

STATE OF BLENDED FINANCE

2024



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Network for Greening the Financial System

Official Monetary and Financial Institutions Forum

Overseas Development Institute

Publish What You Fund

Société Générale

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LETTER FROM CEO



In its 8th edition, the State of Blended Finance reports a directional shift in the global blended finance market.

After a 10-year low in total volumes, 2023 saw the blended finance market rebound to a 5-year high. Large blended transactions are coming to market in close succession. Multilateral development banks and development finance institutions are investing in greater sums.

The data point to continued mainstreaming of blended finance as a tool as well as progress in scaling up the practice. We are taking steps in the right direction to close the Sustainable Development Goals' financing gap but we must stride farther and faster to raise the trillions needed to achieve the 2030 Agenda.

That is why in this report we bring in an outside perspective, inviting stakeholders from the regulatory and supervisory communities to draw from their knowledge, experiences, and understanding of the roadblocks to achieving blended finance at scale.

We also look inward to assess the state of data transparency. Moving trillions of dollars will not happen in a vacuum. It will take intentional collaboration across countless stakeholders, often with competing agendas, mandates, or frameworks of understanding. We must open our eyes and ears to learn, listen, and bridge this divide. All actors—donors, investors, policymakers, regulators, to name a few—have a role in shaping the conditions that will unlock the potential of blended finance.

Later this year, we will publish our third climate edition of the State of Blended Finance. We hope this annual two-report cycle will equip readers with the blended finance evidence and understanding that will help them foster action towards a more sustainable and resilient future.

A handwritten signature in black ink that reads "Joan M. Larrea".

JOAN M. LARREA
CHIEF EXECUTIVE OFFICER,
CONVERGENCE

GLOSSARY OF KEY TERMS

A/B LOANS AND BONDS

Financial instruments used by a selection of multilateral investors, specifically multilateral development banks (MDBs). In an A/B loan structure, the MDB or multilateral acts as the lender of record, providing a portion of the loan for its own account (A loan), with the loan balance funded by the B loan participation (typically a commercial bank or institutional investor). Principal and interest on the loan are paid to the lender, which is then distributed on a pro rata basis. An A/B bond functions similarly. The MDB originates an A/B loan with the borrower. The A loan is funded by the MDB, while the B loan is funded by a special purpose vehicle via issuance of a B bond to institutional investors in the capital market.

BASEL IV

A set of international banking regulations established in response to the 2008-09 financial crisis. It builds on previous accords known as Basel I, Basel II, and Basel III to promote greater standardization and stability to the worldwide banking system.

BLENDED FINANCE

The use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the Sustainable Development Goals (SDGs). Blended finance is a structuring approach, not an investment approach.

CARBON CREDIT

A carbon credit represents a volume of greenhouse gas (GHG) emission reduction, typically about one metric tonne, created by a specific project or activity, such as reforestation. Carbon credits are verified/certified by specialist agencies such as Gold Standard. Credits are sold by credit generating projects, on a “carbon market” to buyers who are seeking to “offset” their own GHG emission production with the carbon reduction represented by the credit. The exchange facilitates carbon neutrality. Part of the credit verification process ensures a threshold of additionality—that is, the GHG emission reduction would otherwise have not occurred if the project was not implemented.

CARBON MARKET

The primary and secondary financial markets where carbon credits are traded. Carbon credits represent one metric tonne of GHG emission reduction. In the primary carbon market, companies buy and sell carbon credits based on their emissions allowances determined by relevant domestic and supranational regulations. In the secondary market, companies, banks and other market actors engage in trading of carbon credits to provide liquidity to the market and hedge exposure to future price increases in carbon credits.

CATALYTIC CAPITAL/FUNDING

Financial instruments allocated to transactions with the intent to mobilize private sector investment. The definition of catalytic capital can vary widely. In this report, catalytic capital only refers to financial instruments priced below-market (concessional), with evidence of the intent to mitigate investment risks and/or enhance the expected returns for private sector investors and deployed through one of Convergence’s four blending archetypes:

- i concessional debt/equity,
- ii concessionally priced guarantees/insurance,
- iii project preparation or design-stage grant funding, and;
- iv technical assistance grant funding.

CLIMATE BLENDED FINANCE

The use of blended finance structures to deliver private sector investment to transactions that explicitly aim to produce outcomes that combat and/or respond to the effects of climate change in developing countries.

CONCESSIONAL CAPITAL

Funds provided on below-market terms within the capital structure of a financial transaction to reduce the overall cost-of- capital for the borrower and/or provide additional downside protection to more senior investors (if in a first-loss position). Concessional capital can be provided through a diversity of financial instruments, including debt, equity, grant funding, and mezzanine capital.

CURRENCY SWAP

Two parties agree to exchange principal/interest payments of a loan in one currency for an equivalent loan in another currency. Investors/borrowers use currency swaps to hedge (at least partially) their exposure to currency risk.

GREENHOUSE GASSES (GHGS)

Gases, produced both as a result of human activity and natural occurrences, that are trapped in the atmosphere and increase the temperature of the planet. The main GHGs are carbon dioxide, methane, nitrous oxide, water vapor and fluorinated gasses (synthetic).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

A set of global accounting standards used to prepare financial statements. These standards aim to streamline financial reporting across global markets, making it easier for international investors to assess their viability.

LEVERAGE RATE

The ratio of concessional capital (below market-price) to all commercial capital (market priced) in a financial transaction. Commercial capital includes capital from private, public, and philanthropic sources.

MOBILIZATION RATE

The ratio of concessional capital (below-market-price) to commercial capital from only private sector sources.

NATIONAL ENERGY MATRIX

A country's composition of all primary energy sources from which secondary energy sources, like electricity, is produced. This includes both renewable energy sources and non-renewable energy sources. The energy matrix is distinct from the power generation matrix which is only concerned with the sources that are used in electricity production.

NATIONALLY DETERMINED CONTRIBUTIONS (NDCS)

The country-specific commitments to cut GHG emissions and/or adapt to the effects of climate change required by all parties to the Paris Agreement and the collective commitment to limit global warming to 1.5oC. NDCs must define how targets will be met, outline how progress towards the goals will be monitored and verified, and be updated by the country on a five-year cycle.

NATURE-BASED SOLUTIONS

Efforts to protect, manage and/or rehabilitate ecosystems that can assist in addressing societal challenges, such as food insecurity, climate change vulnerability, and human health. Nature-based solutions are rooted in the concept that healthy natural capital assets are both critical to functioning natural ecosystems and sustainable economic development by yielding shared benefits to modified or human-built systems.

PRIVATE DIRECT MOBILIZATION

Financing from a private entity on commercial terms due to the active and direct involvement of a DFI/ MDB.

PRIVATE INDIRECT MOBILIZATION

Financing from a private entity to a specific activity where a DFI/MDB is providing financing, whereby no DFI/MDB is playing an active or direct role influencing the private entity's involvement.

RISK-WEIGHTED ASSETS (RWA)

The total assets held by a bank, adjusted according to their level of risk. This adjustment helps determine the minimum amount of capital a bank must maintain to cover potential losses.

EXECUTIVE SUMMARY

Convergence's State of Blended Finance reports—published since 2017—focus on blended finance activities that mobilize private investment to emerging markets and developing economies (EMDEs). With this April 2024 edition, Convergence marks a new annual two-report cycle. Early each year, Convergence will release an edition of the State of Blended Finance report that provides analysis and insights on the entire blended finance market, including blended finance activity across sectors, regions, investors, investment structures, development impact generation, and more.

As climate is a critical topic for the investment world—and for blended finance, Convergence will continue to produce a climate-focused edition of the State of Blended Finance report each fall. As in previous years, this edition will focus on developments in climate blended finance—transactions that seek to generate positive outcomes in the fight against climate change in EMDEs.

Through the State of Blended Finance, Convergence aims to provide blended finance practitioners, existing investors, and newcomers to the field with a constantly evolving and comprehensive understanding of current market data and trends to guide decision making. Blended finance in 2024 benefits from the trial and experimentation in the past 15 years, with Convergence's Historical Deals Database including 1,123 transactions for a total of \$213 billion investment. We must collectively learn from these experiences to identify the most effective and efficient private investment mobilization solutions that should be standardized and replicated to mobilize private investment at scale equitably across the 142 EMDEs, with high financial and development additionality and alignment to debt sustainability.

With blended finance yet to reach scale, despite a growing understanding on how scale can be achieved, the State of Blended Finance 2024 also considers three thematic questions. Firstly, what are the implications of the regulatory regimes applicable to large-scale commercial investors

(e.g., institutional investors)? Secondly, how have different organizations recorded investment activity in the blended finance market? And thirdly, what evidence is there of non-blended investment activity occurring that was made possible by prior blended investments? In exploring these questions, we look to revisit the foundational underpinnings of blended finance, considering each stage of blended finance's conceptual life cycle: how regulators and supervisors might better enable it, the different ways in which organizations have recorded it, and the forms of investment activity that might follow it.

PART I: MARKET OVERVIEW

In **PART I** we present a data snapshot of the overall blended finance market. Convergence has recorded 1,123 blended finance transactions, with a total investment of \$213 billion. Key findings include:

- Following a 10-year low in aggregate blended finance investment in 2022, Convergence observed a market rebound in 2023. Financing totals grew to \$15 billion reaching a 5-year high. The swell in financing comes even as fewer deals reached financial close; Convergence recorded 25% fewer deals in 2023 compared to 2022.
- Convergence observed a greater frequency of deals with ticket sizes over \$100 million in 2023 than the previous two years (40% of deals in 2023, 17% in 2022, 28% in 2021).
- Over the last decade, the blended finance market has comprised 85 deals per year on average, with a median annual financing total of \$15 billion. Convergence data illustrates a significant uptick in the cadence of blended finance in recent years; 122 annual transactions on average in 2021-2023.
- DFIs/MDBs activity was central to the market rebound. After falling to a 5-year low in total investment in 2022, commercial financing from DFIs/MDBs grew by 140% in 2023 (\$2 billion in 2022 to \$4.9 billion in 2023).

- Concessional funding from the public sector to blended finance has been stagnant since 2018, with Official Development Assistance (ODA) totals dropping 45% from 2021 to 2023. This is in part due to the global response to Russia’s invasion of Ukraine—Ukraine was the primary recipient of ODA, with more than 90% directed to the public sector.
- However, the use of concessional guarantees and risk insurance is on the rise—the dollar value of concessional guarantees rose by over 40% in 2023 from 2021 and accounted for 43% of all concessional funding in 2023.
- 2023 saw the launch of a series of substantial coalition-led blended finance initiatives deploying ODA instruments for deal pipeline development and catalytic capital efficiency, including the Blended Finance for the Energy Transition initiative, the Investment Mobilization Collaboration Agreement, and the Green Guarantee Company.

PART II: THE REGULATORY CONTEXT OF BLENDED FINANCE

In **PART II**, we explore some of the key regulations facing large-scale commercial investors when investing in blended finance vehicles, considering the implications to blended finance posed by regulatory frameworks such as the Basel Accords (including the final implementation of Basel III from January 2023) and EU legislation on securitization and state aid. We also explore the perspective of supervisors and regulators on blended finance, and identify the following recommendations to address some of the regulatory hurdles blended finance faces:

- 1 Adopt a multi-stakeholder approach to building understanding on blended finance by:
 - i. removing silos between the blended finance and supervisory communities;
 - ii. creating a formal framework providing policymakers and regulators with a starting point on how to approach blended finance; and
 - iii. establishing multi-stakeholder platforms to encourage dialogue.

- 2 Use supranational forums as a space for policy dialogue between donors and supervisors on capital allocation rules, with donors and institutional investors partnering together to better calibrate concessional tools to existing regulations.
- 3 Prioritize data transparency to showcase the actual risk of investing in developing markets to regulators and institutional investors.

PART III: TRANSPARENCY IN BLENDED FINANCE & UNTANGLING PRIVATE-SECTOR MOBILIZATION TRENDS

In **PART III**, we delve into transparency in blended finance, breaking down the methodological differences underlying blended finance data and market trends from different data providers, namely, the OECD, DFI Joint Working Group on Blended Concessional Finance, and Convergence. We also consider non-blended investment activity that has been enabled by blended finance structures. Here we present the following recommendations for boosting transparency in blended finance:

- 1 Blended finance actors should prioritize publishing timely data for more accurate market estimates and comparisons.
- 2 Blended finance actors should publicize disaggregated data on private capital mobilization rates.
- 3 Data providers should collaborate to share and compile data in a harmonized way to enable better assessment of blended finance trends.
- 4 Development actors should use their position in the market to publicize important market activity from the private sector.

PART IV: SECTOR DEEP DIVES

In **PART IV**, we present a breakdown of key data trends across five sectors: agriculture, energy, financial services, health and education, and non-energy infrastructure. The deal analysis for each sector is broken down by vehicle, blending archetype, sub-sector, region, SDG alignment, and recipients, while the investor trends focus on investor activity and investor type. Below are key takeaways from each sector deep dive:

- Transactions within the **agriculture sector** tend to be smaller when compared to

the overall blended finance market, with most funding directly supporting mid-sized companies and ultimately benefiting smallholder farmers. This past year saw an increased focus on climate resilient and sustainable agriculture blended transactions, particularly in Latin America and the Caribbean.

- The **energy sector** remains the most active segment of the blended finance market, comprising nearly one third of deal activity and 47% (\$101 billion) of total blended capital flows. Much of this investment targets renewable energy development—over the last year 91% of blended transactions in the sector channeled financing to renewable energy, with nearly \$10 billion going towards solar projects.
- Blended finance transactions in the **financial services sector** are increasingly focused on supporting financial institutions to grow their on-lending activities to micro-, small- and medium-sized enterprises (MSMEs). These types of deals have gained prominence due to the sustained financial pressures faced by banks in EMDEs precipitated by the economic fallout from the COVID-19 pandemic.
- Development impact bonds are more frequently used in **health and education sectors** (14% in 2021-2023). Development impact bonds may be particularly well-suited to these sectors because the structure specifically pays for impact outcomes and is highly tailored for specific development impacts. Convergence also found that 30% of concessional finance in blended health and education transactions is provided through grants, and 87% of this grant funding is financed by development agencies.
- Since 2021, there has been a notable shift in the **infrastructure sector** towards blended finance to support the working capital needs of corporates and project sponsors, rather than directly investing in project finance. As a result, there has been a proportional increase in company vehicles and a relative decrease in project finance within the sector.

PART V: CONCLUSION

In **PART V**, In PART V, we provide seven points of action that address the opportunity areas observed in this report, aiming to equip stakeholders with a robust framework, enabling them to effectively navigate the landscape of blended finance and fully leverage its capacity as an instrument for sustainable development.





INTRODUCTION

THE MACRO CONTEXT

The global macroeconomic headwinds that arose in the latter half of 2022 continued to present challenges to emerging markets and developing economies (EMDEs) in 2023. Over the past year, attention has been fixed on central banks as households, governments, and investors alike [await](#) policy rate decisions in both advanced economies and EMDEs. New and protracted geopolitical issues presented new sources of downside investment risk, applying further pressure to pertinent challenges like food security and additional barriers to unwinding the prolonged social and economic effects of the COVID-19 pandemic. Sovereign and corporate debt [continued](#) to rise throughout 2023 in most EMDEs, reaching record highs. Mounting debt levels combined with persistently high borrowing costs and local currency volatility have come together to create an untenable fiscal scenario for some EMDEs.

During this turbulence, the blended finance market proved resilient, weathering the stubborn macroeconomic environment to rebound from a 10-year low in financing in 2022 to near pre-pandemic deal volumes. This bounce-back was particularly fueled by developments in the latter half of 2023: global inflation easing faster than initially expected, including in EMDEs; surprisingly resilient emerging market local currencies; and burgeoning private debt activity on the back of favourable lending rates. A soft landing from the post-pandemic rate peak now seems attainable for some EMDEs. To achieve this outcome however, the global financial system must still navigate numerous challenges in the year ahead and beyond. The pathway for EMDEs will vary widely based on income level, creditworthiness, and past monetary policy. It is likely that the challenges of 2023 will endure longer in EMDEs than in their advanced economy counterparts.

ABOUT BLENDED FINANCE

Blended finance uses catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the Sustainable Development Goals (SDGs) and climate goals. Blended finance allows organizations with different objectives to invest alongside each other while achieving their own objectives (whether financial return, social/environmental impact, or a blend of both).

The main investment barriers for private investors addressed by blended finance are:

- 1 high perceived and real risk and
- 2 poor returns for the risk relative to comparable investments.

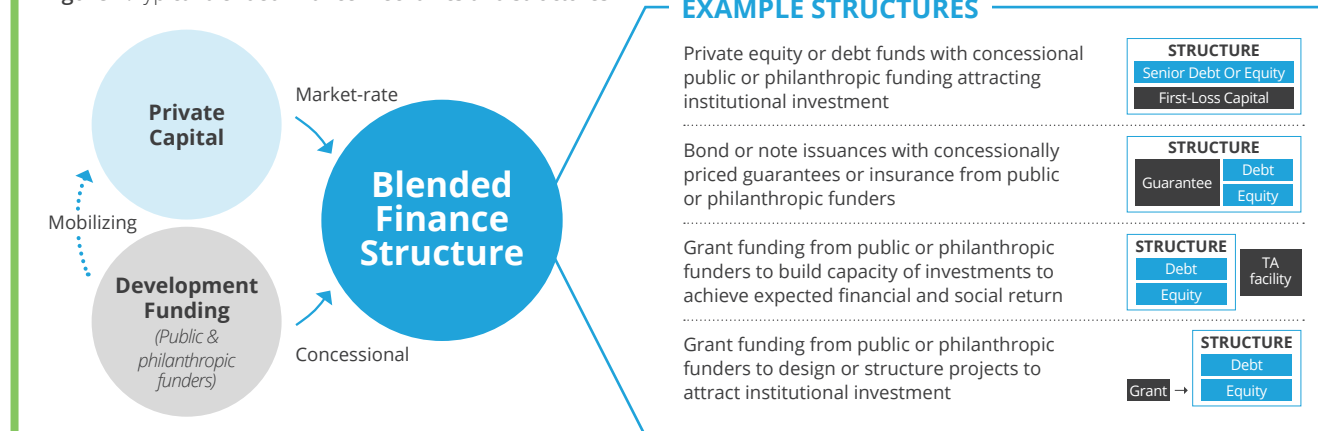
Blended finance creates investable opportunities in developing countries as a means to deliver more development impact.

Blended finance is a structuring approach. It is not an investment approach, instrument, or end solution.

Figure 1 highlights four common blended finance structures, or archetypes:

- 1 Public or philanthropic investors provide funds on below-market terms within the capital structure to lower the overall cost of capital or to provide an additional layer of protection to private investors.
- 2 Public or philanthropic investors provide credit enhancement through guarantees or insurance on below-market terms.
- 3 The transaction is associated with a grant funded technical assistance (TA) facility that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact.
- 4 Transaction design or preparation is grant-funded (including project preparation or design-stage grants).

Figure 1: Typical blended finance mechanics and structures



Concessional capital and guarantees or risk insurance are used by the public or philanthropic sector to create an investment opportunity with acceptable risk-return profiles for the private sector by:

- 1 de-risking the investment or
- 2 improving the risk-return profile to bring it in line with the market for capital.

Concessional funding includes scenarios where the public or philanthropic funder takes a higher risk profile for the same or lower rate of return. Design-stage grants are not direct investments in the capital

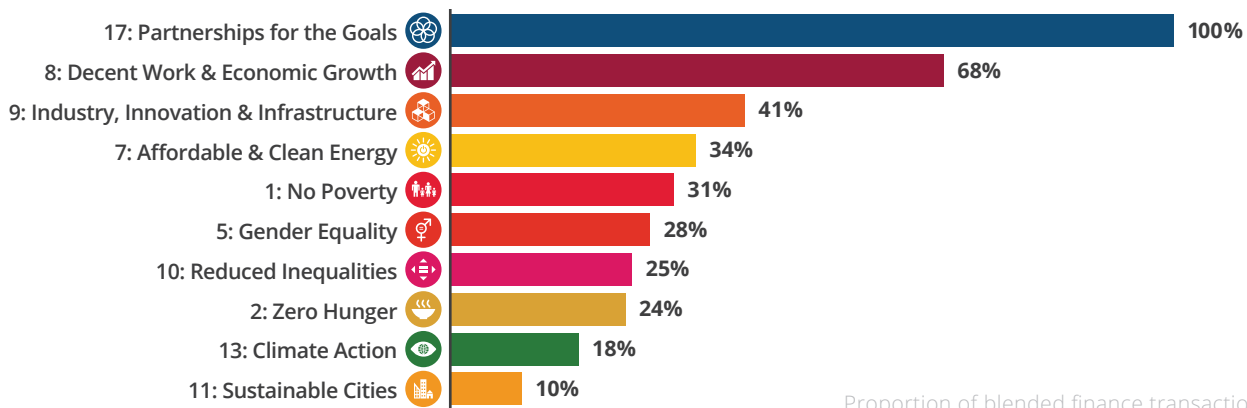
structure—they are early-stage interventions to improve a transaction’s probability of achieving bankability and financial close. Similarly, TA funds operate outside the capital structure to enhance the viability of the endeavor and improve impact outcomes.

It is important to note that blended finance can address a subset of SDG targets that are investable or on a pathway to investability. According to an analysis conducted by the Sustainable Development Solutions Network (SDSN, a global initiative of the

UN), approximately half the funding required to achieve the SDGs in developing countries can be in the form of investment. For example, blended finance is highly aligned with goals such as Goal 8 (Decent Work and Economic Growth) and Goal 13 (Climate Action) while less aligned with SDGs such as Goal 16

(Peace, Justice and Strong Institutions). In addition, emerging trends suggest blended finance is key to creating a pathway to investability for nature-based solutions (NbS) business models, addressing the undercapitalized climate SDGs (Goal 14 (Life Below Water) and Goal 15 (Life on Land)).

Figure 2: Alignment between blended finance transactions and the SDGs, 2014-2023



Proportion of blended finance transactions

REPORT METHODOLOGY & OVERVIEW

The State of Blended Finance is Convergence’s annual report on blended finance trends, opportunities, and challenges, produced in two editions for the general market and the climate finance market, respectively. This edition provides an updated analysis of the entire blended finance market. The report is based on Convergence’s continuous data and intelligence collection efforts, as well as input from Convergence’s 165 member institutions and other stakeholders.

Convergence curates and maintains the largest and most detailed database of historical blended finance transactions to help build the evidence base for blended finance. Given the current state of information reporting and sharing, it is not possible for this database to be fully comprehensive. Still, we are committed to building the best repository globally to understand blended finance’s scale and trends, draw better insights about the market, and disseminate this information to the development and finance communities to improve the efficiency and effectiveness of blended finance to achieve the SDGs. All data in this report reflects Convergence’s data collection efforts as of December 31, 2023. Information is collected from i) credible public sources such as press releases, ii) information sharing agreements with key

data aggregators like the Organisation for Economic Co-operation and Development (OECD), and iii) data validation exercises with Convergence members and partners.

To be included in Convergence’s Historical Deals Database (HDD), a deal must meet three main criteria:

- 1 The transaction attracts financial participation from one or more private-sector investors
- 2 The transaction uses catalytic funds in one or more of the following ways:
 - Public or philanthropic investors provide concessional capital, bearing risk at below-market returns to mobilize private investment, or provide guarantees or other risk mitigation instruments
 - Transaction design or preparation is grant-funded
 - Transaction is associated with a TA facility (e.g., for pre- or post investment capacity building)
- 3 The transaction aims to create a development impact related to the SDGs in developing countries.

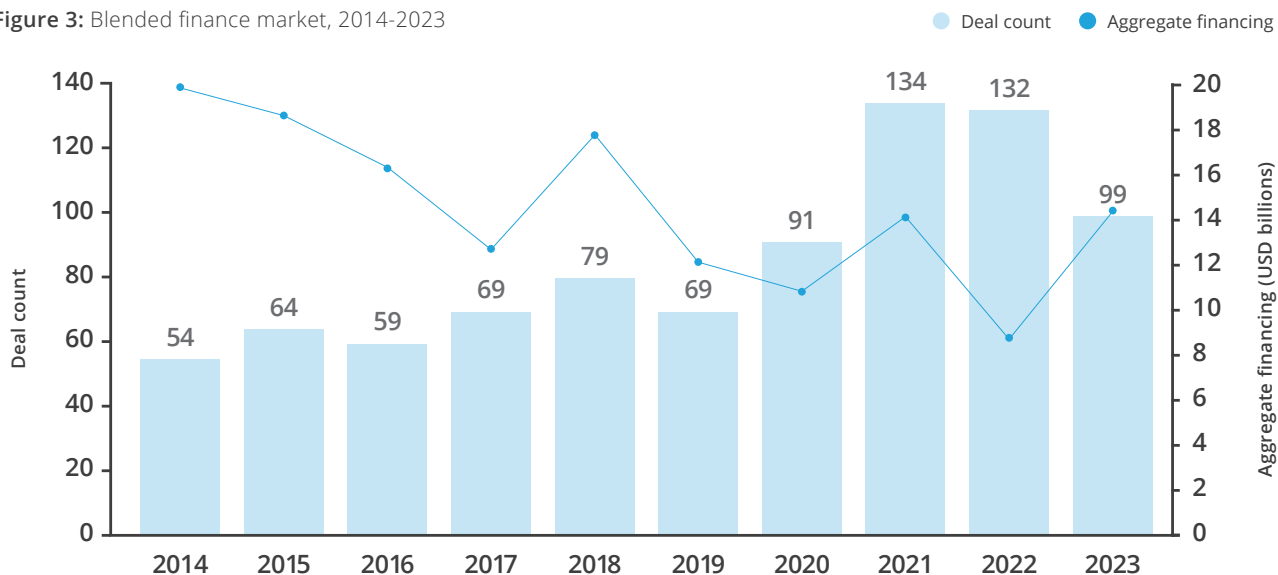
An aerial photograph of a rural landscape. The scene is dominated by large, rectangular agricultural fields in various shades of brown, tan, and green. A winding river or stream flows through the right side of the image, bordered by lush green vegetation. In the center, a small farmstead with several buildings and a few trees is visible. The overall lighting is bright, suggesting a clear day.

PART I: MARKET OVERVIEW

PART I: MARKET OVERVIEW

OVERALL BLENDED FINANCE MARKET

Figure 3: Blended finance market, 2014-2023



Following a 10-year low in blended finance deal volume in 2022, Convergence observed a rebound in 2023, reaching a 5-year high. According to the HDD, financing totals grew by 71% in 2023, increasing to \$15 billion from \$9 billion in 2022. The swell in financing comes even as fewer deals reached financial close. Compared to 2022, Convergence recorded 25% fewer deals in 2023, indicating that larger blended finance transactions are coming to market with more regularity. Convergence observed a greater frequency of deals with ticket sizes over \$100 million in 2023 compared the previous two years (40% of deals in 2023, 17% in 2022, 28% in 2021). After years of ups and downs in activity, typical of portfolio investment in EMDEs, 2023 and, in particular, the 28th United Nations Climate Change Conference (COP 28) [marked](#) an unprecedented burst of action, underscored by the launch or announcement of a series of large transactions. One of these “whales” was the [SDG Loan Fund](#), a \$1.11 billion investment vehicle, devised by

Allianz Global Investors and the Dutch Entrepreneurial Development Bank (FMO), and backed by the John D. and Catherine T. MacArthur Foundation, that looks to grow the exposure of institutional investors to climate, agriculture, and financial services investments in emerging markets.

To date, Convergence’s database contains 1,123 blended finance transactions with a total deal volume of \$213 billion. Over the last decade, the blended finance market has comprised 85 deals per year on average, with a median annual financing total of \$15 billion. Convergence data indicates a significant uptake in blended finance activity in recent years. Between 2021-2023, the average annual deal count stands at 122.

Overall, Convergence has recorded over 7,300 unique financial commitments to blended finance transactions by over 1,900 different investors. The historical median investment size is \$10 million (excl. guarantees and insurance products).¹

¹ Convergence excludes financial guarantees and insurance products from this calculation in order to avoid double counting investment totals.

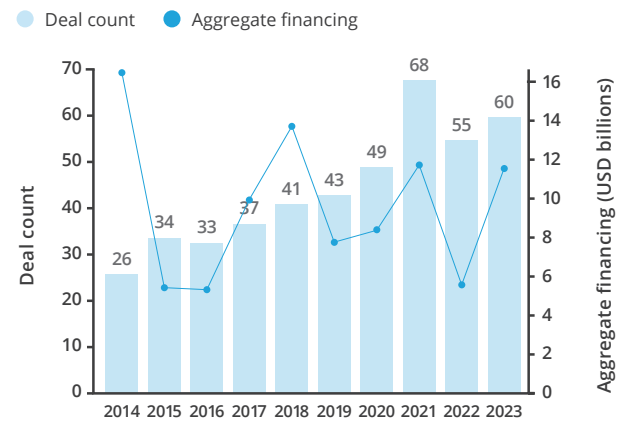
CLIMATE BLENDED FINANCE

Climate blended finance transactions² form a particularly strong theme within the blended finance market and are reaching scale more consistently than other segments. They account for about half (49%) of the blended finance market in terms of deal count and 57% of aggregate financing. Convergence has recorded 551 climate blended finance transactions valued at \$121 billion with a median annual deal volume of \$9.1 billion. While the overall deal count for climate blended finance has remained relatively consistent in recent years, financing volume has noticeably increased. Between 2021 and 2022, climate investment accounted for 73% of all capital committed to blended finance transactions. In 2023, that share grew to 80%.

Climate blended finance rebounded more strongly relative to the rest of the market, underscored by the spike in the number of large investment vehicles. Climate financing flows increased by 107% in 2023 from 2022 totals (\$11.6 billion from \$5.6 billion) with 48% of 2023 climate blended finance deals exceeding \$100 million, compared to 24% in 2022 and 41% in 2021.

Overall, Convergence has recorded nearly 3,800 unique financial commitments to climate blended finance transactions from over 1,100 unique investors. The historical median investment size to climate blended finance deals is \$10 million (excl. guarantees and insurance products). A complete analysis on the climate blended finance market will be released in Fall 2024.

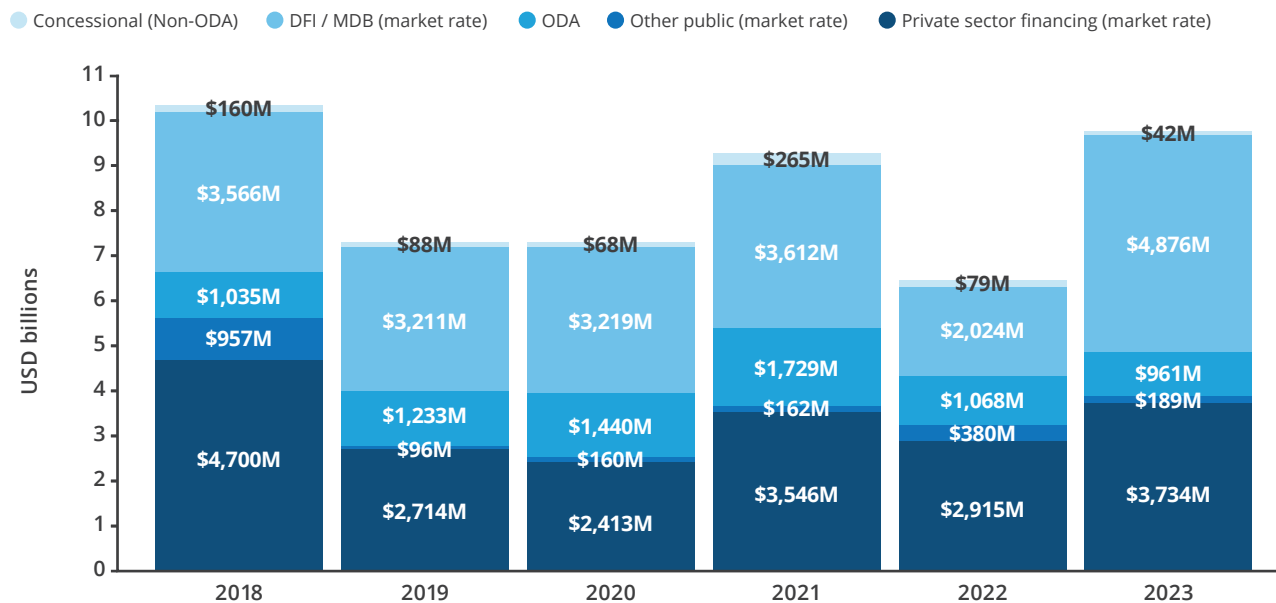
Figure 4: Climate blended finance market, 2014-2023



² Transactions were considered climate-focused first based on their alignment to SDGs 2 (Zero Hunger), 7 (Affordable and Clean Energy), 11 (Sustainable Cities), 13 (Climate Action), 14 (Life Below Water) and 15 (Life on Land); and second, manually verified by Convergence to verify evidence of explicit climate outcomes. SDG alignment is verified and assigned to transactions in the HDD by Convergence while conducting deal sourcing activities. This process includes both evaluating self-assignment of SDGs to transactions by deal sponsors and investors, as well as further research performed by Convergence.

SOURCES OF FINANCING TO BLENDED FINANCE

Figure 5: Sources of financing to blended finance deals (excl. guarantees & insurance instruments), 2018-2023



Since 2018, commercial (market-rate) investment from development finance institutions (DFIs) and multilateral development banks (MDBs) tends to be the prominent source of financing to blended finance transactions followed by private sector investors³—\$20.5 billion in aggregate financing from DFIs/MDBs vs. \$20 billion reported from private sector investors. Between 2018-2020, DFIs/MDBs invested \$3.3 billion, on average, in commercial capital to blended finance transactions on an annual basis. That figure increased marginally to \$3.5 billion between 2021-2023. Similarly, Convergence recorded \$3.3 billion of average annual investment from private sector investors between 2018-2020, and \$3.4 billion between 2021-2023. DFIs/MDBs have played a central role in the market rebound experienced over the last year. After falling to a 10-year low in total investment in 2022, commercial financing from DFIs/MDBs grew by 140% in 2023 (\$2 billion in 2022 to \$4.9 billion in 2023).

Official development assistance (ODA) funding to blended finance has gradually declined in recent years (excl. guarantees and insurance), with ODA totals dropping by 45% in 2023 from 2021. In the fall of 2023, the OECD Development Assistance

Committee (DAC) members agreed to revise existing ODA treatment of private sector instruments such that risk-transfer instruments (i.e., guarantees and insurance) are eligible for consideration as donor country ODA efforts, with full rollout in 2024. As with other non-grant instruments, the “effort” or quantum of aid of guarantees and insurance will be measured using the [grant equivalent method](#). The inclusion of concessional guarantee and risk insurance instruments in the above analysis results in a less dramatic decline in recent years; ODA totals from this perspective declined by 27% from 2021 to 2023. In fact, the dollar value of concessional guarantees rose by over 40% in 2023 from 2021 and accounted for 43% of all concessional funding in 2023 vs. 20% in 2021. Another positive development in 2023 includes the rise of collaborative or coalition-led blended finance initiatives deploying ODA instruments for deal pipeline development and catalytic capital efficiency.

These initiatives include:

- 1 the [Blended Finance for the Energy Transition](#) (BFET) initiative, a partnership between the United States Agency for International Development

³ Totals are based on investment data recorded in Convergence’s HDD. Completeness and accuracy of investment data is affected by Convergence’s ability to ascertain investment amounts from public and confidential sources. Private sector investors tend to disclose fewer investment details than public sector counterparts.

(USAID), the Danish Ministry of Foreign Affairs, and the Investment Fund for Developing Countries (IFU), which aims to mobilize \$1 billion in private sector capital to accelerate just energy transition efforts in EMDEs by supporting private sector-led investment vehicles;

- 2 the [Investment Mobilization Collaboration Agreement](#) (IMCA), a partnership between USAID, IFU, the Swedish International Development Cooperation Agency (Sida), and the Danish, Swedish, and Finnish Ministries of Foreign Affairs, that will provide catalytic investment support and technical expertise to build out a pipeline of bankable climate-centric investments; and
- 3 the launch of the [Green Guarantee Company](#) (GGC) which will utilize an initial balance sheet of \$100 million funded by government and multilateral donors to unlock \$1 billion in private sector investor capital for climate.

How then has the blended market grown over the past year with a lower supply of concessional capital at its disposal? One explanation is the presence of a DFI or MDB tends to reduce the amount of ODA necessary to draw in private sector investment to blended finance deals. Therefore, the recent increase in DFI/ MDB participation has stretched ODA dollars further. Convergence finds that historically the leverage ratio of transactions >\$100 million is higher when there is market-rate participation from a DFI or MDB; 5.10 with DFI/MDB commercial investment vs. 2.54 for deals with no DFI/MDB commercial investment.⁴ However, it is evident that DFIs and MDBs, with their limited asset bases, can only drive blended finance growth so much. Their support alone is not sufficient to plug the SDG financing gap. Far greater amounts of risk-bearing capital are needed to tap into the vast sum of private sector assets.

The decline in the allocation of ODA to blended finance in recent years is, in part, a consequence of Russia's invasion of Ukraine. Most recent statistics from the OECD show that Ukraine was the largest recipient of ODA in 2022, [receiving](#) \$17.8 billion in

4 Convergence defines leverage ratios as the amount of commercial capital mobilized by each dollar of concessional capital, where commercial capital includes capital deployed by private, public, and philanthropic investors.



Table 1: Summary of key financial regulations and their impact on blended finance

Regulation	Potential Impact on Blended Finance
Basel Accords, particularly “Basel IV”	Under the Basel Accords, commercial banks must set aside higher amounts of regulatory capital in reserve when investing in below-investment grade EMDE assets, but blended finance solutions improving the credit rating of EMDE assets can mitigate this. However under Basel IV, standardized capital weightings may no longer allow commercial banks to reduce the regulatory capital they must hold in reserve when investing in the senior tranche of unrated blended vehicles.
International Financial Reporting Standard (IFRS) 9	Without the support of blended finance, the immediate recognition of a loan’s expected credit loss under the international accounting standard IFRS 9 may disincentivize lenders from funding below investment-grade EMDE assets.
EU Legislation on Securitized Vehicles	Risk-tiered blended structures can be interpreted by European regulators as securitizations, which can be expensive from a capital treatment perspective for Solvency-II regulated investors (i.e., insurers) when calculating their risk-weighted assets.
EU Legislation on State Aid	European state aid legislation may deter European donors from providing concessional support to European funds.
Domiciliation of Investment Vehicles	Different regulatory treatments of cross-border flows can complicate fundraising for blended vehicles and potentially restrict local capital mobilization.

ODA from OECD DAC members and an additional \$10.6 billion from European Union (EU) institutions. About 90% of ODA was for development purposes and primarily disbursed to the public sector. By comparison, ODA supplied to the entire blended finance market totalled \$1.07 billion in 2022, of which about 10% was directed to projects in Ukraine. In 2023, blended deals in Ukraine received just over 1% of all ODA funding bound for blended finance deals.

To compare and contextualize these market trends, Convergence does two things in this report. In **Part II**, we explore the regulatory backdrop to private sector mobilization into blended finance vehicles, considering some of the key issues faced by large-scale financial institutions when structuring and/or investing in blended vehicles. The key regulations explored within this report are summarized above.

Convergence also provides a comparative analysis of blended finance trends with the OECD and DFI Working Group on Blended Concessional Finance for Private Sector Projects, two major constituencies of the blended finance market. Convergence’s findings, detailed in **Part III** of this report, establish key differences in methodologies held between the three constituencies (see summary Table 2 below)

and their implications when estimating the market size of blended finance. Understanding the size of the blended finance market, and notably, private sector financing levels, is critical to ascertain the effectiveness of blended finance in achieving impact and scale. When examining these markets Convergence finds that the OECD provides the largest estimate of the blended finance market (\$61 billion as of 2022), which makes sense given the organization employs the broadest definition of blended finance. Meanwhile, Convergence and the DFI Working Group report similar findings on large-scale trends in the market. Based on the most recent available data from the DFI Working Group, from 2019-2021, both institutions found that the largest source of financing into blended finance was from MDBs and DFIs (45% of all investment according to the [DFI Joint Report](#) and 43% of investment according to Convergence). Both Convergence and the DFIs report an average of 30% of all financing towards blended deals from 2019-2021 came from the private sector. Convergence examines these findings in-depth in Part III, and offers reflections and recommendations for improving data transparency and the implications for achieving mobilization targets in the blended finance market.

Table 2: Comparison of blended finance definitions and key data points reported by Convergence, the OECD, and DFI Working Group

	Convergence	OECD	DFI Working Group on Blended Concessional Finance for Private Sector Projects
Definition of blended finance	<p>The use of catalytic capital from public or philanthropic sources to boost private sector investment in sustainable development.</p> <p>To be included in Convergence’s HDD, a deal must meet three main criteria:</p> <ol style="list-style-type: none"> 1 The transaction attracts financial participation from one or more private sector investors 2 The transactions uses concessional funds (capital priced below-market terms) in one of the following ways: <ul style="list-style-type: none"> • Concessional debt or equity in the capital stack • Credit-enhancement through guarantees or insurance • Transaction design or preparation is grant-funded • Transaction is associated with a technical assistance (TA facility) 3 The transaction targets a developing country 	<p>The OECD defines blended finance as:</p> <p><i>“strategic involvement of development finance to attract additional funds for SDGs in developing countries.”</i></p> <p>The term ‘additional funds’ refers to commercial finance without explicit development intent, including both concessional and non-concessional public and private capital and even technical assistance.”</p>	<p>The DFI Working Group defines blended finance as:</p> <p><i>“combining concessional finance with DFIs’ own account and/or commercial finance to promote private sector markets, SDGs, and private resource mobilization.”</i></p>
Data sourcing methodology	<p>Convergence collects data from public sources, data partners, Convergence members, and blended finance practitioners.</p>	<p>The OECD conducts an annual reporting exercise as part of the OECD DAC Blended Finance Principles. Methodology includes statistics; surveys; and data from DAC members, funds, and facilities.</p>	<p>DFI Joint Report members are required to report their blended finance activities.</p>
Estimate of market size based on last comparable period (2021)	<p>Convergence recorded 134 deals for 2021, with a total value of around \$14 billion.</p>	<p>In 2021 mobilized private finance reached \$48.6 billion. According to OECD, the two leveraging mechanisms (or archetypes) that mobilized the largest volumes of private capital were direct investment in companies and project finance special purpose vehicles (SPVs) (\$13.8 billion) and guarantees (\$9.8 billion).</p>	<p>Based on the most recently available data provided by the DFI Joint Report, published in March 2023, aggregate blended financing levels in 2021 were \$13.4 billion, of which \$4.6 billion was private sector financing.</p>

An aerial photograph of a lush green mountain valley. A winding road snakes through the dense forest, leading the eye from the foreground towards the distant hills. The lighting is soft, suggesting a hazy or overcast day. The overall tone is natural and serene.

PART II:
THE
REGULATORY
CONTEXT OF
BLENDED
FINANCE

PART II: THE REGULATORY CONTEXT OF BLENDED FINANCE

Convergence has previously [written](#) about the underlying roadblocks preventing blended finance from achieving scale, including:

- 1 the lack of a private sector mobilization strategy and action plan from providers of concessional capital;
- 2 low levels of participation in blended finance from developing country governments and untapped domestic resources;
- 3 a lack of transparency on blended finance activity; and
- 4 a lack of financial intermediation in the blended finance market.

Convergence will revisit the lack of transparency on blended finance activity later in this report, exploring how this obscures the actual levels of private sector mobilization being achieved.

Beyond the challenges identified above, the mobilization of commercial investors into EMDEs faces additional structural roadblocks. For instance, as noted by a leading MDB, institutional investors often structure their investment teams in ways that aren't conducive to investing in blended transactions in EMDEs. Emerging market investment teams often only invest in high-income countries and in publicly listed or traded assets (e.g., listed equities, sovereign bonds, and major corporate bonds), with little invested in private market assets in developing countries (i.e., the investment opportunities that blended finance most often produces). Meanwhile, private market teams almost always invest in assets in high-income countries, like senior loans in PPP projects, with very little flowing to low- and middle-

income countries, and almost no institutional investors have teams focused on private markets in developing countries.

The regulation of private financial sector investors presents a further challenge, which Convergence examines here for the first time. The sovereign risk ratings of most developing countries are beyond the mandate and criteria of many investors (their median risk rating is "B-"), and regulators require key financial institutions to hold more capital in reserve for riskier assets. In some cases, institutions must cap the investment amounts held in certain types of assets (particularly those below investment grade). The ability of private investors to participate in blended finance, as a stepping stone to investing in EMDE transactions with acceptable risk/return ratios, is thus affected by key regulatory factors.

In this section we present:

- 1 some of the key regulations affecting whether and how private sector investors can participate in blended finance (including the Basel Accords, current international accounting standards, and EU legislation on securitization and state aid), with a focus on the regulatory hurdles facing large-scale financial institutions (e.g., institutional investors) when structuring and/or investing in blended finance vehicles;
- 2 the evolving perspective of financial supervisors and regulators on blended finance; and
- 3 Convergence's view on how the blended finance community can address the regulatory challenges identified.

SECTION I: KEY REGULATIONS FACING PRIVATE SECTOR INVESTORS PARTICIPATING IN BLENDED FINANCE

1 Commercial Banks & The Basel Accords

The [Basel Accords](#) are the banking supervision regulations introduced and updated by the Basel Committee on Banking Supervision (BCBS) since the early 1980s. They were [formed](#) with the goal of managing credit risk and market risk by ensuring that banks hold enough cash reserves to meet their financial obligations and survive financial and economic distress.

A With standardized capital weightings replacing proprietary models in Basel IV, commercial banks may no longer benefit from lowering their risk-weighted assets when investing in the senior tranche of blended vehicles.

The risk-weighted assets (RWAs) of a commercial bank are its financial assets (mainly loans and other debt investments) [weighted](#) according to their level of risk to determine the minimum amount of regulatory capital the bank must hold in reserve.⁵ In general, the lower the risk of the asset, the lower the level of capital required. Since banks and their investors are highly interested in return on capital metrics, risk weightings significantly influence whether a bank will invest in a capital-intensive asset. The final implementation of the Basel III Accords (alternately [termed](#) “Basel 3.1” or “Basel IV”), from January 2023, [focuses](#) on banks’ definition of RWAs. Under previous iterations of the Basel Accords, the standardized approach to calculating RWAs used credit ratings provided by external ratings agencies, but under the internal ratings-based (IRB) approach, banks could also use their own proprietary models to model their inputs⁶ and calculate their RWAs.

Under Basel IV however, banks must [use](#) a standardized approach when determining the risk weights allocated to different categories of assets, and must [obtain](#) permission from prudential supervisors if they wish to depart from this standardized approach and use internal models to calculate their RWAs. Finally, even when these internal models are used, Basel IV ensures that RWAs are maintained at an acceptable threshold to avoid excess risk-taking; the RWAs calculated [cannot fall](#) below 72.5% of the RWAs calculated using the standardized approach.

What are the implications for blended finance? Stephanie von Friedeburg, Managing Director of Banking and Capital Markets Advisory at Citi and former Chief Operating Officer of International Finance Corporation (IFC), notes that the current regulatory environment for commercial banks disincentivizes lending and investing in EMDEs. Where a development institution, for example, might calculate the risk weight of a senior loan to a developing country at 20-25%, a commercial bank, based on the credit rating of that country, would have to calculate the risk weight close to or even above 100%, and price the loan accordingly. Depending on which instrument is used however, blended finance solutions can help banks reduce the regulatory capital they must hold in reserve to participate in transactions that have received a credit rating, von Friedeburg notes:

“If you are working with a bond structure or a rated loan, first-loss funding can bump the instrument to investment grade or closer to investment grade, thereby providing relief from a capital perspective without the need for a full guarantee. TA grants are not going to move

5 Basel I, [introduced](#) in 1988, set minimum reserve requirements for international banks and created a framework for managing credit risk through the risk weighting of different assets. Standardized measures for credit, operational, and market risk to use when determining minimum capital requirements were introduced with Basel II in 2004. Basel III, introduced in 2010 following the global financial crisis of 2008, [strengthened](#) banks’ minimum capital requirements, introduced various capital, leverage, and liquidity ratio requirements, and categorized banks according to their size and economic importance. Its final implementation was [delayed](#) to January 2023.

6 Banks would [model](#) only the probability of default under the foundation IRB approach. Under the advanced IRB approach, they would also [model](#) their own loss-given-default (the absolute amount of money lost if a borrower defaults, after taking into consideration any recovery) and exposure at default (the amount the bank is exposed to at the time of default).

risk weighting although they may help make a project bankable. Similarly, partial guarantees may improve ratings, but tend to make the market for institutional buyers very limited as the instruments blend ratings and yield. In other words, they are neither highly rated, nor carrying high yield.”

The [lack](#) of official rating methodologies for many blended finance structures presents a further challenge. As noted by one stakeholder, ending the use of proprietary models to calculate risk weights for cases when credit ratings don't exist raises the cost of lending to projects or institutions in developing markets:

“Because of the sovereign ceiling⁷ and the fact that blended finance is often supporting projects in lower-rated countries where you're dealing with bespoke entities without credit histories, you're now going to be forced to assign a risk rating close to or equal to 100%, which makes it very costly to lend to those projects or institutions.”

Similarly, commercial banks have budgeted for an increase in their RWAs because of Basel IV since longer tenor project finance deals will cost banks more in regulatory capital. This has specific ramifications for blended finance. While banks' proprietary models gave them some flexibility in the calculation of their RWAs to reflect their positive track record on past deals, the standardized approach to calculating RWAs under Basel IV does not allow this, hence disincentivizing these types of loans, which are most used for energy and infrastructure financing in developing economies. In addition, current regulatory capital allocation rules do not properly reflect the expected significant reduction in risk, and therefore RWAs, when taking the senior position to a first-loss tranche in a blended vehicle, as Marie-Aimee Boury, Head of Impact Based Finance at Société Générale, observes:

“Currently, we must assess senior loans that benefit from first-loss guarantees as if they were pari-passu guarantees, which does not

account for the actual de-risking achieved and is therefore costlier in terms of capital allocation. As a result, the expected risk/return does not reflect the attractiveness of a deal that is actually de-risked. This needs to change so we can be more active as senior lenders in blended finance structures.”

Purchasing comprehensive political risk insurance for banks' loans often becomes necessary because of the level of risk in emerging markets, especially when the first-loss aspect is not accounted for by regulators, making such transactions even less cost-effective. Finally, with banks' risk departments focused on implementing the new Basel IV rules, there has been limited interest in engaging in a dialogue with regulators on reducing RWAs when banks take senior positions to first-loss tranches, especially since this currently only concerns a few blended transactions annually, at best.

B The ratings given to projects and institutions domiciled in developing markets, which support the risk weightings commercial banks use to calculate their capital requirements, may not reflect the reality of investing in developing markets.

An underlying difficulty in the calculation of financial institutions' RWAs when investing in developing markets is whether the methodologies used by ratings agencies to calculate project or company credit ratings accurately reflect an asset's underlying risks. This is increasingly being questioned, with some companies and financial institutions domiciled in developing markets potentially being stronger from a credit perspective than their sovereigns, despite their credit ratings being capped by the sovereign ceiling. Part of the challenge is that access to Global Emerging Markets Risk Database (GEMs) ([managed](#) by the European Investment Bank on behalf of a consortium of MDBs) remains limited and regulators do not have adequate access to accurate information on default and recovery rates in developing markets.

⁷ The sovereign ceiling [refers](#) to the policy that the highest credit rating achievable by a project or a company is capped at the rating of the country where the issuer is situated.

2 International Accounting Standards & Blended Finance

Without the support of blended finance, international accounting standards requiring the immediate recognition of a loan's expected credit loss may disincentivize lenders from funding below investment grade EMDE assets.

A further challenge to private investment mobilization is presented by the [International Financial Reporting Standard \(IFRS\) 9](#), an international financial reporting standard specifying how entities should measure financial assets on their balance sheets (and through to their income statements). The delayed recognition of credit impairments/losses was [identified](#) as a weakness in then-prevailing accounting standards during the global financial crisis of 2007/8, with credit losses not being [recognized](#) by banks until a credit loss event formally occurs (and evidence of a loss is apparent) under International Accounting Standard (IAS) 39. However, under IFRS 9 (introduced in 2014), banks and other financial institutions must recognize the expected credit loss of a loan/private debt investment immediately, [accounting](#) for past events, current conditions, and forecast information, and reflecting any changes in a debt asset's

credit risk by updating the loan's fair market value at each reporting period. Since banks and other financial institutions are [required](#) to provision for expected credit losses more conservatively throughout the life of a debt asset, the requirement to mark down the value of the loan/asset at origination disincentivizes them from making loans/investing in debt assets. For example, financial institutions participating in a loan (especially medium- and long-term loans) to a below investment grade borrower in a developing country would typically need to write down the asset and incur a loss in their income statement in the year of origination. Blended solutions improving the credit rating of debt assets help to overcome the challenges of IFRS 9.

Additionally, the lack of reliable data to inform forward-looking scenario analysis when calculating fair market values/expected losses in EMDE assets often leads to high-risk and uncertain assumptions, [resulting](#) in higher expected loss assumptions than appropriate. Beyond disincentivizing commercial lenders and debt investors, this can also lead to inefficiencies in the allocation of concessional resources (e.g., higher than required concessionalism from donors), given that expected loss calculations can [inform](#) the sizing of concessional tranches in blended vehicles.



3 Solvency II-Regulated Investors & EU Securitization Legislation

Solvency II is the prudential regime for insurance and reinsurance undertakings in the EU that entered into force in 2016. It sets out the requirements applicable to insurance and reinsurance companies in the EU with the aim of protecting policyholders and beneficiaries.

A Risk-tiered blended structures can be interpreted by European regulators as securitizations, which can be expensive when calculating RWAs.

In securitization vehicles, lenders [pool](#) portfolios of their loans into a legal structure and distribute investment risk in different risk categories/tiers to investors based on their specific risk-return appetites. Typically, senior notes have low risk and return, mezzanine notes have medium risk and return, and junior notes have high risk and return. In blended finance transactions, which are a form of structured finance, often a concessional party takes up a junior tier, but without a market-rate, higher return profile. The concessional party does so to adjust the risk-return profile for the tiers above them and make the transaction investible for the commercial investors in those senior tiers. Stricter EU rules on securitization in the aftermath of the global financial crisis of 2008 present a potential problem for tiered blended vehicles raising funding from European insurers. That is, blended vehicles structured with different risk tranches could be seen as securitizations, and for Solvency II-regulated investors, namely European insurers, investing in a securitization can be very expensive from a capital treatment perspective. In the absence of an official precedent being accepted by regulators (i.e., the European Commission) as to which blended structures constitute securitizations and which do not, this can require a lot of time and legal fees to structure around.

B Regulatory inconsistencies on securitization between different jurisdictions or between different investor types can complicate fundraising for blended structures.

When fundraising across different countries for a blended fund, different regulatory treatments of securitization can complicate structuring the fund in a way that's acceptable for all. North American investors, for example, don't face the same securitization restraints as European investors. Difficulties arise even when soliciting different investor types within the same jurisdiction (e.g., pension funds or family offices alongside insurance companies), given that most pension funds aren't necessarily regulated under Solvency II and family offices aren't regulated. Since insurers are highly regulated and are one of the key investor groups targeted for scalable blended funds, structuring around securitization and Solvency II becomes a necessity.

4 EU State Aid Legislation

European state aid legislation may deter European donors from providing concessional support to European funds.

With de-risking through concessional support from a state agency being common in blended structures, EU legislation [prohibiting](#) state aid to support a company at the expense of its competitors may present a challenge for project sponsors of blended vehicles domiciled in the EU when fundraising. State aid legislation can sometimes serve as a barrier for European donors when providing first-loss to a blended finance transaction with European investors because providing concessional capital can be seen as a subsidy, and this could be perceived as providing favourable treatment to European investors. While the regulation is not clear, it was not meant to target blended finance transactions and is interpreted differently by different countries, making the challenge of catalyzing European insurers more acute, particularly with the use of concessional financing.

3 Domiciliation of Investment Vehicles

Different regulatory treatments of cross-border flows can complicate fundraising for blended vehicles and potentially restrict local capital mobilization.

Convergence has previously [discussed](#) the challenges in mobilizing local institutional capital into local SDG-focused transactions. Local institutional investors tend to prefer the security of government treasury bills to funding development projects, which carry higher perceived risk, due to factors like unfamiliarity with alternative asset classes and fiduciary responsibility to preserve capital (for pension funds). Complexities also arise

when aligning investors domiciled in different jurisdictions, with different regulations on managing cross-border flows, within a single investment structure. As Lindsay Wallace, Senior Vice President of Strategy & Impact at Mennonite Economic Development Associates, notes:

“The mixing of international capital and local capital can sometimes be a significant regulatory challenge and limit the opportunity for increased investment. Local pension funds often require local domiciliation. DFIs often want internationally domiciled funds. This restricts the ability to pool resources for greater impact and reduces efficiency in the system.”

SECTION II: PERSPECTIVES OF SUPERVISORS & REGULATORS ON BLENDED FINANCE

The remit of financial supervisors and regulators is to ensure excessive risk is not taken in the global financial system and to maintain its stability. Blended finance and global challenges, like climate change, historically remain outside their purview. This section considers the extent to which the perspective of financial supervisors and regulators on these issues is evolving.

Financial supervisors and regulators are becoming more aware of the potential impact of climate change on financial stability and blended finance’s catalytic role in developing economies.

Central banks have historically [adhered](#) to the principle of market neutrality, prioritizing price and financial stability on a macro level over micro considerations of sectors or regions in which economic activity occurs. Global challenges like climate change, therefore, have historically not been on their radar. However, Emma McGarthy, Head of the Sustainability Policy Institute at the Official Monetary and Financial Institutions Forum (OMFIF), notes that there is an increased recognition amongst central banks that the inflationary impact of climate change has historically been underappreciated. Consequently, some central banks have begun to adopt green policies and frameworks to mitigate climate risk and support economic development, monitoring their own reserves and balance sheets to ensure their economic

interventions support the emergence of a sustainable economy, McGarthy notes:

“A lot of central banks are now developing their own climate hubs. Traditional central bank activities like risk analysis and stress testing provide them with the tools and metrics to assess the long-term inflationary impact of climate change. The challenge is accessing forward-looking data to fully understand physical and transition risks, with central banks looking to build their understanding of what the private sector should be doing, to inform their strategic response.”

In this vein, central banks and supervisors have formed groups like the Network for Greening the Financial System (NGFS) to [share](#) best practices on the development of climate- and environment-related risk management in the financial sector and the mobilization of mainstream finance to support the climate transition, with a key focus being blended finance’s catalytic role in developing economies. Similarly, organizations like the Toronto Centre, which builds the capacity of financial supervision agencies in developing economies by delivering training programs to promote financial stability, financial inclusion, and good governance, have also helped to bring climate risk and blended finance to the attention of supervisors and regulators.

VOICES FROM THE FIELD: TOWARDS A HOLISTIC APPROACH TO BLENDED FINANCE

Interview with Cindy van Oorschot, Co-Chair of the NGFS Blended Finance Initiative and Director, Pension Supervision & Sustainability, De Nederlandsche Bank and Leong Sing Chiong, Co-Chair of the NGFS Blended Finance Initiative and Deputy Managing Director of the Markets and Development Group, Monetary Authority of Singapore.

Why did the NGFS launch the Blended Finance Initiative? What does the Technical Document on scaling up blended finance for EMDEs aim to achieve?

The Network for Greening the Financial System (NGFS) launched the Blended Finance Initiative (BFI) in 2022 to complement existing NGFS work on greening the financial system. By bringing together public and private stakeholders, the NGFS BFI aimed to raise awareness on good practices that underpin the scaling up of blended climate finance. The NGFS BFI also hoped to contribute to ongoing international efforts to promote and scale transition financing for effective climate mitigation and adaptation, particularly in emerging economies and most vulnerable countries.

Using information from surveys of NGFS and Institute of International Finance (IIF) members, and discussions with a wide range of public and private stakeholders, the [NGFS Technical Document on scaling up blended finance in EMDEs](#) describes key barriers to scaling up blended finance and makes several policy recommendations to address these barriers. The document, published during COP28, aims to provide a common frame of reference on good practices among participants in the blended finance ecosystem. A common frame of reference is important as various institutions operate under different mandates, regulatory regimes, and project timelines, and are influenced by different sets of

practices and standards. In addition, the document includes a set of demonstrative projects from various EMDEs that have successfully attracted private capital into climate projects.

What reforms might help ease the flow of private sector financing into developing countries?

There are several key prerequisites to improve EMDEs investability, to lower their cost of capital, and attract private sector investments. These include strong policies aimed at strengthening macroeconomic fundamentals, deepening domestic capital markets, and improving governance frameworks. Besides this, having the right climate policies (such as carbon pricing) is crucial, as is strengthening the climate information architecture (data, disclosures, taxonomies). The former is a necessary step towards emission reductions, while the latter ensures high-quality and comparable data that is vital for efficient pricing of climate risks. On disclosures we noted, for example, that the disclosure guidelines of the International Sustainability Standards Board would help to create a global baseline for sustainability reporting, but implementation in EMDEs might be challenging. That is why international standard setter bodies and regulators should engage with EMDEs to develop appropriate pathways for adoption, while also recognizing individual jurisdictions' institutional and legal specificities

What in your view are the barriers that limit the scaling up of blended finance in EMDEs?

Drawing insights from surveys of NGFS and IIF members and discussions with a wide range of stakeholders across the blended finance ecosystem, the NGFS has identified seven key barriers to scaling up blended finance in EMDEs:

- i Structural issues and challenges specific to EMDEs (prior to any climate considerations)
- ii Limited investment opportunities and lack of bankable climate projects in EMDEs
- iii Data gaps, fragmented disclosure standards and classification regimes
- iv Lack of technical expertise and need for capacity development
- v Bespoke nature and complexity of blended finance instruments: lack of liquidity, standardization, and scalability
- vi Lack of climate policies and regulatory clarity
- vii Broader enabling environment: information intermediaries (such as Credit Rating Agencies (CRAs), environmental, social, and governance (ESG) data and products providers, sustainability practitioners, etc.), market practices and norms.

More detailed elaboration on these barriers can be found in the NGFS Technical Document.

What are the suggested policy recommendations to address these barriers and how have these been adopted in practice?

Addressing these barriers requires partnerships across the public and private sector, regional and multilateral development banks and development finance institutions. These institutions may not fully appreciate the realities of other stakeholders, leading to potential misinterpretations and inconsistencies in expectations. To effectively scale up blended finance in EMDEs, the NGFS technical document recommends focusing on 5 key areas:

- 1 **Prerequisites to improve EMDEs climate investability**—as explained in our response to Question 2.
- 2 **Holistic approach to developing blended finance**
Policymakers should approach the blended finance ecosystem in a holistic way, looking at an ‘ecosystem of solutions’ across the blended finance value chain. This requires focusing contemporaneously on both “vertical” solutions (like innovative financing solutions, pooling of risk, standardization, etc.) as well as “horizontal” solutions (like project preparation facilities to help develop viable projects through project identification, project preparation, and other stages of project developments).
- 3 **Development of project pipelines & scalable structures**
Developing a strong pipeline of viable projects and scalable structures with higher overall levels of standardization, can help to reduce information asymmetries between investors and project developers and attract larger investment capital into EMDEs.
- 4 **Risk mitigation & regulatory considerations**
Policymakers should promote effective risk mitigation and support innovative blended finance solutions that encourage risk diversification through risk pooling and tranching of investments. Public-private sector risk sharing, through enhancing financial capacity and operating models of MDBs, can catalyse more capital to EMDEs.
- 5 **Financial & information intermediation**
Financial and information intermediaries such as CRAs, ESG data and product providers play an important role in providing an enabling environment for blended finance. Continuing efforts need to be made at aligning the practices and products offered by these intermediaries, and scaling up the level of blended finance intermediation within EMDEs.

The BFI publication has truly benefited from this kind of multilateral and public-private collaboration. We hope that it will serve as a useful resource for jurisdictions keen to tap on blended finance as a part of their transition towards a low carbon economy.

VOICES FROM THE FIELD: THE ROLE OF FINANCIAL SUPERVISORS IN BLENDED FINANCE

Interview with Babak Abbaszadeh, President and CEO, Toronto Centre

Please read Toronto Centre's responses together with the [TC Note on Blended Finance](#).

What role does financial supervision have in the oversight of blended finance in any given context?

Context is key. Jurisdictions vary in their approach to regulation and supervision, as well as the characteristics of governance in both their public and private sectors. Weak governance can lead to corruption and distortive investment decisions. Financial sectors differ by size, resilience, and sophistication. Furthermore, each country has its own policies for economic growth and social benefits. Financial-sector supervisors work within their own framework of policy, law, regulation, and governance to enhance the stability of banking, pensions, insurance, securities, and protection of consumers. One thing they have in common though, is the fundamental duty to maintain sound and inclusive financial systems that strengthen their country's domestic resource mobilization, poverty reduction, and cross-border supervision. Beyond that fundamental work, the connections between supervisors and blended finance could include:

- The financial services sector generally is the focus of roughly one-quarter of blended finance deals, according to Convergence's own reporting. So, one in four deals can be said to fall directly within the purview of supervisors.
- Blended finance structures which include a local bank or insurer as a partner may be examined closely for the impact on the bank's risk profile.
- Supervisors may be able to share experience with their peers in other countries' similar investments and outcomes.

- They may also be able to share insights into second- and third-order impacts, and how a project might generate unwanted results, such as distorting a sector of the economy in a manner that sets back stability and development goals.

Blended finance is intended to de-risk an investment by a returns-seeking participant. Risk does not disappear—it is redistributed. But how exactly, is it distributed, and what is the potential impact upon regulated participants and the wider financial system? This is where supervisors come in, to avoid the transfer of risk to those who can least afford it.

Given the need to increase climate finance investments, fiscally constrained government budgets, and persistent macro-economic headwinds, what regulatory changes might be prudent and conducive?

The world is in an increasingly fragile condition. In the past 12 months (to March 2024) we have seen major banks collapse in the U.S. and Switzerland—two sophisticated and well-regulated markets. This is a difficult time for proposals that could be seen as raising risk thresholds or lowering the bar. Some EMDEs embed development goals in their financial regulation and supervision. For countries that are likely locations for climate action projects supported by blended finance, getting the fundamentals right is key. Toronto Centre has been a leader in the incorporation of financial inclusion and SDGs, including climate action and gender lens, in the supervisory capacity-building agenda, which in turn can build a stronger foundation for these investments. Another way EMDE

supervisors can be proactive is to collaborate on the creation of regulatory sandboxes to test new products and business models and explore the implications for risk assessment.

The sovereign risk ratings of most developing economies leave them outside the mandates of most commercial investors. What opportunities might regulators look at to unlock some of these challenges for investors?

Financial markets are organized for the efficient and effective allocation of capital. Investment risk ratings and credit ratings are vital information tools for investors seeking to assess risk. Risk mandates and standards attached to these ratings were established in response to past financial sector excesses and the loss of millions of people's savings, investments, or pensions. In developed economies, which are the likely source of guarantees and other concessionary agreements, there has been discussion about loosening certain restrictions. Institutional investors cannot set aside fiduciary obligations, but they can balance them with other aims, which could include greater allowance for higher-risk placements that meet approved development goals. We see a need for dialogue and research to better understand what the barriers are to growth in blended finance—

and whether there are specific supervisory or regulatory actions needed.

What reforms can regulators undertake to better encourage private sector mobilization in developing countries?

Regulatory reform tends to be slow-moving and deliberate. "Move fast and break things" is not an option when your mandate is protecting people's financial wellbeing. In EMDEs, the emphasis needs to be on building stability through a risk-based supervisory approach. This equips supervisors to better explore the impact of blended finance arrangements on the institutions and sectors involved. There have been examples of careful adjustments to the investment scope of pension funds. South African funds are major, well-capitalized investors, active in the capital markets. Further north, the Kenya Pension Funds Investment Consortium screens investments related to development goals and then presents them to individual funds. This was made possible by the Kenyan Pensions Authority making changes to investment classes. Similarly, some European pension funds allow for very small proportions of their investments to be placed in high risk, emerging markets. Effective supervision and regulatory reform demand careful deliberation to balance important market innovation/domestic resource mobilization with excessive risk-taking.



SECTION III: RECOMMENDATIONS

1 Adopt a multi-stakeholder approach to building understanding on blended finance by:

- i removing silos between the blended finance and supervisory communities;
- ii creating a formal framework providing policymakers and regulators with a starting point on how to approach blended finance; and
- iii establishing multi-stakeholder platforms to encourage dialogue.

Financial supervisors and regulators are becoming more aware of blended finance, yet they're often not represented in, or consulted by the leadership of, many organizations within the blended finance ecosystem. This means the perspective of those responsible for maintaining financial stability is often excluded from broader conversations on maximizing mobilization for development, Abbaszadeh notes. Stefan Ingves, Chair of the Toronto Centre and former Chair of the Basel Committee, further outlines the difficulty often faced by supervisors:

"Banks that are well-capitalized lend, while those that aren't, don't, and run into trouble sooner or later. Given the complexity of the financial structures in this field, being a supervisor can be difficult, as you need to understand what happens to the risk, who's picking it up, and whether that seems to be reasonable or not, with the goal of ensuring that the banks are safe and sound."

A multi-stakeholder approach, then, is needed. Supervisors need to be consulted early in blended transactions, [become](#) more educated on the practice and scope of blended finance through indicative case studies of what worked and didn't work, and ultimately coordinate with each other where necessary to address common barriers and obstacles while protecting the integrity of the financial system. In so doing, supervisors should be introspective about how their regulatory systems can be updated to cater for innovative finance, specifically blended finance.

A multi-stakeholder approach must also involve the creation of a formal framework as a starting point for policymakers and regulators to approach blended finance. This framework should build on the [G20 Blended Finance Principles](#) and provide guidance on how to implement an enabling environment for blended finance. In addition, the creation of multi-stakeholder platforms in different national contexts that encourage dialogue and the sharing of learnings between the public, private, and regulatory communities must be encouraged. Platforms encouraging concrete dialogues on what the sustainable finance landscape should look like within individual countries and advocating for specific policies and reforms do exist already. The Joint Committee on Climate Change (JC3), for example, established in 2019, is a regulator-industry platform working collaboratively to [build](#) climate resilience within the Malaysian financial sector. Such platforms should have a dedicated dialogue on blended finance to encourage momentum on bringing diverse stakeholders together in areas where the need for more blended activity has been recognized.

2 Use supranational forums as the space for a policy dialogue between donors and supervisors on capital allocation rules, with donors and institutional investors partnering to better calibrate concessional tools to existing regulations.

Supranational forums should facilitate peer-to-peer learning amongst countries on the experience and practice of blended finance, which should be instituted as a key pillar within broader working groups centered on sustainable finance. Any learnings from these forums can in turn feed through to standard-setting bodies. Regulatory harmonization to better catalyze financing for the global climate crisis or for developing markets, for example, could be an initiative taken up at the level of the G7 or the G20, von Friedeburg notes. Ultimately, consultations addressing regulatory hurdles to

scaling financing to developing economies must take place at the supranational level amongst policymakers. Going forward, ensuring that development stakeholders have a seat at the table when regulations are being designed and implemented will be critical. In the near-term, donors must take the lead in convening and discussing topics like securitization or state aid, for example, with bodies like the European Commission.

As part of this process, having de-risked primarily DFIs and MDBs historically, donors must build their awareness of the regulatory hurdles faced by large-scale institutional investors and work with them to better calibrate concessional tools to existing regulatory structures. As von Friedeburg notes:

“What we really need from the development community is Basel-compliant risk-mitigating tools. For these unregulated institutions, understanding the necessary constraints is not clear cut. This is an area where collaboration between the MDBs and the commercial banks would be very beneficial.”

3 Prioritize data transparency to showcase the actual risk of investing in developing markets to regulators and institutional investors.

One effect of insufficient data transparency in the blended finance and development finance ecosystems is that regulators are missing information on the actual risks of investing in developing markets. There’s a significant lack of understanding of expected losses and probability of default for large swaths of emerging market assets in general, leading to the inherent conservatism of regulators and standard setters. Another way that DFIs and MDBs could support the mobilization of private investors is by sharing more extensively the payment track records of

their portfolios. Such data is consolidated in the GEMs database, and its release would illustrate that well-structured project finance in developing economies are not as bad as thought. A first step was taken in March 2024, with the publication of a [GEMS report](#) showcasing aggregate data on the recovery rates of investments with private and sub-sovereign borrowers in EMDEs. However, it does not give the level of granularity that rating agencies or private investors need to inform their models and revise current capital allocation rules. With access to an adequate data set, rating agencies could be more actively involved in rating blended funds and instruments to better reflect the credit enhancement benefits from first-loss and/or junior tranches layers. This could enable regulators to consider reducing the risk weights for senior positions in structures protected by first-loss. As Boury notes:

“We need more transparency on data that demonstrates the strong performance of well-structured project finance loans in developing economies: this will help adjust regulatory capital rules and incentivize private lenders’ involvement in blended finance structures. We also need improved governance so that private capital mobilization becomes the #1 priority of entities funded from public capital. At times where countries are struggling to balance their budgets all around the world, it’s more important than ever to maximize the use of public capital to unlock private investments at the scale needed for the SDGs.”

Finally, building standardized rating methodologies and boosting data transparency on blended transactions would also help inform asset-liability studies conducted by consultants on behalf of pension funds and insurance companies, by showcasing how blended vehicles could fit within their portfolios. Donors can also play a role by funding such studies, to showcase the benefits of investing in blended funds to domestic institutional investors.



PART III:
TRANSPARENCY
IN BLENDED
FINANCE &
UNTANGLING
PRIVATE SECTOR
MOBILIZATION
TRENDS

PART III: TRANSPARENCY IN BLENDED FINANCE & UNTANGLING PRIVATE SECTOR MOBILIZATION TRENDS

Transparency is a fundamental principle within blended finance, as enshrined in both the OECD DAC Blended Finance Principles (Principle 5: Monitor blended finance for transparency and results) and the DFI Enhanced Principles for Blended Concessional Finance for Private Sector Projects (Promoting High Standards). It helps ensure accountability for good development outcomes and provides important information to market actors. From a financial

additionality perspective, transparency in blended finance ensures that concessional financing does not lead to market distortion (e.g., by crowding out or over-subsidizing the private sector), and helps practitioners reduce structuring time, better assess market risk, spur replication, and ultimately build an off-ramp to fully bankable transactions on commercial terms.

OBSERVATIONS WHEN COMPARING DATA ACROSS BLENDED FINANCE ACTORS

To understand the uptake, effectiveness, and impact of blended finance, a first step is considering the comparability of blended finance data trends across different blended finance data providers.

Three of the largest data collectors in the market are:

- 1 the DFI Working Group,
- 2 the OECD, and;
- 3 Convergence.

All three bodies report on different aspects of the blended finance market, and represent key constituencies of the blended finance market. The OECD has the most inclusive definition of blended finance, which refers to the use of “development funds” to attract “additional funds” towards the SDGs. The OECD therefore records the market both upstream (including, for example, purely concessional

capital facilities that intend to mobilize private financing at the underlying level) and downstream (investment funds with concessional financing and private sector financing).

As a result, this includes transactions that may only include public sector funding. In contrast, both Convergence and the DFI Working Group only record transactions that include:

- 1 concessional capital and;
- 2 private sector investments

While the DFI Working Group’s Joint Report is intended for reporting concessional investments from and through DFIs, Convergence records all blended finance activity, irrespective of the source of the concessional funding. The key criteria of each organization are summarized in the table below.

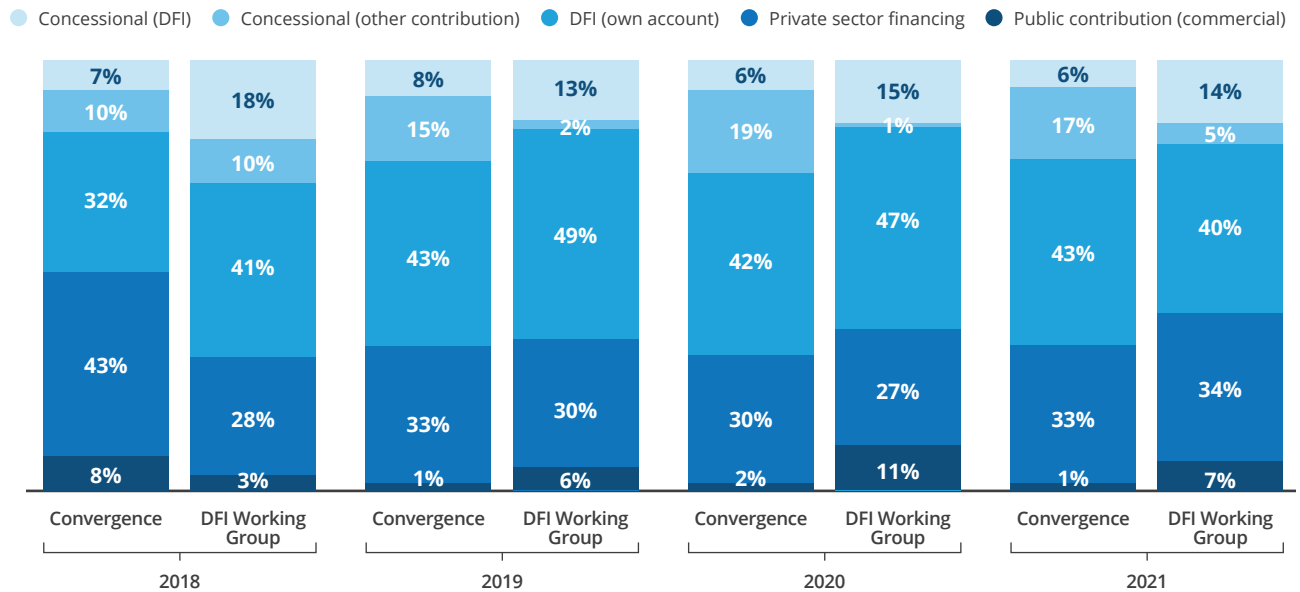
Table 3: A comparison of blended finance activity as reported and recorded by Convergence, the OECD, and DFI Working Group

	Convergence	OECD	DFI Working Group on Blended Concessional Finance for Private Sector Projects
Definition of Blended Finance	<p>The use of catalytic capital from public or philanthropic sources to boost private sector investment in sustainable development.</p> <p>Convergence's database of blended finance transactions only includes transactions with both concessional capital and private sector commercial capital (see more details on blended finance archetypes below).</p>	<p>The OECD defines blended finance as:</p> <p><i>"strategic involvement of development finance to attract additional funds for SDGs in developing countries"</i></p> <p>The term additional funds refers to commercial finance without explicit development intent, including both concessional and non-concessional public and private capital and even technical assistance.</p> <p>OECD's scope extends independent of the terms of its deployment. The OECD does not consider concessional capital as a requirement for a blended finance transaction.</p>	<p>The DFI Working Group defines blended finance as:</p> <p><i>"combining concessional finance with DFIs' own account and/or commercial finance to promote private sector markets, SDGs, and private resource mobilization."</i></p> <p>The DFI Working Group does not report on BF transactions where a concessional party provides financing directly for the transaction and does not go through a DFI.</p>
Audience	<p>As a third-party aggregator, Convergence reports on all blended finance activity that aligns with its definition. Convergence data is geared towards both practitioners and policymakers.</p>	<p>The OECD principles guide members of the DAC on the use of ODA for blended finance.</p>	<p>The DFI Enhanced Principles for Blended Concessional Finance for Private Sector Projects brings together DFIs to</p> <ol style="list-style-type: none"> 1 develop common standards for the implementation of blended concessional finance projects; 2 provide transparent, comprehensive and consistent data on their blended concessional finance activities; and 3 discuss and review the merits and adequacy of existing approaches to blended concessional finance activities.
Definition of Private Mobilization	<p>Convergence records both commercial leverage ratios and private mobilization levels within its reports. Leverage ratios measure the amount of commercial capital (private and public) crowded into a transaction for every dollar of concessional money. Private mobilization rate refers only to the amount of private sector capital crowded in per concessional dollar.</p>	<p>OECD considers a causal link between private finance that was made available for a project and the official flows along with the leveraging instrument used to incentivize them.</p> <p>Unlike the DFI Working Group, the OECD does not distinguish direct vs. indirect private sector mobilization, and does not attribute specific private sector activity towards individual investors.</p>	<p>The DFIs reports total private mobilization, which is defined as the sum of private direct mobilization and private indirect mobilization, namely:</p> <p>Private direct mobilization: financing from a private entity on commercial terms due to the active and direct involvement of an MDB leading to commitment. It refers to private co-financing and does not include sponsor financing.</p> <p>Private indirect mobilization: financing from private entities provided in connection with a specific activity for which an MDB is providing financing, where no MDB is playing an active or direct role that leads to the commitment of the private entity's finance. Private indirect mobilization includes sponsor financing, if the sponsor qualifies as a private entity.</p>
Disclosure of Disaggregated Data	<p>Convergence provides disaggregated data on investment activity within blended finance transactions within its proprietary HDD. Convergence deal-level data as contained in the HDD is available to its members, while public reports are published on a regular basis.</p>	<p>Disaggregated information on blended finance and private investment levels are available in the OECD Explorer, disaggregated across regions, sectors, instruments, and countries.</p>	<p>The DFI Joint Report provides aggregated blended finance volumes including aggregated private mobilization levels.</p>

	Convergence	OECD	DFI Working Group on Blended Concessional Finance for Private Sector Projects
Data Sourcing Methodology	Convergence aggregates data from public sources alongside information directly provided by data partners, Convergence members, and blended finance practitioners.	The OECD conducts an annual reporting exercise as part of the OECD DAC Blended Finance Principles. Methodology includes statistics; surveys; and data from DAC members, funds, and facilities,	The DFI Joint Report members are required to report their blended finance activities.
Archetypes / Instruments Included	<ul style="list-style-type: none"> • Concessional Capital; • Guarantee/Risk Insurance; • Design-Stage Grant; • Technical Assistance Funds 	<p>The OECD defines leveraging mechanisms or instruments as: syndicated loans, collective investment vehicles (CIVs), guarantees / insurance, direct investment in companies, credit lines, and simple co-financing vehicles</p> <p>The OECD recently included technical assistance within its blended finance definition, where:</p> <p><i>“technical assistance can be claimed to mobilize private capital where causality is demonstrated within project documentation or financial agreement.”</i></p>	<ul style="list-style-type: none"> • Senior Loans; • Subordinated/Mezzanine Debt; • Equity (directly and through funds); • Guarantees/Risk Sharing Facilities; • Grants and Performance Grants <p>The DFI Joint Report does not include technical assistance grants in its definition of blended finance.</p>
Estimate of Market Size Based on Last Comparable Period (2021)	<p>Convergence recorded 134 deals for 2021, with a total value of around \$14 billion.</p> <p>The average private sector mobilization ratio has been 1.8 (median = 0.6), suggesting that just under half of the commercial financing mobilized by each dollar of concessional financing has come from private sector sources, with the remainder coming from MDBs, DFIs, and philanthropic investors.</p>	In 2021, mobilized private finance reached \$48.6 billion. According to OECD, the two leveraging mechanisms (or archetypes) that mobilised the largest volumes of private capital were direct investment in companies and project finance SPVs (\$13.8 billion) and guarantees (\$9.8 billion).	Based on the most recently available data provided by the DFI Joint Report published in March 2023, aggregate blended financing levels in 2021 were \$13.4 billion, of which \$4.6 billion was private sector financing.
Principles Followed	Adopted by Convergence: World Economic Forum / Redesigning Development Finance Initiative (RDFI) definition	<p>OECD DAC Blended Finance Principles</p> <ul style="list-style-type: none"> • PRINCIPLE 1: Anchor blended finance use to a development rationale • PRINCIPLE 2: Design blended finance to increase the mobilisation of commercial finance • PRINCIPLE 3: Tailor blended finance to local context • PRINCIPLE 4: Focus on effective partnering for blended finance • PRINCIPLE 5: Monitor blended finance for transparency and results 	<p>DFI Enhanced Principles for Blended Concessional Finance for Private Sector Projects</p> <ul style="list-style-type: none"> • Rationale for Blended-Concessional Finance • Crowding-in and Minimum Concessionality • Commercial Sustainability • Reinforcing Markets • Promoting High Standards

SOURCES OF FINANCING

Figure 6: Comparing financing sources to blended finance transactions on an annual basis, as recorded by Convergence and the DFI Joint Working Group



Unsurprisingly, the OECD provides the highest estimate for the size of the blended finance market. Based on 2021 data, which is the most recent across institutions, the OECD reported that private financing mobilized by development interventions reached \$48.6 billion. In comparison, Convergence estimated annual flows in the blended finance market in 2021 to be \$14 billion, while the DFIs reported \$13.4 billion.

Given the similarities in definitions, it is instructive to compare estimates from Convergence and with the DFI Working Group. Convergence and the DFIs report similar levels of blended finance for the years 2019-2021, with Convergence reporting slightly larger estimates in 2019 and 2021. It is worth noting that when analyzing Convergence data on an annual basis, the aggregate financing estimates are higher than when summing together individual sources of financing—this is because while total deal size is often publicized, individual investment sizes from participating investors are undisclosed.

Both Convergence and DFI Working Group data confirm that the largest source of financing mobilized by blended finance deals is market-rate financing provided from DFIs' own accounts; between 2019-2021, the DFI Joint Report found that 45% of all investment into blended finance deals came from DFIs investing on commercial terms. Similarly,

Convergence finds that 43% of all financing into blended finance deals came from DFIs investing on commercial terms. Meanwhile, both Convergence and the DFIs report that an average of 30% of all financing in blended finance deals between 2019-2021 came from the private sector.

One difference is the fact that concessional funding from non-DFI sources is markedly higher in Convergence's estimates compared to the DFIs'. This reflects the fact that, given its purpose, the DFI Working Group only tracks blended finance structures that receive concessional financing from DFIs and their partners, whereas Convergence records a larger universe of blended finance transactions, including transactions that receive concessional finance directly from development agencies and philanthropic partners.

Another difference is the type of blended finance vehicles recorded by Convergence and the DFI Group. Results from a comparative analysis of blended finance deals reported by a leading MDB vs. Convergence in 2023, revealed that a large share of blended finance activity (56%) by the MDB was in the form of risk-sharing facilities, whereby the MDB extends a concessional guarantee to a financial institution to increase lending to higher-risk sectors or borrowers. Meanwhile, Convergence's HDD

recorded less of this activity (13%), which may explain some of the differences in aggregate financing volumes for the year, whereby the DFIs report an upward trend in blended finance levels while Convergence volumes have been more stagnant.

To achieve scale, it is crucial that concessional capital allocators, including the DFIs and MDBs, and the OECD DAC community, more ambitiously prioritize private sector mobilization as an explicit goal. As a first step,

MDBs and DFIs should strive to achieve private sector mobilization volumes that exceed their own account financing in blended finance. As previously discussed by [Convergence](#), MDB shareholders can play an important role by linking the provision of concessional capital to KPIs that include private sector mobilization targets. Moreover, DFIs should publicize their private sector mobilization targets, even on an aggregate basis. So far, IFC is the only institution that publishes private sector mobilization targets.

DISAGGREGATED DATA ON PRIVATE MOBILIZATION LEVELS

The current level of disclosure of private sector investment into blended finance deals is too limited for meaningful analysis and comparison between data providers.

Areas that would benefit from having more granular investment information include:

- 1 the proportion of private sector mobilization on an indirect versus direct basis and;
- 2 leverage ratios reported on a transaction basis (rather than in aggregate).

In respect to the former, while [Convergence](#) and the OECD do not attribute private sector mobilization to specific investors, the DFIs and MDBs distinguish private sector mobilization based on direct activity (where a private investor committed financing on commercial terms due to the active involvement and effort of a DFI) vs. indirect activity (where an MDB did

not play an active role in attracting private financing to a deal). Here, it would be helpful to understand what proportion of financing occurs on a direct vs. indirect basis, with the assumption that indirect private mobilization is less financially additional. Other examples of indirect mobilization include instances where private investment is coming in the form of project sponsor financing. Since DFIs often require that project sponsors commit equity in order for DFIs to invest, it is not as additional as other forms of private investment. The discussion around direct and indirect private sector mobilization fits into the broader dialogue surrounding the evolution of DFIs within development finance, with organizations such as [Publish What You Fund](#), [CGDEV](#), and the [World Bank Private Sector Lab](#) working on new approaches to conceptualize and understand private sector mobilization.

DISCLOSURES ON CONCESSIONALITY & LEVERAGE RATIOS

As stated previously, to meaningfully assess the effectiveness and efficiency of concessional capital in blended finance more granular information on private sector leverage ratios is needed. This information provides blended finance practitioners with more nuanced information on how to structure financial vehicles with minimum concessionality and ascertain appropriate private investment targets.

[Convergence](#) has undertaken two deep dives on leverage ratios in blended finance. Most recently, [Convergence](#) [found](#) that, on average, every dollar of concessional capital has mobilized \$4.1 in commercially priced capital, of which just under half

(\$1.8) on average has been sourced from private sector investors. [Convergence](#) further analyzed leverage ratios across regions, SDGs, transaction size, and blended finance archetypes, amongst other data points. High-level findings included that transactions targeting Latin America and the Caribbean had the highest leverage ratio across regions (4.7), larger transactions were associated with higher leverage ratios (up to 7.6 for transactions larger than \$1 billion in size), and transactions leveraging concessional debt and equity had the highest average leverage ratios (4.3) compared to other archetypes (such as guarantees and grants).

Meanwhile, in 2023 the OECD published a [report](#) on private finance mobilized by official development finance interventions, which cut across regions, investor types, SDGs, and blended finance instruments. It is worth noting that this analysis extends to all development finance that uses ODA, and therefore records a larger market than just blended finance. The OECD has also published an analysis on the use of guarantees in blended finance, finding that between 2012-2018, guarantees mobilized more private capital than direct lending or equity investments. Most recently, the OECD migrated its private mobilization data to the OECD Explorer, which allows users to analyze providers' data by different variables, such as sector and instrument or recipient countries.

While the DFI Working Group only reports private sector financing levels in blended finance on an aggregate basis, IFC discloses the level of concessionality as a percent of total project costs for all their blended finance transactions. Average concessional levels released by IFC show that concessionality levels have been highest when using local currency vs. other instruments, as well as highest in low-income and fragile and conflict affected states. A recent evaluation of the [International Development Association-International Finance Corporation- Multilateral Investment Guarantee Agency private sector window \(IDA-IFC-MIGA-PSW\)](#) found an expected 100% utilization of IFC's IDA20 allocation. The evaluation also found that IFC, MIGA, and IDA follow a rigorous model to ensure minimal concessionality, reducing the likelihood of market distortion.

FINANCIAL PERFORMANCE DATA

To ensure that risk is being priced appropriately and that it better informs project modelling, more financial performance data is needed on returns, default, and recovery rates. Only a handful of blended finance transactions publicly disclose this information, making comprehensive and meaningful analysis difficult. The following are some examples of past efforts to uncover such data.

In 2023, Convergence [analyzed](#) the financial performance and downstream lending activity of a small sample of blended finance transactions, including commercial returns achieved by debt and equity instruments, as well as the non-performing loan rate of blended structures providing debt. Findings demonstrated that the performance of blended vehicles was largely in line with emerging market averages. For example, almost all commercial equity investors sampled received an internal rate of return (IRR) above 10%, whereas commercial debt investors fell in the 1-5% IRR range (40% of investors) or 5-10% range (40% of investors). For debt transactions, 67% of respondents reported a non-performing loan rate of 0-3%. However, given the small number of transactions surveyed, it is difficult to make large-scale observations about the blended finance market.

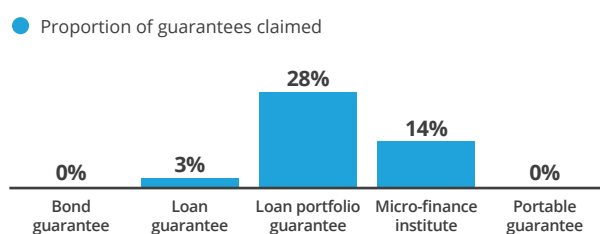
In response to long-standing calls for the public disclosure of GEMs, three reports have been published in recent years containing data on default

rates and recovery rates on sovereign and private lending. In 2021 the GEMs published, for the first time, [default rates](#) from 11 DFIs and MDBs on their credits to private and sub-sovereign borrowers between the years 2001-2019. The GEMs found that default rates have mostly been in the range of 2-4%, indicating the risks of lending to emerging markets is low. The GEMs followed up with a similar [report](#) in 2023. While these reports are a good first step in understanding the performance of emerging market lending, the data is not disaggregated across country, region, country income group, sector, or credit instrument, making it harder for private sector investors to apply the findings. In March 2024 GEMs published, for the first time, data on recovery rate statistics in cases of default—a key piece of information for private sector creditors. The 2024 report, which now includes data from 19 DFIs and MDBs, found the recovery rate for private lenders between 1994-2022 to be 74.7%. Helpfully, the recovery rates are further disaggregated by country income group and geographic region, although not by sectors (beyond infrastructure, financials, and other). Going forward, GEMs has announced they will publish default and recovery rates on a regular basis.

To close the evidence gap on financial performance data, Convergence analyzed the data associated with guarantee utilization and claims from 1999-

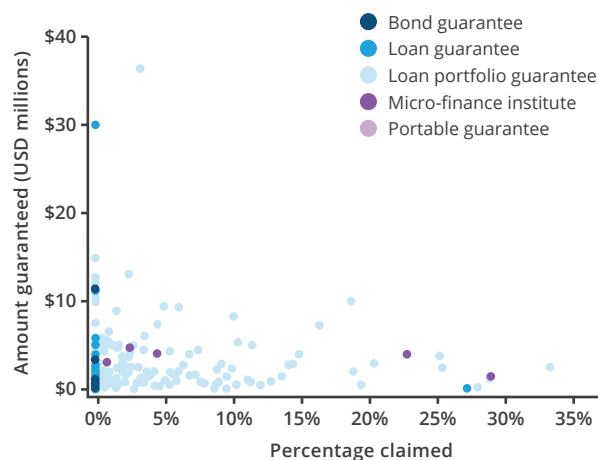
2017 for USAID’s Development Credit Authority (DCA), which merged with the Overseas Private Investment Corporation (OPIC) in 2019 to create the United States International Development Finance Corporation (US DFC). Findings showed that across the guarantee portfolio for that 18 year time frame, loan portfolio guarantees (provided to commercial banks to cover losses due to loan default) had the highest claim rate (27.9%) amongst the credit agreement types (bond guarantees, loan guarantees, loan portfolio guarantees, and portable

Figure 7: USAID DCA guarantee claim rate by agreement type, 1999-2017



guarantees)—although it is worth noting that loan portfolio guarantees are the most common type of guarantee extended (74%). The majority of claims were for under 10% of the amount guaranteed, indicating lower overall loss ratios relative to the other credit agreement types.

Figure 8: USAID DCA guarantee amount by percentage claimed, 1999-2017



BEST PRACTICE EXAMPLES OF DATA DISCLOSURE IN THE BLENDED FINANCE MARKET

In lieu of development finance actors publishing full information on deal terms, blended finance practitioners have taken up the mantle, distributing critical data on blended finance terms and performance. Two practitioner-led organizations that are currently undertaking notable efforts in the field to distribute data are:

- 1 ACELI AFRICA:** [Aceli Africa](#) is a market-incentive facility launched in September 2020 to mobilize lending for small and medium-sized enterprises (SMEs) in the agriculture sector. Aceli provides data on the lending activity of its partner financial institutions to i) validate the need for the market incentives that Aceli offers to financial institutions to increase lending towards agri-SMEs, and ii) demonstrate the actual risk levels associated with the agri-SME sector. Aceli’s 2023 Financial Benchmarking report demonstrates that i) while incentives are required to improve the economics for lenders to the agri-SME sector, where short tenors, collateral requirements, and profitability

is low, ii) incentives provided by the market facility have shifted lender practices in promising directions, demonstrating that financial institutions have developed more confidence in the agri-SME sector including by lowering interest rates, meaning the model has achieved some of its objectives. Aceli’s work is highly additional in that it not only uses data to correctly price market risk and calibrate concessionality, but is also supporting local financial institutions to develop market confidence in a new segment of borrowers.

- 2 SHELL FOUNDATION & CROSSBOUNDARY AFRICA:** CrossBoundary Access has [shared](#) three project finance term sheets used for over \$80 million of mini-grid projects in Africa. This activity, funded by the Shell Foundation and the UK Foreign, Commonwealth and Development Office (FCDO) under the Open Source initiative, allows others to adopt a mini-grid project finance approach more quickly and at lower cost.



DOCUMENTING POST-BLENDED FINANCE ACTIVITY

The objective of blended finance is to ultimately create commercially viable markets that no longer need risk mitigation or return enhancements to attract private investment. In this way, blended finance is an “off-ramp” to market-based approaches to financing development needs, rather than a crutch upon which the development of emerging market economies must perpetually rely. Transparency on the ex-post financial performance and impact performance of blended finance sets a foundation for tracking whether blended finance is succeeding in creating fully commercially sustainable markets; for example, to measure if concessionality levels have decreased over time within certain sectors, or successive funds, and inversely if private investment levels have increased.

Blended finance supports the creation of bankable deals in EMDEs in a variety of ways. First, in the immediate sense, blended finance creates investable assets that meet investor risk-adjusted return appetites, thereby increasing international and domestic exposure to new markets and new asset classes. Second, blended finance is an entry point for risk determination, price discovery, and asset valuation. Blended deals help determine spot prices of new asset classes or assets in underdeveloped

markets where there is limited transaction history. They can also assist in determining the fair value of individual assets and, by supplying benchmarks on risk, support the development of valuation models, engendering market transparency and enabling investors to make more informed decisions.

As the blended finance market matures, Convergence is beginning to see evidence of the “epilogue to blended finance”; that is, a series of transactions that have transitioned away from blended structures as their respective markets become commercially viable. Perhaps somewhat counterintuitively, to accelerate the EMDE transition from blended finance to market-based approaches, we must accelerate the implementation of blended finance use now. This will continue to introduce more investors to more sectors and asset classes, keep investors engaged in the market to build their familiarity of investing in blended finance structures, and crucially, lead to EMDE investing becoming more central to their core investment activities. Convergence will continue to develop its efforts to document and reflect on the ex-post market development effects of blended finance and map the transition of deals, industries, sectors, and impact to market-based approaches.

Here, we provide three such examples across three unique markets:

CROSSBOUNDARY ENERGY 1

[CrossBoundary Energy 1](#) (CBE1), launched in 2015, was a \$8.8 million, two-tiered blended private equity fund focused on developing solar photovoltaic and battery systems for industrial clients in emerging markets. Five years after its launch, the fund was bought out by ARCH Emerging Market Partners for \$40 million, taking out all investors, including concessional capital providers. The now wholly commercial model

went on to raise an additional \$40 million from Norfund and KLP Investments. Convergence sees the energy sector as one market where blended finance has created an “off-ramp”, relative to other sectors, due to the existence of commercial interest, replicable and standardized investment models, and an increasingly strong pipeline of investable assets in EMDEs.

DEBT FOR NATURE SWAPS

In 2015, the Nature Conservancy (TNC) launched the organization’s first [debt for nature swap](#), which enabled the Government of Seychelles to refinance a portion of its sovereign debt (\$21.6 million) at a discount while increasing investment to marine protection and resiliency. The transaction established a proof of concept for sovereign debt refinancing and provided a model for how proceeds could significantly boost

ocean conservation efforts for sovereign debt refinancing. In this way, this transaction provided TNC with the underlying foundation for a series of blue bonds (Belize, 2021, \$364 million; Barbados, 2022, \$150 million; Ecuador, 2023, \$656 million). The two successive transactions required less concessionality than the initial debt for nature swap, underscoring the sector’s growing appeal to commercial investors.

SISTEMA.BIO

[Sistema.bio](#), a social enterprise that manufactures, sells, and distributes small-scale biogas digester units that convert livestock waste into an alternative energy source for biogas-linked appliances, raised multiple rounds of concessional capital for various operational needs since its inception in 2010. Today, with an established business model and revenue track record, Sistema.bio is able to meet shareholder risk-adjusted returns expectations without the

presence of concessional investment. Early-stage concessional capital providers, like the Shell Foundation, who since 2017 provided the company with about \$5 million in grant funding, have also begun to invest on a returns-seeking basis with successive investments. Sistema.bio is now in a financial position where it is more time- and resource-efficient to use operating capital to fund activities that were previously financed with externally sourced concessional funds.

While Convergence is able to record instances of post-blended finance activity on an ad-hoc and anecdotal basis, blended finance practitioners and the development community can serve the market by tracking and disclosing information on new commercial market activity spurred by blended finance, in addition to success stories and theory

of change pathways. Conceptually, DFIs and MDBs are well-positioned to do this, given how much of their own account financing is de-risked by concessional capital. It would be beneficial to understand how often blended finance has enabled larger-scale investing into newer sectors, financial products, and regions.

RECOMMENDATIONS

1 Development actors should use their position to incentivize and disclose financial performance data

Concessional capital providers do not publicly disclose financial terms or ex-post development outcomes, often due to concerns about client confidentiality, limiting the evidence base for blended finance as a development tool. Understandably, private investors do not have any incentive to disclose proprietary and competitive information, including on financial performance, unless required by donors and DFIs. Given the importance of this information for building the field and ultimately communicating risk-return levels to other private investors, donors and DFIs should build in requirements to share financial performance data in an aggregated and anonymized way that serves the market, yet does not expose individual investor data.

2 Blended finance actors should publicize disaggregated data on private sector mobilization rates

As detailed in the previous section, disclosure of private sector mobilization data on a direct vs. indirect basis, as well as leverage ratios across different market segments (e.g., region, sector, instruments), provides meaningful information to practitioners and policymakers on relative risk levels, minimum concessionality, and the effectiveness of blended finance in reaching investment targets. This information can reduce the structuring time and bespoke nature of blended finance models, and ultimately help the market achieve scale. Importantly, more granular and public information on mobilization rates will also guide and incentivize DFIs, MDBs, and donor governments to design their toolkit of instruments and products to target more ambitious private-sector mobilization levels.



3 Blended finance actors should prioritize publishing timely data for more accurate market estimates and comparisons

At present, large time lags in the disclosure of blended finance activity make it difficult to benchmark the current effectiveness of blended finance. For example, the last formal report on [blended finance funds and facilities](#), authored by the OECD, was published in 2022 but reflected 2020 data. Meanwhile, the OECD's [2023 report](#) on Mobilized Private Finance contains data until 2020. In addition, the DFI Report on blended finance contains a two year time-lag; the 2023 Joint Report contains blended finance data until 2021. The migration of private sector mobilization data towards the OECD Explorer is a significant milestone in making real-time data on private mobilization spurred by development interventions accessible. Similarly, Convergence's HDD on blended finance reports continuous updates on the blended finance market, with public reports, including our State of Blended Finance reports, providing data on the previous available calendar year (e.g., the 2024 report provides data on 2023 transactions).

4 Data providers should collaborate to share and compile data in a harmonized way to enable better assessment of blended finance trends

In this report, Convergence undertook a market comparison between data collected via Convergence's HDD and the DFI Working Group. Findings revealed that market trends on financing sources are largely similar when reported on a proportional basis, with some meaningful differences (e.g., Convergence reports higher levels of concessional financing coming from public and philanthropic sources). At the same time, the relative upward trend reported by the DFI Working Group compared to Convergence's more consistent year-on-year blended finance levels, reveals some different market activity; for example, relative to Convergence, the DFIs record larger levels of blended finance activity being channeled through financial institutions through risk-sharing agreements and portfolio guarantees. While differing methodologies and confidentiality constraints prevent data providers in the blended finance market from sharing blended finance deal data, there is opportunity for more strategic data collaborations between organizations to map out a more holistic picture of the blended finance market.





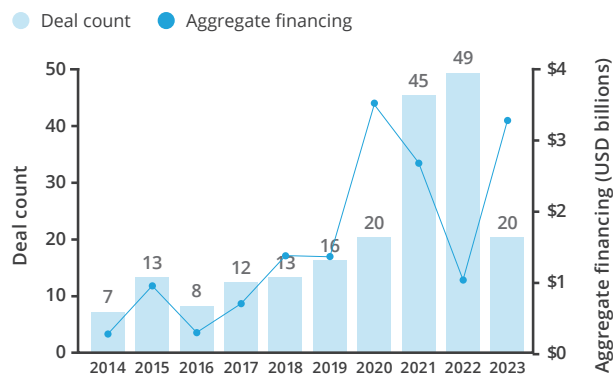
PART IV:
**SECTOR
DEEP DIVES**

PART IV: SECTOR DEEP DIVES

AGRICULTURE

MARKET OVERVIEW

Figure 9: Agriculture blended finance market, 2014-2023



Agriculture plays a crucial role in ensuring global food security, supporting livelihoods, maintaining biodiversity, and driving economic growth and development, but blended activity in this sector has yet to reach significant scale, with most investments targeting small transactions. Convergence has recorded 236 agriculture deals (21% of the overall market) with a total deal volume of \$17.9 billion (8.4% of overall aggregate financing) and a median deal size of \$20 million. From 2021-2023, the average number of transactions annually increased to 38, compared to just over 16 for the previous 3 years, while aggregate financing reached a 5-year low in 2022. The increase in deal count and decrease in value in 2021 and 2022 can largely be attributed to an influx of smaller USAID West Africa Trade and Investment Hub (WATIH)-funded transactions.

The sector continues to face challenges that increase its risk profile for private investors. In recent years, events that [disrupted](#) global markets, including the Russian invasion of Ukraine, the COVID-19 pandemic, and extreme weather, have had a severe impact on agricultural productivity and the food supply chain. Moreover, the sector has [lagged](#) behind others, such as energy, transport, and infrastructure, in its ability to mobilize large volumes of private-sector finance. While this may be partly attributed to overall smaller deal sizes in the agricultural market, private sector investments in the agricultural sector of EMDEs also [require](#) patient capital to align with the expected risk-adjusted returns and help mitigate high upfront agri-production risk, which may not align with the return profile of typical bank financing or venture capital.

KEY TAKEAWAY

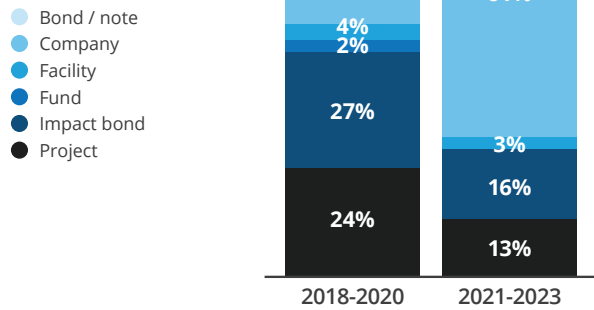
Blended finance for agriculture is a prominent component of the blended field at 21% but it is operating at a subpar transaction scale and it underperforms other sectors in volume of private capital moved as compared to the unmet needs. Catalytic capital providers should be focusing not only on direct project-level interventions but also on aggregation plays that pull larger investors into the space.

VEHICLES

The direct financing of companies is the only blended vehicle type that has proportionately grown in use in the agriculture sector over the past three years (33% of transactions in 2018-2020 to 61% in 2021-2023).

This is largely due to the influx of investments funded by USAID WATIH—a \$140 million trade and investment activity, running from 2019-2024, which seeks to catalyze sustainable economic growth and improve

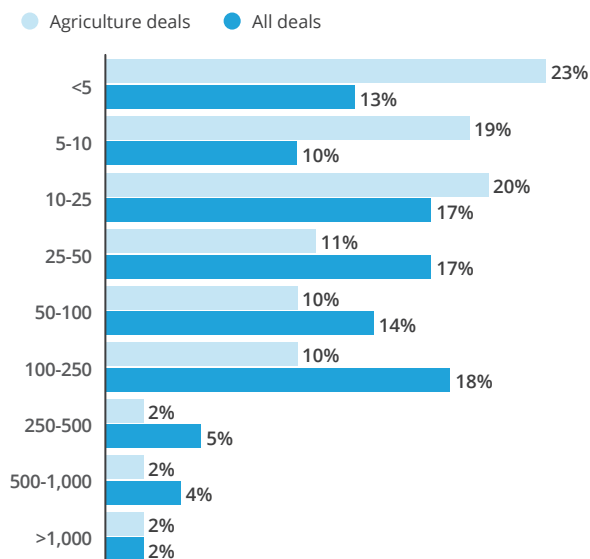
Figure 10: Agriculture blended finance investment vehicle types, proportion of agriculture transactions



food security in West Africa through partnering with the private sector. In 2022, USAID WATIH provided concessional funding to 31 agriculture companies, representing 63% of all 2022 agriculture transactions.

Scaling private investment in the agriculture sector will require increased use of aggregating financial vehicles, such as funds and facilities, rather than more direct financing of companies and projects. This is because, as Figure 11 shows, agriculture transactions tend to be small with most underlying projects or funding recipients having financing needs of [less than \\$1 million](#). The smaller transaction sizes are related to the inherent characteristics of the blended agriculture market. For example, most transactions benefit smallholder farmers, who operate relatively independently on small plots of land. This can

Figure 11: Proportion of all agriculture and all HDD transactions by deal size (USD millions), 2018-2023

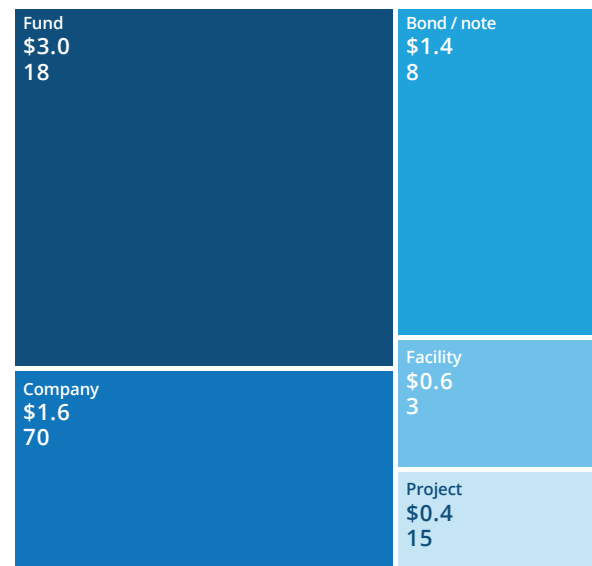


create challenges for institutional investors in developed countries that generally [seek](#) larger investment opportunities.

There are instances of successful aggregation that have allowed for large-scale private investment, such as the [Dutch Sustainable Trade Initiative \(IDH\) Farmfit Fund](#). The \$110.8 million fund received debt and equity investments that enabled them to provide long-term financing to SMEs, banks, and supply chain companies in Africa, Asia, and Latin America. [Comprising](#) a dedicated 10% first-loss tranche and a 40% second-loss tranche, the fund is backed by a 50% second-loss guarantee from USAID and senior lenders. By de-risking investment into smallholder farming, the fund aims to make financing the sector more attractive and thereby reduce capital costs.

Overall, creating opportunities for these investors means far more aggregation of smaller projects at the portfolio level, along with standardized designs for financial structures, and scalability through replication and iteration. Convergence data reflects how aggregation can lead to larger-scale transactions, as shown in Figure 12. Between 2021 and 2023, nearly twice as much financing was structured through funds (\$3.0 billion) than companies (\$1.6 billion) in the agriculture sector, despite there being only 18 funds vs. 70 companies. The median size of a company transaction within this time period was \$7.4 million, whereas the median fund size was \$84.7 million.

Figure 12: Aggregate deal volume (USD billions) and count, by transaction vehicle type, 2021-2023



BLENDING ARCHETYPES

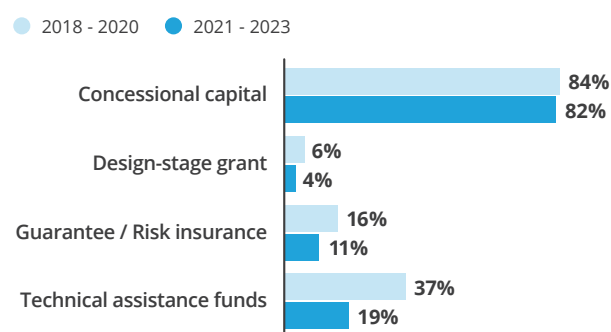
Concessional debt and equity is the most frequently used archetype, and its use has remained consistent since 2018 (84% of transactions in 2018-2020 to 82% in 2021-2023). The agriculture sector faces risks that soft loans or concessional equity are well-suited to address, including supporting smallholder farmers as they [transition](#) to sustainable agriculture. During the transition period, farmers may see a significant decline in productivity as the land is prepared for sustainable best practices. Additionally, farmers may require financing to purchase new technologies to help them monitor and report on their environmental outcomes.

Given that commercial lenders often price these risks into their lending, increasing capital costs for borrowers beyond a reasonable threshold, blended finance can provide a path forward. For example, below-market interest rate loans to banks can help make financing viable for smallholder farmers by helping cover costs associated with the transition period and reducing the downside risk associated with a temporary drop in productivity.

TA in agriculture blended finance tends to be employed most often alongside funds (45% of blended agriculture funds use TA, compared to 19% of companies from 2018-2023). The growth

in company transactions and concurrent decline in agriculture funds may help explain the lower proportion of TA use by deal count from 2021-2023. TA can play a strategic role in agriculture by boosting the knowledge and capacity of smallholder farmers. For example, the Africa Agriculture Trade and Investment Fund features an \$8.5 million [TA facility](#), funded by the German Federal Ministry of Economic Co-operation and Development (BMZ Germany), that helps investees maximize their development potential and achieve policy compliance. The facility is managed by the Common Fund for Commodities (CFC) and provides expertise on tropical agriculture, commodity value chains, impact assessment, ESG risk management, and project management.

Figure 13: Blending archetype usage in agriculture blended finance deals by proportion of agriculture deals, 2018-2023



SUB-SECTORS

Blended finance transactions target various aspects of the agricultural sector (Figure 14). One of the most commonly targeted sub-sectors is agricultural inputs and productivity (25% of transactions in 2023), which is measured through total factor productivity (TFP). TFP is defined as the efficiency with which producers combine inputs to make outputs. The improved efficiency of inputs and natural resource use has been increasingly [emphasized](#) as the single most effective solution to simultaneously achieve production and environmental goals in the agriculture sector. Many regions have struggled to improve TFP, with only South Asia and China [experiencing](#) strong TFP growth from 2011 to 2021.

Concessional capital can help increase TFP by financing research or technology that increases crop

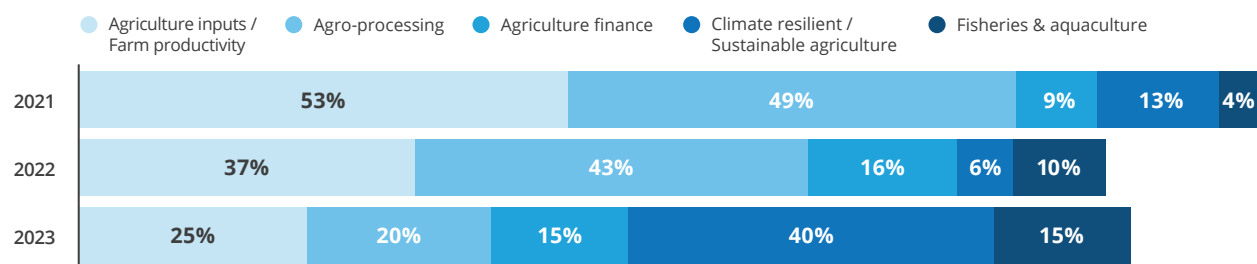
yield and by improving access to capital equipment. [Premier Seed Nigeria Limited](#), for example, [received](#) a \$395,000 grant from USAID WATIH to improve the financial feasibility of the company's research, development, and marketing for the creation of better seeds for smallholder farmers. The company used the grant to attract an additional \$616,000 in private sector funding. In other instances, low productivity can stem from challenges such as a lack of irrigation infrastructure and inadequate water management.

In these cases, blended finance can help by bringing together MDBs and national development banks (NDBs) to provide the financing necessary to support the development of climate-smart projects, like irrigation infrastructure, that support multiple stakeholders.

The number of agriculture transactions focused on climate resilience and sustainability grew rapidly in 2023, with 75% of those transactions at least partially impacting the Latin America and Caribbean region. There is a recognized need for greater focus on mobilizing financing for agriculture climate adaptation; in a study [conducted](#) on 1,700 organizations, Commercial Agriculture for Smallholders and Agribusiness (CASA) found that there is a lack of initiatives focused primarily on

developing new means of scaling finance for climate adaptation in agriculture in low- and middle-income countries. In comparison to mitigation transactions, adaptation transactions [experience](#) greater challenges attracting private investment. In agriculture especially, adaptation transactions can present additional risks due to their long-term focus, their complexity and specialized nature, and a general lack of understanding around the meaning and application of adaptation.

Figure 14: Breakdown of agriculture deals by sub-sector, 2021-2023



REGIONS

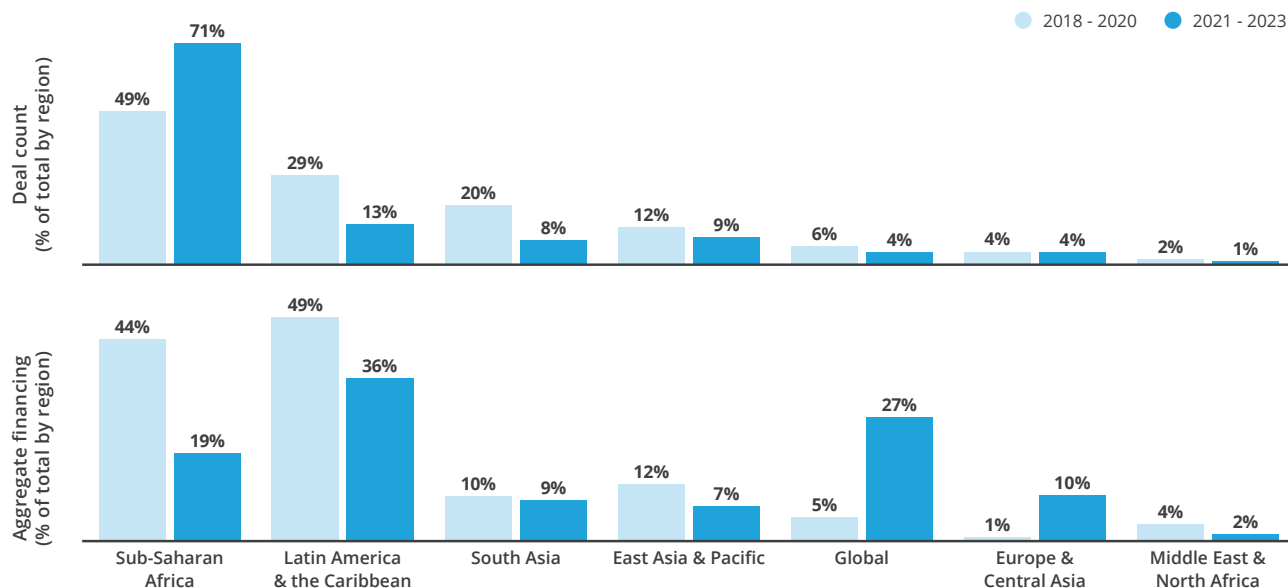
Agriculture blended finance transactions have been increasingly concentrated in Sub-Saharan Africa (71% of transactions in 2021-2023, up from 49% in 2018-2020). The majority of agriculture blended finance transactions in the region target West Africa (91% of Sub-Saharan Africa transactions in 2021-2023) due to the USAID WATIH transactions. This explains the drastic increase in transaction count and the proportional decrease in Sub-Saharan Africa aggregate financing in 2021-2023. The potential for growth in the African agriculture sector is significant. The region has [60%](#) of the world's uncultivated arable land and according to the African Development Bank (AfDB), Africa's food and agriculture market could [increase](#) from \$280 billion a year in 2023 to \$1 trillion by 2030.

The sectoral financing gap in Africa stands between an [estimated](#) \$27 billion and \$65 billion annually. African Union member states have [committed](#) a minimum of 10% of their government expenditure towards agriculture, in 2021 that figure remained at 4.1%. CASA [suggests](#) ways to bridge this gap, which include growing more small agribusinesses into commercially viable projects; developing capacity for local banks and funds to profitably support

smaller, less commercial agribusinesses; enhancing the effectiveness of blended finance instruments; and building infrastructure around climate finance.

Proportionate to other regions, Latin America and the Caribbean is the second most targeted region for agriculture blended finance transactions (13% of agriculture deals in 2021-2023), but the most targeted by aggregate financing (36% of aggregate financing in 2021-2023). Globally, Latin America and the Caribbean [accounts](#) for a larger share of agricultural production than the European Union or the United States plus Canada in 2020, and it is the world's leading net food-exporting region. Agriculture transactions in Latin America and the Caribbean [face](#) additional challenges to attracting private sector capital finance, including low farm productivity and high inequality and informality. Latin America and the Caribbean also has one of the slowest global GDP growth rates at [2%](#) in 2023. However, due to the maturity of the agriculture market there are opportunities for blended finance to be deployed in advanced areas, such as the digitization of the sector, which will help it become more productive and therefore incentivize higher levels of private investment.

Figure 15: Regional distribution of agriculture deals by proportion of agriculture transactions and aggregate financing, 2018-2023

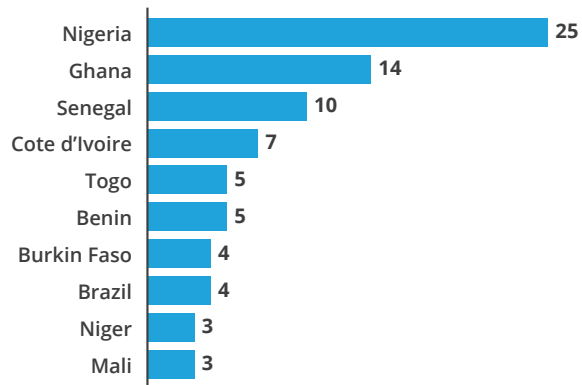


There has been a significant increase in the proportion of aggregate financing targeting global agriculture blended finance transactions. This is due to two large funds that were launched in the past three years. The first, launched in 2021, is the \$535 million [Emerging Market Climate Action Fund](#), which is a fund-of-funds structure providing early-stage equity financing to private equity (PE) funds targeting greenfield mitigation and adaptation projects, including sustainable forestry and land use. The second fund was launched in 2023 and is the previously mentioned [SDG Loan Fund](#), a \$1.1 billion blended private debt fund designed to increase institutional investor exposure to SDG-aligned investing.

Since 2021, Nigeria has been the top destination for agriculture blended finance, hosting 25

transactions, 72% of which were companies. 9 of the top 10 countries by deal count in agriculture blended finance were in West Africa (excl. Brazil, 4 transactions).

Figure 16: Top countries by number of agriculture sector deals, 2021-2023



BENEFICIARIES

Mid-sized businesses and project developers were the direct beneficiaries of most blended agriculture transactions from 2021-2023 (58% of transactions), while smallholder farmers were the largest end beneficiaries (72% of transactions). This aligns with the trend of increased direct financing of corporates, largely through the USAID WATIH portfolio. Within agriculture, smallholder farmers tend to [have](#) more difficulties accessing working capital and medium-term

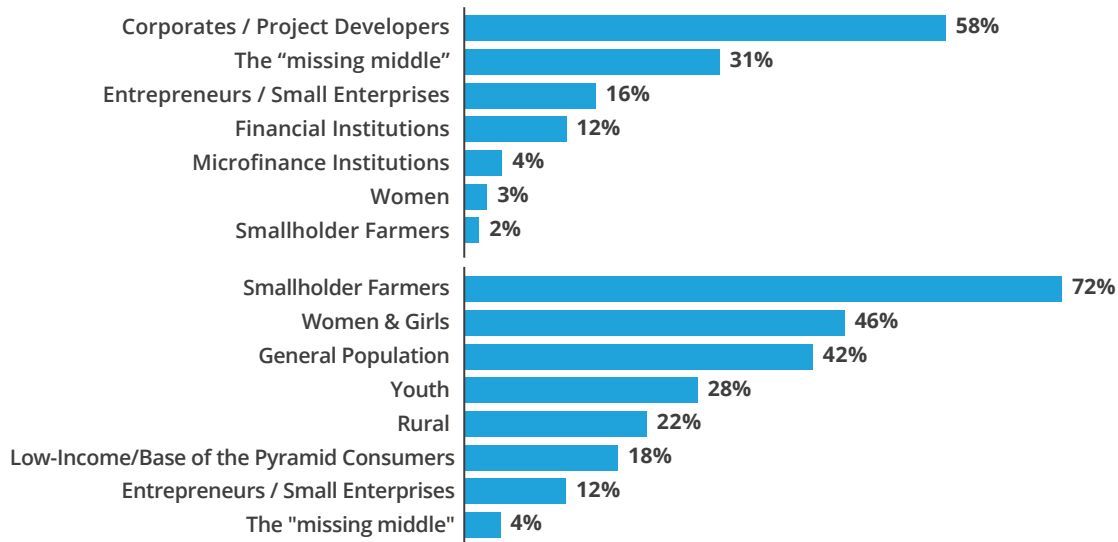
capital expenditure (capex) loans than larger-scale commercial farmers. A lack of access to formal banking institutions, credit, and insurance products may [result](#) in smallholder farmers having a lack of collateral, financial track records, and distribution channels.

An example of how the benefits of blended finance can directly flow through a company to a smallholder farmer is [Thrive Agric](#), a Nigeria-based agri-tech

company that links farmers to capital and global markets for their commodities. USAID WATIH [provided](#) a \$1.75 million grant to the company, which enabled it to raise an additional \$10 million to increase the number of rice, maize, and soybean smallholder farmers with access to its agronomy advisory services,

harvest logistics support, and credit and insurance products. Ultimately, Thrive Agric intends to provide smallholder farmers with better access to finance, advisory services, and linkages to domestic and international markets.

Figure 17: Proportion of agriculture blended finance deals by direct beneficiary (top) and end beneficiary (bottom), 2021-2023



INVESTOR ANALYSIS

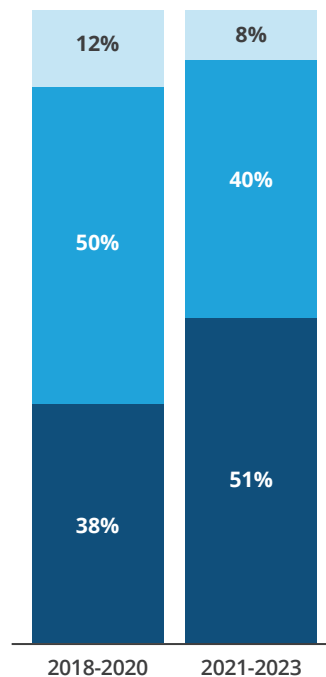
Overview

Convergence finds that from 2018-2020 to 2021-2023, public investors have proportionately increased their participation in agriculture blended finance transactions by deal count compared to the private and philanthropic sectors. This is due to the influx of USAID WATIH investments; from 2021-2023, USAID WATIH had 66 financial commitments to agriculture blended finance transactions, and all but two were \$2 million or less.

These USAID WATIH deals are also apparent in Figure 19 and show how development agencies have accounted for a growing proportion of concessional commitments to the sector since 2021, increasing their share of concessional commitments from 48% in 2018-2020 to 72% in 2021-2023 and providing a total of \$1.4 billion over six years.⁸ Meanwhile DFIs/MDBs, which decreased their proportion of commitments from 20% in 2018-2020 to 13% in 2021-2023, have committed only a

Figure 18: Proportion of financial commitments to agriculture blended finance deals by investor sector, 2018-2023

● Philanthropic
● Private
● Public



⁸ Convergence does not record national government contributions, such as priority sector lending [used](#) largely in Asia to promote sectors including agriculture and SMEs.

Figure 19: Proportion of concessional financial commitments to agriculture blended finance deals by investor sub-sector, 2018-2023

- Commercial investor
- Development agency
- DFI / MDB
- Foundation / NGO
- Impact investor

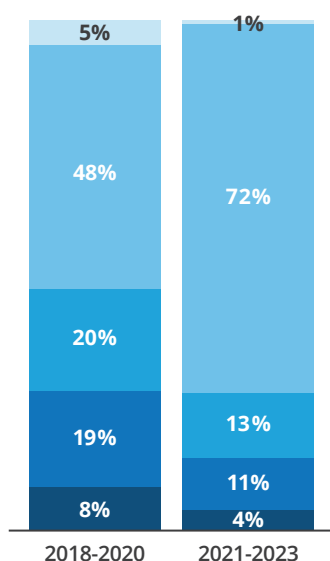
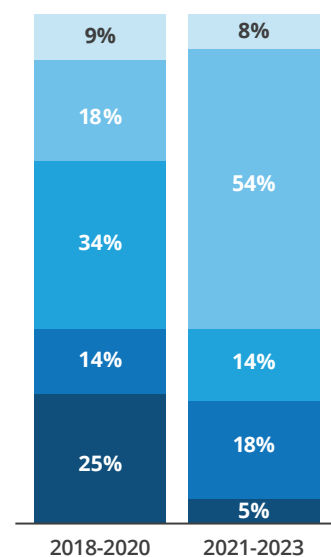


Figure 20: Proportion of private sector financial commitments in agriculture by private sector investor types, 2018-2023

- Asset manager
- Business
- Financial institution
- Institutional investor
- Private equity / Venture capital firm



small amount of their contributions to blended finance transactions in agriculture; in 2021, 15% of \$45 billion of DFI/MDB own account financing and 5% of \$19 billion “direct private mobilization” were [allocated](#) for agriculture. Momentum Global recommends MDBs in particular [adopt](#) a number of strategies to increase the effectiveness of their financial commitments to mobilize private sector investments to agriculture, including: funding TA toward effective food system policies; structuring aggregated global funds/bonds that on-lend to diversified intermediaries and projects in developing countries; and extending their influence to help NDBs broker new blended finance partnerships.

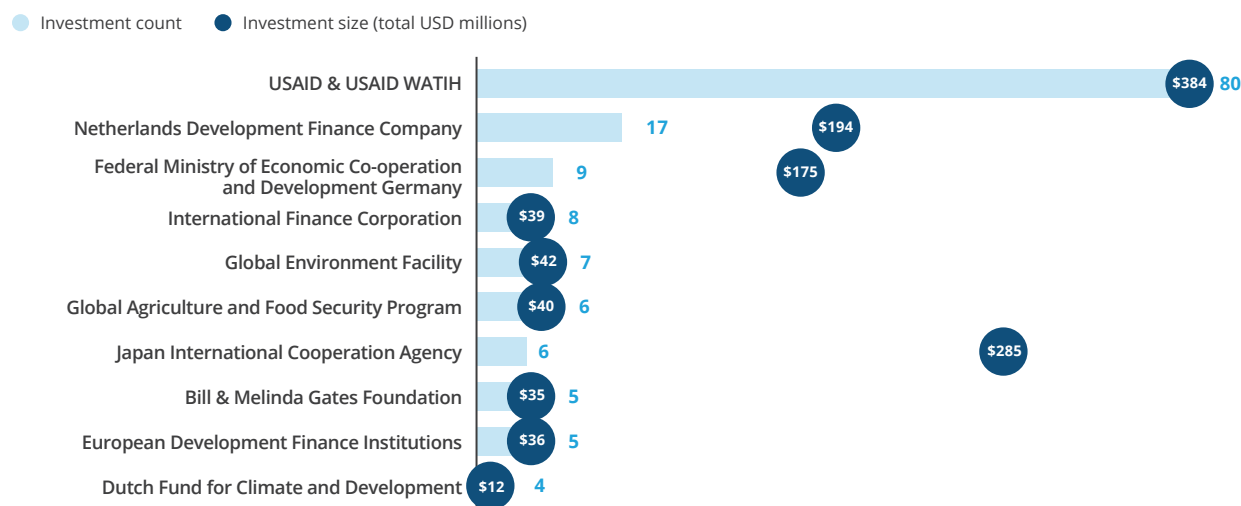
Private Sector Investors

Businesses are the primary commercial investors in agriculture blended transactions by commitments (54% of financial commitments from 2021-2023). The proportion of PE and venture capital (VC) commercial investor commitments declined during the same period (25% of financial commitments in 2018-2020

to 5% in 2021-2023). From 2018-2020 these investors were mainly active in India (63% of agriculture transactions PE/VC investors participated in from 2018-2020 targeted India) and Kenya (25%), however by 2021-2023, Convergence only recorded 4 financial commitments from commercial PE/VC investors. This mirrors global trends, which [saw](#) a slump beginning in 2022 for venture capital investments.

Private investors overall have committed more equity (53% of private financial commitments recorded) than debt (47%). Investors may see equity as a more appropriate tool for investing in agriculture transactions given the high risks of investing in a sector with seasonal results, which causes revenues to be concentrated within specific times of the months. In this case, an inconsistent revenue stream may make it harder for borrowers to meet the regular obligations of loans. With equity, private investors are less concerned with short-term cash flows, and focus more on the long-term growth in the company's value.

Figure 21: Most active concessional investors in agriculture blended finance, investment count and aggregate investment size (incl. guarantees / risk insurance), 2018-2023

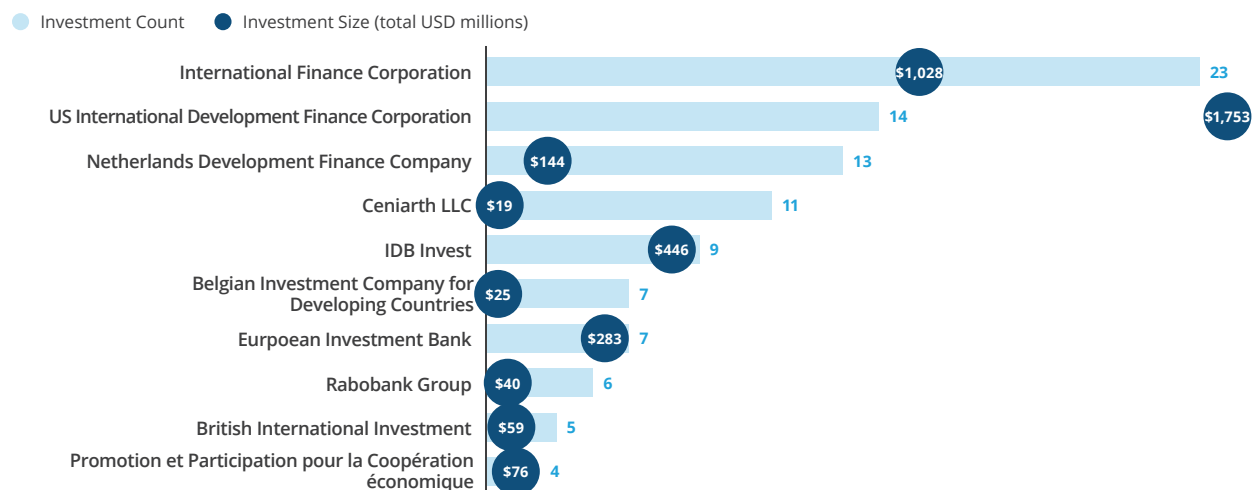


League Tables

USAID, specifically USAID WATIH, was the top provider of concessional finance to agriculture blended finance between 2018 to 2023, with 83 commitments (69 of which were WATIH). 84% of USAID commitments were provided in the form of a grant. While no other development agency came close to the level of recorded activity that USAID participated in for agriculture blended finance, there were several others such as BMZ Germany (9 transactions) and Global Environment Facility (GEF) (7 transactions) that were active. Besides FMO, DFIs/MDBs were not particularly active as concessional capital providers, making up only 16% of commitments.

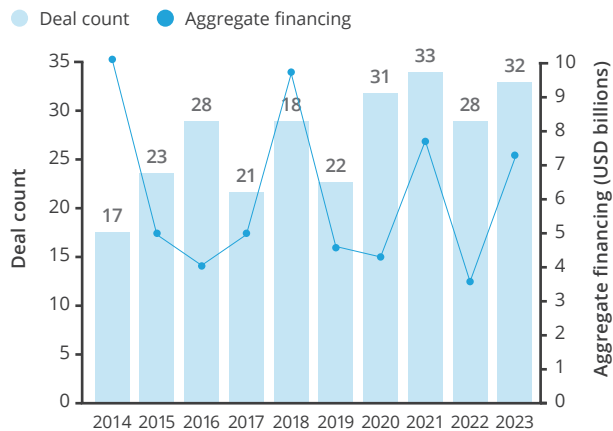
DFIs/MDBs rank among the top providers of market-rate investments in agriculture blended finance transactions (26% of commitments), however at far-lower frequencies than other sectors. IFC was the most active commercial capital provider (23 commitments), investing primarily in companies (43% of commitments) followed by projects (30%). Agribusiness and forestry are priority investment sectors for IFC due to the sectors' broad development impact and strong role in poverty reduction. Impact investors play a small role in the sector, yet CeniARTH LLC was among the top investors in terms of commercial capital commitments, at 11 commitments.

Figure 22: Most active commercial investors in agriculture blended finance, investment count and aggregate investment size (incl. guarantees / risk insurance), 2018-2023



MARKET OVERVIEW

Figure 23: Energy blended finance market, 2014-2023⁹



Energy transactions comprise the largest share of the blended finance market of any sector in terms of deal activity and aggregate financing—Convergence has recorded 319 energy deals to date (28% of the overall market) with a total deal volume of \$101 billion (48% of overall aggregate financing) and median deal size of \$100 million. Energy blended finance was one of few sectors to remain resilient to the economic shocks of the COVID-19 pandemic and the global macroeconomic challenges that ensued towards the latter half of 2022 and throughout 2023. Annual deal counts hovered around historical averages between 2021-2023, accounting for 25% of all transactions during that period and raising \$18.3 billion or 47% of all blended financing. The sector exhibited a strong rebound in 2023, representing one third of all deals and \$7.2 billion in total deal volume. Median deal size rose to \$147 million.

Renewable energy asset creation underpins much of the investment in the sector historically. According to the International Energy Agency (IEA), sustaining and growing these positive sustainable investment trends will be subject to EMDEs’ adherence to their national energy and climate pledges into 2050. An

immense increase in clean energy investment globally will be required over the next 25 years. For example, providing universal access to electricity in Africa by 2030 will require \$200 billion per year, with two-thirds going towards clean energy. Likewise, clean energy investment in Southeast Asia will need to be four times what was achieved in 2022 (~\$30 billion). Blended finance is well-positioned to play a key role in delivering on these goals by helping to ensure a steady pipeline of bankable transactions in EMDEs.

2023 saw the launch of some marquee renewable energy-focused transactions, such as the [\\$410 million](#) listing of energy infrastructure asset-backed securities by Bayfront Infrastructure Management on the Singapore Exchange. Like the SDG Loan Fund, blended finance was utilized to enable institutional investor exposure at scale to energy infrastructure assets. The UK government program, Mobilising Institutional Capital Through Listed Product Structures (MOBILIST) provided a \$5 million catalytic anchor investment which was combined with a concessional partial guarantee from GuarantCo applied to the sub-investment grade tranche, enabling the issuance to reach a credit profile akin to investment grade.

KEY TAKEAWAY

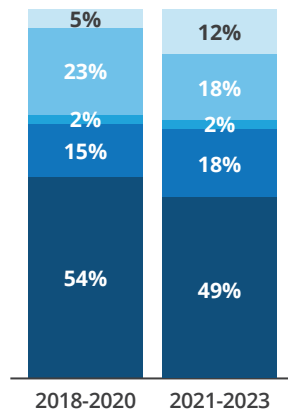
Steady project pipelines, standardized business models, a growing supply of sector-specific concessional funding, and substantial capital needs in EMDEs have energy blended finance primed to scale. To tap into the growing appetite for renewable energy assets among institutional investors blended finance instruments must be better tailored to their specific investment limitations and risk thresholds at both the portfolio (funds) and project level (bonds).

⁹ Energy transactions encompass projects creating renewable energy assets, improving the efficiency of existing renewable and non-renewable energy assets, and the development of energy infrastructure associated with transportation (e.g., electric vehicle charging infrastructure).

VEHICLES

Figure 24: Energy blended finance investment vehicle types, proportion of energy transactions

- Bond / note
- Company
- Facility
- Fund
- Project



Project finance continues to be the main investment structure for energy blended finance. Energy project ticket sizes slightly increased in recent years—median energy project size increased to \$94.5 million in 2021-2023 from \$91.5 million in 2018-2020—with project finance leading the field in the latter period (\$10.2 billion). Project finance for energy is becoming increasingly focused on Sub-Saharan Africa, with the region accounting for 43% in 2021-2023 up from 37% in 2018-2020. In recent years project finance has also been heavily oriented towards renewable energy asset creation, with 96% of all energy projects since 2021 focused on developing renewable energy capacity.

The use of blended fixed income instruments in the energy sector increased markedly, particularly in 2022 and 2023. In the last two years, blended bonds and notes with proceeds directed towards energy purposes have comprised 17% of all deals in the energy sector, up from only a single transaction in 2021 and none in 2020. S&P Global observed similar trends in climate and energy-linked bonds. S&P [notes](#) that green, social, sustainable, and sustainability-linked bonds (GSSSB) issuances will reach its highest ever share of global issuance in 2023, with green bonds, particularly those focused on energy and the energy transition, comprising the bulk of the financing raised.

Bonds in the sector however, have yet to develop into scaled opportunities, mobilizing the smallest amount of capital to energy since 2021 among vehicle types—\$830 million with a median ticket size of \$27 million. The small ticket size of blended bonds—within the energy sector and beyond—remains a problem. To tap into the vast asset pools of institutional investors,

blended bonds must better address liquidity risk concerns, opening the door to a secondary market which has been non-existent to date. As mentioned in our [last report](#), private credit and debt became increasingly costly towards the end of 2022 and throughout 2023, pushing emerging market project developers to turn to international and domestic debt capital markets as an alternative to typical sources of debt project finance. Even so, blended finance will need to play a central role in accessing debt capital markets. Risk mitigation instruments such as first-loss debt, subsidized debt-service reserve accounts, and subsidized currency swaps or risk-sharing instruments like unfunded concessional guarantees tied to interest and principal payments can provide the credit enhancement necessary to support larger issuances. InfraCredit, a Nigeria-focused catalytic guarantee provider, has shown in recent years the effectiveness and flexibility of blended finance to help raise domestic institutional capital via bonds for infrastructure and energy projects. In 2022, InfraCredit supported 4 energy sector corporate issuances with a total value of \$10 million in local currency equivalent subscribed by domestic institutional investors. While the listings remain small, InfraCredit’s work is an early example of local institutional investor appetite for long-term energy assets and demonstrates domestic debt capital markets as a feasible and affordable source of financing for project developers.

Figure 25: Aggregate deal volume (USD billions) and count, by transaction vehicle type, 2021-2023

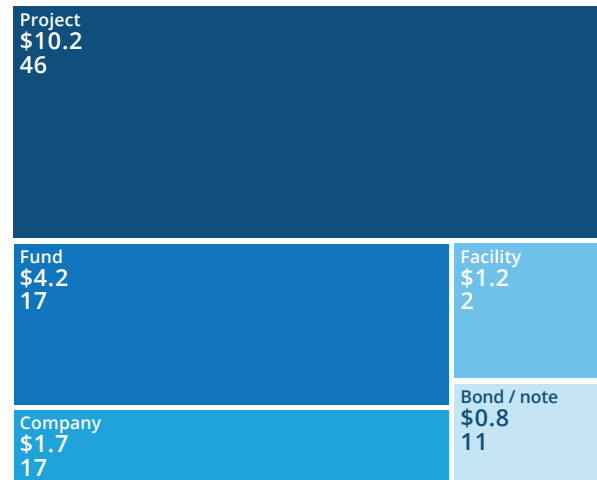
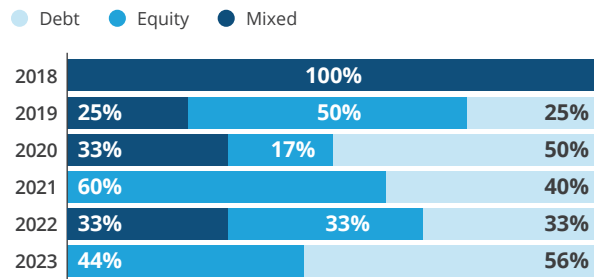
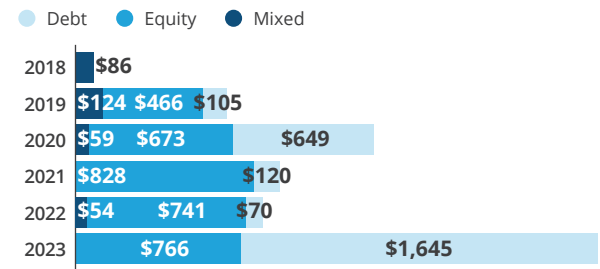


Figure 26: Proportion of energy funds by fund type, 2018-2023



Weak sovereign credit ratings also present significant challenges to stimulating blended bond activity in the energy sector. High yields are stifled by currency volatility and growing sovereign debt pressures, meaning one in four emerging markets with sub-investment grade ratings are effectively [cut-off](#) from international debt capital markets. In EMDEs with weaker credit worthiness (CCC+ to C-) borrowing costs are likely to remain prohibitively high. In low-income countries with current account deficits, corporates will effectively be prevented from accessing new financing or critical refinancing sources. Where feasible, blended finance instruments can target currency and interest rate risk to create risk profiles akin to investment grade to overcome these barriers.

Figure 27: Total aggregate fund volume (USD millions) by fund type, 2018-2023



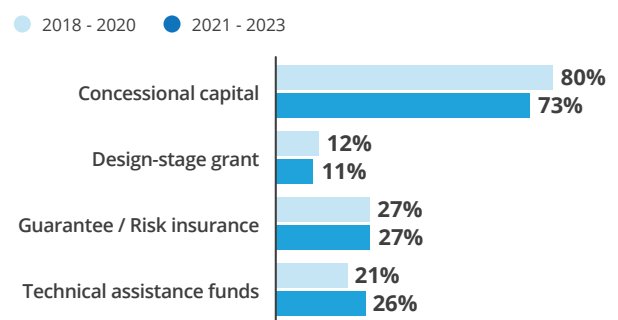
After accounting for only 14% of energy deals from 2018-2022, energy funds rebounded strongly in 2023, comprising 28% of energy deals that year. This is a promising trend given the fundraising challenges experienced by fund managers over the past year due to falling company valuations caused by high rates, limited exit options, and expensive debt. It is important to note that many of the 2023 energy funds are managed by established managers with previous experience raising blended funds (a trend we noted in our last report), e.g., Finance in Motion, Mirova and Meridiam. The past year also saw a resurgence in private debt energy funds propped up by sustained high interest rates and private equity valuation concerns—56% of energy funds in 2023 were private debt funds, the highest share in six years.

BLENDING ARCHETYPES

Concessional debt and equity instruments are the most frequently used blending archetype in energy sector transactions. The slight decline in frequency in recent years (80% in 2018-2020 to 73% in 2021-2023) is likely a result of the decreasing need to employ multiple types of concessional risk mitigation instruments per energy sector deal. Convergence observed an increased use of TA funds in energy sector transactions since 2021, with such concessional funds leveraged for various purposes. For example, Finance in Motion's [LAGreen Fund](#), a \$175 million fund that invests in participations in green bonds and green loans, includes a TA facility (TAF) that provides structuring support to issuers and policy and market strengthening support for local bond markets. The 20MW [Neo 1 solar project](#) in Lesotho, received structuring TA from AfDB via their Africa Climate Technology Centre, to cover legal and other design costs. Technical assistance programs have also been the means through which energy outcomes

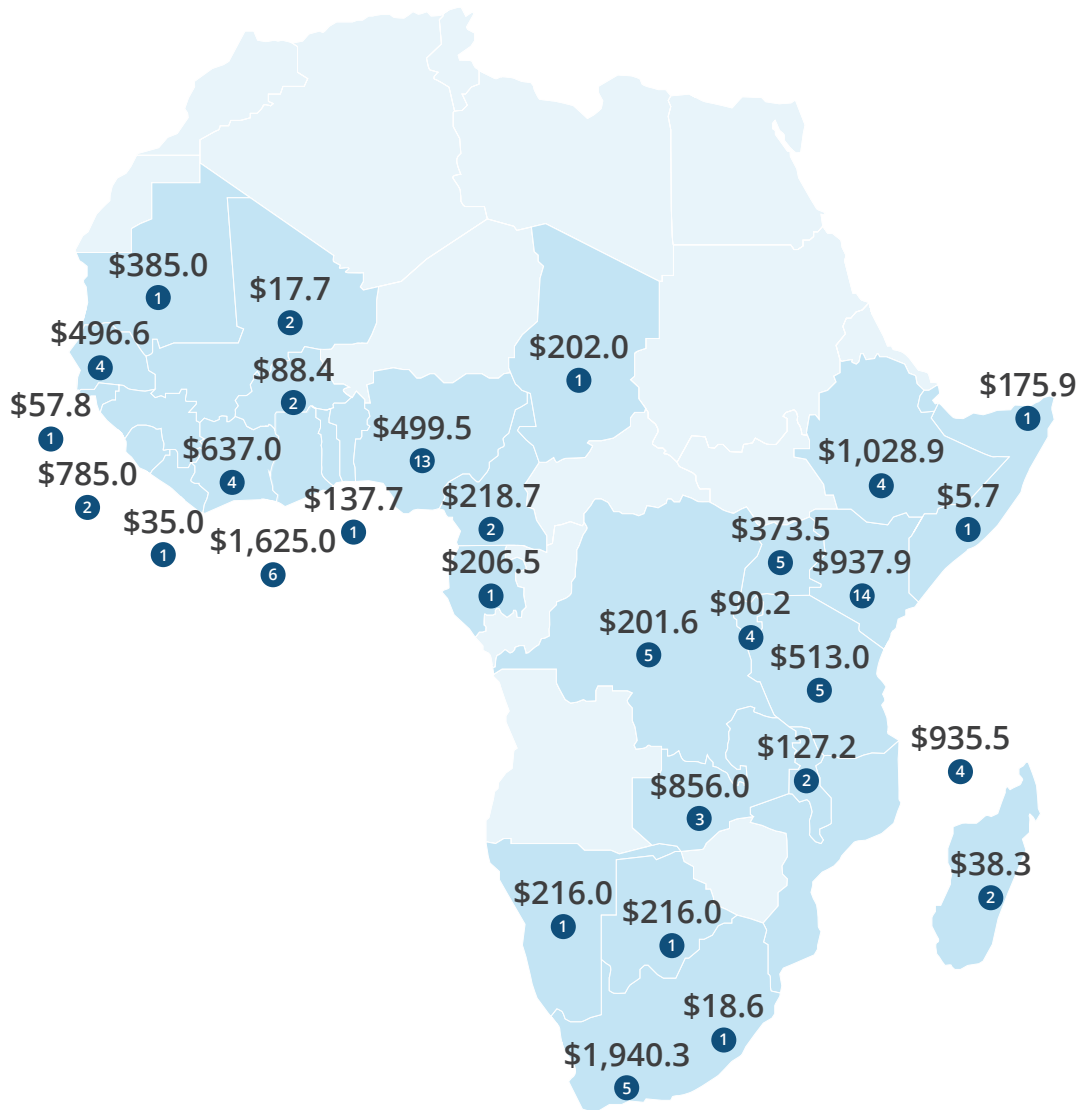
are incorporated into a transaction's structure. For example, [Tillo Domor](#), a major dairy producer in Uzbekistan, received TA funds from the European Bank for Reconstruction and Development (EBRD) via the Finance and Technology Transfer Centre for Climate Change (FINTECC) program alongside growth financing to fund the adoption of energy efficiency measures throughout the company's operations.

Figure 28: Blending archetype usage in energy blended finance deals by proportion of energy deals, 2018-2023



REGIONS

Figure 29: Sub-Saharan Africa deal volume (USD millions) and count, 2018-2023



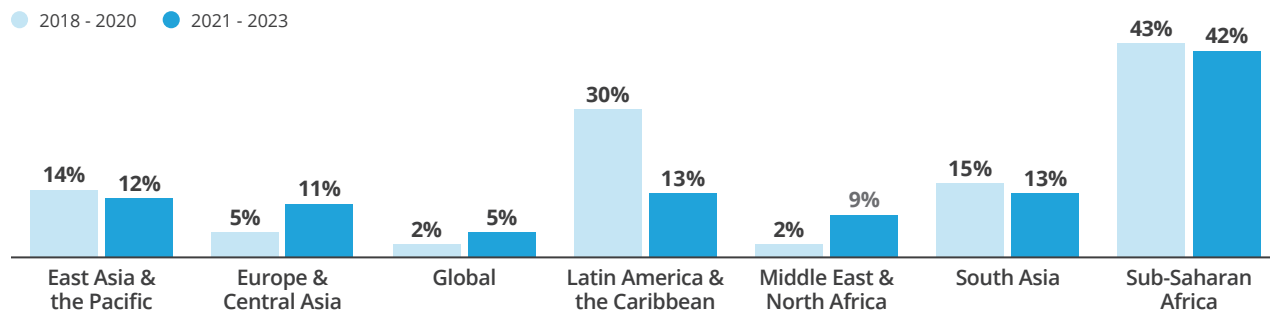
Sub-Saharan Africa has been the primary hub of activity for energy blended finance over the last six years, accounting for 42% of energy deals between 2021-2023. Deal volume in the region has declined by 15% in recent years—falling to \$4.7 billion in 2021-2023, from \$5.5 billion in 2018-2020. Financing totals are primarily driven by project transactions, reaching \$3.1 billion in 2021-2023. Convergence has noted a significant decline in the energy sector in the LAC region in recent years,

where deal flow has fallen to 13% of the energy market in 2021-2023 from 30% in 2018-2020. Deal volume has also decreased, falling 77% to just over \$2 billion in 2021-2023.¹⁰

There were notable increases in energy sector activity in the Middle East and North Africa (2% in 2018-2020 to 9% in 2021-2023) and Eastern Europe and Central Asia regions (5% to 11%). Eastern Europe achieved the largest regional increase in capital flows, experiencing a 90% boost in total deal volume. This spike was

10 2018-2020 deal volume figures were lifted by a single 2018 \$5.1 billion hydroelectric project.

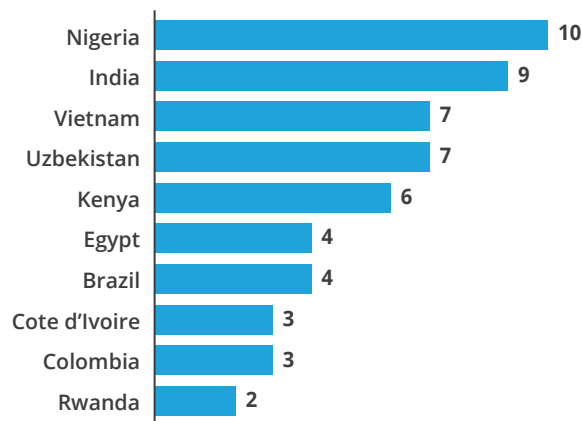
Figure 30: Regional distribution of energy deals by proportion of energy transactions, 2018-2023



mainly driven by a series of utility scale solar and wind plants in Uzbekistan worth a combined \$1.6 billion and crisis response transactions in Ukraine intended to improve electricity resiliency during the invasion.

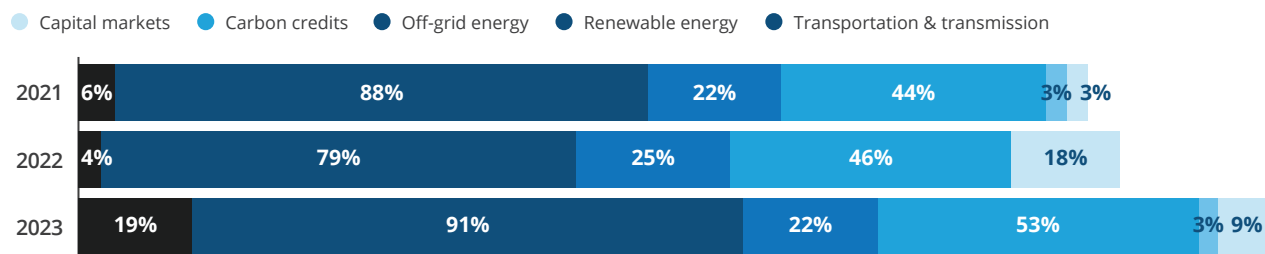
Since 2021, Nigeria has been the top single-country destination for energy blended finance, hosting 10 transactions, 50% of which were bonds. Uzbekistan had the most active energy blended finance market over the past year (5 deals), in part driven by the support the government received from IFC via the [World Bank's Scaling Solar programme](#), an initiative that helps to incentivize and accelerate the creation of privately operated solar power plants.

Figure 31: Top countries by number of energy sector deals, 2021-2023



SUB-SECTORS

Figure 32: Breakdown of energy sub-sectors by proportion of energy deals, 2021-2023



As mentioned earlier, energy blended finance is primarily focused on renewable energy asset creation. Between 2021-2023 renewable energy transactions accounted for 86% of all energy deals, reaching a high in 2023 where renewable energy was the focus of 91% of energy deals.

Solar dominates renewable energy investment in both project count and aggregate financing. Between 2021-2023 solar energy development accounted for 74% of all renewable energy deals (up from 71% in 2018-2020) and received \$9.4 billion in investment. Financing for

solar reached a 6-year high in 2023, seeing \$5.2 billion invested, up 200% from 2022 totals. Wind power plants comprised 23% of renewable energy deals between 2021-2023. Compared to their deal frequency, wind projects make up an outsized share of total renewable energy investment, accounting for one third of financing totals in 2021-2023, with 2023 investment totals 1,300% higher than 2018. All other technologies saw a decrease in activity, with most also seeing a decrease in total financing. For example, financing for hydroelectric power decreased 89% from 2018 totals.

Energy efficiency is becoming a growing focus of energy blended finance. While many energy efficiency deals are closely tied to the renewable energy sector, there is also activity in the clean cookstove sector. For example, [BURN Manufacturing](#), a Kenya-based clean cookstove manufacturer and distributor, launched the first-ever green bond dedicated to clean cooking in Sub-Saharan Africa. The \$10 million issuance received early-stage TA support from Financial Sector Deepening (FSD) Africa to support the listing and aims to boost BURN's production capacity of energy efficient cookstoves by over 200,000 units per month. Finally, energy blended finance transactions are demonstrating the viability of domestic debt capital markets to unlock financing in EMDEs, with deepening capital markets fast becoming a common auxiliary outcome of energy sector deals.

Donor funded organizations focused on energy infrastructure, like GuarantCo and InfraCredit, are important supporters of this transition through their concessional credit enhancement instruments.

Figure 33: Proportion of renewable energy deals by renewable energy technology

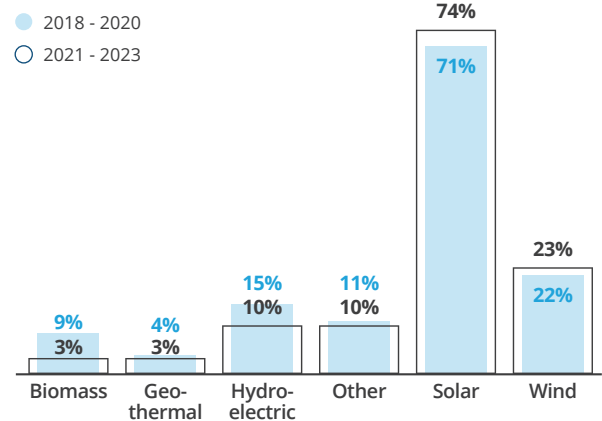
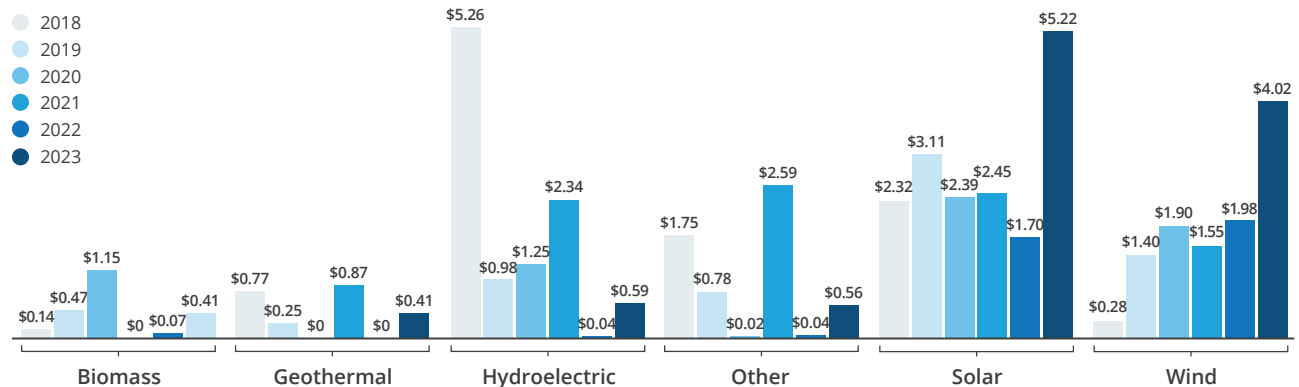


Figure 34: Annual financing by renewable energy type (USD billions). 2018-2023



INVESTOR ANALYSIS

Overview

Convergence has observed a slight increase in the share of financial commitments from the public sector to energy blended finance deals in recent years (61% of commitments in 2021-2023 from 56% in 2018-2020). Since 2018, Convergence has recorded \$13.6 billion in total investment from the public sector and \$7.4 billion from the private sector to energy transactions.

Over the last six years, DFIs/MDBs and commercial investors supplied the lion's share of financing to energy blended deals—each providing approximately one third of total energy financing. Convergence has also observed a noticeable jump in investment activity in the sector from development agencies since 2021—28% of all commitments in 2021-2023, up from 21% in 2018-2020. The growing number of donor capital pools dedicated to climate outcomes through renewable energy development, often administered and disbursed by MDBs (such as the Canadian Climate Fund for the Private Sector in the Americas and the IFC-Canada Climate Change Program), contributes to the trend. Together with climate-oriented or multi-sector-focused donor-funded organizations, like the Green Climate Fund and Private Infrastructure Development Group (PIDG), these donor capital pools are a primary source of concessional funding to energy deals.

Private Sector Investors

Corporates (project developers in this case) accounted for nearly half (48%) of all financial commitments from the private sector in 2021-2023, up considerably from 31% in 2018-2020. These investments mainly sponsor equity injections into energy projects to finance construction. Financial institutions (commercial banks), historically key suppliers of debt financing to energy projects, are seeing their share of financial commitments trail off—43% of commitments in 2018-2020 to 26% in 2021-2023. As mentioned earlier, this is a product of the volatile macroeconomic environment which has limited banks' capacity to lend. By comparison, institutional investors have become increasingly active in the sector since 2021, rising from just 6% of all private sector financial commitments in 2021 to 20% in 2023. This upward trend can be connected to the growing usage of capital markets in renewable and energy efficiency deals.

Figure 35: Proportion of financial commitments to energy blended finance deals by investor sector, 2018-2023

- Philanthropic
- Private
- Public

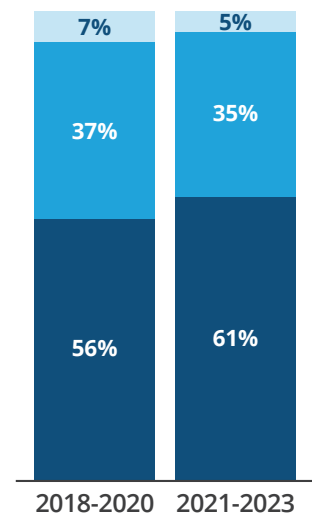


Figure 36: Proportion of concessional financial commitments to energy blended finance deals by investor sub-sector, 2018-2023

- Commercial investor
- Development agency
- DFI / MDB
- Foundation / NGO
- Impact investor

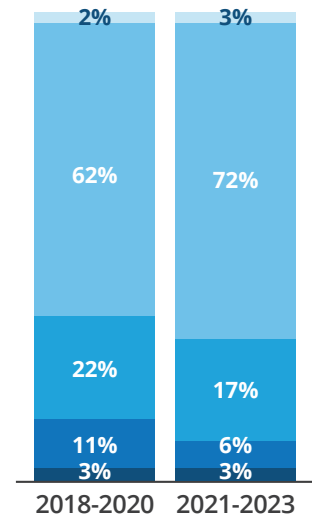
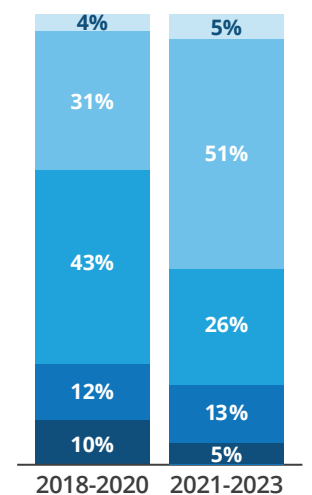


Figure 37: Proportion of private sector financial commitments by private sector investor types, 2018-2023

- Asset manager
- Corporate
- Financial institution
- Institutional investor
- Private equity / Venture capital firm



DFIs / MDBs

DFIs and MDBs provide project finance to energy blended finance deals with nearly two thirds of their investments in the form of senior loans. Most major DFIs and MDBs are rated at or near AAA,¹¹ which has enabled them to weather the higher borrowing rates of the last few years while still offering loans at tenors required for construction of energy assets. While DFIs/ MDBs invest in higher perceived risk opportunities than private sector counterparts like commercial banks, they are, to some degree, restricted from investing in higher-risk projects or taking higher-risk positions in energy projects given the higher risk-weighting required of low or unrated investments in EMDEs and the subsequent [impact](#) on their own AAA credit ratings. Convergence has observed some recent instances where these institutions are migrating to higher risk opportunities, such as the SDG Loan Fund, where FMO provided \$111 million in first-loss capital to mobilize institutional investors. However, such instances remain uncommon.

Figure 38: Breakdown of DFI/MDB investments by financial instrument type, 2021-2023

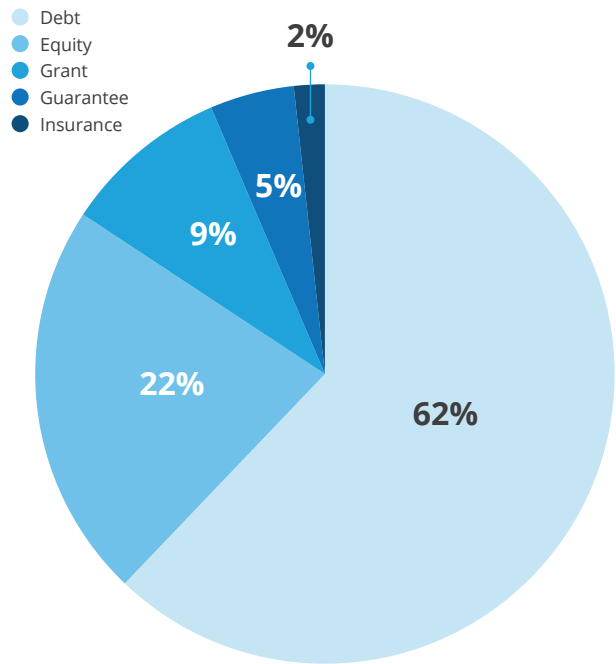
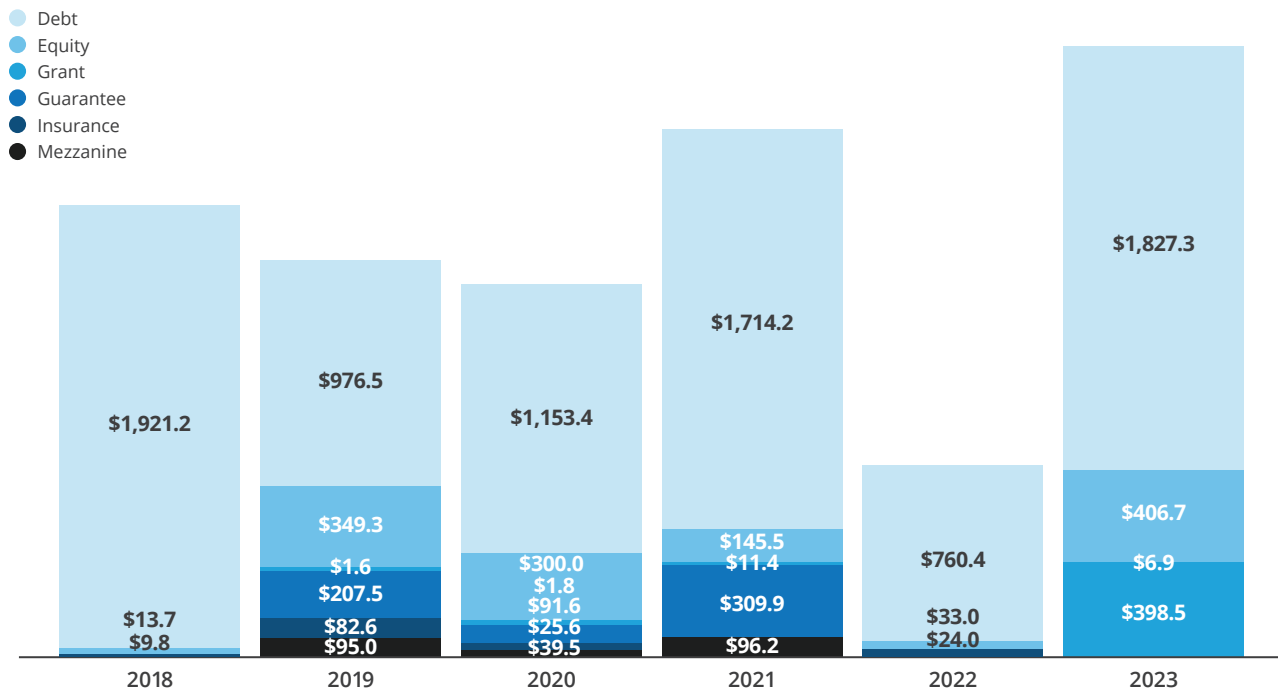


Figure 39: Annual investment totals (USD millions) from DFIs/MDBs by financial instrument type, 2021-2023



¹¹ The shareholder structures of MDBs comprises sovereign governments (often those from advanced economies). MDBs rely on the creditworthiness of their member governments to maintain their own credit standing given that only a portion of shareholder capital is "paid-in". The remaining committed capital is callable by the MDB, effectively giving MDBs a priority claim to government funds. With their high credit rating, MDBs access debt markets at attractive rates to expand their investment capacity.

Development Agencies & Multilateral Funds & Organizations

To date, energy-focused bilateral- and multi-donor funds and organizations have been essential providers of concessional capital to energy blended finance deals. These include organizations set up and funded by multiple donor countries through their ODA allocations that operate as independent entities with their own investment committees, staff, and mandates (e.g., the Green Climate Fund, PIDG companies) as well as pools of concessional capital (trust funds) bilaterally or multilaterally funded by donor(s) country(ies) administered and disbursed by an MDB (e.g., the Canadian Climate Fund for the Private Sector in the Americas, the Leading Asia's Private Infrastructure Fund). In the latter example, concessional capital from donor pools is used to enable MDB participation in a transaction by improving the deal risk profile and reducing counterparty risk. Effectively, donor capital moves transactions from near-bankable to bankable investments. Both bilateral trust funds and multilateral organizations/funds are an efficient way for donors to meet their ODA allocation commitments and do not necessitate the internal investment capacities required of direct investment. Finally, Convergence has noted the rise of philanthropic-funded concessional trust funds targeting climate and energy investing. One example is the \$25 million [Climate Innovation and Development Fund](#), capitalized by Bloomberg

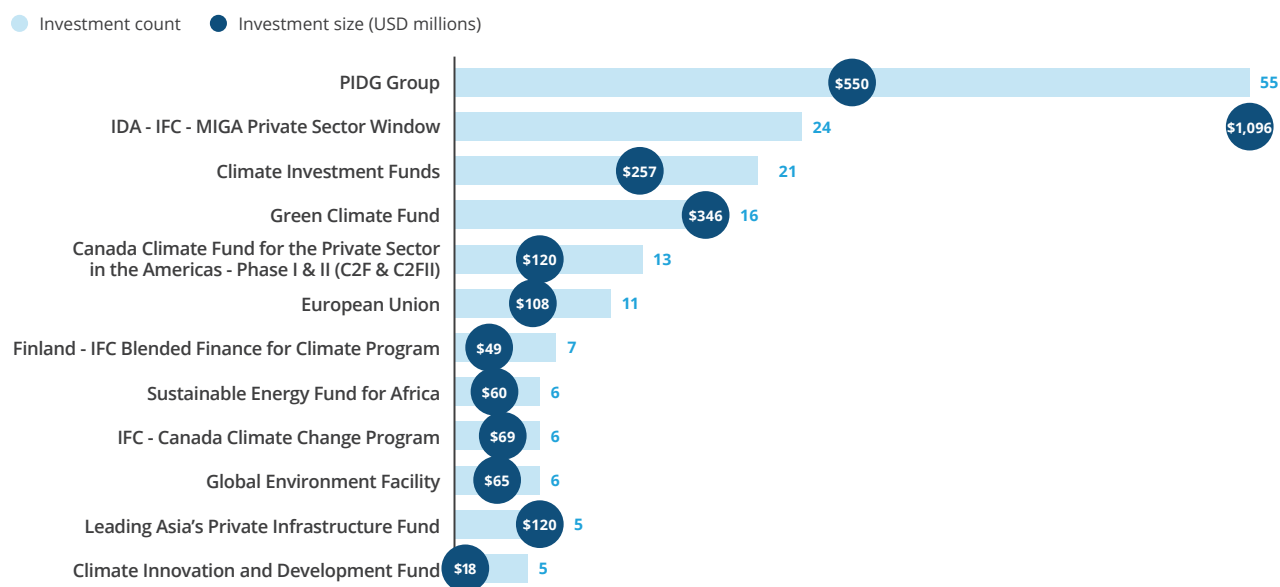
Philanthropies and Goldman Sachs. The fund is administered by Asian Development Bank (ADB) and supports low-carbon development in South and Southeast Asia.

Bilateral and multilateral funds and organizations supply concessional capital to the energy blended finance market through various financial instruments. Grants and debt are the most common—between 2018-2023, these instruments comprised 36% and 34% of all commitments respectively. Loans are typically ranked pari passu with the administering MDB's loans, with a rate discount. Concessional guarantees are also becoming more commonly deployed by these entities, accounting for 20% of their commitments in 2023.

Concessional League Table

PIDG is the most active development agency in energy blended finance since 2018, providing 55 investments for a total \$550 million in concessional investment. The PIDG is the most active development agency in energy blended finance since 2018, providing 55 investments for a total \$550 million in concessional investment. The IDA-IFC-MIGA PSW facilities have provided the largest sum of concessional financing to energy blended finance deals since 2018 for a total \$1.1 billion across 24 investments. Facilities have provided the largest sum of concessional financing to energy blended finance deals since 2018 for a total \$1.1 billion across 24 investments.

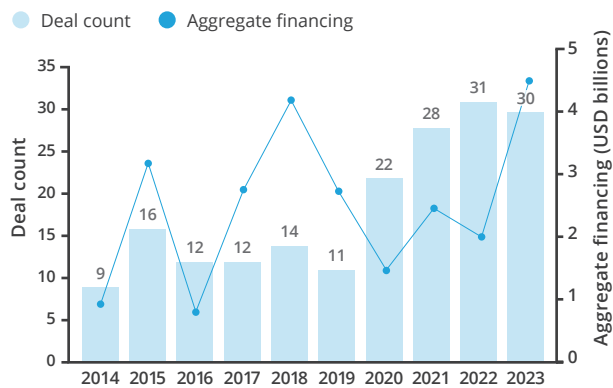
Figure 40: Most active development agencies and multilateral organizations and funds in energy blended finance, investment count and aggregate investment size (incl. guarantees / risk insurance). 2018-2023



FINANCIAL SERVICES

MARKET OVERVIEW

Figure 41: Financial services blended finance market, 2014-2023



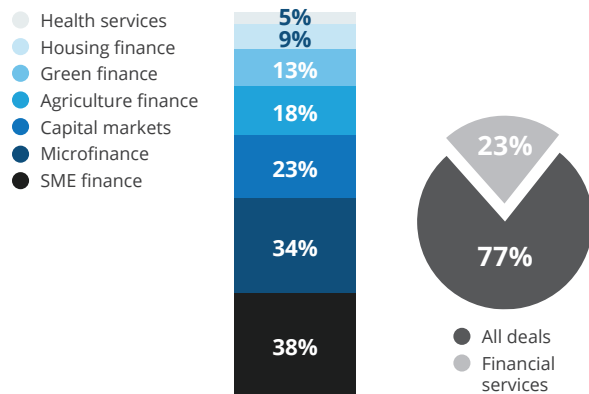
A well-developed financial sector is crucial for driving economic growth in developing countries and frontier markets. In most markets, financial services entities like commercial banks are the fundamental suppliers of credit. As such, the financial health of these institutions is indicative of the overall financial health of EMDEs. Nearly a quarter (23%) of all blended finance deals target the financial services sector since 2014, and this proportion has remained relatively consistent over time. Convergence has recorded 261 financial services deals to date, with a total deal volume of \$37 billion and a median deal size of \$50.3 million. About 70% of financial services deals aim to directly promote financial inclusion. These deals unlock essential financial services including savings accounts, loans, insurance, and credit options to un(der)served demographics.

Convergence categorizes financial services blended transactions into a series of sub-sectors, namely SME finance, microfinance/retail banking, capital markets, agricultural finance, green finance, housing finance, and health services. Most blended finance transactions in financial services have targeted SME finance, accounting for 38% of financial services deals since 2014 and \$7.5 billion in aggregate financing. According to IFC, 70% of micro, small, and medium-sized enterprises (MSMEs) in EMDEs are unable to [access](#) adequate startup or growth financing. The estimated financing gap for formal

MSMEs is \$5.2 trillion, and \$2.9 trillion for informal MSMEs in EMDEs. For many EMDEs, this shortfall is a significant impediment to long-term sustainable growth given that formal MSMEs [contribute](#) up to 45% of employment and up to 33% of GDP.

Much of the blended capital for SMEs is channeled through financial intermediaries, whether through pooled investment vehicles such as funds, or through risk-sharing agreements and debt facilities to cross-border and domestic financial institutions with the intention of growing SME loan portfolios. From 2018-2023, blended funds mobilized \$4 billion for downstream lending to SMEs, while \$2.1 billion was directed to SMEs via financial institutions. Conversely, direct investment into real economy SMEs operating in the financial services sector was \$50.5 million between 2018-2023. For instance, the South Asia SME Resilience Recovery Facility, [launched](#) by IFC, is a collective investment vehicle providing medium-term loans to various financial institutions in Bangladesh to support working capital needs and long-term financing needs for SMEs and women-led SMEs. The four participating financial institutions received a combined \$160 million in two-year loans from IFC. To support the financial feasibility of the transaction, IFC's participation is covered by a \$40 million first-loss guarantee through the IDA-IFC-MIGA PSW Blended Finance Facility.

Figure 42: Financial services blended finance market by sub-sector, 2014-2023



KEY TAKEAWAY

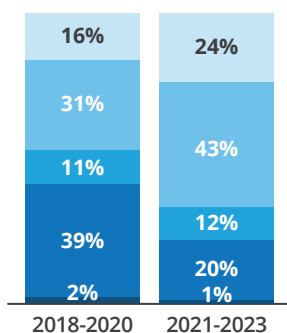
Blended finance in the financial services sector has proven to be countercyclical, an effective way to during macroeconomic uncertainty to stabilize access to financing in EMDEs and protect development gains. Transactions with financial

institutions are an attractive opportunity for private sector investing in EMDEs given they represent portfolio rather than single-project risk, with many market segments already graduating to wholly commercial financing structures.

VEHICLES

Figure 43: Financial services blended finance investment vehicle types by proportion of financial service transactions, 2018-2023

- Bond / note
- Company
- Facility
- Fund
- Project



Blended company transactions in the financial services sector encompass direct private equity and debt investment into real-economy businesses operating in the financial services sector and investment earmarked for on-lending by financial institutions. Combined, these types of deals accounted for 43% of financial services transactions in 2021-2023, up from 31% in 2018-2020. Much of this activity is occurring through financial institutions—84% of company transactions in 2021-2023 were investments into banks and microfinance institutions (MFIs)—and typically involves a DFI or MDB extending a loan facility, credit line or supporting downstream lending via risk-sharing agreements, while also administering

a concessional instrument on behalf of a donor-funded capital pool to de-risk their own participation. These types of deals have gained prominence in recent years as larger banks have grappled with increased financial pressure due to growing debt distress precipitated by the economic fallout from the COVID-19 pandemic. The pandemic led many banks in EMDEs to write down significant portions of outstanding loan value. In response to this pressure, many DFIs and MDBs increased concessional financing disbursement to stabilize lending portfolios and [help foster](#) a sustainable and equitable economic recovery. For example, [Banco Davivienda](#), one of Colombia's largest commercial banks, secured \$390 million in subordinated loans from IDB Invest, US DFC, and FinDev Canada, including \$20 million in concessional support administered by IDB Invest on behalf of the Canadian Climate Fund for the Private Sector in the Americas pool. The loan facilities provided balance sheet headroom for Davivienda, and [encouraged](#) increased financing to climate-focused and women-led businesses to address lending inequities exacerbated by the pandemic.

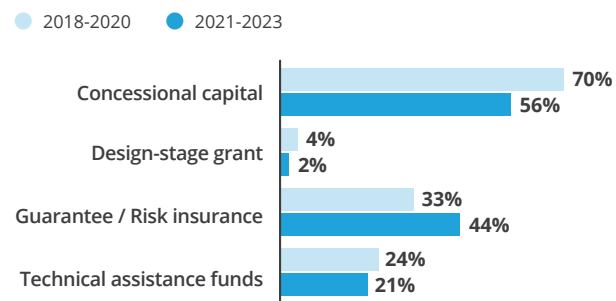
BLENDING ARCHETYPES

The use of concessional guarantees and risk insurance is more common in blended finance deals targeting the financial services industry than all other sectors. In 2023 alone, over 55% of deals in the financial services sector included a concessional guarantee or risk insurance instrument (compared to 34% for the overall market). The contingent nature of guarantees and risk insurance ensures financial loss is limited to cases where claims are made. As will be explained in Part IV of this report,

guarantee programs such as USAID's DCA, now housed at US DFC's Mission Transaction Unit, are largely designed to support financial institutions in increasing their lending activity to underserved borrowers or provide new financial products in specific sectors. The Nasira risk-sharing facility, a collaboration between the EU and FMO, is another example of a guarantee provider mandated to advance financial inclusion by unlocking increased lending from domestic banks to

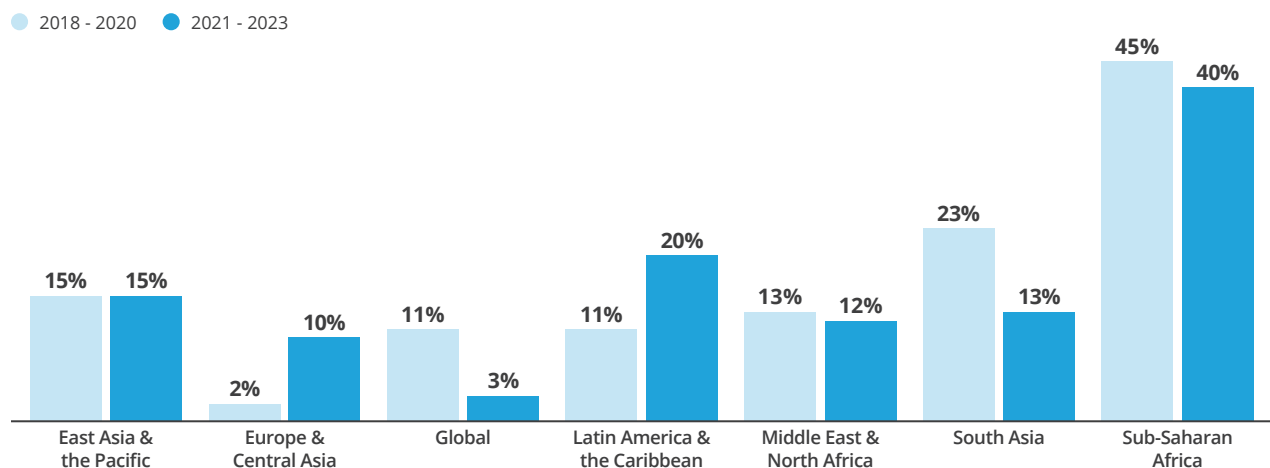
underserved demographics in Sub-Saharan Africa and countries neighbouring Europe, especially women, youth, and migrants, catalyze investment into the financial service sector, and advance financial inclusion. For example, [Access Bank](#), a full-service commercial bank based in Nigeria, secured a \$25 million unfunded loan portfolio guarantee in local currency equivalent from Nasira, backed by \$265,000 in concessional funding from FMO's MASSIF Fund for Financial Inclusion. The risk-sharing agreement unlocked Access Bank lending to borrowers who were otherwise beyond the bank's lending eligibility due to insufficient credit histories or inadequate collateral.

Figure 44: Blending archetype usage in the financial services sector by proportion of financial service transactions, 2018-2023



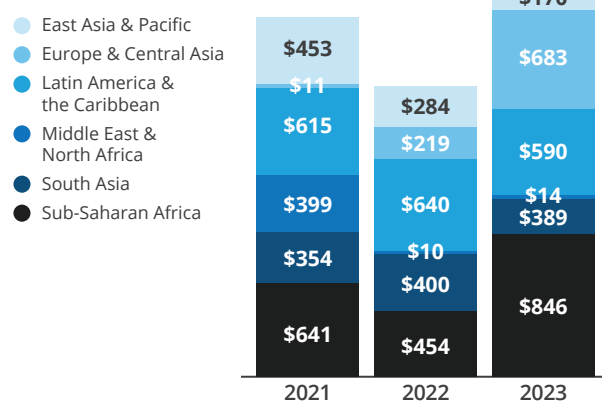
REGIONS

Figure 45: Regional distribution of financial services deals by proportion of financial service transactions, 2018-2023



Sub-Saharan Africa is the primary market for blended finance for financial services in terms of deal count and aggregate financing. Aggregate financing to the region grew to \$1.9 billion in 2021-2023 from \$1.4 billion in 2018-2020 and deal count in absolute terms grew by 82% between the two periods. Across all regions, financing is channeled to company transactions (real economy and financial institutions), reaching \$3.7 billion in 2021-2023, or 56% of total financing in the sector. The number of blended finance investments in the financial services sector that targeted Europe and Central Asia increased eight-fold from 2018-2020 to 2021-2023, driven by emergency efforts championed by EBRD to support Ukrainian

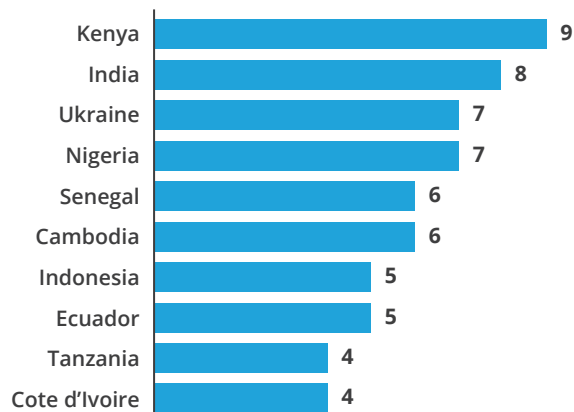
Figure 46: Annual aggregate financing per region (USD millions)



financial institutions. Convergence has recorded eight EBRD-led transactions with Ukrainian financial institutions aiming to protect access to financing for key sectors and businesses during the Russian invasion including, [Bank Lviv](#), [OTP Bank Ukraine](#), and [OTP Leasing Ukraine](#).

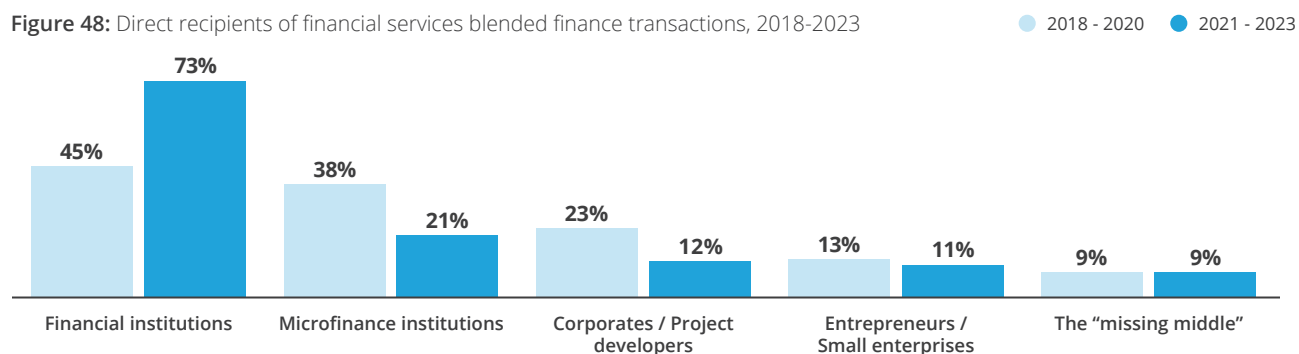
The most frequently-targeted country in the financial services sector over the past three years was Kenya (9), targeting a diverse range of sub-sectors including energy finance, agriculture finance, SME finance, and housing finance. Kenya has also received the most aggregate financing since 2021 (\$942 million), followed by Togo (\$914 million), and Ukraine (\$800 million).

Figure 47: Top countries for blended finance and financial services by deal count, 2021-2023



BENEFICIARIES

Figure 48: Direct recipients of financial services blended finance transactions, 2018-2023



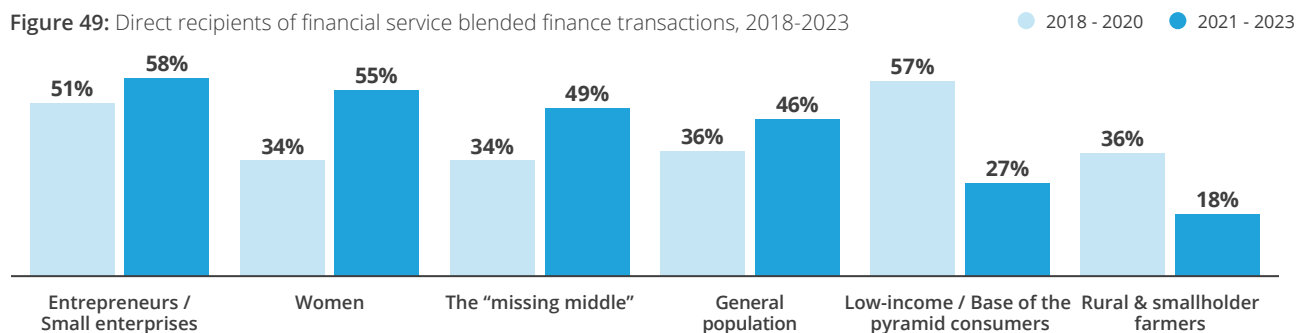
Financial institutions are attractive to investors given they operate under strict regulatory environments that require adequate capital reserves, maintain minimum standards of financial reporting and, depending on their market size, can receive emergency financial support from the government in times of extreme financial trouble to contain market contagion and represent a portfolio, rather than single-project, risk. The increased prevalence of deals with financial institutions since 2021 has risen in-step with global efforts to reinforce the financial sector in EMDEs amidst recent economic challenges.

As mentioned, blended finance transactions in the financial services sector are most active in the SME finance space, leveraging commercial bank portfolios to stabilize and improve access to finance for domestic businesses and as such, predominantly

targeted entrepreneurs/small enterprises (58%), women (55%) and the missing middle¹² (49%) as end beneficiaries. Meanwhile, there has been a notable decrease in the proportion of deals targeting rural communities and smallholder farmers within the past three years, from 55% of deals in 2018-2020 to 24% in 2021-2023. This aligns with broader research, which suggests that farmers are finding it more difficult to [access](#) credit than before the COVID-19 pandemic. The drop in blended finance transactions aimed at low-income or base-of-the-pyramid (BoP) consumers—from 57% to 27% between the periods 2018-2020 and 2021-2023—similarly raises concerns. Blended finance transactions in the financial services sector have a proven track record of providing the portfolio de-risking necessary to deliver financing to low-income consumers to enable access to basic

¹² The “missing middle” or Small and Growing Businesses (SGBs) are commercially viable firms with growth potential yet, they typically encounter fundraising challenges because they are too big for microfinance, too small or high-risk for larger commercial banks, and could be unsuitable for venture capitalists.

Figure 49: Direct recipients of financial service blended finance transactions, 2018-2023



services, entrepreneurial activities, and income-generating opportunities that they typically struggle to access through traditional financing. For instance, PT Bank Tabungan Negara Persero Tbk (BTN), a state-owned bank in Indonesia, [secured](#) cross-border debt financing to expand its housing finance lending portfolio to low- and middle-income borrowers. The \$70 million debt facility from Citi Bank and PT Bank Central Asia Tbk, and supported by concessional capital from the Japan International Cooperation Agency (JICA) provided balance sheet relief to BTN. The high rate environment and FX volatility of recent years may have restricted the pipeline of bankable opportunities.

Convergence also finds blended financial services deals are increasingly targeting women as end beneficiaries, increasing from 34% of deals in 2018-2020 to 54% in 2021-2023. The financial services sector is an essential conduit to an array of opportunities for women who often contend with disproportionately low access to critical financial

products and services like savings accounts, personal and business credit lines, and insurance products. Limited or no access to these supports effectively bars women from participating in and guiding sustainable local economic development and from reaping the benefits of broader improvements in financial stability and beneficial fiscal programs. The [Women Entrepreneurs Finance Initiative \(We-Fi\)](#) has made noticeable strides in blended gender lens investing in the financial services sector. The initiative seeks to address the financial and non-financial barriers faced by women entrepreneurs in EMDEs. Convergence finds that We-Fi has helped incorporate an explicit gender lens into 10 blended finance transactions in the financial service space, including a recent \$40 million deal with an Azerbaijan-based bank called [Bank Respublika](#). Via IFC, We-Fi is expected to provide a performance-based incentive contingent on the bank earmarking at least 50% of its lending volume to women-owned MSMEs.

INVESTOR ANALYSIS

Overview

Convergence has witnessed only marginal shifts in the sources of investments to the financial services sector over the past six years, with development agencies comprising a growing share of public sector commitments (49% of public sector commitments in 2021-2023 vs. 44% in 2018-2020) and impact investors playing a relatively smaller role. In terms of financing volume, public sector investors have historically outpaced private sector investors, however private sector commitments have steadily risen since 2021. The balance towards public sector financing is in part a product of the maturity of the

Figure 50: Breakdown of commitments to financial services transactions by investor class, proportion of total commitments, 2018-2023

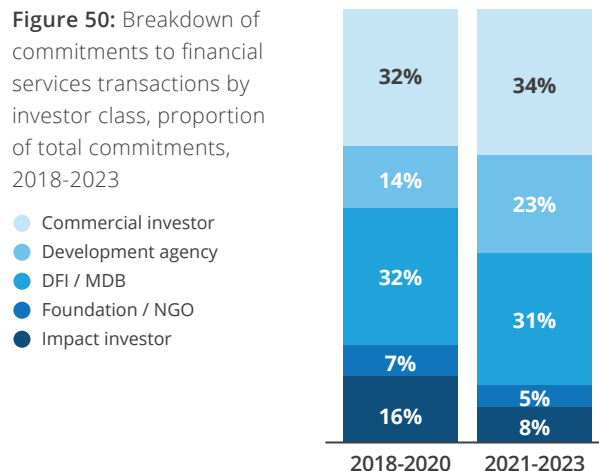
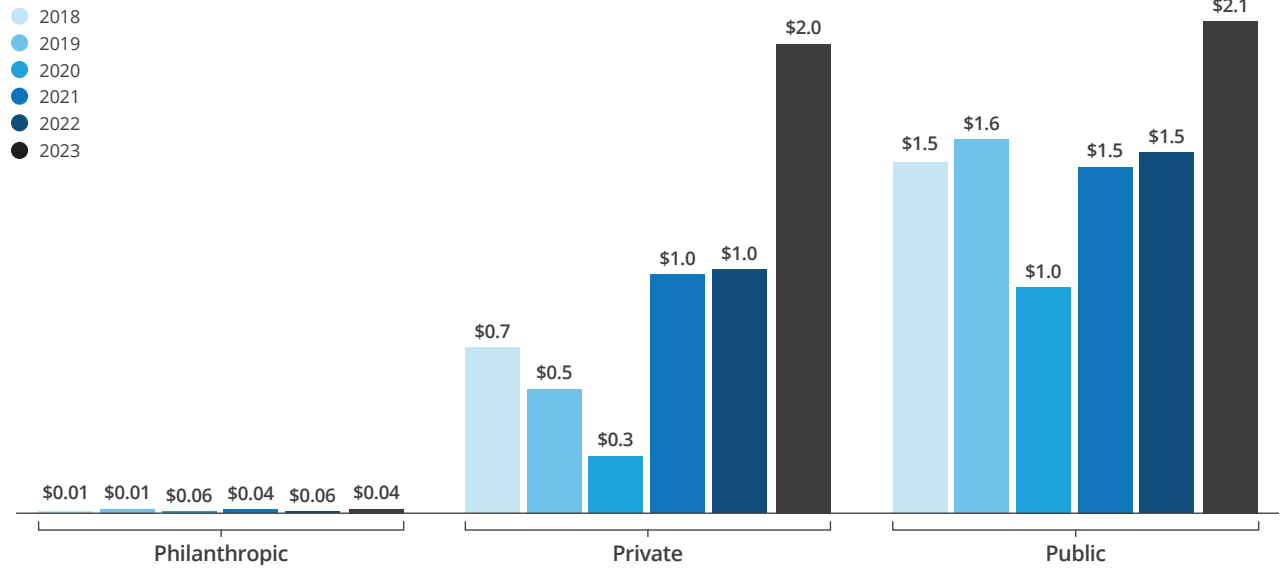


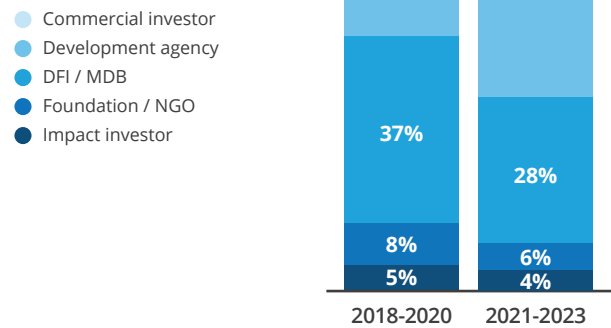
Figure 51: Aggregate annual financing (USD billions) for financial services transactions by investor sector, 2018-2023



financial services sector in EMDEs, whereby private sector investors can access a sufficient pipeline of deals that meet their expected risk-adjusted returns without the need for blended finance; a “graduation effect” where market segments have become wholly commercially viable. Blended deals in the sector shift towards the domain of newer or innovative niches of the market or increase in prevalence in response to specific market shortcomings or instances of macroeconomic volatility where there is a greater need for DFI/MDB money or concessional support from development agencies and donors.

Development agencies are the largest provider of concessional capital in the financial services sector in terms of deal count and aggregate financing. Development agencies accounted for 61% of all financial concessional commitments in 2021-2023, up from 47% in 2018-2020 and provided around \$1.9 billion in concessional capital since 2018. However, the size of concessional instruments deployed by development agencies has declined in recent years, from a median investment size of \$10 million to \$6.5 million, suggesting a reduced need for below-market rate capital from public sector sources to create bankable deals in the sector. DFIs and MDBs have also played a relatively consistent role in concessional capital in the financial service sector. From 2018 to 2020, they provided 37% of concessional commitments, slightly decreasing to 28% in 2021-2023 and deployed \$835 million in concessional capital since 2018.

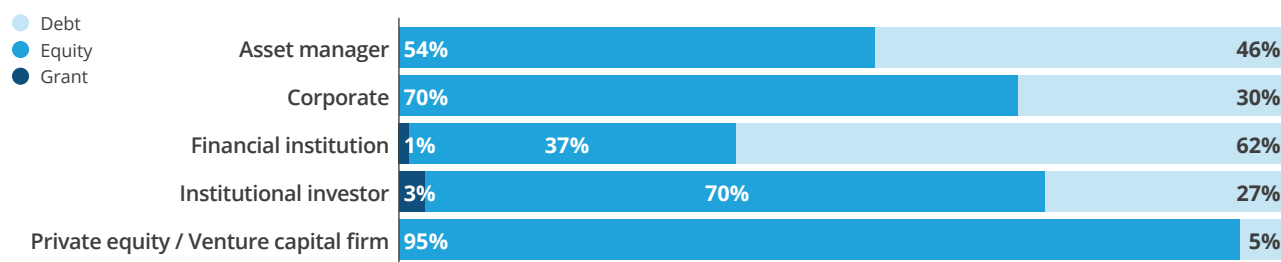
Figure 52: Breakdown of concessional commitments to financial services transactions by investor class, proportion of concessional commitments, 2018-2023



Private Sector Investors

Since 2018, Convergence has recorded \$5.6 billion of investment committed to financial services transactions by private sector investors. Most of these investments have occurred in the past 3 years, increasing from \$1.5 billion between 2018-2020 to \$4.1 billion in 2021-2023. The rise in private investment is generally a result of donors channeling concessional capital through DFIs/MDBs to unlock commitments from partner commercial banks to EMDE borrowers, rather than necessarily attracting external private capital. These deals have also influenced the composition of the private sector investor capital supply to the sector over the last six years. From 2021-2023, there was an almost

Figure 53: Breakdown of financial instruments used by private sector investor types to financial services deals by proportion of all private sector investor commitments, 2018-2023



two-fold increase in the proportion of financial institution commitments, increasing to 66% of private sector investments in the sector in 2021-2023, from 35% in 2018-2020. All other investor subtypes saw their proportions decrease over the last three years. Finally, with interest earnings comprising a significant component of core earnings for financial institutions, the higher rate environment has presented an attractive lending opportunity in mature financial services sectors. Figure 53 illustrates the skew towards debt financing among financial institutions. In fact, financial institutions provided 75% of all debt commitments from private sector investors to financial services deals since 2018, and 73% of aggregate debt financing.

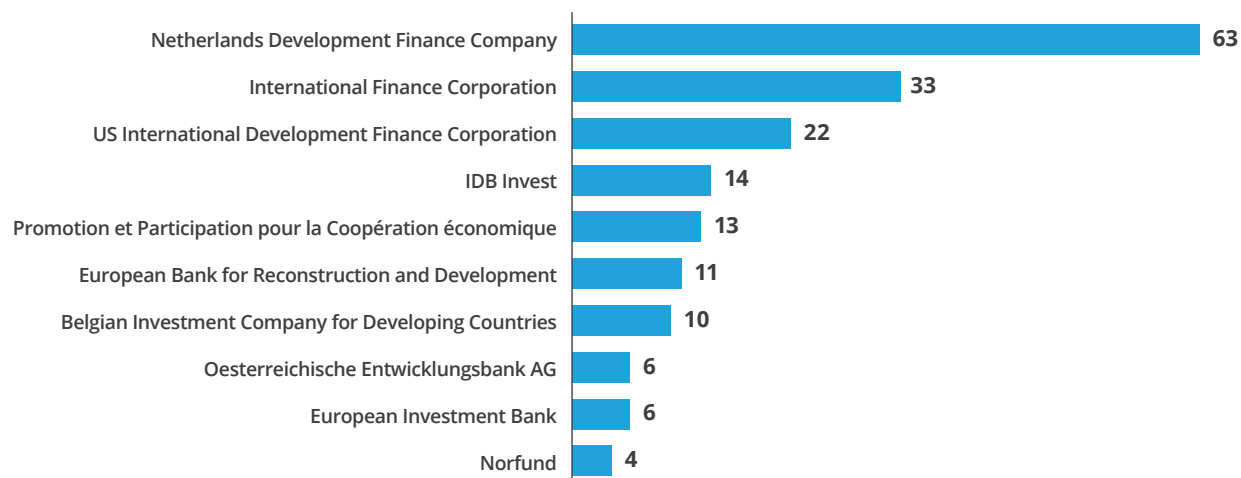
DFIs/MDBs

DFIs and MDBs are active investors in the financial services sector because, like commercial banks, a core component of earnings is derived from interest payments, mainly to creditworthy borrowers like financial institutions. According to the DFI Working

Group, the financial services sector [is a core activity](#) of the DFI's and MDB's use of blended finance—in 2021, finance and banking represented the highest amount of own account DFI/MDB investment and concessional investment through DFIs/MDBs at \$2.3 billion and \$784 million respectively, and was the second largest sector for DFIs/MDBs in terms of total project volume (\$4.65 billion), following infrastructure (\$5.14 billion). The Global Emerging Markets Risk Database (GEMs) [finds](#) that just under 50% of DFI/MDB lending contracts are to the financial services sector, representing just under \$100 billion of exposure.

FMO is a leading DFI in the financial services sector, participating in 63 investments totalling \$682 million since 2018. For instance, FMO [extended](#) a \$10 million concessional loan facility through its MASSIF Fund to Watu Credit Ltd., a microfinance company focused on lending to young entrepreneurs operating *tuk tuk* (three-wheeler) and *boda boda* (motorcycle) taxi businesses in Kenya and Uganda. The debt package was combined with \$30,000 in technical assistance funds also from FMO.

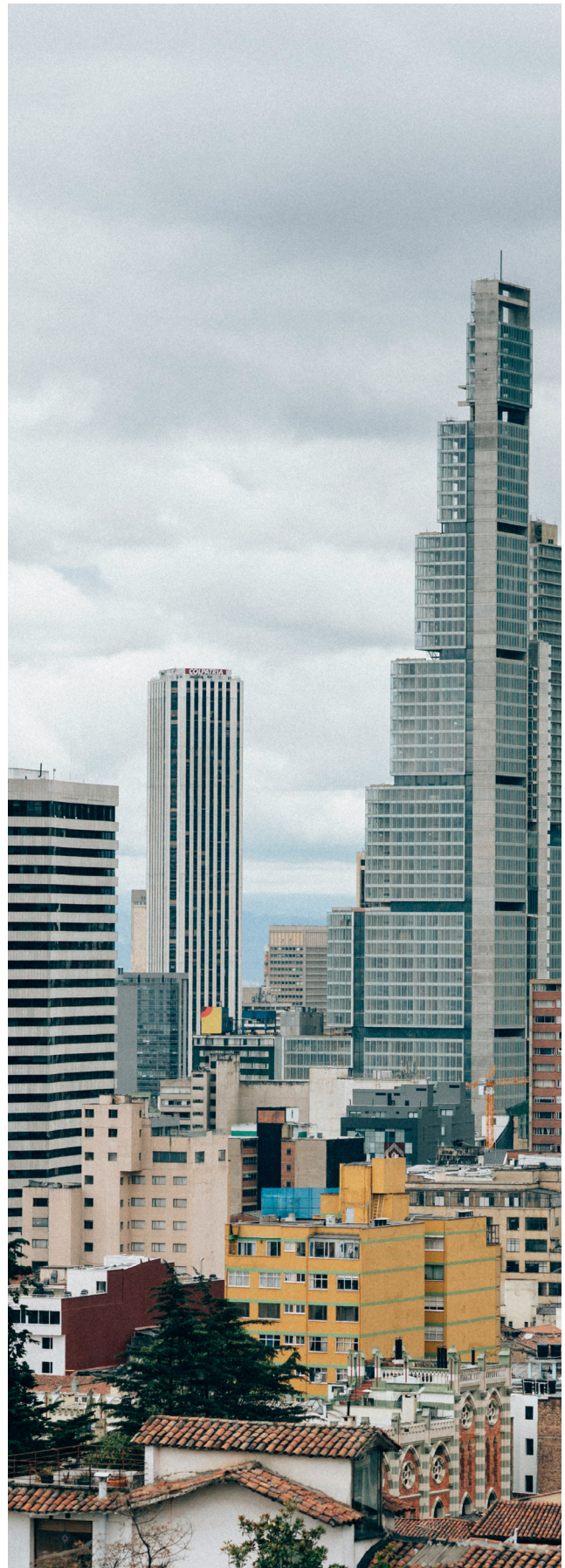
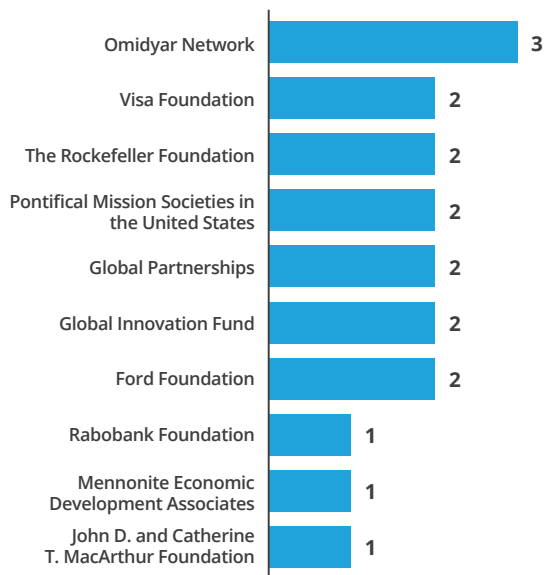
Figure 54: Most active DFIs/MDBs in blended financial services deals by commitment count, 2018-2023



Philanthropic Investors

Philanthropic organizations have played a relatively minor role in blended finance transactions in the financial services sector. This may be due to the fact that concessional participation is [restricted](#) as a result of tax regulations (particularly in the US). Non-grant concessional investments by foundations (known as Program Related Investments, or PRIs) are subject to a series of principles to ensure prudence of investment, one of which being that no significant purpose of a PRI can be the production of capital appreciation or income. In other words, return on investment through a PRI must be ancillary to impact creation. The principle or test presents challenges when investing via financial institutions to reach eventual beneficiaries targeted by the foundation's mandate. Many prominent foundations have explicit financial inclusion priorities (e.g., the Mastercard Foundation), but we are yet to see these organizations routinely engage this aspect of their programming through blended finance structures in the financial sector.

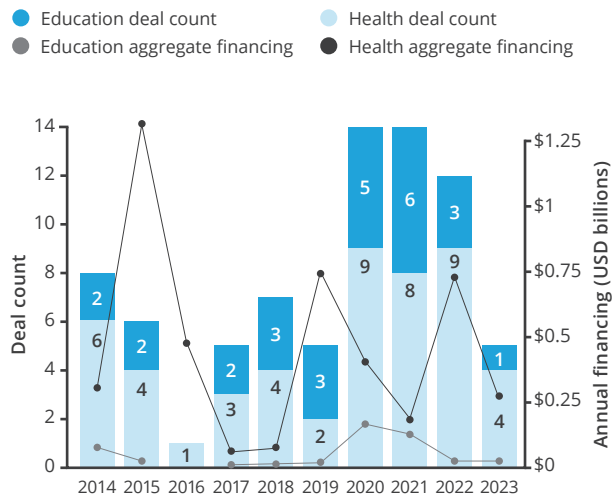
Figure 55: Most active philanthropic organizations in blended financial services deals by commitment count, 2018-2023



HEALTH & EDUCATION

MARKET OVERVIEW

Figure 56: Health and education blended finance markets, 2014-2023



Health and education transactions comprise a small portion of the overall blended finance market. Convergence has recorded 36 education deals to date (3.2% of the overall market), with a total deal volume of \$1 billion (0.5% of overall aggregate financing), and 67 health deals (6% of the overall market), with a total deal volume of \$14.5 billion in health (6.8% of aggregate financing). Education transactions tend to be smaller, with a median deal size of \$17.5 million, while health transactions have a median deal size of \$45.5 million, in line with the broader pattern of blended finance.

Although significant strides have been made towards achieving the SDGs related to education and health, financing challenges remain. Development assistance for health [reached](#) an all-time high in 2013 and stagnated until the COVID-19 pandemic. Combined with insufficient government spending, the pre-pandemic estimated health financing gap was \$134 billion annually for the health SDGs in low- and middle-income countries, with the annual gap projected to reach \$371 billion by 2030. The COVID-19 pandemic added significant pressure to health systems around the world. In 2020, real per capita central government health spending in 78 developing countries [grew](#) on average by 21%, and in 2021, it was 25% above 2019

levels. By 2022, however, the central health share in general government spending fell below 2019 in nearly half those countries. ODA also [increased](#) to its highest level ever in 2020, reaching \$161 billion, in part driven by OECD DAC members' response to the pandemic.

Meanwhile the global education financing gap is [estimated](#) at \$40 billion annually for primary and secondary education alone. Though efforts to increase enrollment have been largely successful, progress has come to a halt in recent years, with the global number of out-of-school children, adolescents, and youth [remaining](#) at around 258 million. While there have been successful applications of blended finance in the sector, education blended finance remains nascent and more research and evaluation is required to understand the impact blended finance can have on education outcomes.

Overall, education and health are sectors deemed within the domain of governments and reliant on public investment. The involvement of the private sector must be carefully integrated and implemented in congruence with domestic policy, and prioritize cultural sensitivity and equitable access to the most vulnerable populations. At a moment when many EMDE governments are contending with increasingly constrained public budgets and mounting debt concerns, blended finance can draw in private sector investment, where it is congruent with the national context, to support public sector expenditures.

KEY TAKEAWAY

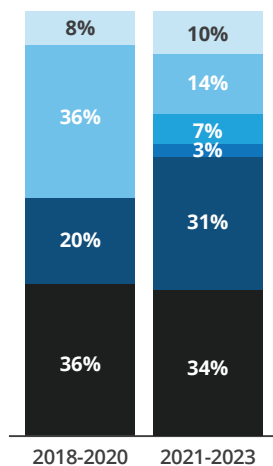
The use of blended finance in health and education remains nascent. Impact bonds are used at a much higher rate in health and education than other sectors, likely due to their focus on creating positive social impacts. Philanthropic organizations and development agencies also play an important role as concessional finance providers on a much more frequent basis than in other sectors.

VEHICLES

Impact bonds are more frequently used in health and education blended finance than any other sector, though their use has decreased from 36% of health and education transactions in 2018-2020 to 14% in 2021-2023. Impact bonds may be particularly well-suited to health and education because their structure specifically targets impact outcomes and is highly tailored for development results. They also attract investors that tend to be more development-focused, such as impact investors, philanthropists, and development agencies.

Figure 57: Health and education blended finance investment vehicle types by proportion of health and education transactions, 2018-2023

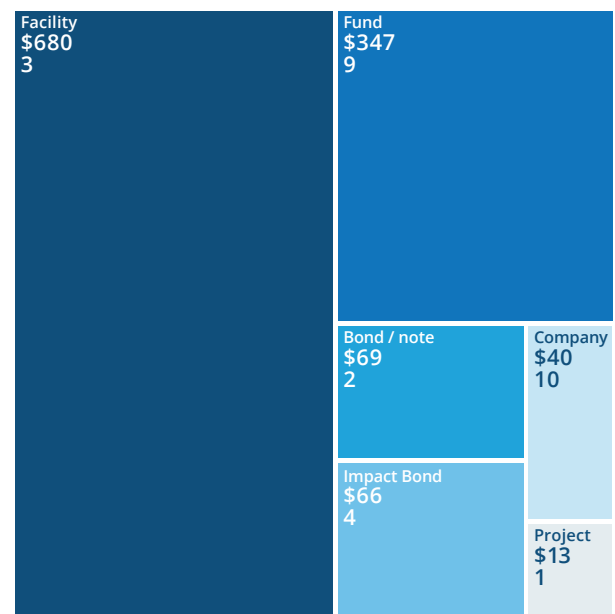
- Facility
- Impact bond
- Bond / note
- Project
- Fund
- Company



In an impact bond, private sector investors provide upfront capital toward a development outcome, and donor governments or philanthropic organizations commit to reimbursing them with additional returns, contingent on the achievement of pre-determined impact outcomes over the life of the program. There are a few key considerations when relying on impact bonds to achieve social outcomes. First, the bespoke nature of each transaction means scaling up can be difficult, while transaction costs are high. Convergence has yet to see an impact bond beyond \$30 million in size. Investors may also see a high risk associated with the potential for complete capital loss in the case of failing to achieve the agreed upon outcomes. This risk can be mitigated in a few ways, such as contracting partial payments that depend on reaching certain milestones, so losses are not all or nothing. A second strategy is the investor may seek guarantees on a percentage of the amount invested. Guarantees may also provide assurances against the possibility that the government is unable to pay back investors, even if agreed outcomes are attained.

From 2021-2023, impact bonds were used in 30% of education transactions, which is a far higher portion relative to any other sector. Launched in 2023, the [Ghana Education Outcomes Project](#) is one such impact bond that aims to support out-of-school children reintegrating into Ghana's formal education system and improve learning outcomes in primary school. Three implementers have been contracted to carry out the project: Street Child UK, Plan International, and Rising Academies. The UK FCDO provided a \$25.5 million grant as outcome funder, alongside the Government of Ghana, which contributed \$4.5 million. Upon achievement of predetermined impact metrics, outcome funders will reimburse the upfront investors with returns up to 10%.

Figure 58: Aggregate deal volume (USD millions) and count, by transaction vehicle type, 2021-2023



While facilities have only comprised 10% of transactions in the health and education sector between 2021-2023, these transactions have received the highest levels of aggregate financing (\$680 million). One example is the \$250 million [SAMRIDH Blended Finance Facility](#), which helps address weak health systems and the persistent shortage of a skilled workforce and infrastructure in India. The facility [mobilizes](#) affordable capital for health care enterprises through grants, equity, low/no collateral debt, and other affordable instruments. It has a two-

tiered structure: a grant pool and a debt pool. The grant pool is funded concessionally by USAID and philanthropic investors like Rockefeller Foundation and Ford Foundation, while the debt pool includes investment from local finance institutions. The facility also benefits from a concessional guarantee from 360 ONE Foundation, which helped secure an INR 44 million loan from non-profit National Skill Development Corporation.

Likewise, funds attracted a significant portion of aggregate financing (\$347 million in 2021-2023). Most

of these funds (78%) were between \$30 million and \$50 million. Private investors who do not specialize in education or health but want to participate in investments with positive social impacts may see funds as a feasible method of entering a sector that normally requires sector-specific expertise. Since health and education funds are managed by experienced professionals, by investing in a fund private investors can leverage that knowledge and skill to help them identify promising investment opportunities and conduct due diligence.

BLENDING ARCHETYPES

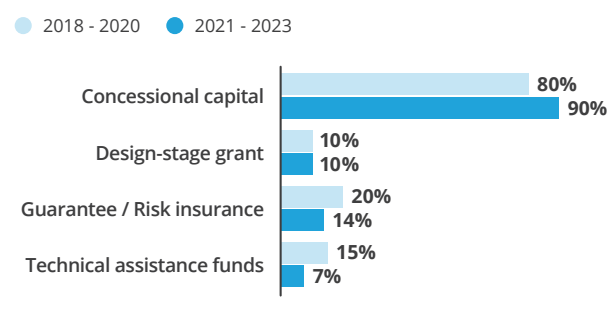
Concessional debt and equity has been the most used archetype in health and education blended finance since 2018 and its use has increased from 2018-2020 to 2021-2023, rising 10 percentage points to 90% of transactions. [GoMyCode](#), a Tunisia-based EdTech company that offers cohort-based training for high-demand tech skills, secured concessional equity to expand its services to new schools and build out its staff. Financing [included](#) first-loss capital from a partnership comprising USAID Invest, CrossBoundary, and Flat6Labs, a Tunisia-focused venture capital fund. The risk-bearing capital helped mobilize investment from AfricInvest, Proparco, Wamda Capital, and others.

Increasing TA may be useful for closing data asymmetries and information gaps between investors and health care providers. One study [found](#) a key issue for investors in health is the need for a set of standard metrics to measure health investments and their social impact. Additionally, there was found to be a “dead valley” of communication between investors/financiers and the health community when understanding, defining, or conceptualising sustainable financing for health. Whereas there is a general understanding from the private investment community on the need to support sustainable health initiatives. The health community should better understand how to speak to the investor

community and learn their needs and incentives. TA can aid by funding skills and knowledge building on how to apply an investor lens in the healthcare space.

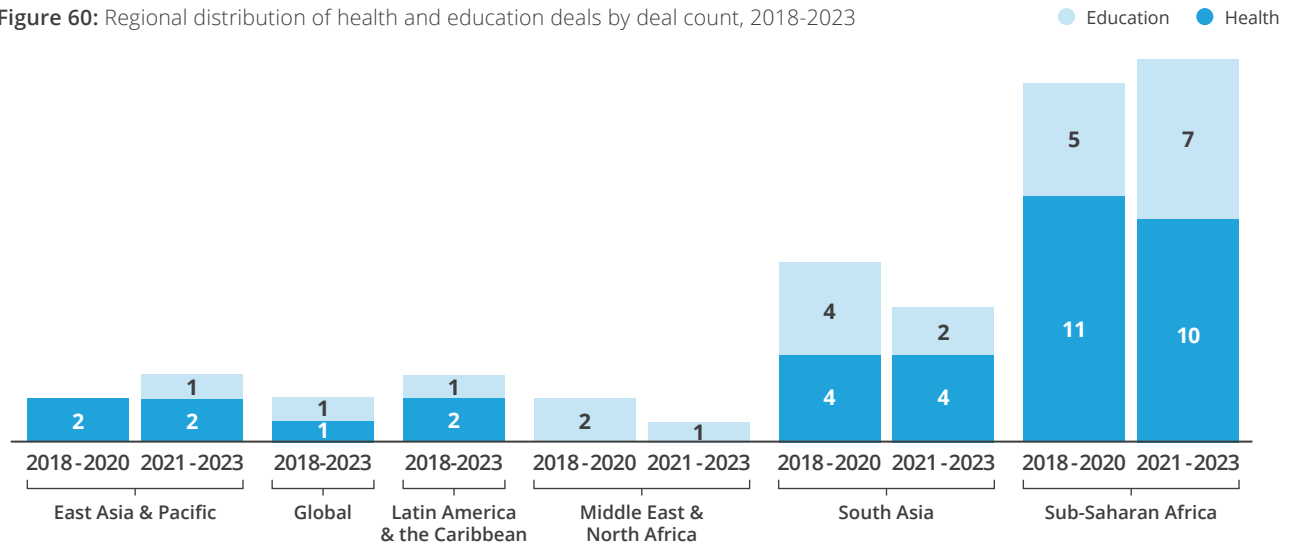
An example of TA being successfully used in a health-focused transaction is the [Medical Credit Fund II](#) (MCF II) launched in 2021. The MCF II is a debt fund dedicated to financing SMEs in the health sector in Africa. It has a ‘layered capital’ structure, blending catalytic first-loss capital, technical assistance grants, and debt financing. MCF II, like the original MCF, [provides](#) loans and TA to health SMEs to increase health care services access for low-income patients. All loans made via MCF II are linked to pre- and post-investment TA to strengthen business stability and reduce MCF’s portfolio risks.

Figure 59: Blending archetype usage in health and education blended finance deals by proportion of deals, 2018-2023



REGIONS

Figure 60: Regional distribution of health and education deals by deal count, 2018-2023



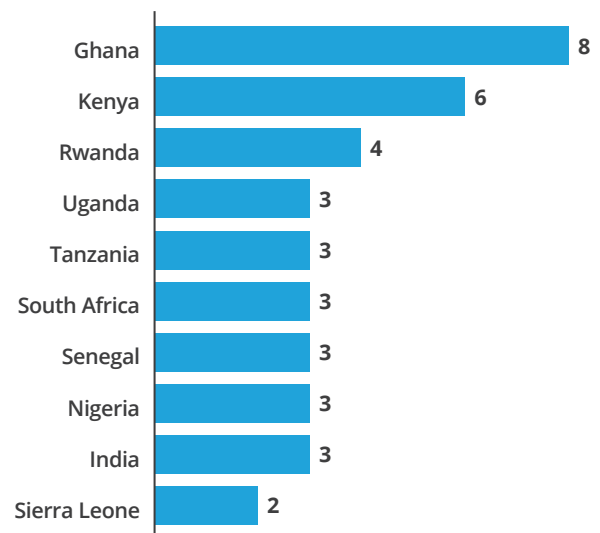
Convergence finds that over the past six years, Sub-Saharan Africa has been the most active region for blended finance in health and education (10 health transactions and 7 education transactions in 2021-2023). Regional distribution in the two sectors from 2018-2020 and 2021-2023 has not changed dramatically, given the low transaction counts year-over-year.

From 2021-2023, more Sub-Saharan Africa health companies were financed via blended finance than any other kind of health/education transaction. For example, [Inpharma](#), a Cabo Verde-based company that produces and distributes pharmaceutical, cosmetic, and hygiene products, [raised](#) financing in 2022 to build a new disinfectant production unit. USAID WATIH provided a \$222,000 grant for a capacity increase of Inpharma's disinfecting products. This concessional funding toward capital expenditures drew in an additional \$735,000 in private sector capital.

Since 2021, Ghana has been the top destination for health and education blended finance, hosting eight

transactions, of which three were companies and three were funds. Five of these transactions were health focused, two education focused, and one focused on both.

Figure 61: Top countries by number of health and education sector deals, 2021-2023

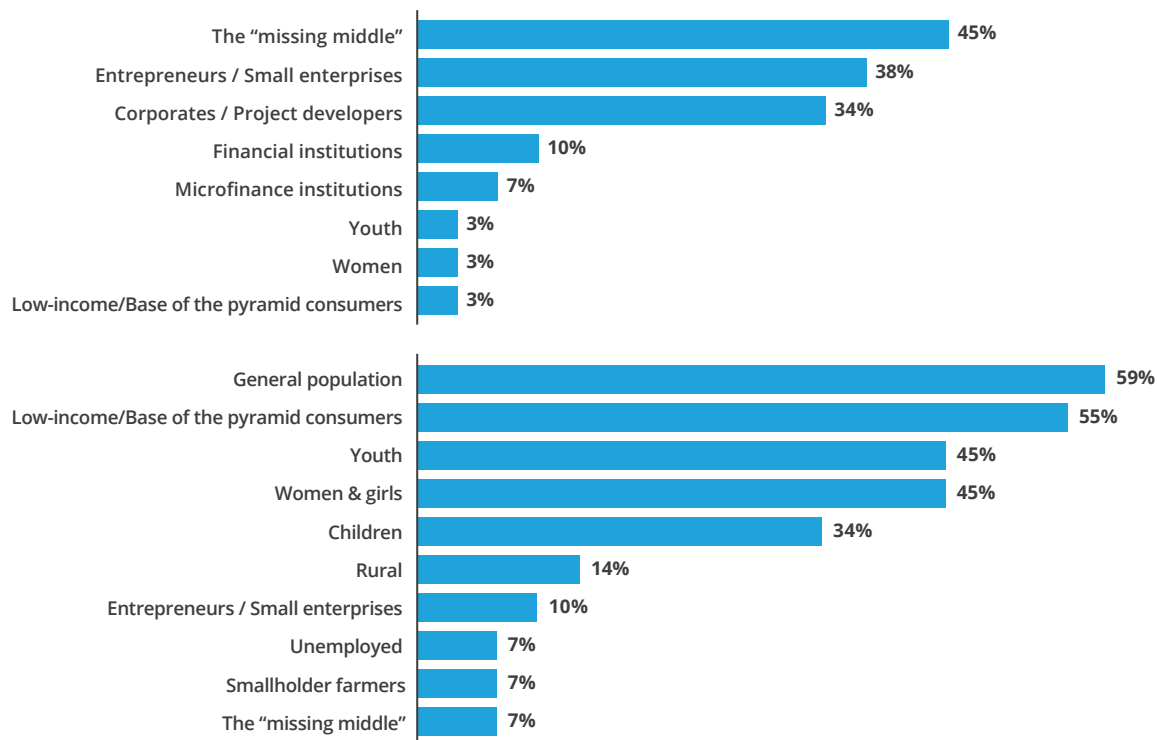


BENEFICIARIES

Due to small investment ticket sizes, insufficient returns, limited in-house expertise, and transactions being time- and resource-intensive, blended health and education transactions have tended to target small and growing businesses (45%), entrepreneurs and small enterprises (38%), and project developers

(34%) as direct beneficiaries, as opposed to financial institutions (10%) or microfinance institutions (7%). Unsurprisingly, health and education transactions have supported the general population (59%) and low-income consumers (55%) most often as end-beneficiaries.

Figure 62: Proportion of blended finance deals by direct beneficiary (top) and end beneficiary (bottom), 2021-2023



INVESTOR ANALYSIS

Overview

Convergence observes philanthropic investors concentrating their activity in the health and education sectors (29% of commitments in 2021-2023) compared to other areas of the market. Currently the health landscape [sees](#) little in terms of scaled vehicles such as funds and funds of funds. Instances where investors do commit to such vehicles in global health tend to be on a one-off basis, preventing further growth of the ecosystem.

Health and education are high-impact sectors that can lead to relatively clear and measurable outcomes. High up-front costs and time lags associated with positive outcomes however, may lead to hesitation among investors. Concessional debt can help health and education providers overcome high up-front and transaction costs, establish a track record, and fine-tune the investment model to attract more private sector capital.

For example, the concessional arm of the World Bank Group, the International Development Association (IDA), focuses on providing sovereign grants or deeply

concessional long-term loans to allow the fiscal space for governments to promote health outcomes. The IFC leverages IDA concessional funding through the IDA-IFC-MIGA PSW to enable IFC investment in the health sector and crowd in private and philanthropic capital where it otherwise would not be allocated, although health is only [one small focus](#) of their larger portfolio. A greater proliferation of similar MDB administered health-centric capital pools could markedly increase investment in the sector.

Figure 63: Proportion of financial commitments to health and education blended finance deals by investor sector, 2018-2023

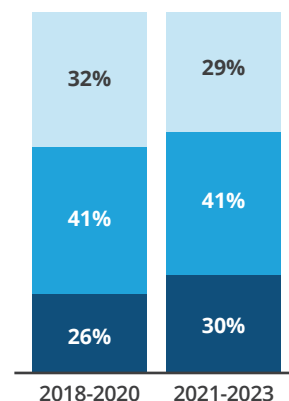


Figure 64: Proportion of concessional financial commitments to health and education blended finance deals by investor sub-sector, 2018-2023

- Commercial investor
- DFI / MDB
- Impact investor
- Foundation / NGO
- Development agency

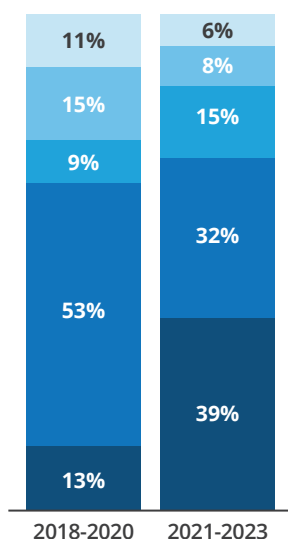
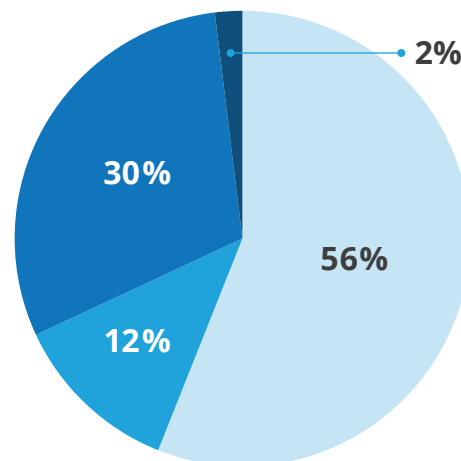


Figure 65: Breakdown of concessional investments by financial instrument type in health and education, 2021-2023

- Debt
- Equity
- Grant
- Guarantee



Meanwhile, in the education sector, OECD DAC funding from foundations and corporations generally [targets](#) primary education. Likewise, ODA funding for education overall tends to focus on primary and post-secondary education, in part due to research [showing](#) that social returns are highest for these levels as compared with secondary and pre-primary education. The distribution of ODA across education levels has remained largely stable in recent years. Increasing the use of ODA as concessional funding within these education levels can therefore lead to higher levels of positive social impact.

Convergence data shows that private financing commitments into blended health and education transactions have been higher than public funding in those same transactions. This observation should be taken in context; blended finance activity undoubtedly represents a very modest fraction of health and education expenditures in EMDEs.

Development Agencies

The proportion of financial commitments to health and education transactions accounted for by development agencies grew significantly, from 13% of financial commitments in 2018-2020 to 39% in 2021-2023. The proportion of financial commitments to health and education transactions accounted for by development agencies grew significantly, from 13% of financial commitments in 2018-2020 to 39% in 2021-2023.

(Figure 64). Furthermore, as Figure 65 shows, 30% of concessional finance in blended health and education transactions is provided through grants, with 42% of this grant funding provided by development agencies. Grants play an important role in fostering innovation, and funding disruptive technologies and services models. This is especially important in the post COVID-19 world, where education and health are becoming more digitized than ever.

League Tables

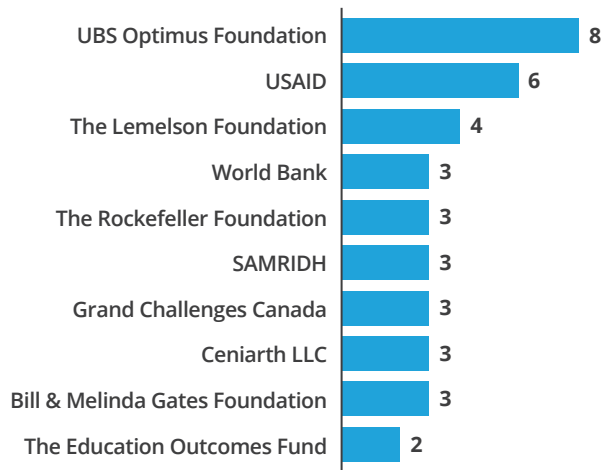
UBS Optimus Foundation has provided the most concessional commitments to health and education transactions (8 transactions), followed by USAID (6). UBS Optimus Foundation [focuses](#) largely on impact bonds by providing the upfront funding for development programs. Meanwhile, USAID recently [released](#) a roadmap for blended finance in education.

The roadmap consists of six steps:

- 1 identifying the country archetype;¹³
- 2 defining the health issue;
- 3 prioritizing financing challenges;
- 4 evaluating the potential for blended finance;
- 5 shortlisting blended finance instruments; and
- 6 identifying activities for further engagement.

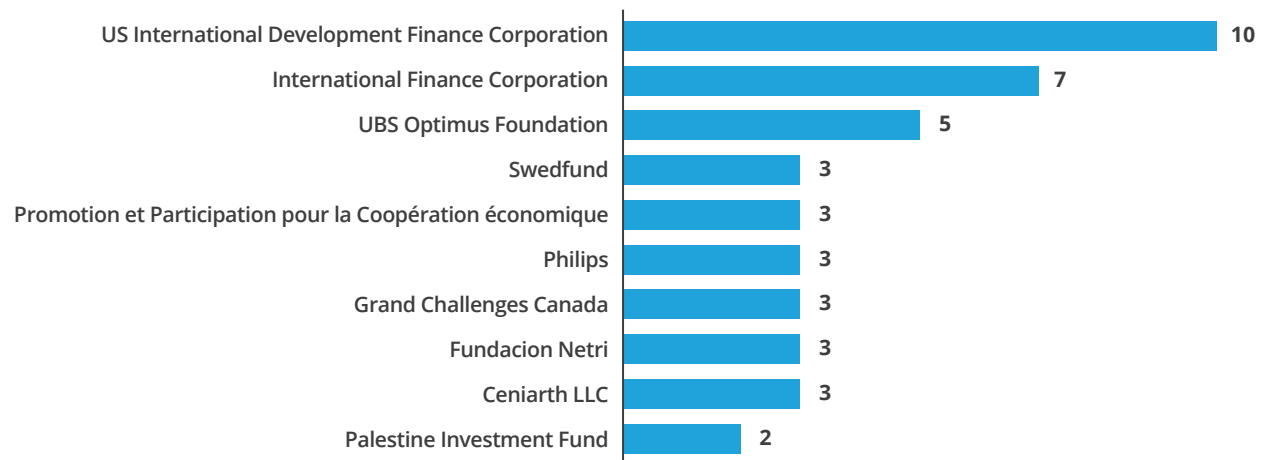
¹³ The country archetypes include build, strengthen, and transition, and are defined through the health care status of the country and its attractiveness to investors.

Figure 66: Most active concessional finance investors in health and education blended finance by commitment count, 2018-2023



US DFC is the leading provider of market rate capital to the two social sectors (10 commitments). US DFC funded the [Future of Work Fund](#), which is engaged in financing tertiary education in Rwanda, South Africa, and Kenya. The fund supports income sharing agreements, with a specific focus on women and other traditionally excluded populations. The fund will finance students' tuition in return for graduates committing to repay a percentage of their income exceeding a specified threshold. UBS Optimus Foundation [provided](#) a concessional equity anchor investment, which mobilized funding from US DFC and other commercial investors. US DFC also provided a TA grant to support the fund manager, Chancen, in enhancing its capacity to efficiently manage its portfolio.

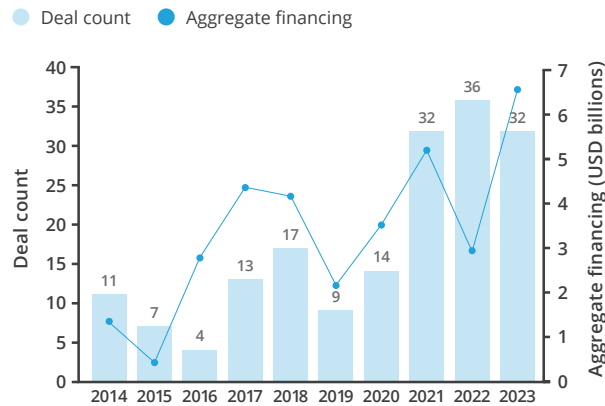
Figure 67: Most active commercial finance investors in health and education blended finance by commitment count, 2018-2023



INFRASTRUCTURE (NON-ENERGY)

MARKET OVERVIEW

Figure 68: Infrastructure blended finance market, 2014 – 2023

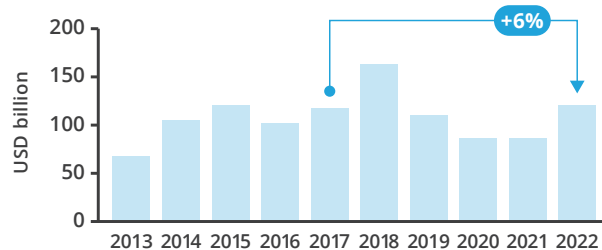


To date, Convergence has recorded 233 infrastructure (non-energy) blended finance transactions with a total deal volume of \$54 billion and a median deal size of \$65 million. These include transportation, telecommunication, water and sanitation, housing, tourism, manufacturing, and trade. For much of the last decade blended finance in these areas of infrastructure remained relatively stagnant. However, Convergence has observed a marked spike in blended finance activity in the sector since 2021. In 2023 alone, infrastructure blended finance transactions accounted for 32% of all blended finance deals (comparable to the energy sector), with a total deal volume of \$6.5 billion and a median deal size of \$64 million. Notably, aggregate financing has increased 150% in 2021-2023 from totals recorded in 2018-2020 (\$11.4 billion from

\$7.6 billion). The sector has one of the highest mobilization ratios in the blended finance market, standing at 2.81 (1.8 for overall market).

Convergence’s findings align with the Global Infrastructure Hub’s (GI Hub) analysis from its recent [Infrastructure Monitor 2023](#). GI Hub reported a 46% increase in global private investment in infrastructure projects in primary markets across the globe, marking an end to an eight-year stagnation period. According to GI Hub, much of this growth was confined to advanced economies. Since the global financial crisis in 2008, infrastructure investment has rapidly accelerated, with global infrastructure assets under management [surpassing](#) \$1 trillion in 2023—more than 6 times investment levels recorded in pre-2008. Over 80% of these assets are in North America and Europe. GI Hub observed more modest 6% growth in total private sector investment in infrastructure assets in low- and middle-income countries in 2022, which is comparable to Convergence’s observations of blended infrastructure finance in 2022. In 2023, Convergence recorded a 15% annual increase in private sector financing, well above the five-year average.

Figure 69: Private investment in infrastructure projects in low- and middle-income countries (entire infrastructure market), 2013-2022



(Source: GI HUB Infrastructure Monitor 2023)

KEY TAKEAWAY

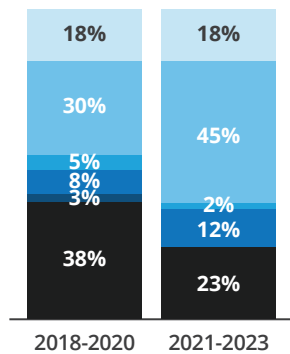
Less tied to economic cycles than other asset classes, infrastructure blended finance has proven resilient and continues to grow, evidenced by some of the highest concessional to commercial leverage ratios and private sector mobilization ratios in the market. Established private sector investor exposure to the sector in upper- and middle-income countries is influencing a greater willingness to seek out opportunities in lower-income countries where infrastructure needs are high, particularly in the face of climate change and rapid population growth.

VEHICLE

Since 2021, direct company financing has become an increasingly common investment structure for infrastructure blended finance transactions, with project finance concurrently declining over that period. Company financing surged from 12% of all transactions in 2018 to 41% in 2023. This trend reflects the use of blended finance to support companies, rather than directly funding individual projects. In many instances companies are using the financing to support their regional expansion and/or provide long-term working capital.

Figure 70: Infrastructure blended finance investment vehicle types by proportion of infrastructure transactions, 2018-2023

- Bond / note
- Company
- Facility
- Fund
- Impact bond
- Project



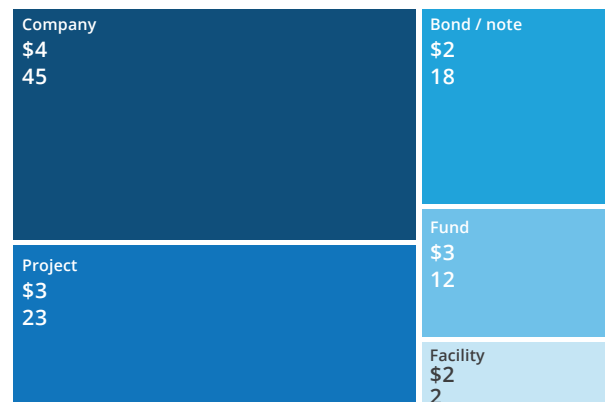
Despite the increase in company transactions, the size of such deals remains comparable to infrastructure projects and funds. For example, in 2023 company finance comprised 41% of total transactions in the sector and 39% of total infrastructure financing. By comparison, projects accounted for 25% of infrastructure deals and 35% of infrastructure financing.

The rise in the proportion of financial commitments towards companies is particularly evident in sectors like telecommunications, transportation, and manufacturing. For example, [Global Partnership for Ethiopia](#) received financing to support the expansion of its telecommunications network across Ethiopia. The company will be investing \$8 billion in capital over the next 10 years. IFC made a \$158 million equity investment. Additionally, shareholder equity commitments amount to \$1 billion, with contributions from Vodafone, Vodacom, Safaricom, Sumitomo Corporation, and British International Investment. This initiative was backed by a \$1 billion Multilateral Investment Guarantee Agency (MIGA) guarantee. The guarantee included a \$76 million first-loss layer funded by the IDA private sector window through the MIGA Guarantee Facility.

Funds account for some of the largest infrastructure transactions, with a median deal size of \$159 million in the past 3 years. Between 2021 and 2023, funds primarily directed their investments towards critical infrastructure, as well as water and sanitation. It is noteworthy that the majority of funds introduced over the last three years have had a climate-centric focus, with an emphasis on climate resilient infrastructure. These include the [Urban Resilience Fund](#), [Climate Investor 2](#), and [Emerging Markets Climate Action Fund](#). In 2021, Meridiam, an asset manager, collaborated with The Rockefeller Foundation and the United Nations Capital Development Fund to launch the \$385 million Urban Resilience Fund to support urban cities across Sub-Saharan Africa and the Middle East and North Africa and facilitate the achievement of SDG 11: Sustainable Cities and Communities. The fund incorporated a first-loss equity tranche backed by donors including the Government of Luxembourg through the Luxembourg-European Investment Bank (EIB) Climate Finance Platform. The concessional equity provided downside protection for senior shareholders.

Since 2021, Convergence has observed blended bonds delivering scaled financing to specific infrastructure sectors. Investor groups have predominantly raised blended bonds for housing finance and construction and have been concentrated in Sub-Saharan Africa. [Caisse Régionale de Refinancement Hypothécaire \(CRRH-UEMOA\)](#), a public financial institution in Togo, has raised two bonds (\$320 million in 2022 and

Figure 71: Aggregate infrastructure deal volume (USD billions) and transaction count by transaction vehicle type, 2021-2023



\$274 million in 2023) to help refinance mortgages granted by commercial banks in the West African Economic and Monetary Union (WAEMU) zone. Another noteworthy example is the [Nedbank Green Bond](#), which was raised by Nedbank to improve access to green housing in South Africa. IFC served as an

anchor investor, lending \$33 million for the 7-year unsecured senior note. IFC along with the UK's Market Accelerator for Green Construction (MAGC) provided a performance-based incentive to help developers offset the cost of green certifications.

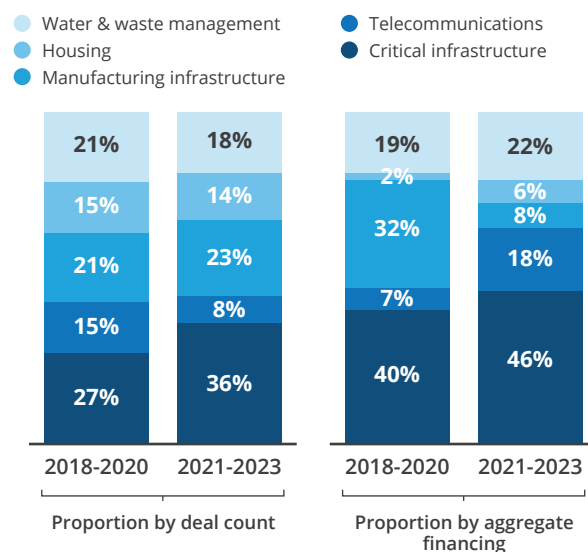
SUB-SECTORS

GI Hub's Infrastructure Monitor Report 2023 included a supplemental section on [blended finance in infrastructure](#) that drew on data from Convergence's HDD. Convergence has included a sub-sector analysis in this report to complement GI Hub's efforts in understanding private sector investment in infrastructure.¹⁴

Convergence has observed that blended finance deals for critical infrastructure¹⁵ make up the largest share of the infrastructure market between 2018 and 2023, with a total deal volume of \$11.8 billion over that period; the telecommunications sector follows with \$3.4 billion. Disruptions within critical infrastructure systems, including supply chains, in the aftermath of the COVID-19 pandemic, have highlighted the need for greater investment into critical infrastructure projects to better ensure resilience in the future.

For instance, the G7 nations launched the [Partnership for Global Infrastructure and Investment \(PGII\) program](#) in 2022 to mobilize \$600 billion in public and private investments towards the infrastructure sector in low- and middle-income countries to address key priorities including supply chain resiliency and greater connectivity through digital infrastructure and transport networks. Through the program, the US launched a blended finance program, [Digital Invest](#), with the aim to leverage \$3.45 million in state and USAID catalytic capital to mobilize \$355 million in investment capital for telecommunications services in Africa, Asia, and Latin America. As part of the program, USAID, together with the Government of Liberia,

Figure 72: Infrastructure blended finance sub-sectors by proportion of infrastructure transactions, count and aggregate financing, 2018-2023



[invested](#) \$12 million in CSquared, a technology and telecommunications company. This investment helped establish a 350-kilometer open-access fiber backbone network in Liberia to enhance network capacity and facilitate development.

There is room for growth in blending infrastructure investment within the water and sanitation sector. The OECD has [observed](#) that historically, investments in water and sanitation services have been supported by the public sector, with concessional and public sector finance alone playing a crucial role in developing countries. Convergence finds the sub-sector had the lowest concessional to commercial leverage ratios and private sector mobilization ratio at 1.31 and

¹⁴ It is important to note that while GI Hub has included non-renewable and renewable generation in its infrastructure analysis, Convergence has made a clear distinction between energy infrastructure and non-energy infrastructure.

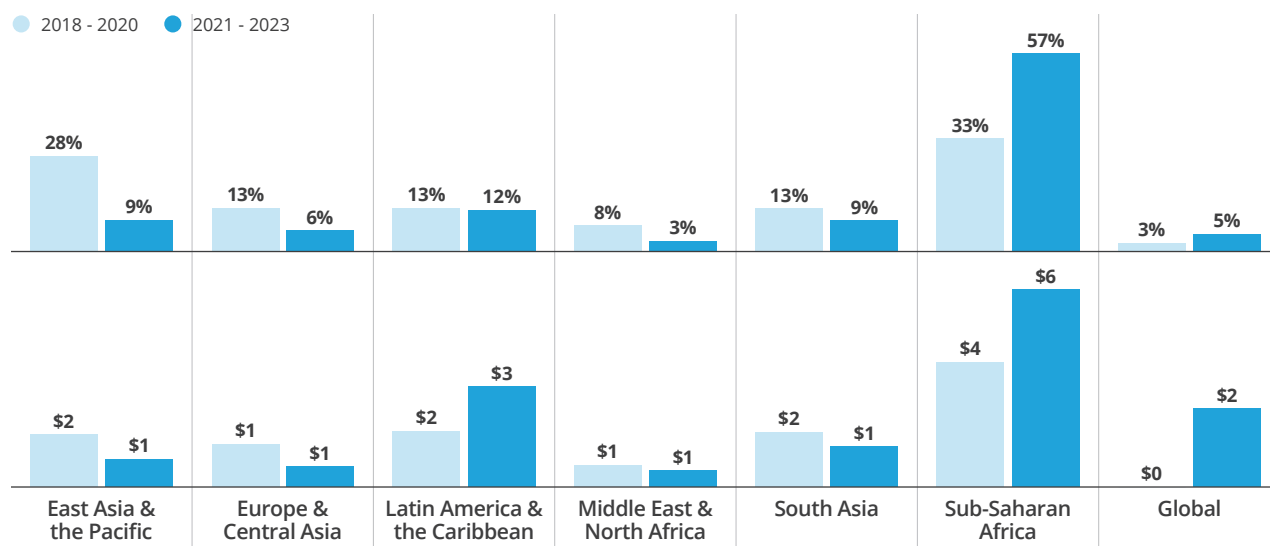
¹⁵ In this report Convergence classifies critical infrastructure as encompassing transportation systems (such as roads, bridges, airports, and ports), supply chain systems, and emergency services. Although telecommunications systems and water infrastructure are typically classified as critical infrastructure, Convergence has separated them in this report to offer more nuanced insights into blended finance transactions within these specific sub-sectors.

0.9 respectively. Challenges, such as the structural issues related to the profitability of operating business models, often hinder commercial investment in this sector. To address these challenges the OECD suggests pooling projects and providing commercial

investors access to a variety of different transactions in the water and sanitation sector. This approach can help mitigate concerns surrounding small ticket size, risk exposure, limited sector or regional knowledge, as well as high transaction costs.

REGIONS

Figure 73: Regional distribution of deals by proportion of infrastructure blended finance transactions by aggregate financing (USD billions), 2018-2023



Sub-Saharan Africa has increasingly become the hub of infrastructure blended finance and illustrates the sectoral growth experienced in 2023. Using Convergence data, [GI Hub found](#) that from 2013 to 2022, Sub-Saharan Africa attracted 41% of the total blended finance infrastructure deals. Convergence observed that in 2023 alone, the region attracted 53% of the total infrastructure¹² deals with a median value of \$66 million. In contrast to other regions, where project and company financing were equally utilized, company financing constituted 62% of total transactions in Sub-Saharan Africa between 2021-2023. It is important to highlight that according to GI Hub, the region has a median private sector mobilization ratio of 0.3. This figure is lower compared to Latin America (0.6) and Asia Pacific (0.5), suggesting that investors continue to perceive higher risks when investing in the region, despite the rise in blended finance activities.

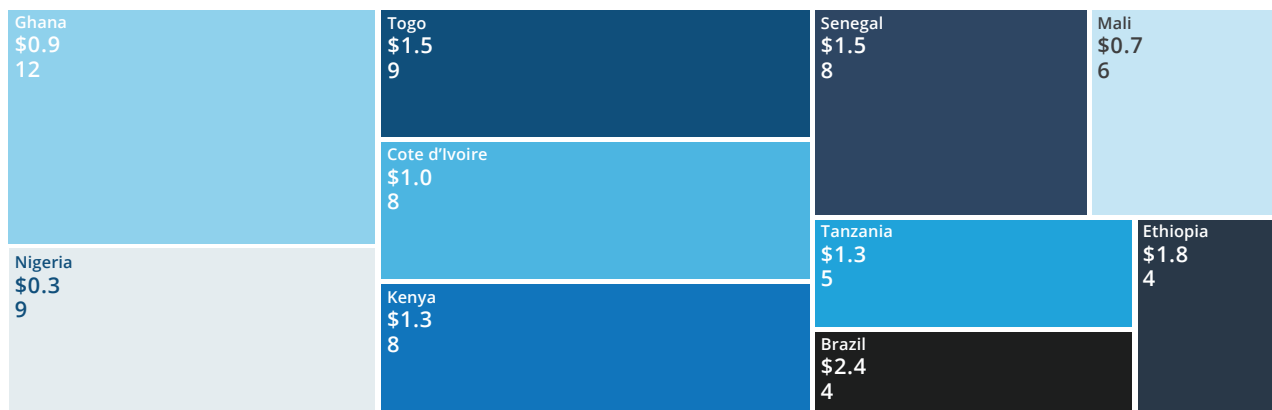
GI Hub reported that historically, EMDEs in Asia attracted 23% of the total blended finance deals and had the second largest share in the value of deals at

28%. According to Convergence data, in 2018-2020, over half (55%) of project finance deals in the sector occurred in East Asia and Pacific. However, the region has seen its share of infrastructure deal activity drop from 41% in 2018 to 9% in 2023, and aggregate financing decline from \$1.3 billion to \$520 million.

Apart from Brazil, the top 10 countries by deal count are in Sub-Saharan Africa. However, Brazil recorded the highest median deal size (\$357 million), primarily driven by the \$500 million Mercon Coffee Credit Facility II and the \$214 million GEF LatAm Climate Solutions Fund.

According to GI Hub's findings, low and lower-middle income countries continue to make up only a small portion of overall infrastructure financing. Convergence data underscores the capital demands and investor appetite to invest through blended finance in these countries. While blended finance transactions in low-income countries continue to make up a small proportion of the transactions for most sectors, Convergence's database finds that low-income countries have consistently attracted a significant

Figure 74: Top countries in infrastructure deals by count and aggregate financing (USD billions), 2021-2023



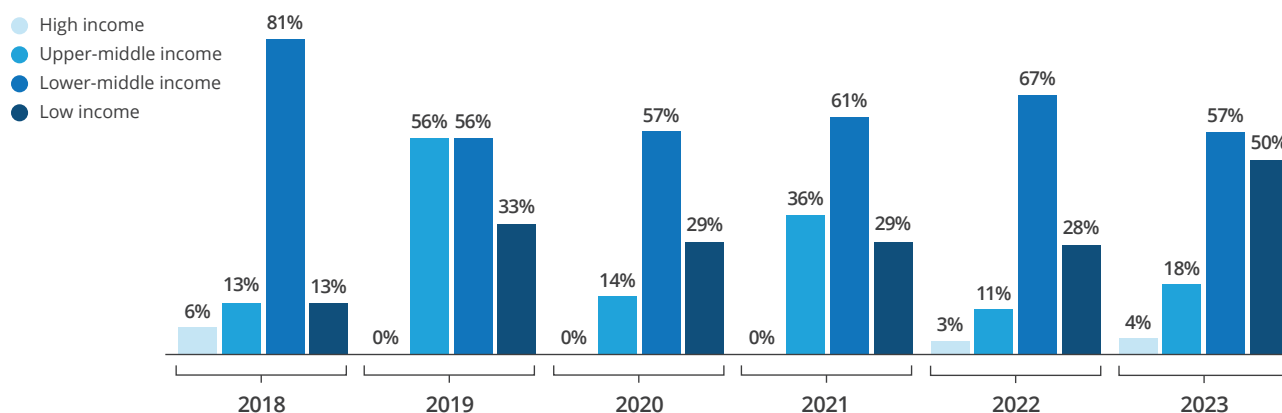
number of infrastructure blended finance transactions. In fact, in 2023, low-income countries comprised 50% of infrastructure deals. Steady capital flows towards infrastructure transactions in low-income countries, particularly in Sub-Saharan Africa, indicates a willingness from commercial investors to have some exposure to the perceived higher risk associated with these countries in deals led by established deal sponsors.

Convergence observed that deals targeting these countries often financed large corporations looking to expand their geographic operational footprint in both low- and middle-income countries, especially in sectors like telecommunications. These deals offered investors access to larger investment ticket sizes with a degree of regional diversification. For example, SEACOM, a diversified digital infrastructure company in Sub-Saharan Africa, received a senior debt package of \$260 million from IFC to refinance its short-term debt obligations. This financing helped the company diversify from its subsea operations and grow its operational footprint to 12 more countries in Africa, including

Djibouti, Mozambique, and Rwanda. The package included a \$5 million concessional political insurance guarantee as well as \$94.76 million in commercial capital from Nedbank and Mauritius Commercial Bank.

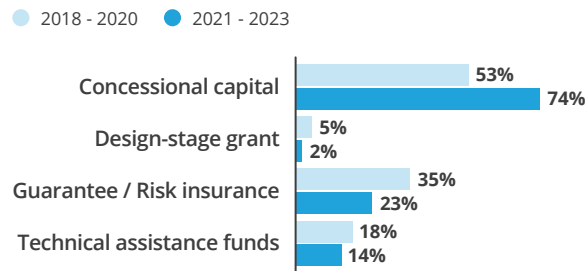
Nevertheless, the median deal size in low-income countries has declined over the past 3 years, dropping from \$170 million in 2018-2020 to \$53 million in 2021-2023. Convergence has observed that in previous years, investors were primarily attracted to substantial transactions led by established blue-chip sponsors since these were perceived as more financially viable; this resulted in fewer but larger deals between 2018-2020. Although investments in deals led by established deal sponsors persist, there has been a shift towards a broader spectrum of deals closing over the past three years. For instance, the percentage of deals valued under \$20 million rose from 30% in 2018-2020 to 47% in 2021-2023. Additionally, the proportion of deals exceeding \$300 million decreased from 31% in 2018-2020 to merely 13% in 2021-2023.

Figure 75: Proportion of infrastructure blended finance transactions across recipient country income level, 2018-2023



BLENDING ARCHETYPES

Figure 76: Blending archetype usage in infrastructure blended finance deals by proportion of infrastructure deals, 2018-2023



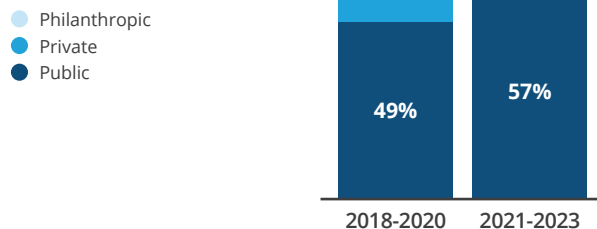
Concessional debt and equity are the most commonly used blending instruments in infrastructure blended finance transactions. The decline in guarantee and risk insurance use in recent years can be largely attributed to the changing composition of transaction types—the increased proportion of company transactions in 2021-2023 and simultaneous decrease in project finance. Guarantee use remains common in bonds/notes (60% of bonds feature the use of a concessional guarantee) and to some degree facilities as well (25%).

Guarantees and risk insurance were most frequently used in transactions in low-income (27%) and lower-middle income (70%) countries. This points to the flexibility of guarantees and risk insurance to address specific types of perceived risk (political, credit, counterparty) commonly associated with low-income markets and which ultimately prevent private sector investment. As noted by GI Hub, guarantees made up 21% of the blended finance support in Sub-Saharan Africa, which was higher than the global average of 15%. A combination of concessional debt/equity and guarantees is also common in low-income and lower-middle income country deals. EIB for instance, led a \$177 million debt financing package for the [Dakar Bus Network Upgrade](#) project in Senegal. The investment received concessional risk transfer support in the form of a \$115 million concessional guarantee along with grant support from the EU (\$21.5 million), Germany BMZ (\$32.4 million, via Kreditanstalt für Wiederaufbau (KfW), and Agence Française de Développement (AFD) (\$3.8 million).

INVESTOR ANALYSIS

Overview

Figure 77: Proportion of financial commitments to infrastructure blended finance deals by investor sector, 2018-2023



Since 2018, investment from the public sector into infrastructure blended finance amounted to \$8.5 billion, followed by \$6.6 billion from the private sector. Convergence observed a considerable increase in financing from DFIs/MDBs in recent years—from an aggregate annual investment size of \$980.9 million in 2018 to \$3.2 billion in 2023.

Convergence finds that from 2018-2023, DFIs/MDBs had their largest presence in the manufacturing infrastructure sub-sector (33%), while development agencies recorded their largest share of sub-sector commitments in critical infrastructure development (32%). Commercial investors accounted for their greatest share of commitments in the telecommunications and manufacturing sectors (45% and 44% respectively); this is comparable to GI Hub data, which indicates that the telecommunications sector saw the highest share of financial commitments from commercial investors (78%) between 2002 and 2022. Moreover, DFIs/MDBs accounted for 87% of the commitments in the transportation sector. Notably, Convergence found that the share of investments from these three key investor groups (DFIs/MDBs, development agencies, and commercial investors) was comparable in the critical infrastructure sector (including transportation) for 2018-2023.

Figure 78: Proportion of blended finance commitments by infrastructure sub-sector and investor class, 2018-2023

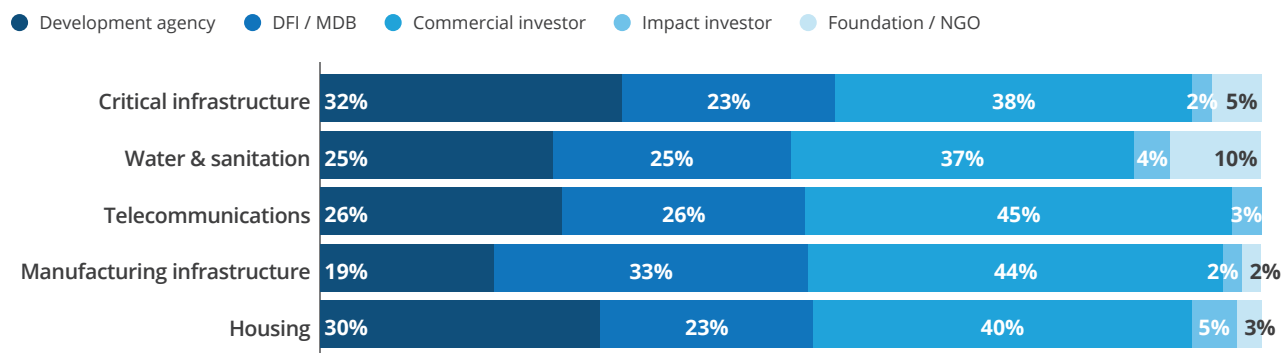
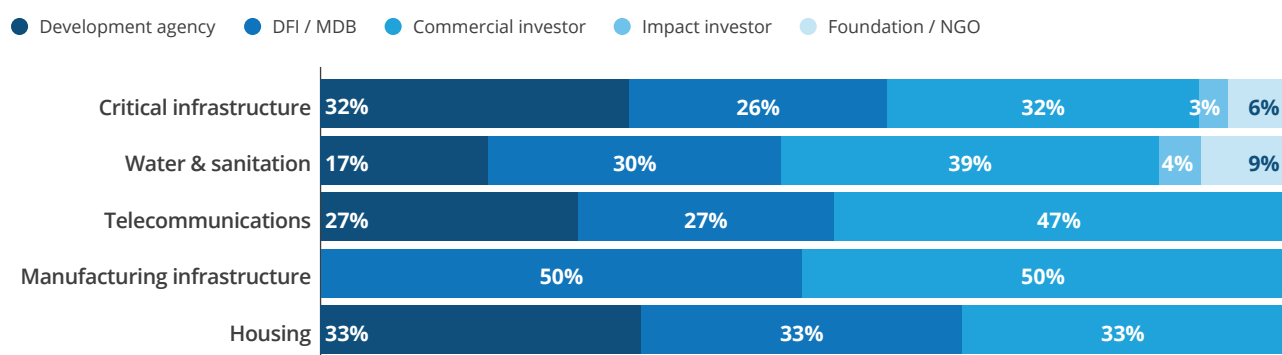


Figure 79: Proportion of blended finance commitments by infrastructure sub-sector and investor class, 2023



Convergence observes a continued path towards wholly commercially viable investment structures across the infrastructure sectors and particularly in manufacturing and telecommunications. For 2023, commitments from commercial investors remained high in the telecommunications sector (47%), while the highest share of financial commitments from commercial investors shifted to the manufacturing sector (50%). Convergence finds that the manufacturing sub-sector has historically recorded the highest leverage ratio (7.8) and highest mobilization ratio (5.1), followed by telecommunications (5.1 and 4.1 respectively).¹⁶ These figures far outpace the overall market (average leverage and mobilization ratios of 4.1 and 1.8 respectively) and signal strong private sector investor appetite for deals in these markets.

Private Sectors Investors

Between 2018-2023, commercial investors invested \$7.4 billion in infrastructure blended finance transactions with a median investment of \$15 million in large transactions (median size of \$100 million). Among commercial investors, corporates accounted for the most commitments to infrastructure transactions—45% between 2018-2023. Aggregate financing from corporates and businesses has grown by 36% in 2023 over the six-year average. As observed across other blended finance sectors in the blended finance market, particularly energy, Convergence has observed a decline in investments from financial institutions in the infrastructure sector, fueled by restricted lending capacity and high capital costs for borrowers. In fact, the sharp drop in debt investments

¹⁶ The dataset used for the analysis only includes the transactions for which Convergence's database has recorded concessional and non-concessional investment values equal to at least 50% of the total transaction value. Transactions without information on total transaction value, concessional investment values, or non-concessional investment values, and outliers (leverage ratio higher than 14), were excluded. The reason for a low mobilization ratio for the telecommunications sector in comparison to manufacturing is because outliers were excluded; these were SEACOM II (leverage ratio of 81.0), Mawingu Networks (leverage ratio of 42.0) and Pakistan Mobile Communications Ltd - GuarantCo Project (leverage ratio of 39.3).

in 2021-2023 from 2018-2020 can be largely attributed to the reduction in activity from financial institutions.

The rise in equity financing in recent years (62% in 2021-2023 from 28% in 2018-2021) is linked to the marked increase in direct company financing in the sector, particularly the rise in activity from private equity and venture capital firms over the past three years. Convergence data shows that corporates and private equity/venture capital firms provided 60% and 16% respectively of the total equity commitments. The Brookings Institution has noted that private equity is [playing](#) a role in financing the SDGs in Sub-Saharan Africa. In fact, 90% of total private equity investments in the region were directed to sectors associated with SDGs. Moreover, the most common SDGs financed can be directly linked to the infrastructure sector—SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure).

Despite the decline in total financial commitments from financial institutions over the past few years commercial banks such as BNP Paribas, Citigroup, and HSBC Group have been the most active private sector investors since 2018.

The critical infrastructure sector saw the highest amount of aggregate financing from private sector investors; \$1.3 billion for 2018-2020 and \$1.2 billion for 2021-2023. Notably, financing towards the housing sector from the investor group has substantially increased over the past three years (\$69 million in 2018-2020 to \$939 million in 2021-2023). For instance, in 2022, PT Bank Tabungan Negara Persero Tbk, a state-owned bank in Indonesia, secured a debt facility comprising \$70 million in concessional capital from JICA and co-financing from Citi and PT Bank Central Asia Tbk to expand its housing finance lending portfolio to low- and middle-income borrowers.

Figure 80: Breakdown of private investor types by proportion of total commitments, 2018-2023

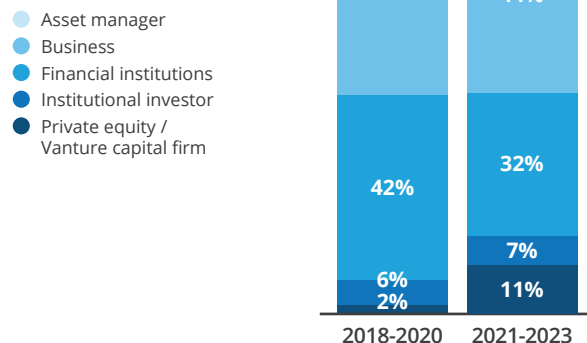


Figure 81: Breakdown of financial instruments used by commercial investors by proportion of private sector investor commitments, 2018-2023

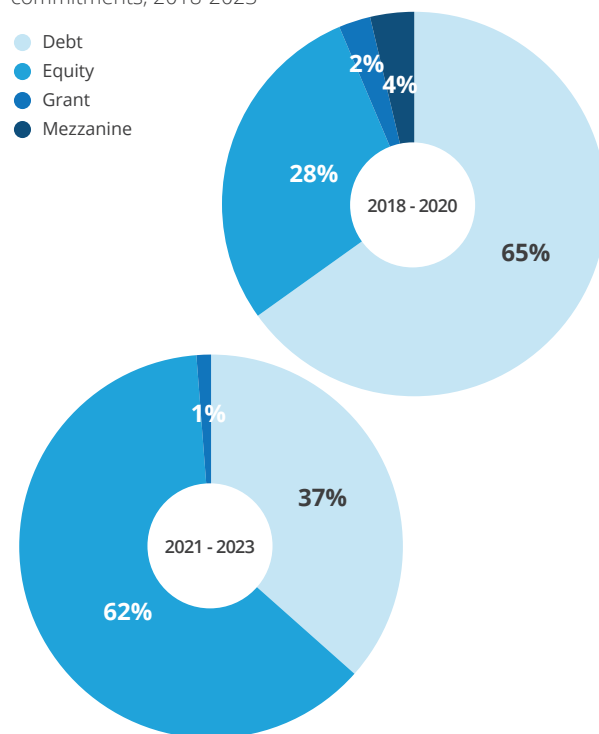
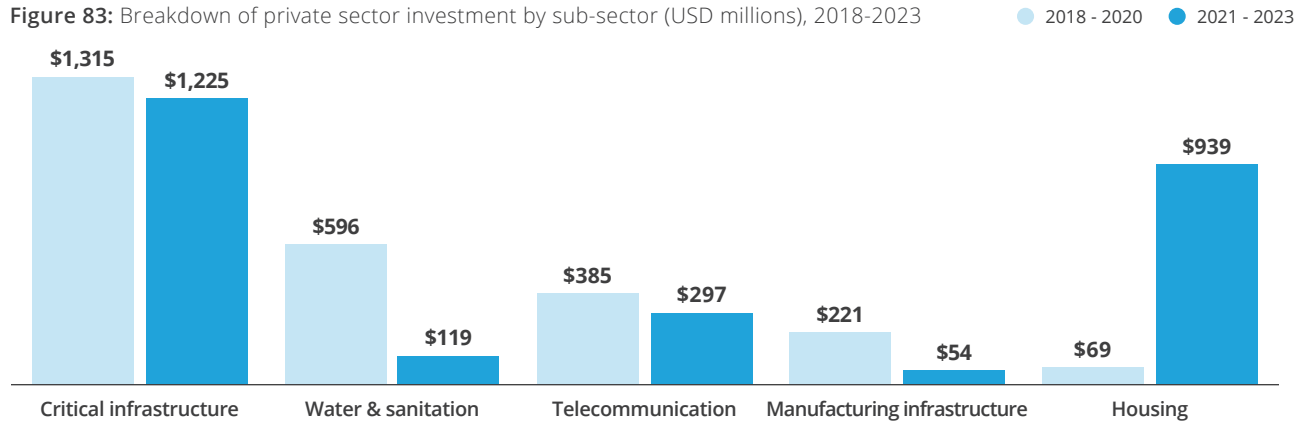


Figure 82: Most active commercial investors in infrastructure blended finance by commitment count, 2018-2023



Figure 83: Breakdown of private sector investment by sub-sector (USD millions), 2018-2023



DFIs/MDBs

Between 2018-2023, DFIs/MDBs invested approximately \$8.1 billion in infrastructure blended finance transactions with a median investment of \$10 million in large transactions (median deal size of \$100 million). In the past three years, DFIs/MDBs have predominantly channeled their investments into Sub-Saharan Africa, with a focus on companies (40%) and projects (25%).

Debt financing remains the most commonly used instrument by DFIs/MDBs, providing \$2.7 billion through senior debt between 2018-2023. As noted by [GEMs database](#), the infrastructure sector represents a sizable sector of exposure for DFIs/MDBs, comprising 15% of loan contracts and over 20% of total financial exposure. Interestingly, the level of equity financing deployed by DFIs/MDBs has increased over the past six years from 13% of financial commitments in 2018-2020 to 32% in 2021-2023. As mentioned, this is a product of the growth of direct company finance opportunities in the sector and signals the investor group’s willingness to take on more risk. IFC stands out as the most active equity investor among DFIs/MDBs, having engaged in 5 deals with a total investment size of \$199 million.

Development Agencies & Multilateral Funds & Organizations

In 2018-2023, development agencies invested \$3.3 billion in blended finance deals with a median investment of \$10 million. Development agencies are the critical supplier of concessional capital to the infrastructure sector. In fact, their share of concessional commitments increased from 65% in 2018-2020 to 73% in 2021-2023.

Figure 84: Breakdown of financial instruments used by DFIs/MDBs by proportion of total DFI/MDB commitments, 2018-2023

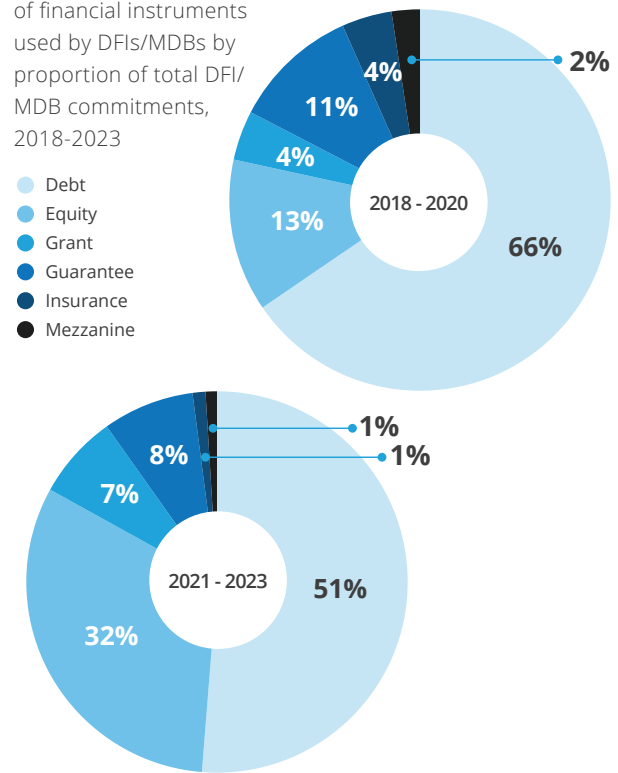


Figure 85: Breakdown of concessional commitments to infrastructure transactions by investor class, proportion of concessional commitments, 2018-2023

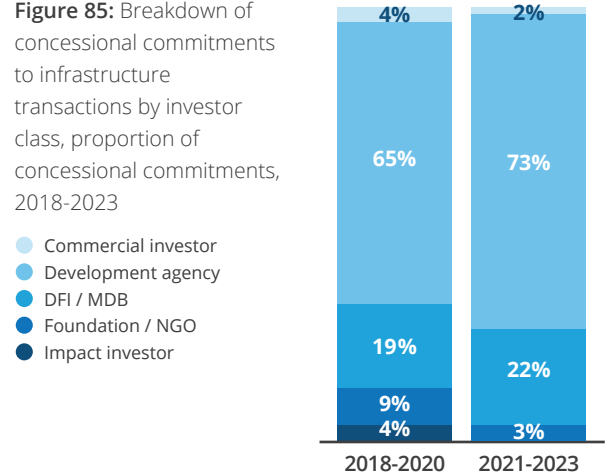
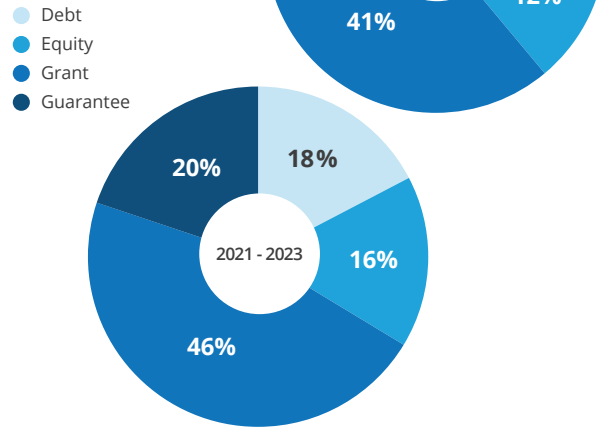


Figure 86: Breakdown of financial instruments used by development agencies by proportion of development agency commitments, 2018-2023



Development agencies favour grants as their primary investment instrument (58% of concessional investments since 2018), with TA grants representing 40% of all grants committed. Design-stage grants continue to be underutilized by development agencies (2% in 2021-2023). Given the continued growth in the sector in recent years, this could be a signal of an adequate pipeline of investible infrastructure assets in EMDEs for investors; the presence of established infrastructure project sponsors operating in EMDEs with sufficient project development capital; and standardized investment structures for infrastructure development. However, design-stage grants can still

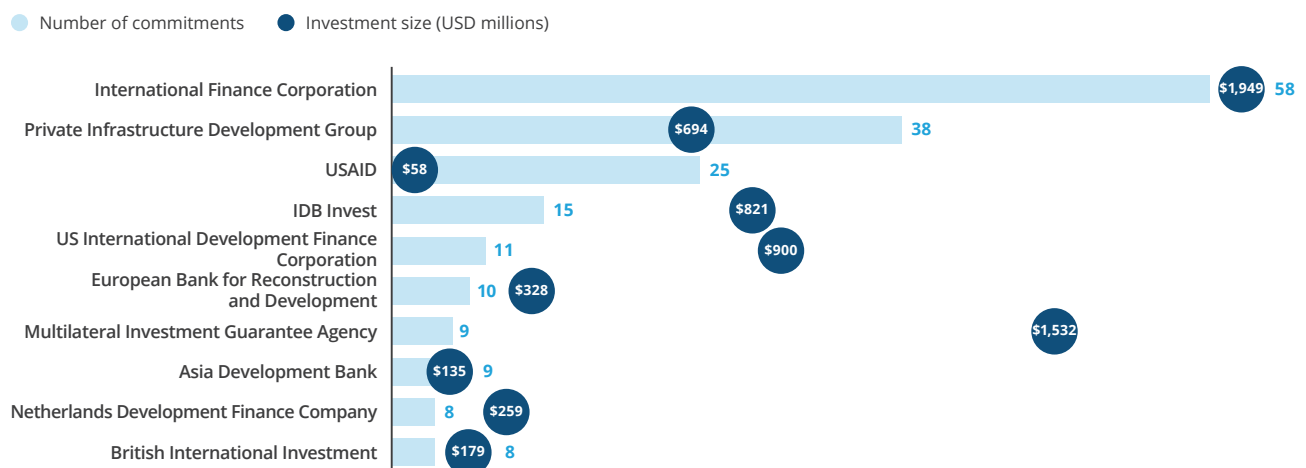
play a valuable role in the particular market segments where private models are less developed (water and sanitation and green infrastructure).

The [Tibar Bay Port](#) construction is a noteworthy example of the usage of grants to mobilize commercial capital. The Public-Private Infrastructure Advisory Facility (PPIAF) and Australian Government Department of Foreign Affairs and Trade (DFAT) provided \$75.75 million in TA grants, which helped mobilize \$360 million and \$130 million in senior equity financing from Bollore Logistics and the Government of Timor-Leste, respectively. The TA grant facilitated collaboration between IFC and the government and enabled the establishment of the first public-private partnership (PPP) program in the country. It also played a crucial role in supporting financial close and capacity building for the project management unit of the port.

League Table

As illustrated in Figure 87, the top investors in the infrastructure sector are public entities. IFC is the most active investor in infrastructure blended finance (58 transactions, 2018-2023), investing a total of \$1.9 billion in that time period (2018-2023). Among concessional capital providers, PIDG provided the most below-market rate instruments with 38 concessional commitments for a total value of \$694 million (2018-2023) and median commitment size of \$24 million.

Figure 87: Most active investors in infrastructure blended finance by commitment count, 2018-2023





PART V:
CONCLUSION

PART V: CONCLUSION

The blended finance ecosystem has witnessed remarkable examples of large-scale collaboration over the past year, with several significant initiatives emerging that potentially signify a shift towards more substantial, impactful transactions that mobilize considerable capital for sustainable development. This trend reflects the increase in financing totals observed in this year's report. It highlights the potential of enhanced partnerships and capital mobilization in the field, demonstrating that large-scale projects capable of mobilizing significant sums of institutional investor capital are feasible.

However, it is also crucial to recognize and contemplate the challenges and significant opportunities that will shape our collective efforts to bridge the substantial financing gap for the SDGs. The insights offered throughout this report are designed to equip stakeholders with a robust framework, enabling them to effectively navigate the landscape of blended finance and fully leverage its capacity as an instrument for sustainable development.

To effectively address the opportunity areas, we propose seven key points of action.

POINTS OF ACTION

1 Private sector engagement & mobilization

DFIs and MDBs play a pivotal role in catalyzing private sector investment in blended finance transactions; therefore, establishing a unified collaborative approach to align the objectives and incentives of these crucial development players with the goals of private sector mobilization will be critical. By exiting senior positions and strategically taking first loss and mezzanine positions in the capital stack, these institutions can effectively de-risk investments and create a more attractive risk-return profile for private investors. This approach is essential for mobilizing large-scale private capital, as it helps to overcome the perceived high risks associated with investing in emerging markets and developing economies. However, to ensure a sustained commitment to private sector mobilization, shareholders must govern DFIs and MDBs with mobilization targets and key performance indicators (KPIs) to align incentives and prioritize private sector engagement and mobilization.

2 Strategic management & marshaling of concessional capital

Convergence has previously documented an [Action Plan](#) identifying how \$13-15 billion of concessional funds could mobilize \$280+ billion of private investment. As the leading allocators of concessional capital, MDBs and DFIs must become more ambitious and deliberate in aligning concessional pools with private-sector mobilization outcomes. Further, the strategic deployment of concessional capital is crucial for achieving high leverage ratios and maximizing the impact of blended finance transactions. To this end, facilities should be prioritized over projects to improve efficiency and maximize leverage. The SDG Loan Fund is an excellent example of effective concessional capital management and demonstrates how philanthropic capital can be an effective concessional capital layer to unlock substantial private investment. Indeed, foundations' role and philanthropic capital cannot be overstated in this context. By providing flexible, patient, and risk-tolerant

capital, foundations can significantly contribute to helping bridge the gap between public and private investors and support the development of innovative blended finance structures that address critical development challenges.

3 Improved impact tracking & monitoring

Convergence has provided strong [evidence](#) of the possible development impact of mobilizing private sector investment to SDG-targeting transactions. Yet, there remains significant variability in output impact metrics. Outcome metrics provide more opportunity for benchmarking, and an effective measurement and targeting framework will be essential to ensure that blended finance transactions deliver tangible and sustainable development. Improving the mechanisms for tracking and reporting the outcomes of blended finance transactions is imperative. Transactions must evolve from diverse and frequently unclear goals to embracing consistent, stringent, and high-reaching objectives. To this end, establishing a standardized impact measurement, tracking, and reporting method is crucial. A harmonized approach would facilitate comparability across projects and sectors and enable investors to make more informed decisions. In addition, Convergence observes the use of technical assistance and funds as highly effective in achieving impact targets. For example, by providing targeted support for project preparation and capacity building, an enabling environment for increased blended finance transactions and enhanced development impact can be achieved.

4 Address the regulatory environment & bottlenecks

Regulatory barriers and bottlenecks pose significant challenges to the participation of institutional capital pools in blended finance transactions. Basel IV regulations, which require banks to hold more capital against risky assets, are one example of how regulatory constraints can limit commercial investor's ability to participate in blended finance transactions in emerging markets and developing economies.

Securitization interpretations can similarly deter institutional investors from engaging in blended finance. Policymakers and regulatory bodies must work closely with the blended finance community to identify and address the challenges that impede institutional investor participation. This may involve the development of tailored regulatory frameworks that recognize the unique characteristics of blended finance investments and provide appropriate incentives and structuring measures to encourage institutional investor participation.

5 Address risk perception & credit ratings

Convergence data shows that most blended finance transactions occurred in countries with non-investment grade sovereign credit ratings (the leading rating agencies rate 76% of Developing Countries “B” or lower). Meanwhile, most private investors have investment policies tied to more favorable investment-grade jurisdictions. This mismatch prevents capital inflows towards the regions in which they are most needed. Risk perceptions and the underpinning risk ratings remain critical barriers to the scaling up of blended finance investments. The reliance on sovereign risk ratings to assess the creditworthiness of blended finance projects can lead to overestimating risks of the underlying assets. This is particularly problematic for projects in regions perceived as high-risk, as the sovereign risk rating may not accurately reflect the actual risk profile of the investment. To address this challenge, the blended finance community must work towards an improved risk assessment methodology that better captures the unique characteristics of blended finance investments. Additionally, as institutional investor risk appetites are closely tied to credit ratings, blended structures should maximize credit enhancements like guarantees to achieve investment grade wherever suitable. Where less feasible, scaled grant funding for project preparation and TA for building local capacity can also demonstrate commercial viability potential and facilitate greater investor participation in blended finance transactions.

6 Enhance data transparency

The development community typically assesses the perceived investment risk in emerging markets to be higher than the actual risk, especially for debt transactions. However, data to dispel this assumption has yet to be available to private investors. Lack of data translates to difficulties for investors in underwriting investments. On the private equity side, the lack of a robust or comprehensive historical track record (especially in more frontier markets) demonstrating sufficient returns compared to developed markets deters investment. Greater data disclosure would close the gap between perceived and actual risk. Improving data transparency is critical for attracting additional private capital and enabling evidence-based decision-making in the blended finance ecosystem. A collective affirmation of data transparency and embracing uniform reporting standards and impact metrics are fundamental steps in expanding blended finance. To this end, data must guide the replication and standardization of proven successful financial structures and solutions.

7 Promote local government participation & domestic capital mobilization

The participation of local governments and domestic capital mobilization is essential for creating a sustainable and inclusive blended

finance ecosystem. Local governments are crucial in creating an enabling environment for blended finance transactions by developing supportive policies and regulations, providing project pipelines, and facilitating stakeholder engagement. However, many local governments in emerging markets and developing economies lack the capacity and expertise to effectively engage in blended finance transactions. To address this challenge, the blended finance community must prioritize programs that strengthen the ability of local governments to identify, develop, and implement bankable blended finance projects. Moreover, the mobilization of domestic capital, particularly from institutional investors such as pension funds and insurance companies, can help to create a more sustainable and resilient blended finance ecosystem. By developing local capital markets, promoting financial inclusion, and creating investment opportunities that align with the needs and preferences of domestic investors, we can unlock significant volumes of domestic capital for blended finance.

By promoting collaboration, innovation, and ongoing learning among all stakeholders, we can foster a more supportive ecosystem for blended finance, unlock new capital sources, and accelerate progress toward a more inclusive, sustainable, and resilient future for everyone. The path ahead is laden with challenges, but the potential rewards are equally compelling.



CONVERGENCE is the global network for blended finance. We exist to increase private investment in emerging markets and developing economies to advance the UN Sustainable Development Goals and Paris Agreement.



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



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