



## OVERVIEW OF CONVERGENCE

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BLENDING FINANCE INFORMATION  
SESSION & NETWORKING BREAKFAST

ZÜRICH, 28<sup>TH</sup> AUGUST, 2018

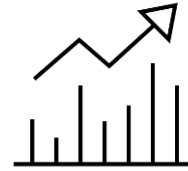
# WHAT IS CONVERGENCE?

Convergence is the global network for blended finance. We generate blended finance data, intelligence, and deal flow to increase private sector investment in developing countries.



## A GLOBAL NETWORK

We have a global [membership](#) of over 270 public, private, & philanthropic institutions



## DATA & INTELLIGENCE

Original [content](#) builds the evidence base for blended finance, including data on past deals, trend reports, case studies, region and sector briefs, and webinars.



## DEAL FLOW

An online match-making platform for investors and those seeking capital to connect on active deals.



## MARKET ACCELERATION

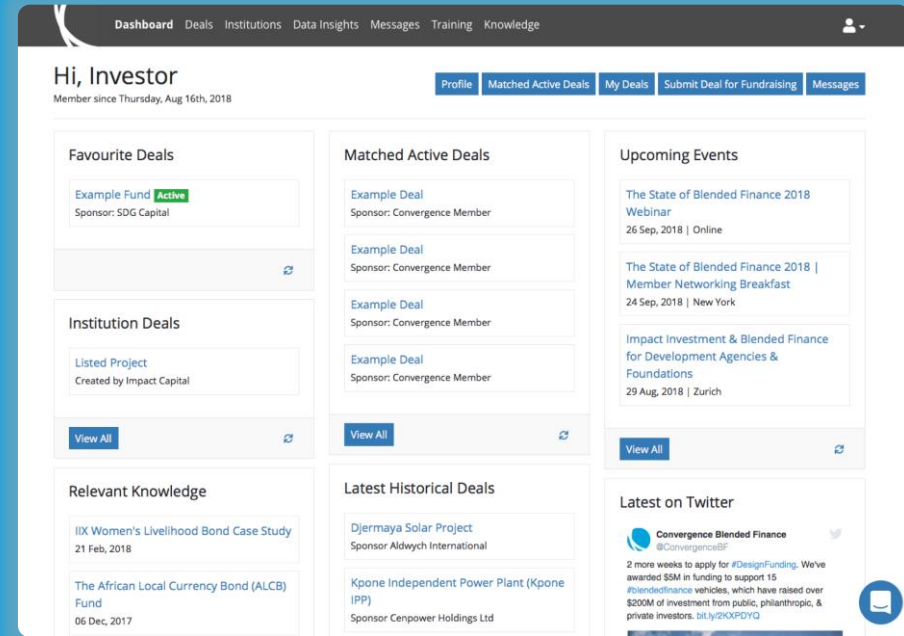
Our [Design Funding](#) program awards grants for the design of innovative vehicles that aim to attract private capital to global development at scale.

# BENEFITS OF CONVERGENCE MEMBERSHIP

Our members get access to blended finance data, intelligence, and deal flow as well as exclusive networking events and tailored learning sessions and workshops with industry experts.

Members have their own tailored dashboard on our platform, where they can:

- Connect with active deals or post their deal
- Generate market insights; understand trends
- Easily connect with other members
- Read the latest news & knowledge in the space
- Register for member only events



# MEMBERSHIP COMPOSITION

Convergence members are part of a global community of institutions and businesses dedicated to driving capital to where it is needed most.

Member institutions include private investors looking to diversify their portfolios, businesses seeking capital, as well as public agencies and philanthropic foundations looking to make their funds go further.

Convergence has over 270 member institutions, and over 550 staff at member institutions actively use the Convergence platform.



## DEAL FLOW

Our online deal platform gives members access to the only dedicated blended finance deal pipeline in the world.

All deals are reviewed by our team for fit with our mission and criteria.

Our platform has live opportunities seeking to raise ~\$1.8 billion in diverse sectors and developing countries. These opportunities represent over \$3 billion in aggregate.

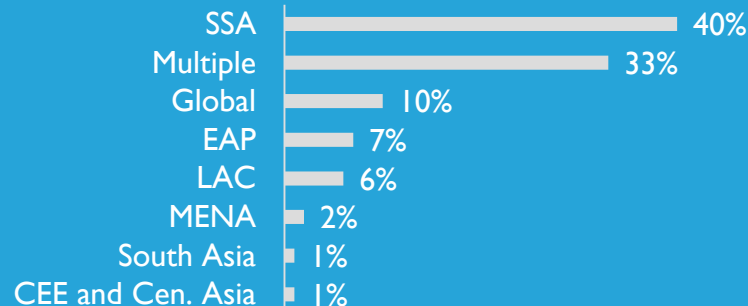
Investors and deal sponsors can connect with each other directly on the platform.

**\$1.8B**  
total funding  
sought

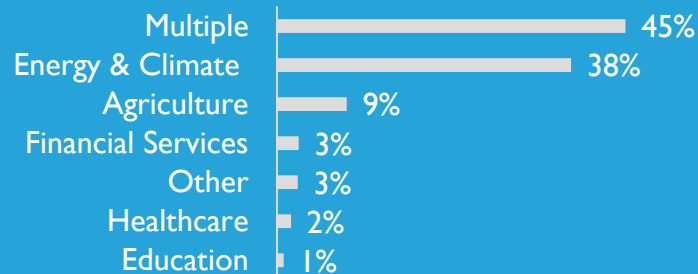
**\$3B+**  
total deal  
size

**\$40M**  
medium deal  
size

### Region Distribution



### Sector Distribution

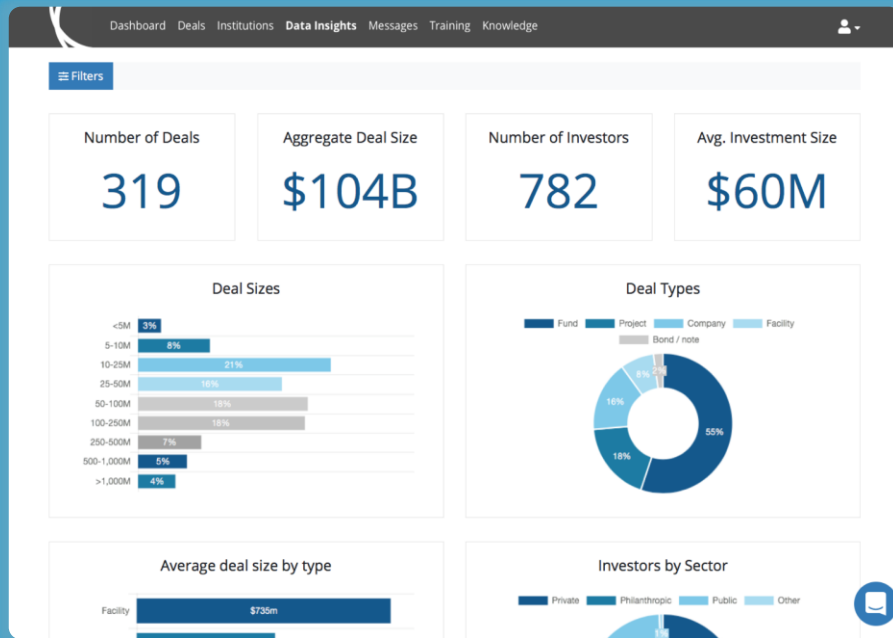


## DATA INSIGHTS

Our data insights captures over 2,500 financial commitments to over 300 historical blended finance transactions that represent an aggregate deal size of over \$100 billion. Over 750 different investors have participated in these transactions.

Members can generate unique insights about the blended finance market through this powerful comparables set that can be filtered and analyzed across sector, region, size, instrument, investor, impact objective, and a range of other filters.


On member request, Convergence is also able to provide additional analysis of our data.



# INTELLIGENCE

Convergence produces original research and insights on the market, case studies that do a deep dive on specific transactions, and landmark reports that give the state of play. In Q4 2017 alone, our reports and case studies were viewed over 3500 times. Recent publications include [“Who is the private sector?”](#) & [“IIX women’s livelihood bond case study”](#).

We also maintain a [knowledge library](#) where we curate the key blended finance knowledge and resources in one centralized repository.



CASE STUDY

THE AFRICAN LOCAL CURRENCY BOND (ALCB) FUND

DECEMBER 2017

EXECUTIVE SUMMARY

The African Local Currency Bond (ALCB) Fund provides anchor investment and technical assistance to first-time or innovative local currency bond issuances from financial institutions and companies operating in developmental sectors in African countries. As of June 2017, the ALCB Fund had invested in 18 bond issuances across 14 companies in nine countries, including Botswana, Ghana, Kenya, Cote D'Ivoire and Zambia.

The ALCB Fund was initially designed, capitalized, and managed by the German Development Bank, KfW. After two years of operation, KfW determined that the ALCB Fund was ready to scale and hired a fund manager in 2015. The fund manager, Lion's Head Global Partners (LHGP), was responsible for implementing an institutional upgrade and growing the Fund. The Fund is currently fundraising equity and senior debt, and has successfully raised capital from various developmental and impact investors.

ALCB Fund's design and fundraising approach presents useful insights for others considering structuring or investing in similar structures, including:

- Blended finance structures need to have a balanced approach to additionality and impact
- There is a trade-off between making capital accessible to potential clients and putting appropriate hedges in place
- Determining the additionality and the proper pricing of an anchor investment is more of an art than a science
- A 'proof of concept' approach to fund development can achieve both innovation and scale
- Technical assistance can ease the upfront cost of fundraising efforts

SYNOPSIS

Fund manager	Lion's Head Global Partners (LHGP) Asset Management LLP
Fund vintage	2013
Phases of evolution	Phase 1: KfW funded and managed Phase 2: KfW funded, LHGP managed Phase 3: Multiple funders, LHGP managed
Mandate	To act as an anchor investor and provide technical assistance for local currency bond issuances by financial service providers and companies operating in developmental sectors
Size	Committed: USD 107M Anticipated: USD 160M
Anchor investors	KfW / BMZ & FSD Africa
Capital structure	Equity: USD 67M Debt: USD 40M (to be ~USD 90M) Technical Assistance: USD 2M
Fees	Fixed fee plus discretionary bonus
Investment instruments	Senior anchor investment in local currency corporate bonds
Investment size	USD 1-\$M
Target return	Equity: NA Senior debt: Priced to market, subject to a "swapped" hurdle return in USD
Example impact metric	Leverage multiplier, number of ultimate beneficiaries

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## LEARNING

We provide bespoke blended learning sessions and knowledge exchanges for organizations and their staff to increase their knowledge of blended finance. Sessions are catered to organization needs and interests and include participation from industry experts and other Convergence members. Recent sessions include [AfDB](#), [OECD](#) & [Sida](#).

Webinars allow members to gain a quick overview on the latest Convergence knowledge, deals, and data, and also include industry experts and spotlights for Convergence members.



## MARKET ACCELERATION

Convergence's [Design Funding](#) program offers practitioners feasibility study and proof of concept funding to design catalytic blended finance vehicles that aim to attract private capital to global development at scale.

## RESULTS TO-DATE

Convergence has awarded \$5 million in funding to support 15 vehicles, which have gone on to raise over \$200 million of investment from public, philanthropic, and private investors.

# EXAMPLE DESIGN FUNDING GRANTS

## Alina Vision

A [network of eye care hospitals](#) for low-income communities



[Health and education](#) impact investing platform (HEIIP)



The developing world's first [Green Bank](#) – the Climate Finance Facility

## KOIS INVEST

Impact bond to fund [employment interventions](#) for Syrian refugees in the Middle East

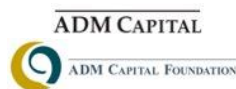


An intermediary off-taker of [renewable energy](#) projects



Women's World Banking

A fund to invest in [women-focused financial services](#) providers in emerging markets



Finance facility for [renewable energy and livelihood](#) projects in Indonesia



Impact bond to fund [maternal and newborn health](#) interventions in India



[Food securities fund](#) to provide credit to ag companies in established value chains with corporates



Blue bond to finance debt conversions for [conservation in island nations](#)



Financing solutions for African ['missing middle' agribusinesses](#)



# INTRODUCTION AND INSIGHTS INTO THE BLENDED FINANCE MARKET

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# IMPORTANCE OF BLENDED FINANCE

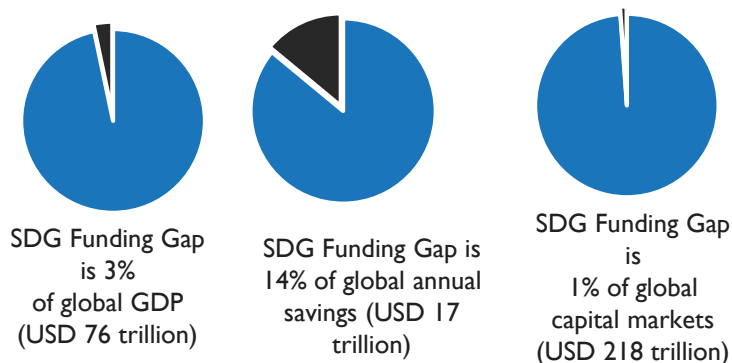
- Official development assistance (ODA) flows in 2016 amounted to USD **142 billion**
- Nowhere near the scale needed
- Private sector, on the other hand, operates at the right scale
- Private capital must be attracted to finance development: “**Billions to Trillions**”

## Estimated SDG Investment Gap 2015 - 2030

Trillions of USD, annual average

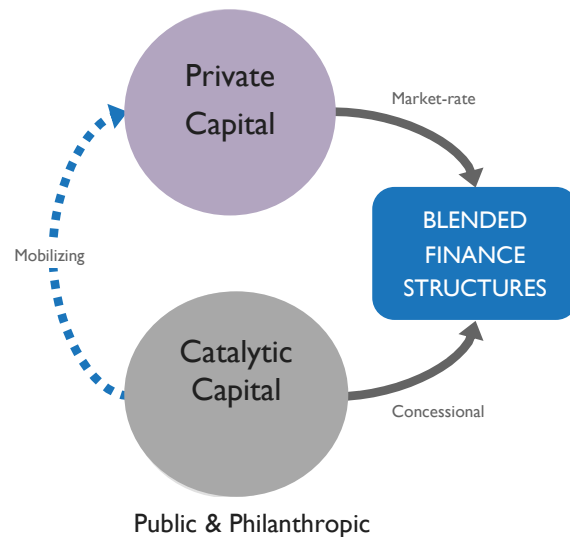


## Putting the SDG Funding Gap in Perspective



# DEFINING BLENDED FINANCE

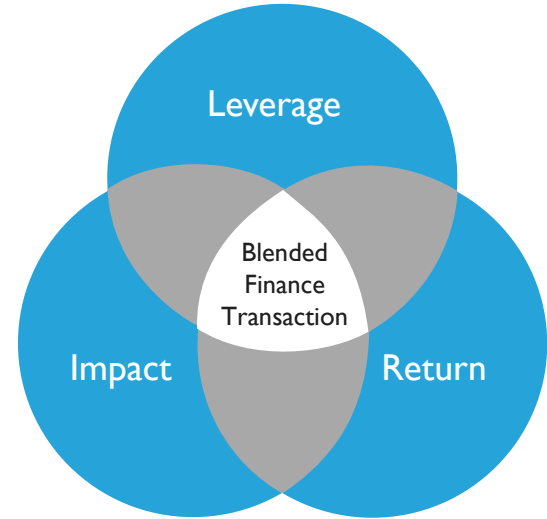
- Blended finance is the use of **catalytic capital** from public or philanthropic sources to increase private sector investment in developing countries for global development impact
- Blended finance is a **structuring approach** that allows different types of capital (whether impact oriented or commercial) to invest alongside each other while achieving their own objectives (financial, social or a blend)
- Blended finance is not an investment approach, and is therefore **different than impact investing**; impact investors often participate in blended finance transactions



# KEY CHARACTERISTICS OF A BLENDED FINANCE TRANSACTION

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

1. **Leverage** - Pvt. sector investment is additional to the project; would not have been mobilized without blended finance intervention
2. **Impact** - Underlying activity contributes to the SDGs in a developing country; however not all parties need to have development intent
3. **Return** - Transaction expected to achieve a positive financial return; returns range from concessional to market rate and depend on the type of private sector investor in the deal



# BLENDING ACROSS DIFFERENT LEVELS

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

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

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

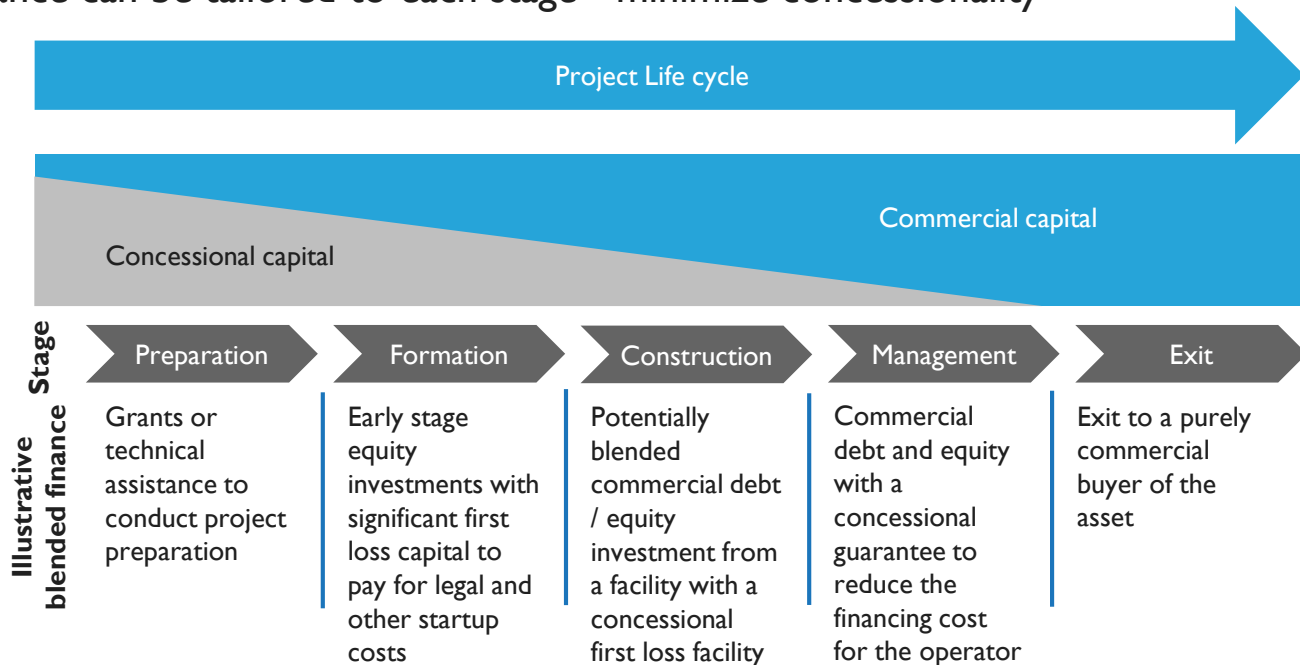
**4. Facility** - Long term institution set up to blended different forms of capital

**5. Intermediaries** - Mobilize private investment as a by addressing specific barriers, especially information gaps

Examples of Blending Across Different Levels	
<b>Project Level</b>	<ul style="list-style-type: none"><li>• Alina Vision</li><li>• Kigali Bulk Water Project</li></ul>
<b>Fund Level</b>	<ul style="list-style-type: none"><li>• Climate Investor One</li><li>• Danish Climate Investment Fund</li></ul>
<b>Fund-of-Funds</b>	<ul style="list-style-type: none"><li>• Sarona Frontier Markets Fund 2</li><li>• Global Energy Efficiency &amp; Renewable Energy Fund</li></ul>
<b>Facility</b>	<ul style="list-style-type: none"><li>• Global Environment Facility</li><li>• GuarantCo</li></ul>
<b>Intermediaries</b>	<ul style="list-style-type: none"><li>• Climate Policy Initiative - The Lab</li><li>• US-Africa Clean Energy Finance Initiative</li></ul>

# BLENDED FINANCE CAN BE DEPLOYED ACROSS PROJECT LIFE CYCLE

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



Illustrates the proportion of concessional vs commercial capital at each stage



# BLENDED FINANCE DEAL TRENDS: VOLUME, SIZE & TYPE

Number of Deals

>300

Aggregate Deal Size

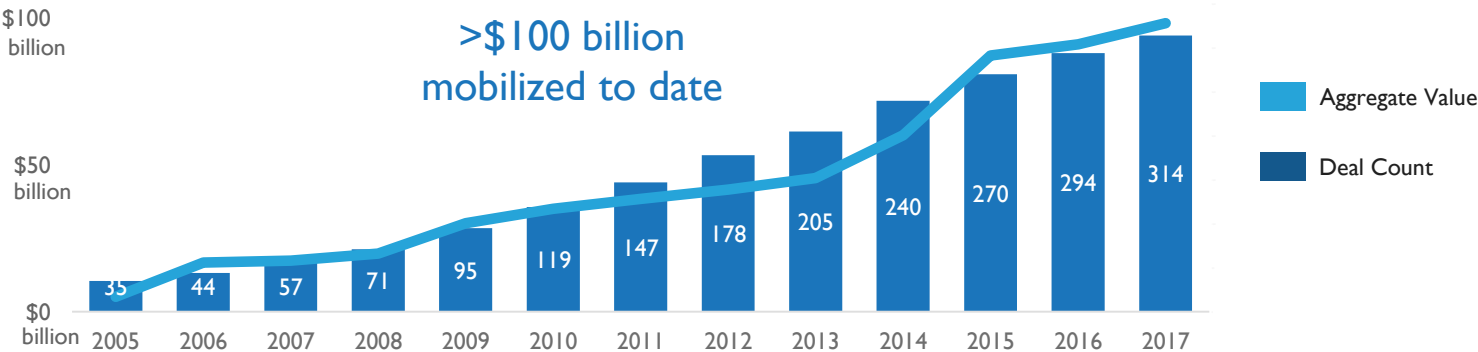
>\$104bn

Number of Investors

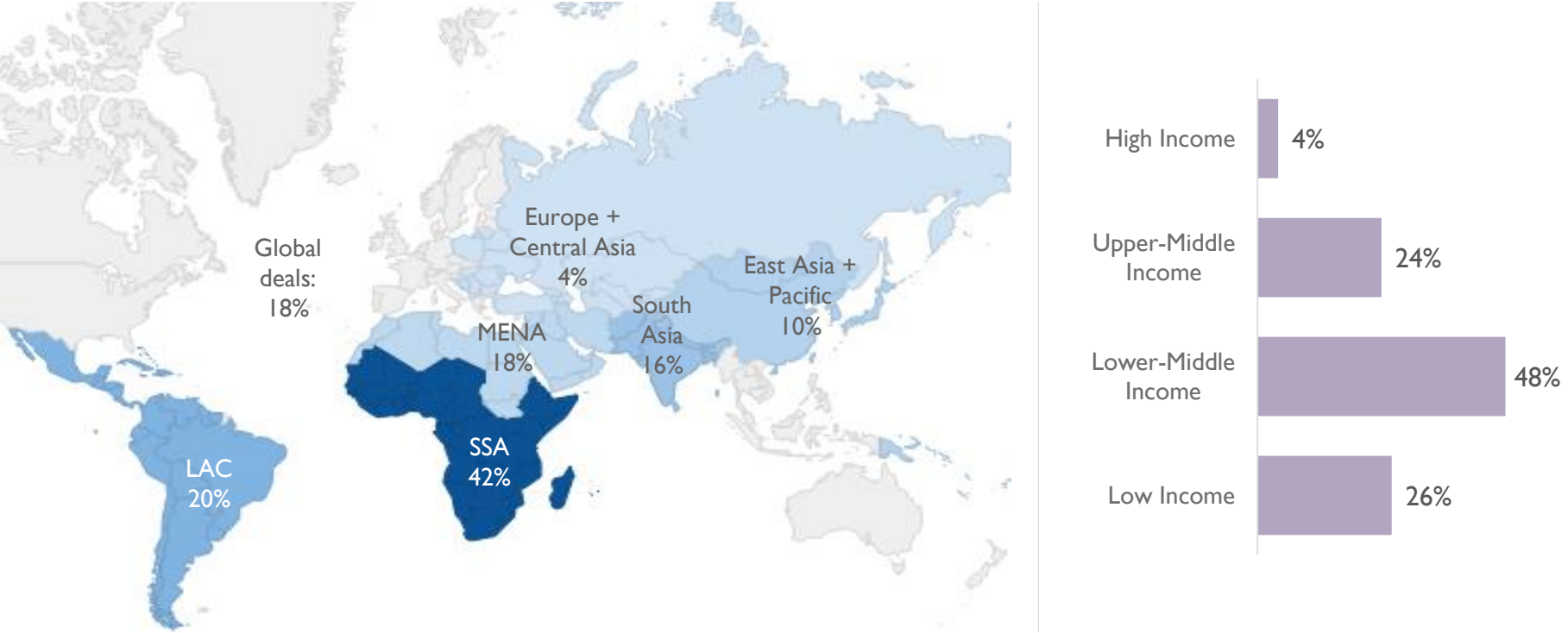
>800

64% of deals collected are Funds and Facilities and account for 71% of capital mobilized

36% of deals collected are Projects & Businesses and account for 29% of capital mobilized

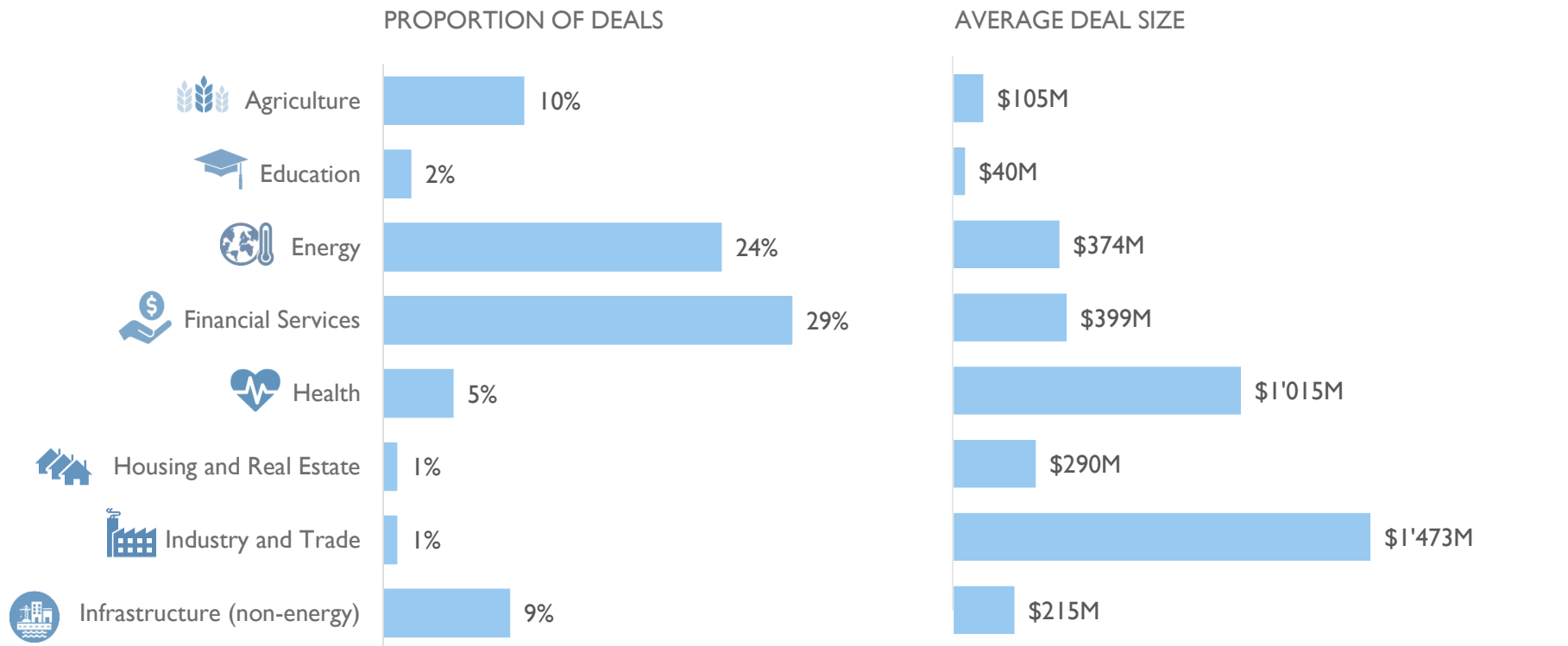


# BLEND ED FINANCE TRENDS: REGIONS & COUNTRY INCOME LEVEL



Source: Convergence Historical Data. Note: Data snapshot as of 6 Aug 2018. Convergence tracks country data by stated countries of focus at the time of financial close, not actual investment flows. Often, countries of eligibility are broader than those explicitly stated.

# BLENDED FINANCE TRENDS: SECTORS



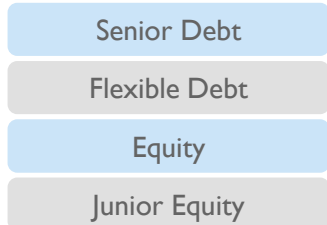
Source: Convergence Historical Data. Note: Data snapshot as of 6 Aug 2018.

# MAIN ARCHETYPES AND INSTRUMENTS USED IN BLENDED FINANCE

## CONCESSIONAL DEBT OR EQUITY

- Public or philanthropic investors are concessional within the capital structure
- Subordinate and/or junior terms compared to co-investors

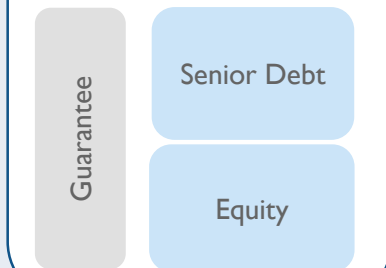
### CAPITAL STRUCTURE



## GUARANTEE & RISK INSURANCE

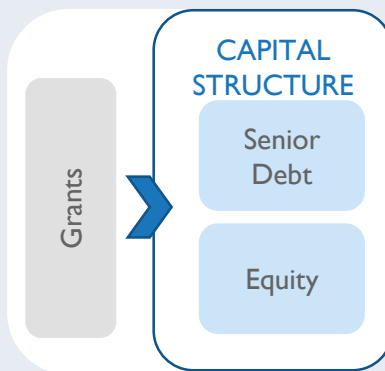
- Risk reduction tools that protect investors against capital losses

### CAPITAL STRUCTURE



## DESIGN / PREPARATION FUNDING GRANT

- Grant funding that supports costs and activities that lead to bankability of projects



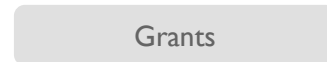
## TECHNICAL ASSISTANCE GRANT

- Funds to supplement the capacity of investees

### CAPITAL STRUCTURE

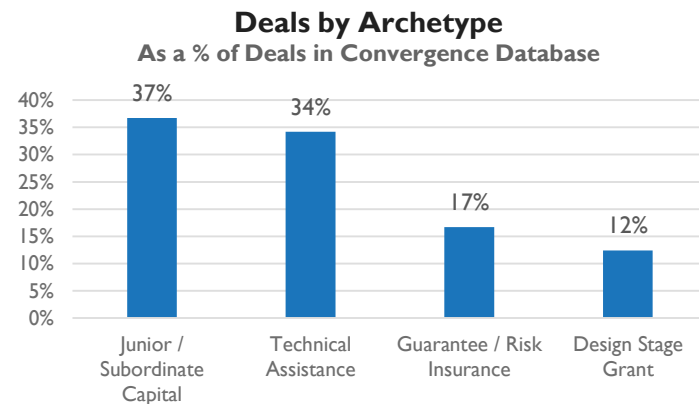


### TA FACILITY



# BLENDED FINANCE TRENDS: FREQUENCY OF ARCHETYPE

- Convergence identifies four types of blending instruments
  1. Junior/Subordinate Capital
  2. Technical Assistance Facility
  3. Guarantee/Risk Insurance Mechanism
  4. Design Stage Grant
- Junior/Subordinate capital is usually in the form of debt, equity or a hybrid like convertible debt
- The majority of junior/subordinate capital and guarantee/risk insurance mechanism are provided on **concessional terms** where the party has earned a below market or nonexistent return for the risk borne



# GLOBAL SUCCESS OF BLENDED FINANCE REQUIRES SIGNIFICANT PARTICIPATION FROM KEY STAKEHOLDER GROUPS

## DEVELOPMENT AGENCIES



## MULTILATERAL DEVELOPMENT BANKS AND NATIONAL DEVELOPMENT FINANCE INSTITUTIONS



## PRIVATE INVESTORS



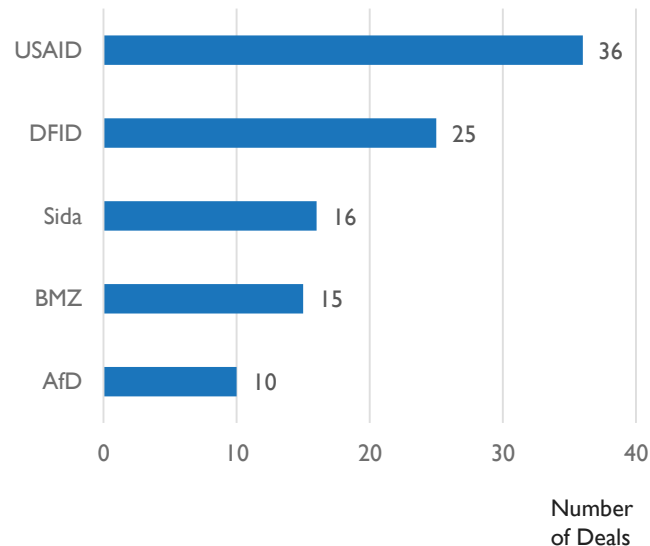
## PHILANTHROPIC FOUNDATIONS



# ROLE AND CHARACTERISTICS OF DEVELOPMENT AGENCIES

- Typically have large budgets and the ability to provide risk capital at project, facility or portfolio levels
- They help to crowd in private investors into transactions by creating acceptable risk-return profiles
- Also use their funds for technical assistance and capacity building grants which helps build pipeline of bankable projects
- Traditionally deploy funding through grants; therefore lack 1) investment expertise en masse 2) appropriate authorities to participate in debt & equity transactions
- Average investment size according to Converge database is around USD 30 million

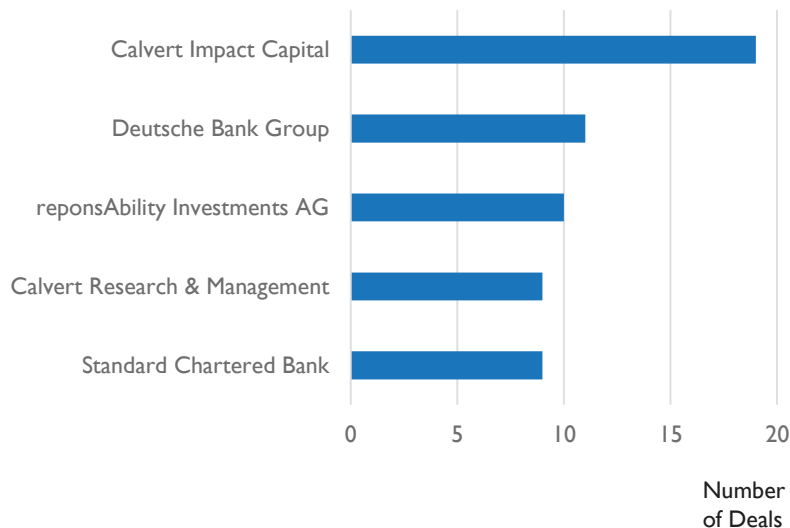
**Most Active Development Agencies**  
Data from Convergence Database



# ROLE AND CHARACTERISTICS OF PRIVATE INVESTORS

- Private investors have significant pools of capital that could be invested in developing countries through blended finance projects and facilities
- Private investors include organizations with an impact mandate (reponsAbility, Calvert, Triodos Bank) and without (Allianz, Standard Chartered)
- Due to capital charge and tenor considerations institutional investors likely to have a bigger appetite to participate in blended finance as compared to banks
- Average investment/loan size is between USD 2-20 million, although the average investment size for banks is significantly higher

**Most Active Private Investors**  
Data from Convergence Database

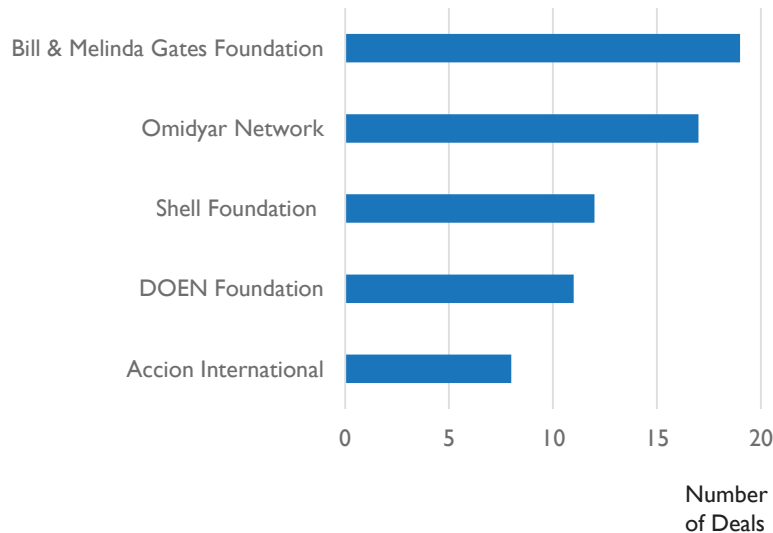




# ROLE AND CHARACTERISTICS OF PHILANTHROPIC FOUNDATIONS

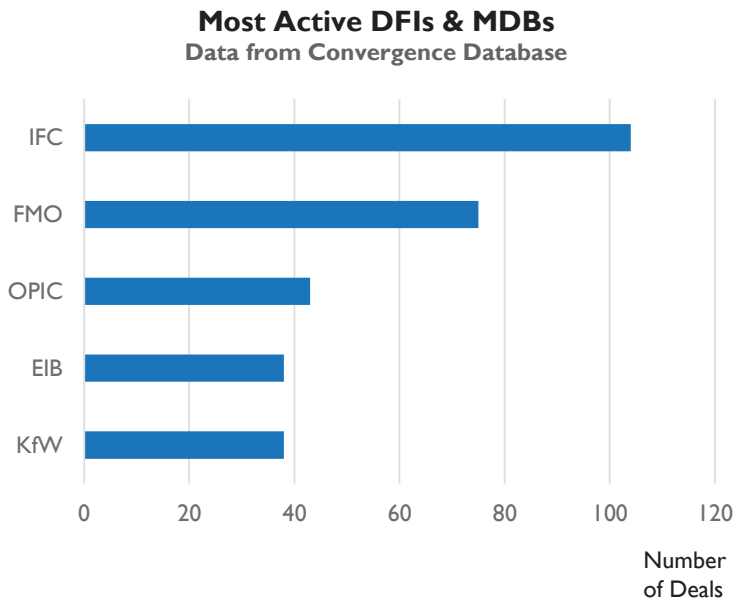
- Play a catalytic role, either through providing seed funding to large-scale and ground breaking initiatives or by providing smart concessional funding
- According to the OECD, the total volume of philanthropic funding for development was USD 24 billion in 2013-15
- The average investment size is smaller than other segments at around USD 5 million

**Most Active Philanthropic Foundations**  
Data from Convergence Database



# ROLE AND CHARACTERISTICS OF MULTILATERAL DEVELOPMENT BANKS AND DEVELOPMENT FINANCE INSTITUTIONS

- Have significant investment expertise and wide networks through in-country presence across emerging and frontier economies
- Usually participate in blended finance transactions through financing instruments (eg: loans and equity)
- Huge scope to structure transactions and deploy risk participation mechanisms to crowd in private capital
- Great deal origination, arranging, execution and managing capacities
- Average investment size according to Convergence database is 55 million for MDBs and 26 million for DFIs





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