blended finance, even though the underlying intent is the same; therefore, the activities of these practitioners are included. The role of these organizations is to promote a conducive enabling environment for blended finance (e.g., through principles, best practices, data, and policy and regulation) and convene key practitioners to ensure coordination.

The OECD, WEF, the Sustainable Development Investment Partnership (SDIP), and Convergence are all aligning activities to scale best-practice blended finance. The current momentum around blended finance can be in part attributed to the initial work of the OECD and the WEF under the banner of the Redesigning Development Finance Initiative (RDFI). The RDFI, funded by Global Affairs Canada, set out to understand where and why development funding gaps exist and to explore innovative models to unlock more capital for development. Blended finance was prioritized as a key approach and several knowledge products were produced, including a primer on specific models; a how-to guide to help development funders build their blended finance capacity; and a landscape survey quantifying how much capital blended finance has mobilized for sustainable development.

SDIP and Convergence were both conceived under the RDFI and announced at the Third International Conference on Financing for Development in Addis Ababa. SDIP is an initiative with over 30 institutional members that aims to mobilize $100 billion of blended finance for projects supporting sustainable and climate-resilient infrastructure. SDIP convenes monthly to discuss projects blocked from reaching financial close that require a blended finance solution, manages regional hubs to encourage blended finance activities in specific regions, and convenes various events. SDIP is coordinated by WEF with support from the OECD. Convergence connects investors to bankable transactions that are fundraising, provides grant funding to support the early stage development of catalytic blended finance vehicles, and hosts a range of data and knowledge resources to build an evidence base for blended finance and advance best practice. Convergence is funded by the Government of Canada, Citi Foundation, and Ford Foundation.

Beyond these activities, the OECD is the lead convener of OECD DAC members. The OECD is in the process of establishing blended finance principles for OECD DAC members to encourage more use of best-practice blended finance by these donors. These principles are expected to be established by 2018. The OECD is also working concurrently on two activities that could have a significant impact on blended finance in the future. First, the OECD is developing a new measure called Total Official Support for Sustainable Development (TOSSD), a metric that will capture development aid flows beyond Official Development Assistance (ODA). Second, the OECD DAC members are evaluating whether some financing from DFIs should be eligible for DAC members to include in their ODA reporting.

Numerous agencies within the UN are playing an important role in advocating for more use of blended finance within international development and development finance. UN Financing for Development is the secretariat support for sustained follow-up within the UN on the agreements and commitments reached at the International Conferences on Financing for Development and other related conferences, specifically the importance of the private sector in development and blended finance agreed upon in the Addis Ababa action agenda. UN Environment (formally UN Environment Program (UNEP)) is playing an increasingly important role advocating for leveraging public funds to catalyze private funds and supporting several climate and smallholder livelihoods vehicles being established globally. For example, UN Environment, BNP Paribas, and ADM Capital are establishing the $1 billion Tropical Landscape Financing Facility in Indonesia. The UN Development Program (UNDP) aims to help countries build their capacity to integrate environmental considerations into development plans and strategies and is increasingly exploring the potential of blended finance in helping to achieve the programs objectives.

There are several other important blended finance-related platforms to highlight. The Global Innovation Lab for Climate Finance (The Lab), coordinated by the Climate Policy Initiative (CPI) identifies transformative climate finance instruments through a broad call for ideas, and then supports in the development of these instruments by deploying CPI analysts to build out the concepts. The Lab is backed by several governments. The Private Infrastructure Development Group (PIDG) has established a series of financing and project development subsidiaries to attract private sector investment into infrastructure. For example, PIDG established GuarantCo, a best practice blended finance solution that provides guarantees to support the financing of infrastructure projects. The G20 established the Global Infrastructure Hub (GIH), which aims to facilitate knowledge sharing, highlight reforms, and connect public and private sectors in the infrastructure space. Specifically, the GIH has established a project database of infrastructure projects at all stages of development in the energy, transportation, and water and sanitation sectors.

AID AGENCIES / DONORS

The main role of aid agencies and donors in blended finance is to provide capital at risk (e.g., as guarantees or insurance, junior or subordinate debt or equity), helping to i) create acceptable risk-return profiles for private investors, attracting them to sustainable investments in developing countries and ii) lower the cost of capital for development finance projects to a level bearable for the beneficiary(ies) in developing countries. These institutions also play an important role in providing grants for technical assistance. Technical assistance ensures financing is paired with reforms to create sustainable solutions and develops bankable projects and businesses for private investment. For blended finance to succeed (i.e., narrow the financing gap for the SDGs), it is critical that these organizations increase their allocations towards blended finance.

The World Bank Group (WBG) is one of the largest channels of blended finance funds from multilateral and bilateral donors and recently approved the International Development Association (IDA) Private Sector Window (PSW). Through the PSW, IDA donors have agreed to provide $2.5 billion of blended finance funds to be implemented under four facilities by the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). The four facilities are as follows: 1) the Risk Mitigation Facility for Infrastructure, with additional capitalization of $1 billion; 2) the MIGA Guarantee Facility, with additional capitalization of $500 million; 3) the Local Currency Facility, with additional capitalization of $400 million; and 4) the Blended Finance Facility, with additional capitalization of $600 million. The PSW is likely to be one of the most significant developments within blended finance during the SDG period. The WBG has also recently placed renewed emphasis on a "cascade" framework that shifts the default for financing investments from public borrowing to private investment to maximize the impact of scarce public resources.

The European Commission's (EC) external development mandate has provided great leadership and innovation in blended finance over the past decade. In developing countries, the EC primarily provides blended finance funding through the European DFIs and MDBs, in addition to providing technical assistance to projects directly or indirectly. The EC's new External Investment Plan (EIP) will promote investment in developing countries, with a focus on Africa and the EU Neighbourhood. The EIP makes provision for significantly more blended finance through the European Fund for Sustainable Development, including a EUR 75 million guarantee facility and EUR 2.6 billion blended facility. The EIP aims to catalyze at least EUR 44 billion in additional investment through the EIP in Africa and the EU Neighbourhood.

Beyond the multilateral donors, several bilateral aid agencies play an important role within blended finance, albeit with a smaller amount of resources relative to the WBG and the EC. The Swedish International Development Agency (Sida) is one of the more active aid agencies in blended finance, having provided guarantees and first-loss capital to numerous high-profile structures (e.g., Global Health Investment Fund, Media Development Investment Fund). The United States Agency for International Development (USAID) is also active in blended finance through the Development Credit Authority (DCA), which issues guarantees on non-sovereign debt, and is also active through the Office of Private Capital and Microenterprise. USAID has participated in a few transactions as a donor in a way that mimics junior equity (e.g., CrossBoundary Energy), but lacks the appropriate authorities to participate as a straight equity investor in transactions.

Beyond Sida, European aid agencies participate in blended finance to varying degrees. Germany's Federal Ministry for Economic Cooperation and Development (BMZ), Switzerland's State Secretariat for Economic Affairs (SECO), the Dutch Ministry of Foreign Affairs, the Danish Ministry of Foreign Affairs, and the UK Department for International Development (DFID) have all funded or participated in various high profile blended finance transactions, including respective investment in the Africa Agriculture and Trade Investment Fund (AATIF), the Infrastructure Development Collaboration Partnership Fund, the Health Insurance Fund (HIF), the Danish Climate Investment Fund (KIF), and the DFID Impact Fund. DFID typically works closely with the UK DFI—the CDC Group—and the MDBs to implement blended finance activities. DFID often supports large, multi-donor supported structures such as African Risk Capacity (ARC), the Affordable Medicines Facility for Malaria (AMFm), the Green Climate Fund, and the Climate Investment Funds. These aid agencies fund a range of financial instruments (including grants, investment capital, and guarantees) to support blended finance transactions. BMZ and the German Ministry of Finance have agreed to a specific budget line item that facilitates annual allocations to blended finance activities.

Other aid agencies of note include the Ministry of Finance and Global Affairs Canada and the Japan International Development Cooperation Agency (JICA). GAC was instrumental in the launch of RDFI and Convergence and participated in Sarona Frontier Market Fund 2 with first loss capital.

MULTILATERAL DEVELOPMENT BANKS

MDBs and the national DFIs summarized in the following section have played a pivotal role in fostering blended finance success to date. For blended finance to achieve scale and narrow the SDG financing gap, the MDBs and DFIs will need to play an even larger role going forward, arranging higher numbers and volumes of financial assets.

The IFC has traditionally been the largest provider of blended finance in the MDB space and has a long history of managing donor trust funds within investment programs. The IFC blends contributions from donors with investment capital from the IFC's balance sheet with resources from private sector sponsors, co-financiers, and others to invest in higher risk projects. As detailed above, the IFC is also one of the two implementing agencies of the WBG IDA PSW, which is likely to be one of the most significant developments in blended finance during the SDG period. In addition, the IFC is leading a DFI working group to enhance the 2013 DFI blended finance principles for private sector operations. Lastly, the IFC has a specific senior leadership role focused on blended finance. MIGA is like the IFC in that it has been providing instruments important to blended finance—including political and other types of risk insurance—for some time and will also be an implementing agency of the WBG IDA PSW funds.

The European MDBs—and specifically, European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD)—are significant players in the blended finance space. Like the IFC, their blended finance activities often focus on blending trust fund funding with their own investment or third-party investment funding. The EIB has a global mandate and often invests in transactions that are more commercial in nature. The EBRD's investments target Central and Eastern Europe, Central Asia, and the Middle East and North Africa, with a focus on conflict, conflict-affected, or fragile countries. Both the EIB and the EBRD will be implementing agencies of the EC's EIP.

Other MDBs of note include the Inter-American Investment Corporation (IIC) of the Inter-American Development Bank (IADB), the Asia Development Bank (ADB), and the African Development Bank (AfDB). The blended finance activity of the IIC and the IADB has historically been focused on the climate space, and the organizations are increasingly interested in the use of blended finance. The AfDB and the ADB have historically been public sector focused MDBs, with limited blended finance activity. The AfDB in particularly is aiming to increase private sector investment going forward and utilization of blended finance.

NATIONAL DEVELOPMENT FINANCE INSTITUTIONS

The Association of European Development Finance Institutions (EDFI) is the main coordination mechanism for the European DFIs. EDFI strengthens information flow and cooperation between its members and other DFIs, particularly advocating for more blended finance. Specifically, EDFI is contributing to greater transparency in the blended finance market by surveying member DFIs on their blended finance activity. EDFI is also participating in the IFC-led DFI working group.

There are many European DFIs. The most active in blended finance include the Belgian Investment Company for Developing Countries (BIO), the CDC Group, the Deutsche Investitions- und Entwicklungsgesellschaft mbH (KfW DEG), the Finnish Fund for Industrial Cooperation (Finnfund), the Netherlands Development Finance Company (FMO), the Danish Investment Fund for Developing Countries (IFU), the Norwegian Investment Fund for Developing Countries (Norfund), the Development Bank of Austria (OeEB), the Société de Promotion et de Participation pour la Coopération Economique (Proparco), the Swiss Investment Fund for Emerging Markets (SIFEM), and Swedfund. These institutions will act as implementing agencies for the EC EIP, and increased blended finance activity can be expected.

The blended finance-related activities of the CDC group and the IFU merit note. The CDC Group have appointed a new CEO, Nick O'Donohoe, who was previously a Senior Advisor, Blended Finance at the Bill & Melinda Gates Foundation. The CDC have also received an increased budget allocation, so increased blended finance activity should expected. The IFU are the lead sponsor behind the Danish Climate Investment Fund and Agribusiness Fund, both of which are considered best practice blended finance transactions that catalyze investment from pension funds and other institutional investors. The IFU is in the process of raising a ~5-6 billion Danish Krone SDG Investment Fund, which will leverage a similar structure to previous funds and also catalyze participation from institutional investors.

The US Overseas Private Investment Corporation (OPIC) is one of the most forward-leaning DFIs on working with third parties who bring concessional and subordinate capital to the table, as opposed to leveraging trust funds like other DFIs. For example, the "Portfolio for Impact" program at OPIC invests in earlier, riskier social ventures provided they have a backer (typically a foundation) and have the potential to scale up. The Millennium Challenge Corporation (MCC) can also be described as a US DFI, whose approach to blending is to be present at the early stages of infrastructure project development, including preparation, and working with governments to remove key impediments to private sector investment. The MCC is interested in playing a larger role in the blended finance landscape and plans to hold roundtables with various stakeholders to inform their strategy.

PRIVATE FOUNDATIONS

Relative to aid donors and DFIs, foundations have less capital to deploy and therefore need to be more strategic in which projects they fund. Foundations in the blended finance space have most commonly played a catalytic role, either providing small amounts of financing to seed large-scale and ground-breaking initiatives or providing smart forms of subsidy and risk mitigation (e.g., interest rate reductions and/or junior capital) to crowd-in the private sector.

The Bill & Melinda Gates Foundation is a pioneer in large-scale, ground-breaking initiatives, such as the Advance Market Commitment for pneumococcal vaccines. The Gates Foundation also has a range of instruments at its disposal, as demonstrated by the organization's guarantee for the Global Health Investment Fund.
The Rockefeller Foundation is renowned for providing early stage grant and seed support for catalytic initiatives such as ARC under the umbrella of its "Zero Gap" portfolio. In addition to Rockefeller's global program-related investment (PRI) portfolio that spans equity, debt and guarantees, Rockefeller also has a unique partnership with the IFC to provide $10 million of concessional

co-financing into a development facility supporting private sector-led infrastructure projects that build urban resilience across emerging markets.

The Aga Khan Development Network has various legal entities (Aga Khan Foundation, Aga Khan Microfinance Network, Aga Khan Fund for Economic Development), who are all exploring various approaches to utilizing their capital bases to attracting private investment. Other foundations of note include the MacArthur Foundation, Ford Foundation, Calvert Foundation, Omidyar Network, and Shell Foundation. All have specific theme, sector and region focuses and play important roles in providing small amounts of capital to catalyze blended finance initiatives or transactions. For example, Ford Foundation has supported both Convergence and SDIP, while MacArthur Foundation focuses on key capital gaps, such as liquidity, impeding the flow of capital to mission-driven organizations.

COMMERCIAL BANKS

While several commercial banks have been active in one or two blended finance transactions, there has been no sustained movement within this category towards active, ongoing involvement in blended finance. For blended finance to help close the SDG financing gap, these institutions should play a much more significant role.

Commercial banks have participated in some blended finance transactions passively as a B-lender in a conventional A-B loan, where the loan benefits from some blended finance protections. A snapshot of banks' involvement more directly in blended finance to-date follows. Deutsche Bank has managed several blended funds, including the Eye Care Fund, Africa Agriculture and Trade Investment Fund, and Essential Capital Consortium. UBS published a white paper out of Davos 2017, announcing Align17, a new online, SDG-related, financing platform for public, private, and philanthropic investors. UBS also established the Loans for Growth Fund. BNP Paribas are working with UN Environment and ADM Capital to establish the $1 billion Tropical Landscape Financing Facility in Indonesia and has also invested in Microfinance Consortium I as well as other funds.

Going forward, there are two broad roles for banks in blended finance transactions: as an arranger of transactions and as an investor. On the former, commercial banks can deploy their financial structuring expertise to create the transaction structures that can attract multiple investor types. On the latter, it is likely that institutional investors and insurance companies, rather than commercial banks, will have a bigger appetite to invest in blended finance transactions because of i) current capital charges for medium and high-risk projects in developing countries under Basel II and ii) the main tenor requirements for blended finance transactions are medium- to long-term.

INSTITUTIONAL INVESTORS AND INSURANCE COMPANIES

Similar to commercials banks, institutional investors and insurance companies have been involved in select blended finance transactions, but there has been no significant momentum from the institutional investor and insurance company landscape in blended finance. The active and ongoing involvement of these organizations will be critical to blended finance.

To-date, the most active pension funds have been from Australia and Europe. Christian Super and Church Pension Group are unique in their mandate to invest in ethically sustainable projects. These organizations have taken part in a small number of blended finance transactions. In Europe, PensionDanmark, Storebrand, Achmea, PKA, Pædagogernes Pensionskasse (PBU), and Dansk Vækstkapital are the most active in the space, with many participating in the Danish-sponsored IFU structures. There are also a small number of large asset managers like Wetherby Asset Management who manage portfolios for high-net worth individuals, who have participated in select blended finance transactions. These organizations typically have a small allocation towards sustainable development projects and emerging markets. Allianz, Prudential Financial, AXA are all expected to take part in the IFC Managed Co-Lending Portfolio Program (MCPP), a new syndications product that allows institutional investors to have the opportunity to passively participate in the IFC's future loan portfolio.

Going forward, blended finance solutions need to create investible assets that crowd-in institutional investors and insurance companies to achieve scale and narrow the SDG financing gap. This will require blended finance solutions to create investment opportunities with i) risk-return profiles that compete with alternative investments and ii) absolute risk profiles that meet investor requirements. For example, a debt security rated "BB" that has a return equal to or superior to alternative "BB" securities in the former case and a debt security rated investment grade (i.e., "BBB-" or better) in the latter case.

THINK TANKS

Think Tanks have played an important role in providing objective and independent research and analysis on blended finance to drive policy and regulation. Some are also increasingly active in supporting transaction development. Eurodad has produced reports on blended finance, often critical of the value of the European blending facilities. Development Initiatives produced a comprehensive landscape mapping DFI activity in blended finance, leveraging Convergence and EDFI data. Other think tanks are focused on specific sectors, regions, or instruments. The Center for Global Development (CGD) has produced reports exploring the effectiveness of guarantees within blended finance. Brookings Institution is researching the role of private capital in global health and impact bonds. ECDPM has produced multiple thought pieces on approaches to scaling up blending at the EC. Other think tanks are actively supporting transactions. The International Renewable Energy Agency (IRENA) is working with The Currency Exchange Fund (TCX) on a global guarantor for renewable energy projects and the Center for Global Health and Diplomacy (GHD) is supporting an African-focused healthcare fund with UNAIDS and Sarona.

NGOS

NGOs play an important role in ensuring projects achieve expected environment and development impact, however their ability to deploy financing is small relative to donors and DFIs. Many NGOs are starting to hire staff focused specifically on blended finance, a signal of increased appetite to be active in the blended finance space. For example, the IDH are hiring a Senior Strategist, Blended Finance, and Winrock International have hired a Director of Blended Finance. Others like Oxfam are exploring how blended finance can play a role in financing their activities. Oxfam has produced several thought pieces on what blended finance is and how it is used. Other NGOs are pioneering innovative blended finance transactions, such as the Nature Conservancy, whose impact investing unit, NatureVest, is leading on several initiatives, including structuring debt conversions for small island developing states to reduce their sovereign debt obligations and channeling increased financing towards conservation by developing templates for bankable projects.

INSIGHTS FROM TRENDS ANALYSIS AND ACTIVITY MAPPING

ACTIVITY IS FRAGMENTED AND THERE IS A LACK OF SCALE

There is fragmentation and a lack of coordination across blended finance activities. Especially in key areas such as infrastructure, there is often duplication of efforts and funding from donors. As just one example, there is a great amount of fragmentation and redundancy among project preparation facilities, where each facility is funded by a unique set of investors. While these facilities play a critical role in identifying and developing bankable projects, there is room for greater coordination and information sharing to streamline private investment opportunities. This same principle applies to the larger blended finance community as well. There is a need to ensure that blended finance initiatives remain aligned and complementary, supporting each other to achieve the larger objective of achieving the SDGs and narrowing the SDG financing gap.

Further, blended finance practitioners have failed to prioritize solutions that have the potential to reach scale. There is a need to invest more in existing solutions that have the potential to scale (e.g., the TCX). Donors and public investors should be careful to identify existing solutions before setting up new blended finance deals or initiatives. Where new solutions are required, there is a need to establish a commercially viable, or bankable, project or investment opportunity to attract private investment at scale. Particularly in the least developed countries, there is a need to identify, cultivate, and aggregate small-scale projects to attract private and institutional capital. Assets and projects should be pooled across countries and sectors to allow for improved diversification and scale for investors. Finally, countries need to improve the environment for doing business. Public financial support for capacity-building and project preparation can in many cases help speed up project pipelines.

OPPORTUNITIES ARE STILL LIMITED FOR PRIVATE INVESTORS

The key characteristic of a best practice blended finance deal is that its capital structure attracts private capital to priority development sectors and geographies, by creating a risk-return combination acceptable for the private sector. To engage private investors, blended finance must produce assets that private investors are motivated to invest in. Currently, most investment opportunities in developing countries, particularly the least developed and post-conflict countries, do not have an attractive risk-return profile for private sector investors. Blended finance is required to improve the risk return of projects with development impact to comparable market rates.

Three significant challenges need to be addressed: i) absolute risk for private investors must be acceptable (e.g., large majority of institutional investors require investment grade risk profile: "BBB" or better), ii) risk-return profile for investors must be at market prices (or likely even at a slight premium to attract investors to new asset classes), and iii) pooling of assets and projects across countries and sectors to allow improved diversification and scale for investors. Private investors will inevitably be more engaged in blended finance if more donors and DFIs are already at the table, providing high risk capital at scale. The level of subordinate or junior capital required to attract private investment varies significantly according to the market, sector, and project. Beyond the use of subordinate/junior capital, which accounts for 42% of blended finance deals, the use of guarantees and risk-sharing instruments hold particularly high potential to optimize the use of public resources catalytically.

DONORS REQUIRE BETTER ENABLING CONDITIONS

Donors require better enabling conditions to participate in blended finance at scale. Donors are best positioned to deploy high risk capital, such as grants and concessional capital, that can absorb risks or improve the financial returns for private investors. However, there are multiple barriers to donors' involvement in blended finance transactions.

First, staff at donor organizations often have a limited understanding of blended finance and lack the capacity to invest in blended finance transactions. Staff are experienced in grant making and not investing, which is a very different proposition. Further, staff have limited experience interacting with private investors, creating further challenges in participating in blended finance. Donors need to improve their expertise and organizational capacity in blended finance.

Second, many donors simply cannot participate in blended finance transactions as they have limited instruments at their disposal. For example, both USAID and GAC are unable to fund direct equity investments. While there are examples of these institutions participating in transactions as equity-like investors, these situations often require extraordinary approval at the executive level and complex legal structures. This approach will not achieve scale. Donors need expanded authorities to deploy equity, debt, and risk mitigation instruments into blended finance transactions.

Third, donors could improve provision of project preparation funding. Donors are key in providing technical assistance and capacity building funding for projects and businesses to achieve bankability. The blended finance conversation is overly focused on capital supply, even though there often is not the absorptive capacity for that funding. Donors and stakeholders should share learnings on best practice approaches to project preparation and ensure coordination to promote only best practice solutions.

Finally, donors lack effective metrics for evaluating additionality, value-for-money, leverage, and market distortion. In most transactions, determining the appropriate amount of public funding is still more of an art than a science and can require extensive due diligence and evaluation. As a stronger evidence base is built and more transactions are analyzed, benchmarks and metrics should emerge that allow donors to effectively evaluate and measure blended finance deals.

THERE IS A GREATER ROLE TO BE PLAYED BY ASSET ARRANGERS

MDBs and DFIs are critical to arrange the assets that supply blended finance vehicles, but like all organizations, they are tied to the status quo. In aggregate, MDBs and DFIs arrange around $35 billion of financing to the private sector in developing countries annually, and they hold more than 90% of these assets on their own balance sheets through to maturity. For blended finance to achieve scale, the MDBs and DFIs must i) arrange a higher number of transactions, ii) arrange a much larger amount of annual financing volumes and iii) transfer these exposures to blended finance vehicles. This is especially true for the senior debt assets that will be in the highest demand by private sector investors.

Public investors have a (natural) tendency to invest in the low-hanging fruit, which can be market distorting. “Picking winners, particularly the most investment-ready enterprises, can mean that we end up subsidizing inefficient markets that stifle competition and discourage more investment in their sectors — precisely the opposite of the long-run results we’re working for.”[7] It may also lead to a race to the bottom among DFIs and donors, to capture new market for loans through implicit subsidies. Instead, public investors should focus a greater amount of their portfolio on high-risk projects and investments that require high-risk or early-stage investment to reach bankability.

Further, public investors have inconsistent levels of ability to achieve sufficient leverage. While there is great potential for blended finance, the scale of impact will ultimately depend on the amount of private, particularly institutional, investment that can be leveraged by each public-sector dollar. Deals that have potentially low leverage should consider how to better achieve a sustainable capital structure and/or how to leverage risk-sharing or other mechanisms like technical assistance to attract private sector investment.

The recent IFC MCPP Infrastructure Program is a best-practice blended finance solution. However, it is reasonable to assume MDBs and DFIs are unlikely to voluntarily change their existing business models. To achieve scale, the DFIs and their shareholders need to understand the factors that lead to the status quo. Then, the DFIs need to establish the objectives, incentives, tools, resources, and capital required to arrange higher numbers and volumes of transactions in developing countries that can attract private sector investors. For example, the shareholders of the MDBs and DFIs should modify institutional objectives and scorecards to incentivize greater private sector participation in transactions.

HIGHER-RISK PROJECTS AND LOW-INCOME COUNTRIES SHOULD BE PRIORITIZED

MDBs and DFIs should allocate more capital to higher-risk activities (i.e., low-income countries and subordinated positions). Unlike donors, DFIs have the expertise and capacity to participate in blended finance transactions at scale. Unfortunately, the large majority of their investment volume has been in middle income countries—around 88% of the IFC’s aggregate business volume in the past decade was in middle income countries—and is often pari passu with private investors. Rather, DFIs should crowd-in private sector investment into the bankable projects, thereby reducing their capital contribution, and allocate the savings to higher-risk projects and instruments (i.e., guarantees and junior or subordinate investment positions). However, this is easier said than done. The pipeline of bankable projects is relatively smaller in lower-income countries and the DFIs are required to maintain acceptable credit ratings (e.g., “AA” or better).

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[7] Talbot, Theodore. “Four Challenges for Blended Finance and Development Finance Institutions.” London: Center for Global Development. November 25, 2015. Accessed June 24, 2017. https://www.cgdev.org/blog/four-challenges-blended-finance-and-development-finance-institutions.

MDBs and DFIs could take a graduation approach to blended finance. In middle-income countries and investment-ready sectors like infrastructure, MDBs and DFIs could risk-share with private sector investors, leveraging low-levels of public or philanthropic sector concessional funds. In lower-income countries and critical development sectors like water and sanitation, MDBs and DFIs could risk-share with impact investors, philanthropic investors, and public investors. As countries and sectors develop, MDBs and DFIs could "graduate" assets, requiring less and less concessional or philanthropic capital to attract private sector investment.

A key to success will be building a stronger pipeline of bankable projects. Good, bankable projects in emerging markets do not grow on trees. They need to be identified and cultivated. Investors require developers to sponsor new projects. To achieve scale, countries need to improve the environment for doing business and public financial support for capacity-building and project preparation can in many cases help speed up the pipeline of projects. In some cases, regulatory frameworks can also be improved to prevent bias against lower-income countries. The public sector-oriented DFIs can have an important role in these activities.

DEVELOPING COUNTRIES' CONSIDERATIONS NEED TO BE MORE PROMINENT

The views of developing countries are not sufficiently addressed in many blended finance solutions. From an interview with the Group of 24 Secretariat and a review of the Group of 77 response to the Addis Ababa Action Agenda, it is clear that developing countries feel under-represented in the construction of blended finance instruments. Grants are often the first choice of beneficiary countries, but they also realize the benefit of public sector monies in blended finance. "The focus of the Financing for Development Conference must be on generating and mobilizing resources for development and in this regard to strengthen international cooperation to assist developing countries"[8] but "the advantages for developing countries regarding the concept of blended finance are unclear and should further be explained."[9]

LOCAL CURRENCY INVESTMENT SHOULD BE PRIORITIZED WHERE POSSIBLE

Over 90% of cross-border debt to low- and lower middle-income countries is denominated in foreign currency, exposing unhedged borrowers to currency mismatch between local currency revenues and foreign currency debt.[10] Blended finance can play an important role in reducing foreign exchange (FX) risk, including reducing the percentage of cross-border flows where the borrower bears FX risk on an unhedged basis and increasing the amount of domestic financial intermediation in the financial and capital markets in local currency.

BETTER DATA IS REQUIRED

Deeper and more actionable blended finance data is required. Multiple think tanks have produced reports analyzing the blended finance market, focused mostly on total capital mobilized. Similarly, EDFI, the OECD, and WEF have or are in the process of surveying key stakeholders to better understand their blended finance activity. However, these efforts often ignore a fundamental component: return. This is particularly important to private investors, who are primarily interested in risk/return. There needs to be a concerted effort to quantify returns for different levels of the capital stack in historical blended finance transactions, particularly to enable private investors to make informed investment decisions based on comparable data.

[8] Economic and Social Council, *Economic and Social Council forum on financing for development follow-up*, E/FFDF/2017/L.1 (19 May 2017), available from http://www.un.org/esa/ffd/ffdforum/wp-content/uploads/sites/3/2017/05/E-FFDF-2017-L.1_Draft-Outcome.pdf.

[9] Ibid.

[10] Horrocks, Paul, Durland, Justice, and Clubb, Chris. "Achieving Sustainable Development Through Local Currency Financing." A-id.org. March 4, 2017. Accessed June 24, 2017. http://www.a-id.org/en/news/achieving-sustainable-development-through-local-currency-financing/.

ANNEX

ACRONYMS

BFBT	Blended Finance Taskforce
BSDC	Business & Sustainable Development Commission
SDGs	Sustainable Development Goals
MDB	Multilateral Development Bank
DFI	Development Finance Institution, and often in this paper encompassing MDBs, for simplicity
OECD	Organization for Economic Cooperation and Development
WEF	World Economic Forum
SDIP	Sustainable Development Investment Partnership
RDFI	Redesigning Development Finance Initiative
DAC	Development Assistance Committee
TOSSD	Total Official Support for Sustainable Development
UN	United Nations
UNDP	UN Development Program
CPI	Climate Policy Initiative
PIDG	Private Infrastructure Development Group
GIH	Global Infrastructure Hub
UNEP	UN Environment Program
WBG	World Bank Group
IDA	International Development Association
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
EC	European Commission
EIP	External Investment Plan
USAID	United States Agency for International Development
DCA	Development Credit Authority
Sida	Swedish International Development Agency
RFP	Request for Proposals
BMZ	German Federal Ministry for Economic Cooperation and Development
GAC	Global Affairs Canada
AATIF	Africa Agriculture and Trade Investment Fund
SECO	Swiss State Secretariat for Economic Affairs
HIF	Health Investment Fund
KIF	Danish Climate Investment Fund
DFID	United Kingdom Department of Foreign Affairs and International Development
JICA	Japan International Development Cooperation Agency
ARC	African Risk Capacity
AMFm	Affordable Medicines Facility for Malaria
IIC	Inter-American Investment Corporation
IADB	Inter-American Development Bank
ADB	Asia Development Bank
AfDB	African Development Bank
EDFI	Association of European Development Finance Institutions
BIO	Belgian Investment Company for Developing Countries
KfW DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
FINNFUND	Finnish Fund for Industrial Cooperation
FMO	Netherlands Development Finance Company
IFU	The Investment Fund for Developing Countries
Norfund	Norwegian Investment Fund for Developing Countries
OeEB	The Development Bank of Austria

PROPARCO	Société de Promotion et de Participation pour la Coopération Economique
SIFEM	Swiss Investment Fund for Emerging Markets
OPIC	Overseas Private Investment Corporation
MCC	Millennium Challenge Corporation
PBU	Pædagogernes Pensionskasse
CGD	Center for Global Development
IRENA	International Renewable Energy Agency
TCX	The Currency Exchange Fund
GHD	The Center for Global Health and Diplomacy
ECDPM	The European Centre for Development Policy Management
UNAIDS	The Joint United Nations Programme on HIV and AIDS
ODA	Official Development Assistance
FDI	Foreign Direct Investments

BLENDED FINANCE DEFINITION USED FOR TRENDS ANALYSIS

The following criteria are applied to determine whether a transaction is blended:

- Expected positive financial return
- Contributes towards achieving the SDGs (not every participant needs to have that development objective)
- Public / philanthropic parties are catalytic (they make a transaction happen that otherwise would attract little/no interest from the private sector). Catalytic participation could include:
    - Public/philanthropic investors are subordinate or concessional within the capital structure
    - Public/philanthropic investors provide guarantees or risk insurance that are adjacent to the capital structure
    - Transaction design or preparation is grant funded
    - Transaction is associated with a technical assistance facility

ADDITIONAL SURVEY RESULTS

As a percentage of total portfolio, blended finance usually constitutes between 10-50% of total activity of surveyed organizations.

Figure A: Survey response – Engagement level in blended finance

However, most organizations plan to substantially scale up their blended finance activities over the next 5-10 years.

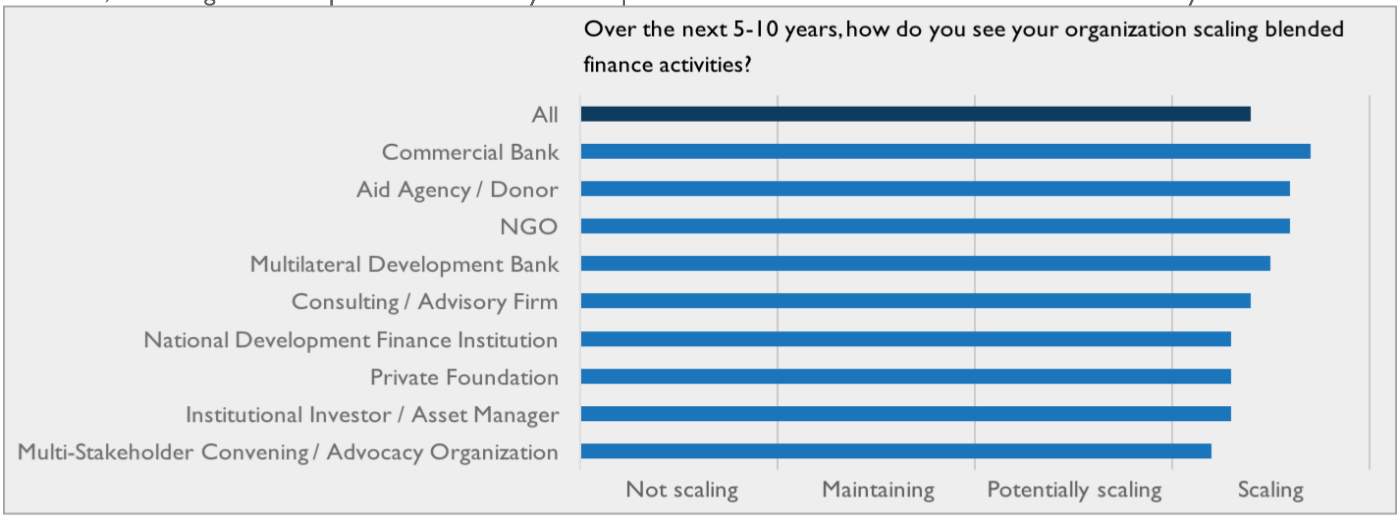

Figure B: Survey response – Scaling blended finance over the next 5-10 years

Within their blended finance portfolios, the majority of organizations actively seek out blended finance activities.

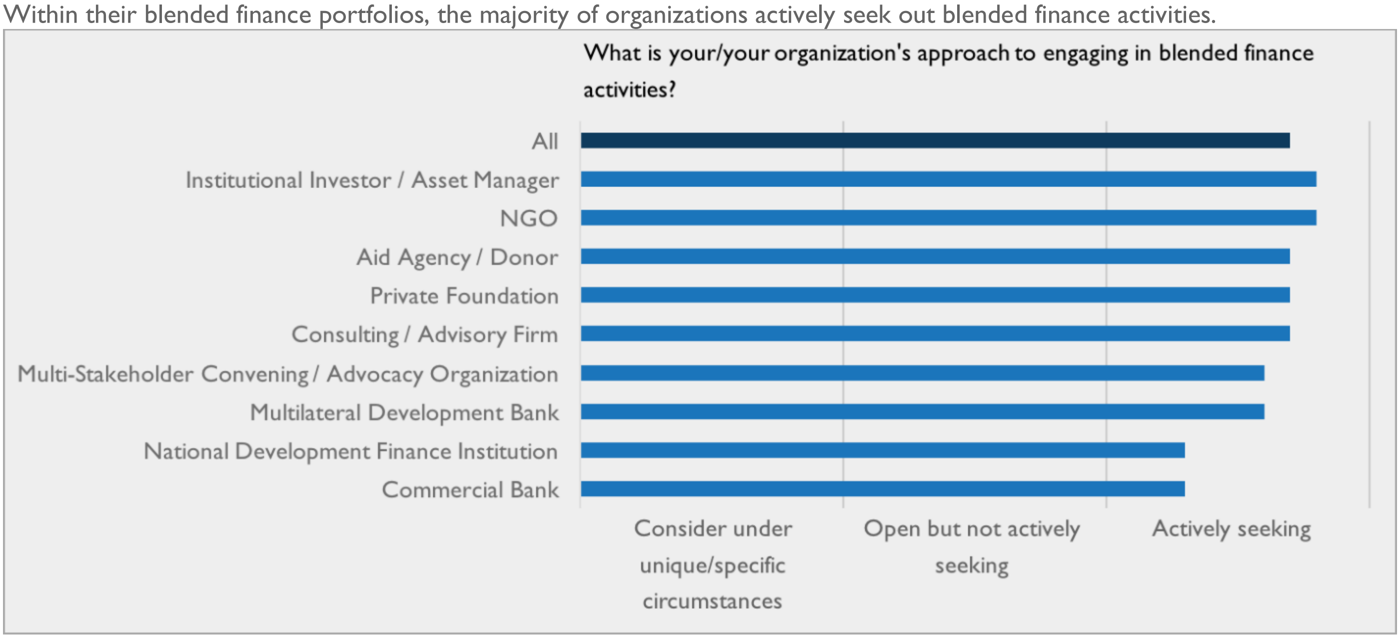

Figure C: Survey response – Organizational approach to blended finance

The blended finance strategy for most organizations aligns to their organization's broader strategic priorities.

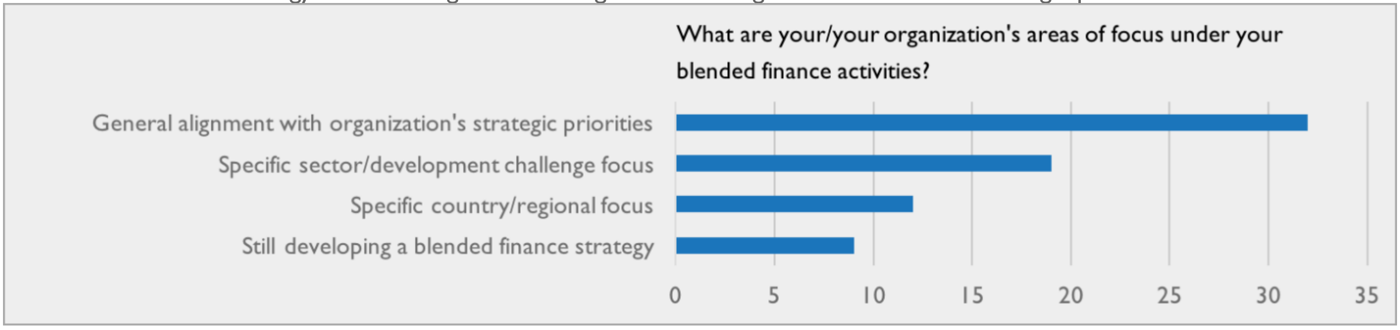

Figure D: Survey response – Blended finance activities

Survey respondents think public institutions should allocate 10-25% of their total budgets to blended finance.

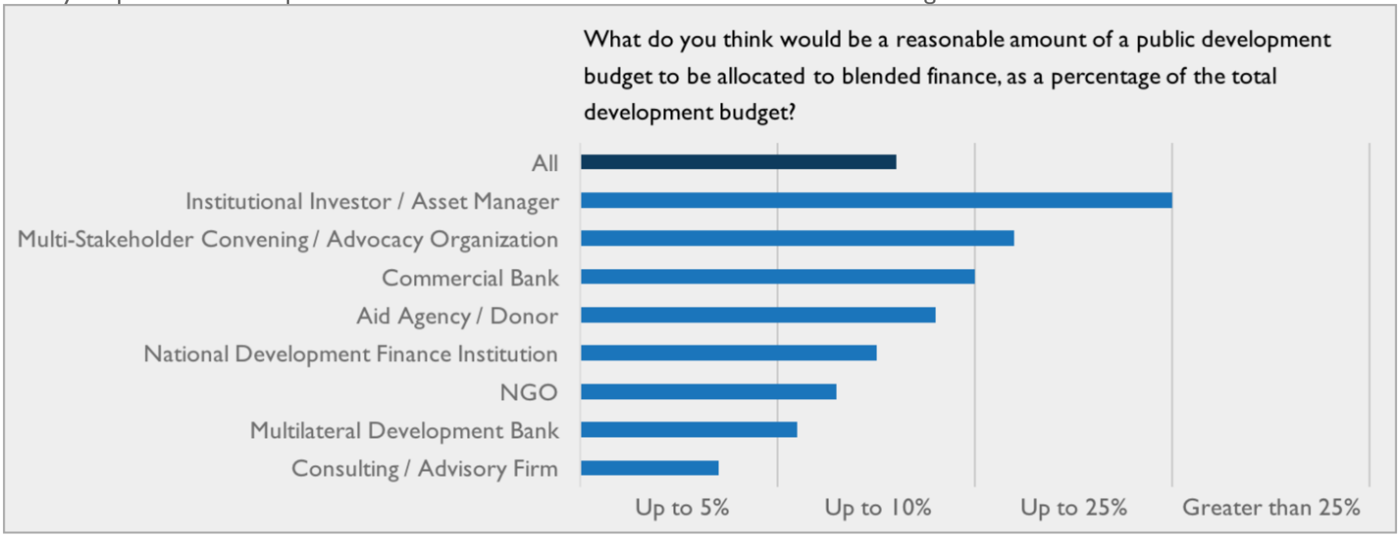

Figure E: Survey response – Public development budget allocation to blended finance

Most survey respondents think the MDBs and DFIs have the skills to generate significantly higher amounts of financing that can serve as core assets to blended finance activities.

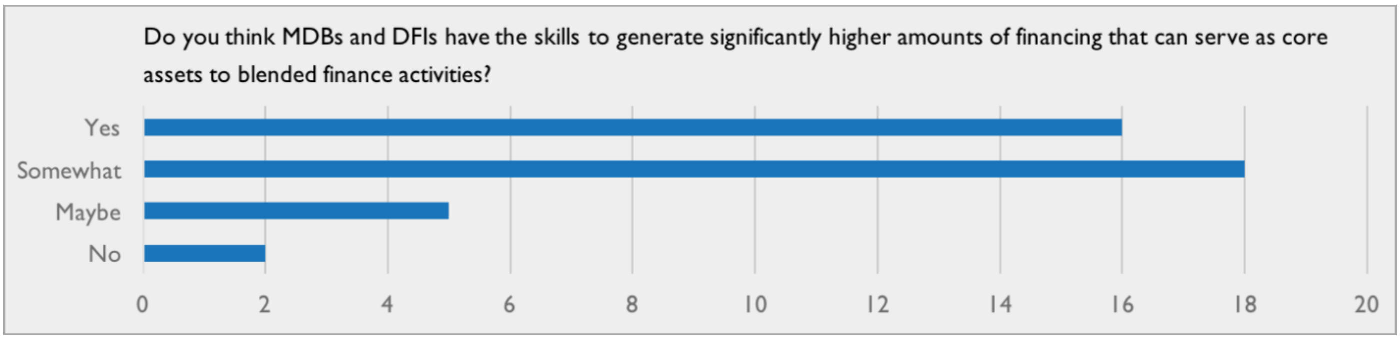

Figure F: Survey response – Organizational capacity to scale blended finance

The comparative advantage of philanthropic institutions is considered their ability to provide flexible capital and/or favorable terms.

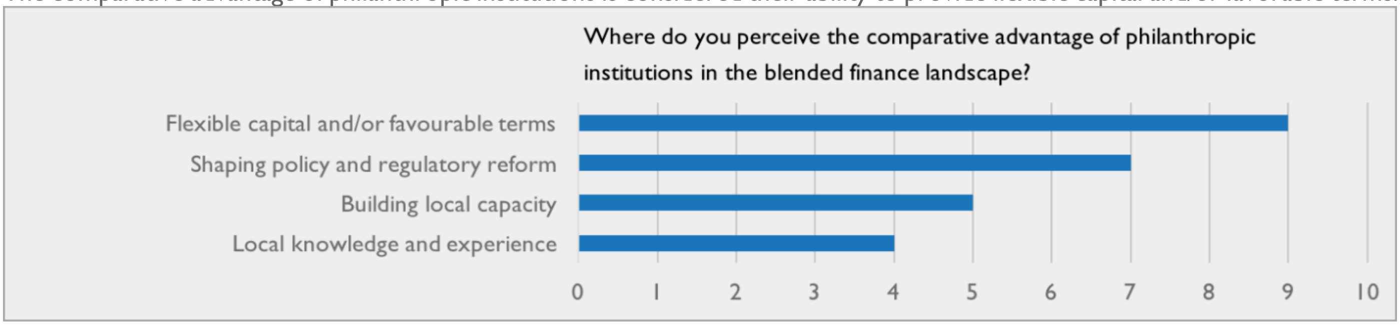

Figure G: Survey response – Comparative advantage of philanthropic institutions in blended finance

Survey respondents from philanthropic organizations prefer to engage in blended finance at the early stage through grants or by providing technical assistance.

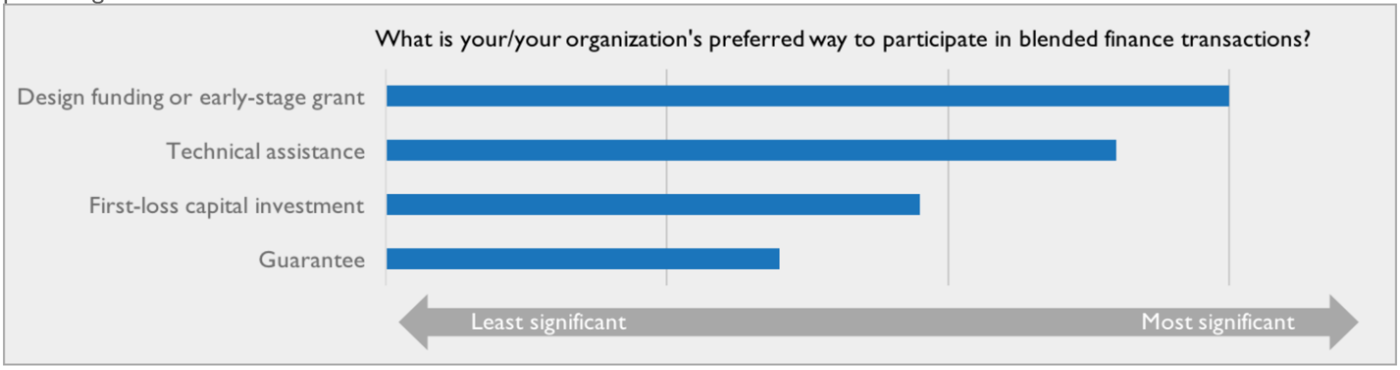

Figure H: Survey response – Preferred way to participate in transactions

DATA COMPARISON ACROSS MAJOR BLENDED FINANCE REPORTS

Overview of Data

	WEF	OECD ('14)	Development Initiatives	Convergence	OECD ('15)
Total sample size	74	140		187	--
Number of funds/facilities	61	140	--	139	--
Number of supporting mechanisms	13	--	--	--	--
Number of projects/businesses	--	--	--	48	--
Total capital under analysis (USD M)	25,455.4	28,528.0	37,142.9	51,156.7	81,100.0
Total funds/facilities (USD M)	14,964.0	28,528.0	--	32,770.5	81,100.0
Total supporting mechanisms (USD M)	10,481.4	--	--	--	--
Total projects/businesses (USD M)	--	--	--	18,386.2	--

Regional Data

	WEF			OECD ('14)			Development Initiatives			Convergence		
	#	*$ (M)*	*Median*	#	*$ (M)*	*Median*	#	*$ (M)*	*Median*	#	*$ (M)*	*Median*
Sub-Saharan Africa	36	5,675,5	61.3	55	13,379.8	65.0	--	9,768.6	--	87	8,072.9	36.5
East and Southeast Asia	6	1,723.0	250.0	14	819.5	32.0	--	4,308.6	--	16	2,072.0	72.5
Latin America and Caribbean	3	390.2	89.2	7	692.4	52.0	--	4,531.4	--	35	2,309.9	30.0
South Asia	4	324.3	87.7	4	156.0	24.1	--	4,345.7	--	26	1,442.5	37.6
Middle East and North Africa	1	160.0	160.0	6	894.8	141.5	--	2,600.0	--	14	3,497.0	133.0
Europe and Central Asia	2	1,210.5	605.3	10	3,339.2	87.8	--	5,608.6	--	7	1,926.1	33.3
Global	22	15,961.9	250.0	44	9,246.7	111.8	--	2,711.4	--	39	31,918.0	95.0

Sectoral Data

	WEF			OECD ('14)			Development Initiatives			Convergence		
	#	*$ (M)*	*Median*	#	*$ (M)*	*Median*	#	*$ (M)*	*Median*	#	*$ (M)*	*Median*
Financial Services	--	7, 608.2	--	41	7,258.7	47.5	--	--	--	70	7,508.8	36.0
Energy and Climate	--	1,577.6	--	30	7,387.3	100.8	--	--	--	62	15,375.9	56.0
Healthcare	--	7,430.1	--	5	413.2	105.4	--	--	--	38	15,181.9	18.4
Education	--	--	--	1	0.7	0.7	--	--	--	21	283.5	8.3
Agriculture	--	1,195.9	--	15	1,361.7	60.0	--	--	--	34	1,511.1	15.5
Infrastructure	--	4,503.8	--	14	3,605.3	109.3	--	--	--	12	1,708.5	72.3
Housing/Real Estate	--	--	--	--	--	--	--	--	--	11	337.5	8.6
General	--	3,129.8	--	34	6,501.31	60.5	--	--	--	24	9,336.0	49.0