



**Comité interministériel pour la coopération au développement  
Compte-rendu de la réunion du 7 juin 2019**

**Base légale:**

- Loi du 9 mai 2012 modifiant la loi modifiée du 6 janvier 1996 sur la coopération au développement et l'action humanitaire.
- Règlement grand-ducal du 7 août 2012 fixant la composition et le fonctionnement du Comité interministériel pour la coopération au développement.

**Liste de présence:**

*Délégués*

Manuel TONNAR	Président, MAEE/Direction de la Coopération et de l'Action humanitaire	<input checked="" type="checkbox"/>
Marie-Anne MARX	Directeur adjoint, MAEE/Direction de la Coopération et de l'Action humanitaire	<input checked="" type="checkbox"/>
Patrick HEMMER	Ministère d'Etat	<input checked="" type="checkbox"/>
Daniel DA CRUZ	Ministère de l'Economie	Excusé
Noémie MAROCHI FEYDER	Ministère de la Santé	Excusée
Claire ANGELSBERG	Ministère de la Santé (suppléante)	Excusée
Thomas BARBANCEY	Ministère des Affaires étrangères et européennes	<input checked="" type="checkbox"/>
Alain BLISS	MAEE/Direction de l'Immigration et de l'Asile (suppléant)	
Christine HERZEELE	Ministère de l'Agriculture, de la Viticulture et du Développement rural	<input checked="" type="checkbox"/>
Pierre TREINEN	Ministère de l'Agriculture, de la Viticulture et du Développement rural (suppléant)	
Marguy KOHNEN	Ministère de l'Environnement, du Climat et du Développement durable	<input checked="" type="checkbox"/>
Georges GEHL	Ministère de l'Environnement, du Climat et du Développement durable (suppléant)	
Pascale SPELTZ	Inspection générale de la Sécurité sociale	Excusée
Nathalie WEBER	Ministère de la Sécurité sociale (suppléante)	Excusée

Gilles FEITH	Ministère de la Défense	
Tom KÖLLER	Ministère de la Défense (suppléant)	
Alex RIECHERT	Ministère de la Défense (suppléant)	
Gilbert SCHMIT	Ministère de la Mobilité et des Travaux publics	
Christian GINTER	Ministère de la Mobilité et des Travaux publics (suppléant)	
Isabelle WELTER	Ministère de la Sécurité intérieure	Excusée
Hanna ATKINSON	Ministère de la Sécurité intérieure (suppléante)	Excusée
Georges HEINEN	Ministère des Finances	<input checked="" type="checkbox"/>
Miguel MARQUES	Ministère des Finances (suppléant)	<input checked="" type="checkbox"/>
Raymond BAUSCH	Inspection générale des Finances	Excusé
Nathalie BARBOSA	Inspection générale des Finances (suppléante)	<input checked="" type="checkbox"/>
Carlo HASTERT	Ministère des Sports	
Maggy HÜSSLEIN	Ministère des Sports (suppléante)	
Romain MARTIN	Ministère de l'Enseignement supérieur et de la Recherche	Excusé
Léon DIDERICH	Ministère de l'Enseignement supérieur et de la Recherche (suppléant)	
Alex FOLSCHIED	Ministère de l'Education nationale, de l'Enfance et de la Jeunesse	
Marguerite KRIER	Ministère de l'Education nationale, de l'Enfance et de la Jeunesse (suppléante)	Excusée
Isabelle KLEIN	Ministère de la Famille et de l'Intégration	Excusée
Emma WALDRON	Ministère de la Famille et de l'Intégration (suppléante)	<input checked="" type="checkbox"/>
Claude FABER	MAEE/Direction de la Coopération et de l'Action humanitaire	
Isabelle SCHROEDER	Ministère de l'Egalité entre les hommes et les femmes	Excusée
Ralph KASS	Ministère de l'Egalité entre les hommes et les femmes (suppléant)	<input checked="" type="checkbox"/>
Patricia VILAR	Ministère de l'Intérieur	<input checked="" type="checkbox"/>
Paul HENROTTE	Ministère de l'Intérieur (suppléant)	
Daniel da CRUZ	Ministère des Classes moyennes (temporaire)	Excusé
Daniel da CRUZ	Ministère du Tourisme (temporaire)	Excusé
Tom HANSEN	Ministère de la Justice	
Dina RAMCILOVIC	Ministère de la Justice (suppléante)	<input checked="" type="checkbox"/>
Bob GENGLER	Ministère de la Fonction publique	Excusé
Romain SCHLIM	Ministère de la Fonction publique (suppléant)	Excusé
Carlos GUEDES	Ministère de l'Aménagement du Territoire	Excusé
Frederick-Christoph RICHTERS	Ministère de l'Aménagement du Territoire (suppléant)	<input checked="" type="checkbox"/>
Barbara ZECHES	Ministère de la Culture	<input checked="" type="checkbox"/>

*Autres participants*

Christopher CLUBB	Directeur général Europe du réseau global « Convergence »
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Thomas LAMMAR	Responsable « Cohérences des politiques », MAEE/Direction de la Coopération et de l'Action humanitaire
Marianna PALMINI	Stagiaire, MAEE/Direction de la Coopération et de l'Action humanitaire

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### 1) Approbation de l'ordre du jour

Les délégués présents approuvent l'agenda.

### 2) Approbation du compte-rendu de la réunion du 29 mars 2019

Le compte-rendu de la réunion du CID du 29 mars 2019 est approuvé sous réserve de modifications mineures dans la section « Divers », introduites par le ministère des Finances.

### 3) Briefing sur les activités phares récentes de la Coopération luxembourgeoise

Le président revient sur les principales activités menées par la Coopération luxembourgeoise depuis le mois d'avril 2019 :

**- Business Partnership Facility (BPF): Opportunités de partenariat pour le secteur privé dans les pays en développement (lancement du 4 avril)** – Lors de cette conférence qui s'est tenue à la Chambre de Commerce, Paulette Lenert a rappelé l'importance de travailler de manière plus étroite avec le secteur privé. Promouvoir l'engagement des entreprises privées dans des filières de développement durable est essentiel, dans le but de générer un impact social et environnemental positif, qui peut être combiné avec un rendement financier. La croissance du secteur privé dans les pays en développement, si elle est bien agencée, a le potentiel de créer des emplois, d'augmenter les revenus et, par conséquent, de « sortir » les gens de la pauvreté. Les représentants de trois entreprises ayant bénéficié de subventions de la BPF lors des éditions précédentes, ont témoigné de leurs expériences respectives. M. Tonnar souligne que cet évènement était un succès, avec des témoignages intéressants des entreprises devant une salle bien remplie. Le processus de sélection des propositions reçues en 2019 est en cours.

**- Visite de Paulette Lenert à l’Innovation Accelerator du Programme alimentaire mondial (PAM) à Munich (11 avril)** – Depuis 2011, le Luxembourg travaille avec le PAM sur des solutions innovantes, surtout dans le contexte de l’Emergency Telecommunication Cluster (ETC) et de ses services associés ainsi que par le biais de la plateforme mobile « emergency.lu ». L’Innovation Accelerator, avec lequel le Luxembourg a conclu un partenariat en 2018, est en charge d’identifier et de développer de nouvelles réponses innovantes aux défis humanitaires et de développement dans le contexte du premier Objectif de Développement durable « Faim Zéro », ceci notamment en créant des synergies avec le secteur privé. En tant qu’acteur engagé dans le domaine de l’innovation pour le développement, le Luxembourg reconnaît la nécessité d’exploiter le potentiel de l’innovation en tant que catalyseur essentiel d’une réponse humanitaire améliorée. Une partie de la contribution financière luxembourgeoise a notamment été investie dans le projet « Building Blocks » dans deux camps pour réfugiés syriens en Jordanie.

Le représentant du ministère des Finances mentionne dans ce contexte l’utilisation de la technologie « blockchain » par la banque de développement allemande KfW au Burkina Faso. Il s’enquiert auprès du MAEE/Direction de la Coopération au sujet des conclusions découlant des échanges entre l’Ambassade à Ouagadougou, Lux-Dev et la KfW.

**- Déclaration de la ministre Paulette Lenert sur la politique de coopération et de l'action humanitaire à la Chambre des députés (14 mai)** – Lors de sa première Déclaration sur la politique de coopération et de l'action humanitaire à la Chambre des députés, la ministre Paulette Lenert a réaffirmé l'engagement ferme du Luxembourg pour le maintien de l'aide publique au développement à hauteur de 1% de son revenu national brut. Elle a rappelé que « c’est une question de principe » pour le Luxembourg, un des pays les plus prospères au monde, de se montrer solidaire envers les pays les moins avancés. En 2019, le Luxembourg investira près de 420 millions d'euros dans la politique de coopération et d’action humanitaire. Une action internationale consolidée étant la clé pour affronter des défis avec des répercussions mondiales, la ministre a rappelé l'importance du multilatéralisme. Elle a mis un accent particulier sur les énergies renouvelables et sur l'innovation technologique, notamment digitale, comme vecteurs essentiels permettant de rendre la coopération au développement plus efficace. Elle a rappelé le besoin continu d'évaluation des interventions de coopération et a annoncé l’adhésion du Luxembourg à l’Initiative internationale pour la transparence de l'aide (IATI).

La ministre a aussi annoncé que l’approche à travers les Programmes indicatifs de coopération (PIC) serait progressivement revue dans une logique d’une meilleure prise en compte de la diversification des relations avec les pays-partenaires de la Coopération luxembourgeoise qui irait au-delà de la coopération au développement pour inclure notamment des domaines tels que la finance, le climat et la défense. Il s’agira en particulier de renforcer l’impact et la cohérence des actions menées par l’ensemble des Ministères et entités luxembourgeoises dans les pays-partenaires. Dans ce contexte, le Cabo Verde avec lequel le PIC en cours viendra à son terme fin 2020, constitue actuellement le pays-partenaire avec lequel une telle « approche-pays » pourrait

être envisagée dans le court à moyen terme. D'un point de vue pratique, il est dans un premier temps prévu de mettre en place un groupe de travail interministériel pour accompagner le processus d'identification de « l'approche-pays ». Dans cette logique, une invitation sera adressée aux principaux Ministères ayant des activités dans les pays-partenaires.

Le délégué du ministère d'Etat salue l'idée d'une « approche-pays », surtout dans les pays-partenaires historiquement proches du Luxembourg et dans lesquels cette proximité représente par ailleurs un atout pour les échanges futurs. Il rappelle également qu'une visite de travail conjointe en Afrique, associant le Premier ministre Xavier Bettel et Paulette Lenert, pourrait être envisagée.

#### **- Paulette Lenert au Conseil « Affaires étrangères » en formation Développement (16 mai) –**

La ministre a participé au Conseil « Affaires étrangères » (CAE) dans sa formation Développement, sous la présidence de la haute représentante de l'Union européenne (UE) pour les affaires étrangères et la politique de sécurité, Federica Mogherini. L'effort collectif de l'UE pour atteindre les objectifs de l'Agenda 2030 des Nations unies, la jeunesse et le développement ainsi que l'engagement européen dans le Sahel figuraient à l'ordre du jour de cette réunion. La ministre Lenert a concentré son intervention sur les défis actuels dans la région du Sahel. Le Luxembourg consacre ses efforts financiers les plus significatifs à l'Afrique de l'Ouest, et a rejoint l'Alliance Sahel en mars 2018. Enfin, dix-huit États membres, dont le Luxembourg, ont soumis une lettre destinée à la haute représentante Mogherini et au commissaire Neven Mimica pour encourager l'utilisation accrue du numérique au service du développement. Lors d'un déjeuner de travail informel, les ministres se sont échangés sur la future architecture financière de l'UE pour le développement durable. A cet égard, la Commission veut un instrument cohérent et flexible pour la coopération au développement.

Concernant l'utilisation accrue du numérique au service du développement, le délégué du ministère des Finances informe que la Banque Mondiale a récemment lancé le projet « Identification for development » (ID4D). Il s'agit d'une initiative permettant de capturer numériquement l'identité des personnes, par exemple au Nigeria. Le président précise que ce type de projet est d'une importance capitale dans les pays du Sud. Il indique que le Luxembourg soutient régulièrement des projets de recensement de la population, dont actuellement au Cabo Verde en collaboration avec le STATEC, afin d'aider les pays concernés à améliorer la qualité et la fiabilité de leurs registres civils.

La déléguée du ministère de la Culture signale qu'une réunion importante autour des thèmes de la culture et du développement aura lieu à Bruxelles sous la présidence du Conseil de l'UE de la Finlande (juin-décembre 2019) dont le programme porte notamment sur l'Agenda 2030.

#### **-Points de calendrier**

Le président et les délégués présents annoncent quelques points de calendrier :

- Du 10 au 14 juin aura lieu la visite de la ministre Lenert au Bangladesh autour des volets développement et action humanitaire à laquelle le ministre des Affaires étrangères et européennes ne participera finalement pas.
- Les 18 et 19 juin se tiendront à Bruxelles les *European Development Days*.
- Les Assises de la Coopération luxembourgeoise sont reportées à la semaine du 13 janvier 2020. Elles se tiendront sur base d'un nouveau concept qui se voudra plus interactif et intéressant pour les partenaires de part et d'autre.
- L'Assemblée générale de la Banque Asiatique de Développement s'est tenue aux îles Fidji du 1<sup>er</sup> au 5 mai 2019. Du 11 au 13 juillet, le Luxembourg aura l'honneur d'accueillir la réunion annuelle de la Banque asiatique d'investissement pour les infrastructures (AIIB).
- La 22<sup>e</sup> réunion du conseil d'administration du *Green Climate Fund* (GCF) aura lieu le 29 août à Luxembourg. M. Tonnar rappelle que Lux-Development a été récemment accréditée en tant qu'agence pouvant implémenter des projets financés à travers le GCF.

#### 4) Présentation sur la finance mixte par le réseau global « Convergence », suivie de débat

Le délégué du ministère des Finances qui a facilité l'organisation de cette présentation, souhaite la bienvenue à Christopher Clubb, Directeur général Europe du réseau global « Convergence ». Il souligne l'importance de la finance mixte (*blended finance*) pour mobiliser les ressources nécessaires pour l'atteinte des Objectifs de développement durable (ODD).

« Convergence » est un réseau mondial oeuvrant sur la thématique de la finance mixte. Son but est de produire des données et de faciliter les flux de ressources financières pour accroître les investissements à impact du secteur privé dans les pays du Sud. L'objectif de la présentation consiste à mieux faire connaître les pratiques et tendances actuelles en matière de finance mixte et d'explorer les opportunités potentielles en la matière pour le Luxembourg.

Avant de débiter sa présentation, M. Clubb salue l'initiative du Luxembourg d'avoir établi un Comité interministériel pour la coopération au développement (CID), ainsi que sa contribution à hauteur de 1% du revenu national brut à l'aide publique au développement (APD).

Les définitions de la « *blended finance* » sont variées. Toutefois on peut retenir celle de l'OCDE : « Le financement mixte est l'utilisation stratégique du financement du développement pour la mobilisation de fonds supplémentaires en faveur du développement durable dans les pays en développement. »

La réalité est que l'APD traditionnelle n'est tout simplement pas suffisante pour atteindre les Objectifs de développement durable (ODD) à l'horizon 2030. Le déficit annuel de financement est de l'ordre de 2,5 milliards USD. Ce montant semble énorme, mais représente en fait moins de 1% du volume de fonds transitant à travers les marchés financiers mondiaux. Le défi principal consiste donc à trouver la bonne approche pour encourager le secteur privé à investir

intelligemment dans le développement des pays à revenu intermédiaire et faible. Jusqu'à ce jour, la finance mixte a déjà mobilisé plus de 100 milliards USD.

A l'issue de sa présentation, M. Clubb répond aux commentaires et questions des délégués du CID.

La déléguée du MECDD mentionne l'industrie des fonds d'investissement bien développée du Luxembourg et s'interroge par rapport aux possibilités d'établir un *label* pour ce type de financements. Monsieur Clubb précise qu'il existe un réel intérêt pour la finance mixte, en particulier pour le financement climatique. Il encourage le Luxembourg à davantage encore prioriser la mise en place de fonds d'investissement dédiés au développement durable, y compris dans les domaines de l'agriculture et de la sécurité alimentaire.

Le délégué du ministère des Finances se demande comment un effet d'entraînement pourrait être généré concernant la finance mixte qui dépasserait l'intérêt des seuls professionnels engagés dans ce secteur. M. Clubb répond qu'une coopération étroite entre Etats se réalise actuellement dans le cadre des foras de l'OCDE. Le défi clef consistera à trouver la formule pour porter la finance mixte à l'échelle, en identifiant notamment les circonstances où elle constitue la solution la mieux appropriée pour ainsi drainer davantage d'investissements vers les pays les moins avancés (PMA).

Le président mentionne les activités du Luxembourg en matière de finance inclusive, de la finance climatique, y compris en collaboration avec la Banque européenne d'investissement, qui peuvent toutes être caractérisées de finance mixte. Il précise que le Luxembourg met en œuvre les approches présentées par « Convergence », à l'exception de la finance axée sur les résultats. Le président se dit intéressé par cette approche, mais mentionne le besoin d'éviter un endettement accru des pays en voie de développement.

Monsieur Clubb reconnaît que le risque d'investissement est le plus élevé dans les PMA, mais estime qu'il y existe néanmoins un potentiel considérable pour la finance mixte. Une approche pour mobiliser davantage d'investissements dans ces régions consiste à diversifier les portefeuilles d'investissement en y incluant des projets avec des niveaux de risque différents. Il précise que l'incertitude quant au taux de change des monnaies représente également un risque considérable dans les PMA. Concernant le recours à la finance axée sur les résultats, M. Clubb indique que la Coopération du Royaume-Uni est actuellement la plus avancée en la matière. Il existe également un groupe de travail sur les obligations à impact social, auquel M. Clubb invite le Luxembourg à se joindre.

Le délégué du ministère des Finances se demande comment l'on pourrait mieux communiquer les avantages et opportunités découlant de la finance mixte envers les représentants de la société civile qui restent souvent critiques face à ces approches. M. Clubb rappelle dans ce contexte que de nombreux pays du Sud restent également hésitants face à un recours accru à la finance mixte. Afin de changer la donne, il s'agira en particulier de démontrer l'impact concret et réel qui peut être

induit à travers la finance mixte. « Convergence » se dit prêt à appuyer le Luxembourg dans une telle démarche.

Il est finalement convenu de partager le support de la présentation avec le CID.

## 5) Divers

Aucun point n'a été abordé sous « Divers ».

<b>Pour mémoire, la prochaine réunion du CID se tiendra le vendredi 5 juillet 2019 10h30</b>
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### **Document annexé au compte-rendu:**

- Présentation sur la finance mixte par le réseau global « Convergence »

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## **LUXEMBOURG INTER-MINISTERIAL MEETING**

**BLENDING FINANCE:**  
DEVELOPMENT TOOL TO  
MOBILISE PRIVATE  
SECTOR INVESTMENT TO  
DEVELOPING COUNTRIES  
TO ACHIEVE THE  
SUSTAINABLE  
DEVELOPMENT GOALS

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LUXEMBOURG, 7 JUNE 2019

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4. Role of development capital providers to mobilise private sector investment
5. Global state of blended finance
6. Role of European Union member countries in blended finance
7. Benefits to Luxembourg financial sector and economy through blended finance
8. Questions, answers and discussion

# CONVERGENCE BLENDED FINANCE

Chris Clubb - Managing Director of Convergence.  
International financing expertise at TD, EDC,  
European Investment Bank and European Bank for  
Reconstruction and Development.

Convergence - CAFIID member since 2017.

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

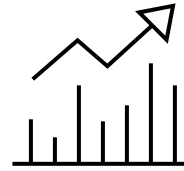
Funded by member fees/revenues and Global  
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Offices in Nairobi, Toronto and Washington



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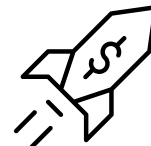
## DATA & INTELLIGENCE

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.



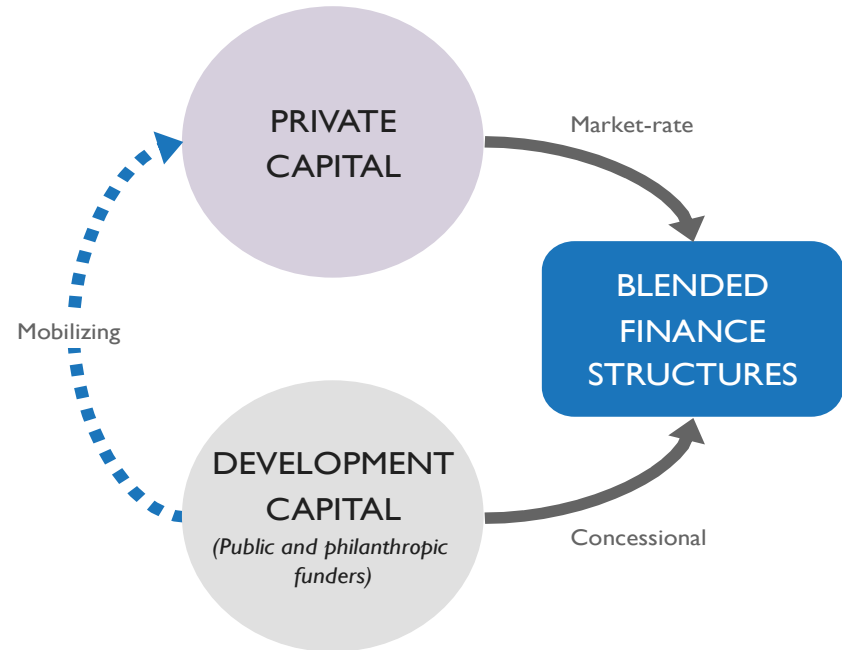
## MARKET ACCELERATION

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

# Blended finance definition

# DEFINING BLENDED FINANCE FOR INFORMATION SESSION

- OECD Blended Finance Principles definition: Deploy “**development finance**” to mobilize “**additional finance**” to Sustainable Development Goals in developing countries
- **Catalytic capital** (public & philanthropic) to increase private investment in developing countries for development impact
- **Structuring approach** allows different types of capital to co-invest while achieving their own objectives (financial, social or a blend)



## **Rationale for blended finance:**

**Development tool to (1) achieve development impact and (2) mobilise private sector investment by creating acceptable risk-return profile investment opportunity**

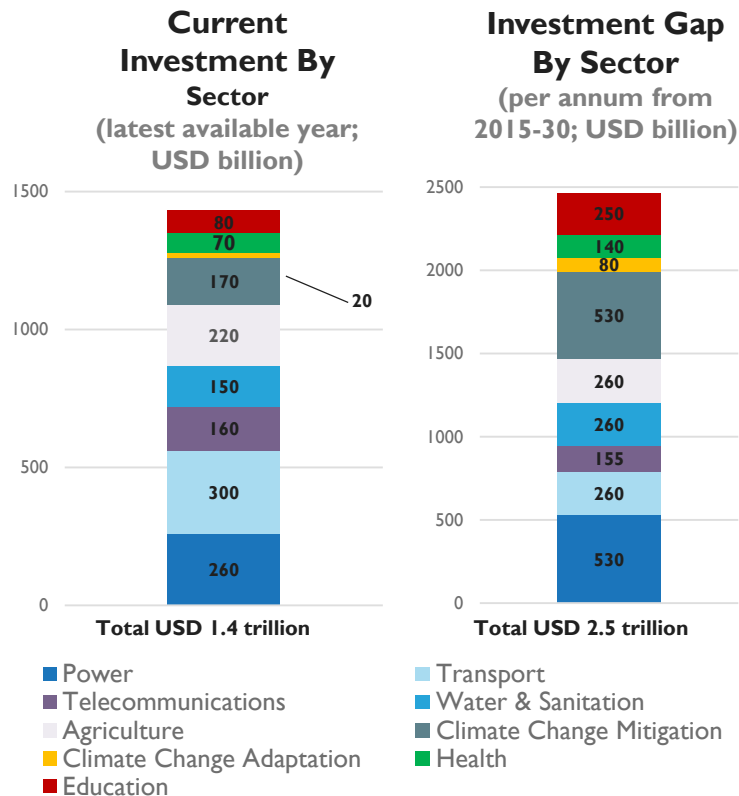
# SUSTAINABLE DEVELOPMENT GOALS TO GUIDE THE WORLD

- In 2015, United Nations member states agreed 17 goals to unify development to 2030
- Increasingly rallying private sector



# CURRENT INVESTMENT & FUNDING GAP BY KEY SDG SECTORS

- UN Conference on Trade and Development (UNCTAD) estimates annual investment required to achieve SDGs at USD 3.9 trillion.
- Actual investment only USD 1.4 trillion resulting in **USD 2.5 billion SDG Investment Gap**.
- Climate Change Adaptation, Climate Change Mitigation and Education have largest relative gaps with investment equal to 33% or less of actual need





# BLENDED FINANCE: MOBILIZING INVESTMENT TO IMPROVE PEOPLE'S LIVES IN DEVELOPING COUNTRIES

- UN estimates investment needs to achieve SDGs at \$3.9 trillion. Actual flows of \$1.4 trillion result in \$2.5 trillion gap.
- Official development assistance (ODA) flows in 2018 equaled \$148 billion (4% of need)
- Global financial assets estimated at \$330 trillion; operates at scale required to narrow gap
- **Private capital must be mobilized** to achieve the SDGs: “Billions to Trillions”

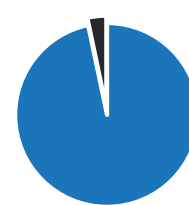
## Estimated SDG Investment Gap

2015 - 2030

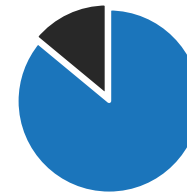
Trillions of USD, annual average



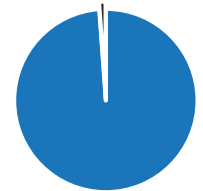
## Putting the SDG Funding Gap in Perspective



SDG Funding Gap is 3% of global GDP (USD 76 trillion)



SDG Funding Gap is 14% of global annual savings (USD 17 trillion)

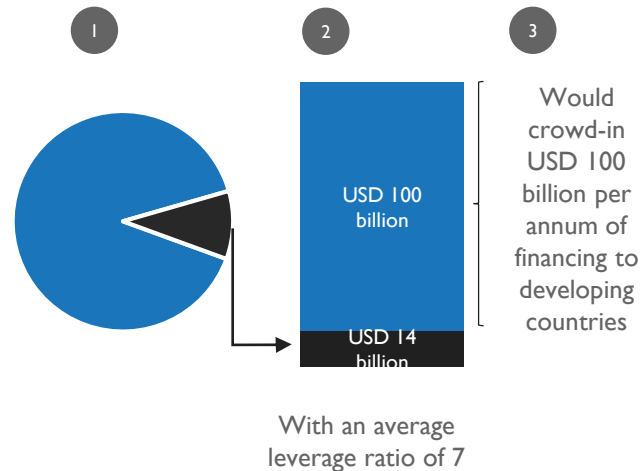


SDG Funding Gap is 1% of global capital markets (USD 218 trillion)

# POTENTIAL OF BLENDED FINANCE

- Clear case that blended finance has potential to mobilise private sector investment and expertise at sufficient scale to materially narrow SDG funding gap
- Based on existing leverage factors, 7 times leverage is reasonable
- If 10% of \$148 billion ODA is allocated to blended finance annually, could mobilize \$100 billion of additional private finance per year

**A small percentage of annual ODA allocated to blended finance has potential to leverage significant amounts of private capital**



**USD 100 billion is around 3 times total MDB and DFI finance to private sector in developing countries**

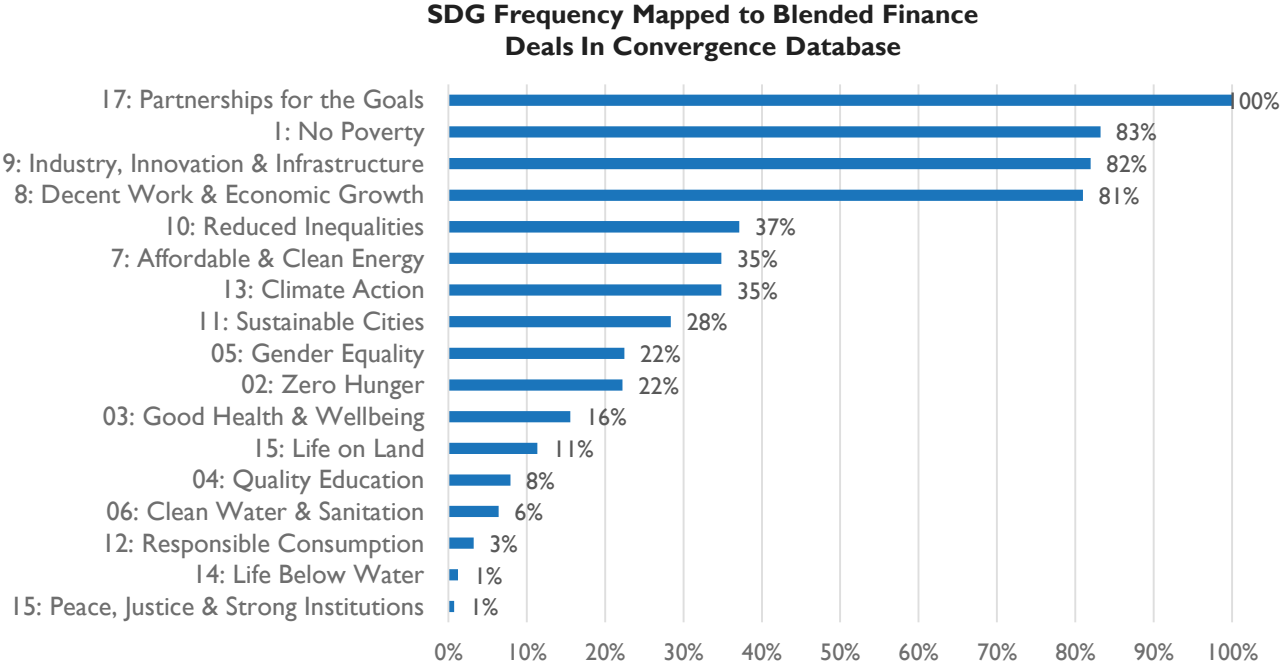
# BLENDED FINANCE: ONE TOOL IN TOOLBOX TO ACHIEVE SGDS

- Official development organizations have many tools to fund SDGs - grants, technical assistance, sovereign finance, development finance and blended finance
- Majority of development requires grants
- Blended finance is good approach only if:
  1. Goal is to mobilize additional finance
  2. Transaction adheres to best practices
- Rationale: Aggregate of development funds and private investment generates higher development impact and sustainable finance



# BLENDING FINANCE ALIGNMENT WITH SDGs

- Convergence mapped ~400 blended finance projects in Historical Projects Database
- Blended finance best suited to supports SDGs with underlying activities that generate cashflows



# GOOD OVERALL ALIGNMENT BETWEEN BLENDED FINANCE & SDGs; BLENDED FINANCE CAN BE DEPLOYED TO NARROW INVESTMENT GAPS FOR MANY SDGs

- For most of sectors with large SDG funding gap, there is High or Medium alignment with blended finance
- Good capacity for blended finance to play a meaningful role in many of the sectors with large SDG investment gaps

Sector	Funding Need (USD Billion p.a)	Blending Alignment	
		Actual	Survey
Power	530	High	High
Climate Mitigation	530	High	High
Transport	260	High	High
Water & Sanit	260	Medium	Medium
Agriculture	260	Medium	Medium
Education	250	Low	Low
Telecom	155	Low	Medium
Health	140	Low	Low
Climate Adaptation	80	No	No

# NUMEROUS BARRIERS IMPEDE INVESTMENTS IN DEVELOPING COUNTRIES

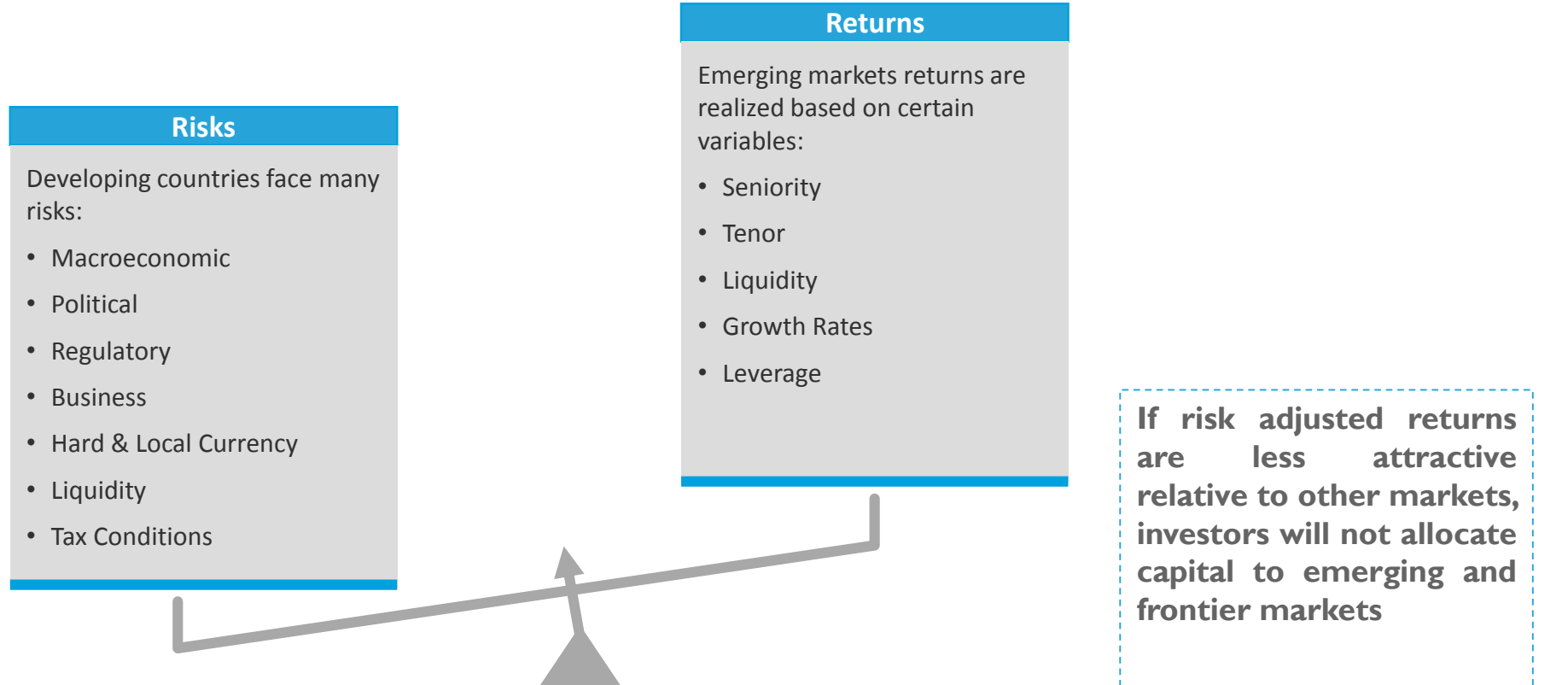
Developing countries: 49% of global GDP, but less than 5% of USD 220 trillion global capital markets.

Main challenges to investment: **Perceived (i) high risk and (ii) weak return for risk.**

Other challenges:

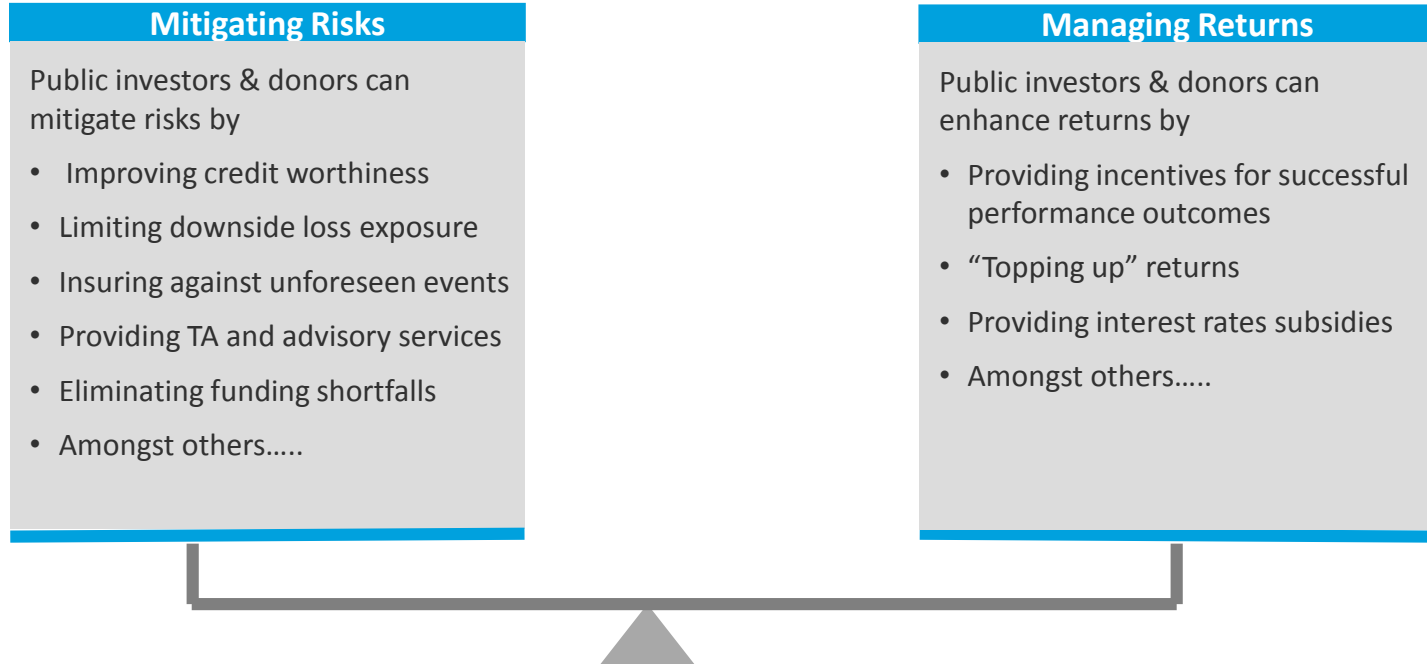
- 1 Liquidity is often weak or non-existent
- 2 Local financial markets often do not function efficiently
- 3 Private investors have knowledge and capability gaps
- 4 Challenging local investment climate
- 5 Private investors have limited mandates and incentives
- 6 Individual investment opportunities are often too small
- 7 High volatility impedes stable investment returns

# FACTORS AFFECTING RISK-ADJUSTED RETURNS



# BLENDED FINANCE CAN MITIGATE RISK AND/OR IMPROVE RETURNS

Public and philanthropic capital deployed to mitigate risk and/or manage returns  
Brings risk-adjusted returns in line with criteria and market

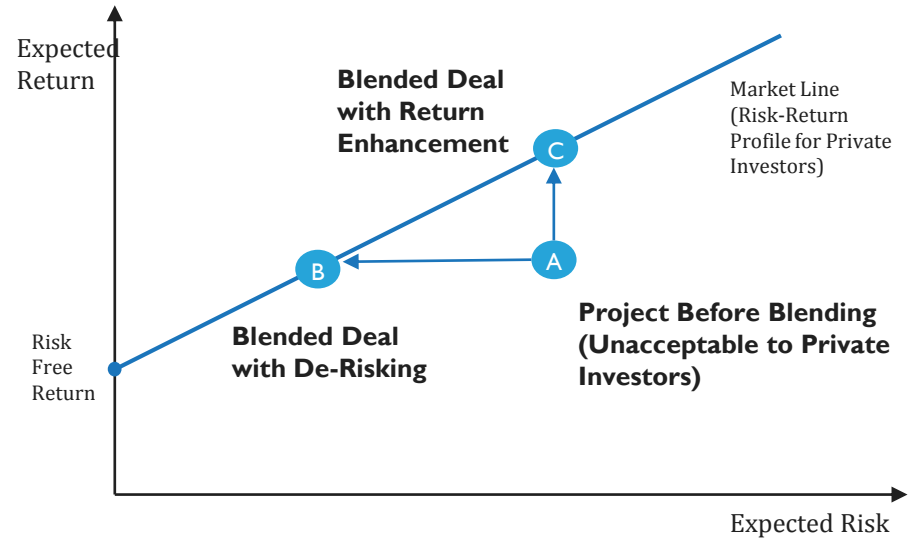




# STRUCTURING TO CREATE MARKET RISK-RETURN ACCEPTABLE TO PRIVATE SECTOR INVESTORS

- Blue line depicts “market” risk-return line for investments. Investors seek investments at or above market line
- Transactions below market line (A) not acceptable since expected return is too for expected risk
- Blended finance can reduce risk (A to B) or increase return (A to C)
- Risk reduction is primary use of development funds in blended finance

Deploying Blended Finance To Achieve Commercially Acceptable Risk – Return Profile



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

# HIGH RISK OF BORROWERS IN DEVELOPING COUNTRIES

- Majority of public sector and private borrowers in developing countries are deep speculative grade
- Median sovereign rating is “B+”.
- Most “good” private sector borrowers would be 1-3 notches lower than sovereign; around “B-”.
- “B-” too high-risk for most private sector investors. Probability of Default and Expected Loss too high

Country Classification	Number	Sovereign Risk Rating	Number
Least Developed Countries	47	A- or better	3
Other Low Income	2	BBB	10
Lower Middle Income	38	BB	16
Upper Middle Income	58	B	45
Total	145	CCC or worse	6
		Unrated	65
		<b>Median rated</b>	<b>B+</b>

# MODELING PROBABILITY OF DEFAULT & EXPECTED LOSS

- Expected loss is a function of probability of default and loss given default
- Comparing “investment grade” BBB to “speculative grade” B, expected loss is around 12 times higher. Far too high for majority of private sector investors

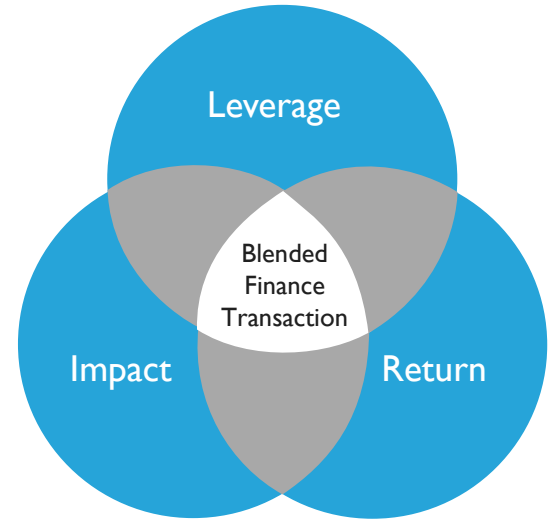
		Investment Grade Borrowers			Non-Investment Grade Borrowers (Speculative Grade)						
Agency	Statistic	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC to C
Fitch	5-yr cum default rate	0.8%	1.6%	2.7%	5.3%	5.9%	5.4%	8.1%	11.5%	8.6%	35.5%
S&P	5-yr cum default rate	1.1%	1.5%	3.0%	4.1%	6.9%	10.0%	15.0%	18.6%	26.4%	46.4%
Moody's	5-yr cum default rate		1.6%			8.9%			21.9%		35.4%
Average	5-yr cum default rate	0.9%	1.6%	2.9%	4.7%	7.2%	7.7%	11.5%	17.3%	17.5%	39.1%
	<b>Annual Probability of Default</b>	0.19%	0.32%	0.58%	0.96%	1.49%	1.59%	2.42%	3.73%	3.78%	9.44%
	<b>Assumed Loss Given Default</b>	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
	<b>Annual Expected Loss</b>	0.09%	0.16%	0.29%	0.48%	0.75%	0.79%	1.21%	1.87%	1.89%	4.72%

# Main approaches to mobilise private sector investment

# KEY CHARACTERISTICS OF A BLENDED FINANCE TRANSACTION

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

- 1. Impact** - Underlying activity contributes to the SDGs in a developing country; however not all parties need to have development intent
- 2. Leverage** - Private sector would not have been mobilized without blended finance intervention
- 3. Return** - Underlying project activity has **cashflow** and 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

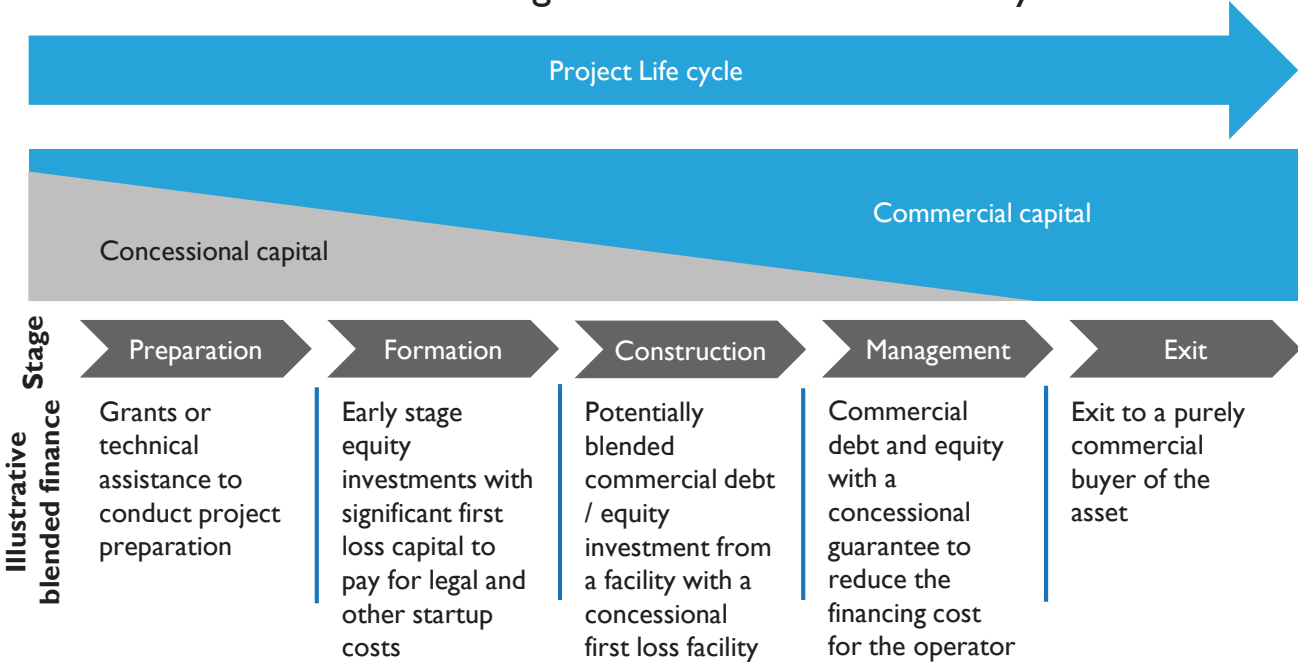
**4. Facility** - Long term institution set up to blended different forms of capital

**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>• African Local Currency Bond 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 DIFFERENTIATED ACROSS PROJECT LIFE

- 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

# BLENDING FINANCE: DEPLOYING DEVELOPMENT FUNDS FOR SDG PROJECTS

Development Objectives	Primary Archetype(s)
Mobilize additional financing by creating market risk-return acceptable to private investors	Funded Risk Participation & Unfunded Risk Participation
Reduce up-front or ongoing costs to make an SDG project affordable	Viability Gap Funding & Smart Subsidies
Pay for “social” outcome the project or market can not afford (or will not pay)	Smart Subsidies & Performance Payments
Support success of SDG project by covering part of the costs or achieve systemic impact beyond individual project	Technical Assistance
Increase number of SDG related projects	Viability Gap Funding, Project Preparation & Design Funding
Incentivize innovation and investment into SDGs by committing to pay for results/outcomes (advanced market commitments)	Results Based Financing, Outcome Funding & Pay for Success
Reduce currency risk to make SDG project feasible & sustainable	Currency Risk Mitigation



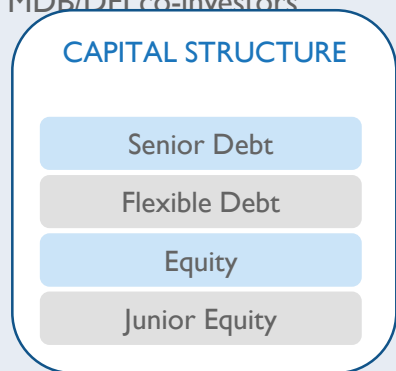
# BLENDING FINANCE: MAIN ARCHETYPES AND INSTRUMENTS

Archetype	Typical Development and Financial Instruments
1. Funded Risk Participation	Investment or Grant: Debt (Loans and Bonds), Mezzanine Capital or Equity
2. Contingent (Unfunded) Risk Participation	Investment or Grant: Guarantee
	Investment or Grant: Insurance
3. Technical Assistance	Grant: Technical Assistance
4. Viability Gap Funding, Smart Subsidies and Performance Payments	Grant: Capital Investment and Incentive/Affordability
5. Project Preparation & Design Funding	Grant: Project Preparation or Design Funding
6. Results-Based Financing Outcome Funding	Grant
7. Currency Risk Mitigation	Grant: Similar to Smart Subsidies Risk Sharing: Currency Risk or Credit Risk

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

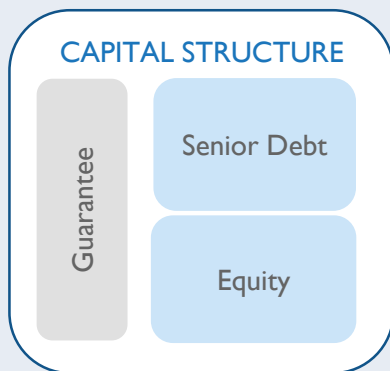
## FUNDED RISK PARTICPATION (CONCESSIONAL DEBT OR EQUITY)

- Public or philanthropic investors concessional within capital structure; bear non-market risk-return
- Subordinate, junior less-commercial terms compared to private sector and MDB/DFI co-investors



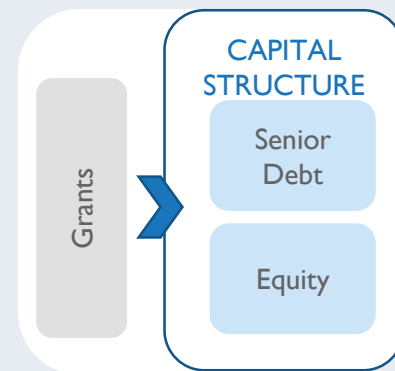
## CONTINGENT RISK PARTICPATION (GUARANTEE & INSURANCE)

- Risk reduction tools protecting investors against loss of capital
- Helps to narrow gap between real and perceived risk
- Can cover all risks or a sub-set

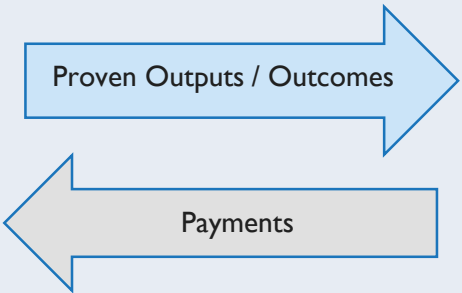
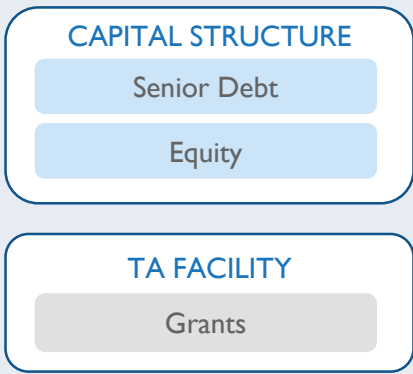
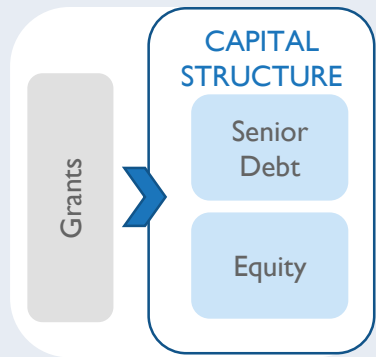


## PROJECT PREPARATION & DESIGN FUNDING (GRANT)

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



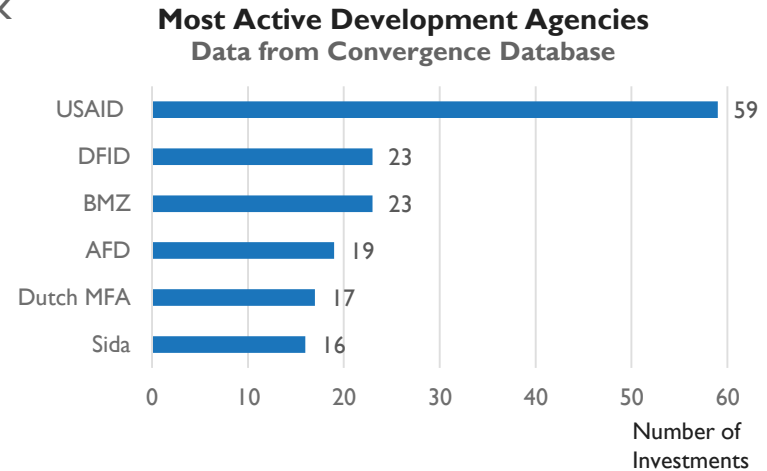
# MOST PREVALENT ARCHETYPES OF DEVELOPMENT CAPITAL / CONCESSIONAL FUNDS IN BLENDED FINANCE TRANSACTIONS (2/2)

RESULTS BASED FINANCING (GRANT)	TECHNICAL ASSISTANCE (GRANT)	PROJECT COST SUPPORT (GRANT)
<ul style="list-style-type: none"> <li>• Ties payment to achievement of pre-agreed measurable outputs and outcomes</li> <li>• Donors pay for outputs and not inputs (the latter typical for grants)</li> <li>• Examples include Development &amp; Social Impact Bonds</li> </ul>  <p>The diagram shows two horizontal arrows. The top arrow is blue and points to the right, labeled 'Proven Outputs / Outcomes'. The bottom arrow is grey and points to the left, labeled 'Payments'.</p>	<ul style="list-style-type: none"> <li>• Funding to supplement the capacity of investees</li> <li>• Aim is to maximize quality of project implementation</li> </ul>  <p>The diagram shows two rounded rectangular boxes. The top box is labeled 'CAPITAL STRUCTURE' and contains two smaller boxes: 'Senior Debt' and 'Equity'. The bottom box is labeled 'TA FACILITY' and contains one smaller box: 'Grants'.</p>	<ul style="list-style-type: none"> <li>• Used to reduce total investment required or support economics / financing of project</li> <li>• Deployed upfront (capital grant) or as ongoing payments (smart subsidies)</li> <li>• Examples include viability gap funding and interest rate subsidies</li> </ul>  <p>The diagram shows a vertical grey bar labeled 'Grants' on the left. A blue arrow points from this bar to a rounded rectangular box on the right labeled 'CAPITAL STRUCTURE'. Inside this box are two smaller boxes: 'Senior Debt' and 'Equity'.</p>

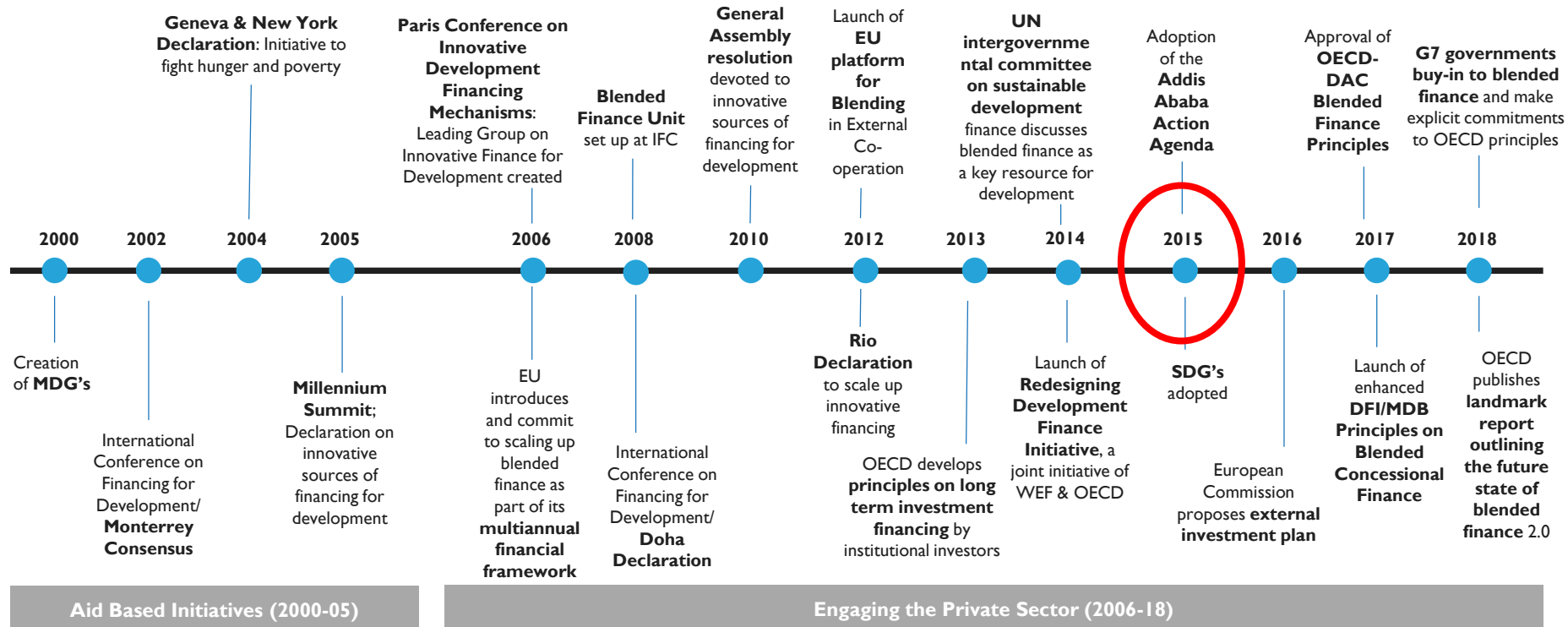
# **Role of development capital providers, primarily official development agencies**

# ROLE AND CHARACTERISTICS OF DEVELOPMENT AGENCIES

- Typically have large budgets and the ability to provide risk capital at project, facility or portfolio levels
- Help to attract 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 Convergence database is around USD 49 million

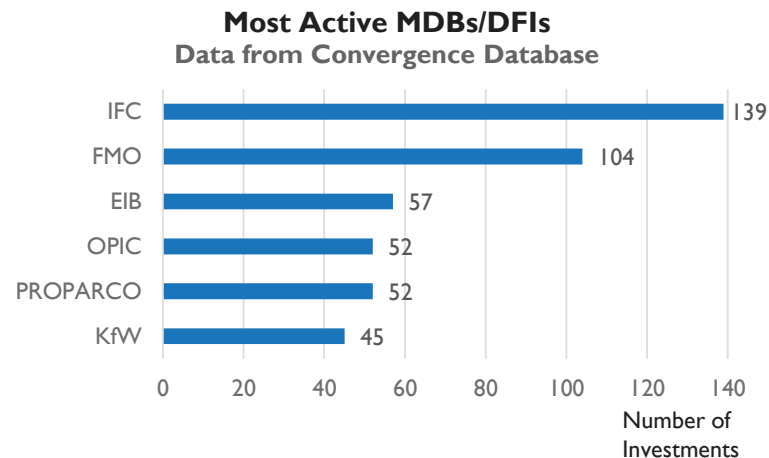


# INCREASED MOMENTUM IN GLOBAL SUPPORT FOR BLENDED FINANCE SOLUTIONS, WITH 2015 ADDIS ABABA MILESTONE



# 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



# DESPITE AN INCREASE IN BLENDED FINANCE CAPABILITY, MDBS CURRENTLY HAVE LOW LEVELS OF MOBILIZATION IN THEIR PRIVATE SECTOR FINANCING

## Analysis of MDB private mobilisation in their private sector operations (2016)

MDB Private Sector Window Mobilization (FY 2016)	MDB Annual Private only operations estimate (\$bn)	Private operations share of total estimate (%)	Direct Mobilization (\$bn)	Indirect mobilization (\$bn)	Co-Financing (\$bn) (Direct + Indirect)	Direct Private Mobilization Ratio	Total Private Co-Financing Ratio
IFC (WB)	10.0	100%	4.1	16.0	20.1	0.4	2.0
MIGA (WB)	4.3	100%	4.0	3.2	7.2	0.9	1.7
EBRD	7.4	70-80%	1.5	8.5	10.0	0.2	1.3
EIB	8.8	na	3.7	5.4	9.0	0.4	1.0
IADB (IDB invest)	2.2	20%	0.7	1.0	1.7	0.3	0.8
ADB	2.5	15%	0.5	8.5	9.0	0.2	3.6
MDBX	2.7	25%	1.1	0.8	1.9	0.4	0.7
AIIB	1.7	100%	0.0	0.01	0.0	0.0	0.0
Total	39.6		15.5	43.4	58.9	0.4	1.5



## SUMMARY OF DEVELOPMENT AGENCIES, MDBS AND DFIS

- Development agencies allocate 0 – 8% of their budget annually to blended finance
- Leaders are European Commission, USAID and UK DFID
- Blended finance is underutilized development tool is objective is to close the SDG Investment Gap.
- MDBs and DFIs do not mobilise private sector investment at scale
- Increase in official development allocation to blended finance and mobilisation, but not at scale to achieve the SDGs.
- Funding can be Official Development Assistance and additional resources – low incidence of loss in blended finance.

# Global state of blended finance

# BLENDING FINANCE DEAL TRENDS: VOLUME, SIZE & TYPE

Number of Deals

>408

Aggregate Deal Size

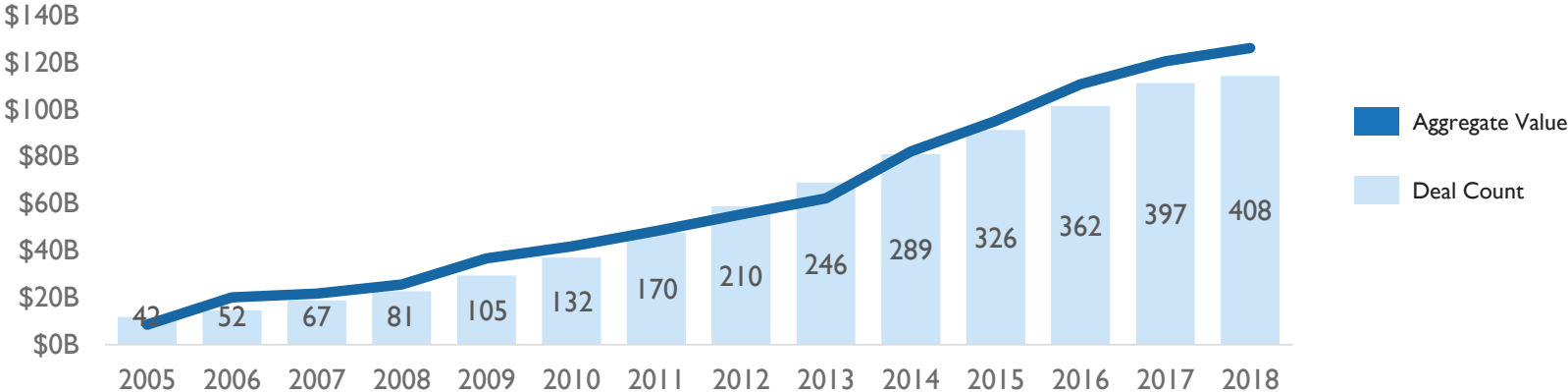
>\$126bn

Number of Investors

>1100

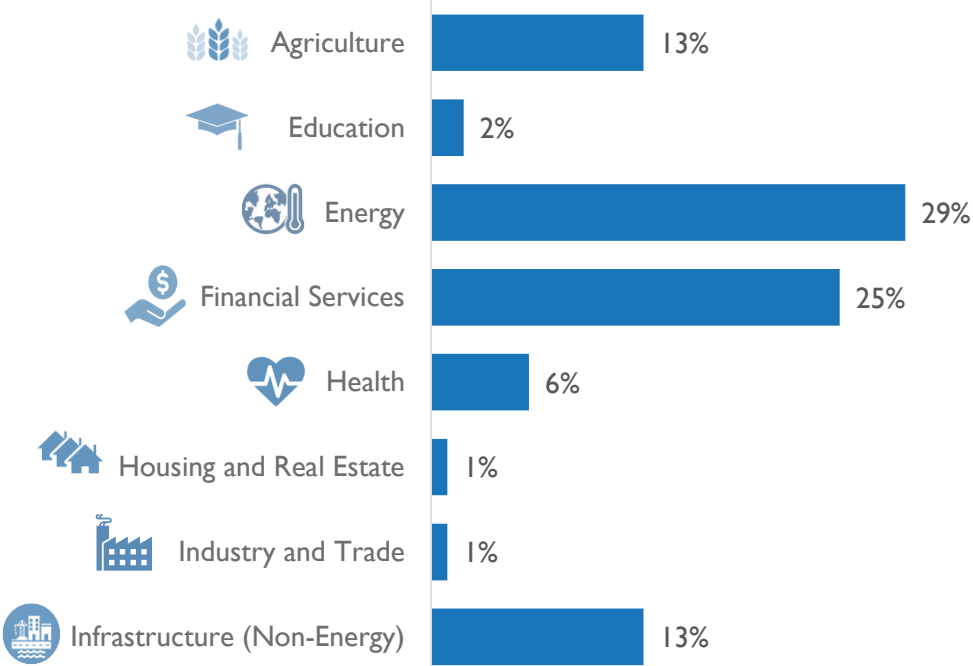
64% of deals collected are Funds and Facilities and account for 71% of capital mobilized

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

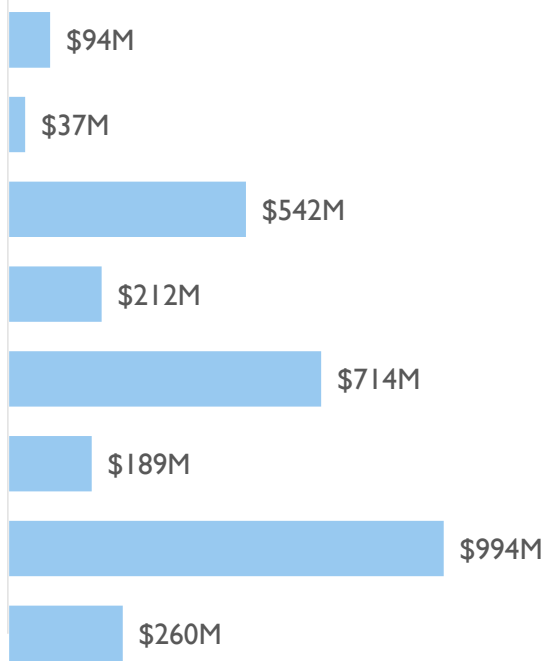


# BLENDING FINANCE TRENDS: SECTORS

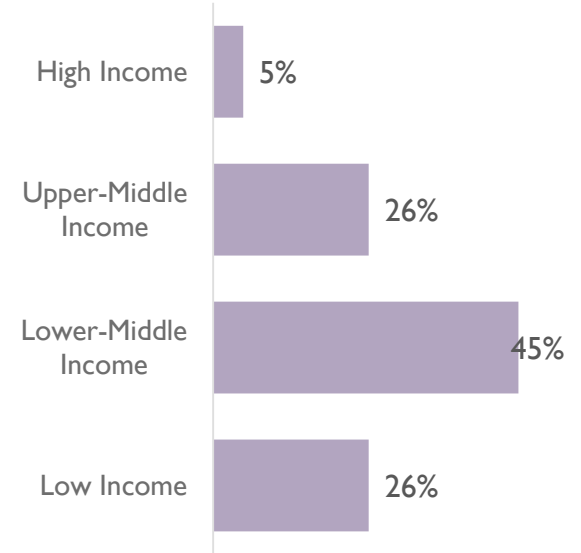
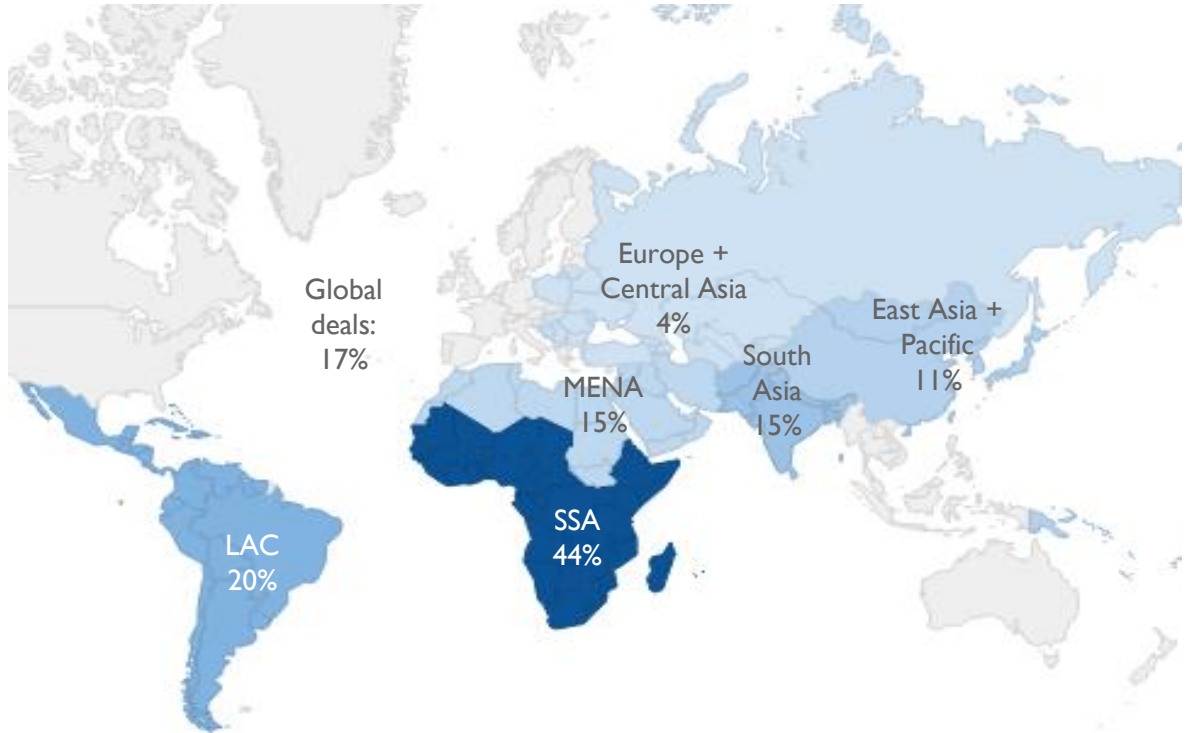
PROPORTION OF DEALS



AVERAGE DEAL SIZE



# BLENDING FINANCE TRENDS: REGIONS & COUNTRY INCOME LEVEL



*Note: 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.*

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

**DEVELOPMENT AGENCIES**

Global Affairs Canada

USAID  
FROM THE AMERICAN PEOPLE

European Commission

Department for International Development

aacid

Sida

JICA  
ジヤイカ

Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

AFD

Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung

**MULTILATERAL DEVELOPMENT BANKS AND NATIONAL DEVELOPMENT FINANCE INSTITUTIONS**

IFC

African Development Bank

European Investment Bank  
The EIB bank

CDC  
Investment works

OPIC

TDB  
THE DEVELOPMENT BANK

ADB

FinDev Canada

FMO  
Entrepreneurial Development Bank

KfW DEG

**PRIVATE INVESTORS**

Deutsche Bank

UBS

Allianz

storebrand

BNP PARIBAS

AXA

ChristianSuper  
adding values to money

citi

Cordiant

JPMORGAN CHASE & CO.

**PHILANTHROPIC FOUNDATIONS**

BILL & MELINDA GATES foundation

MacArthur Foundation

The ROCKEFELLER FOUNDATION

OMIDYAR NETWORK

FORD FOUNDATION

DOEN Foundation

Calvert Foundation

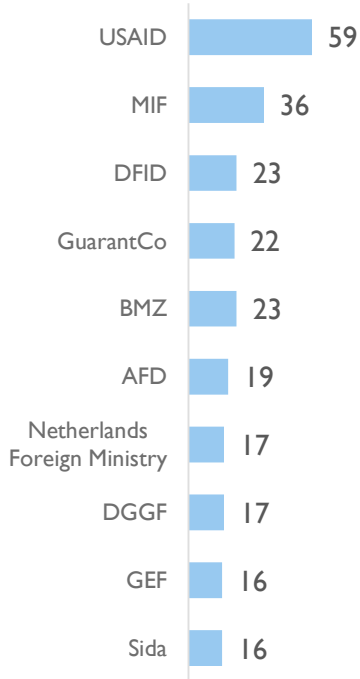
Shell Foundation

ACCION

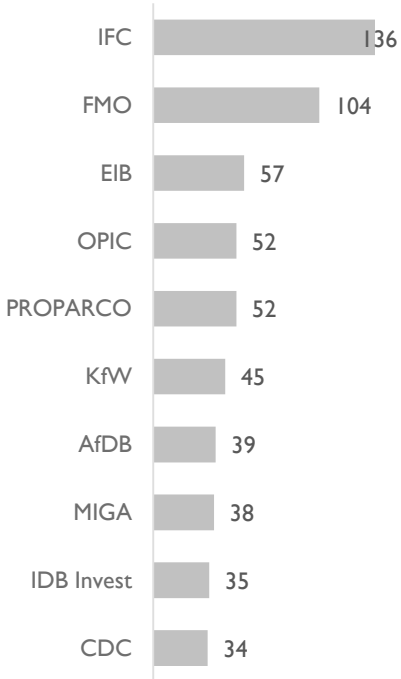
AGA KHAN FOUNDATION  
An agency of the Aga Khan Development Network

# BLENDING FINANCE TRENDS: TOP INVESTORS

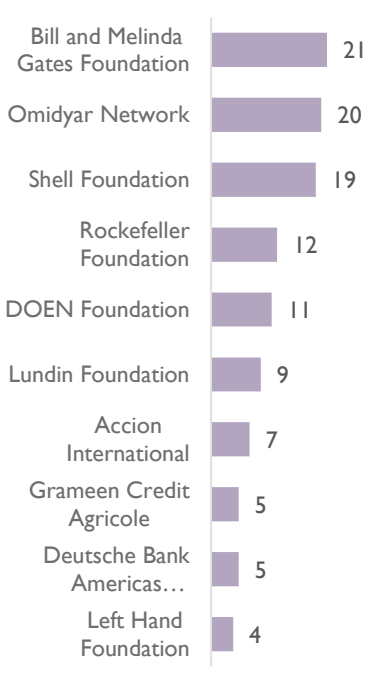
## DEVELOPMENT AGENCIES & MULTILATERAL FUNDS



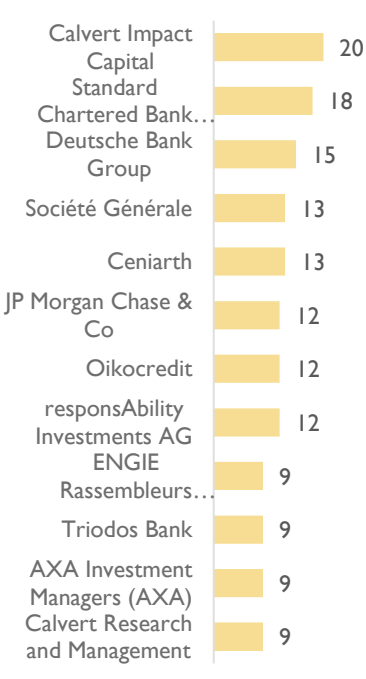
## MDBs & DFIs



## PHILANTHROPIC INVESTORS



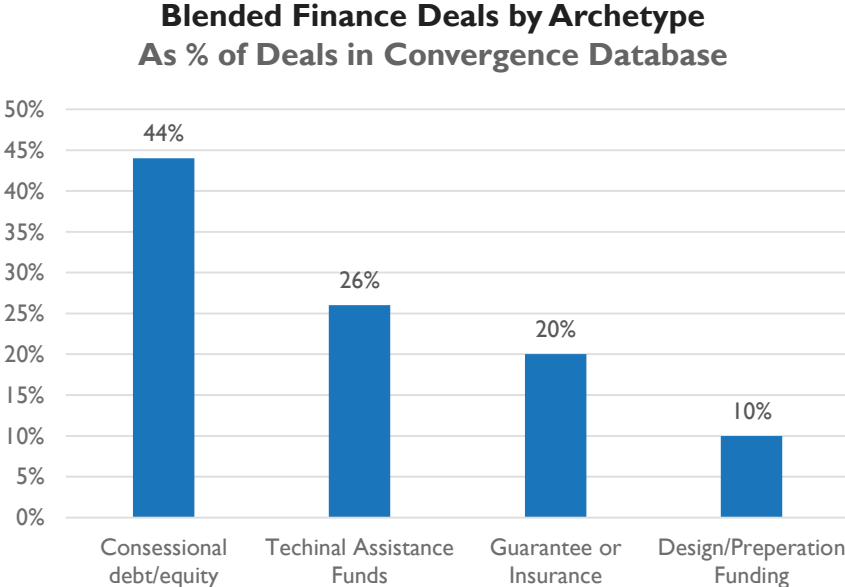
## PRIVATE INVESTORS



Note: Investors ordered by number of investments.

# FREQUENCY OF BLENDED FINANCE ARCHETYPE

- Convergence curates world's largest database of blended finance transactions
- Currently 439 transactions with aggregate \$124 billion financing categorized into first four archetypes
- Concessional debt/equity most prevalent (44%) followed by Technical Assistance (26%)





# **Role of European Union member countries**

# EUROPEAN UNION GLOBAL LEADER IN BLENDED FINANCE

- European Commission has been blending since 2008
- Largest annual budget to blended finance
- 2017 External Investment Plan and its European Fund for Sustainable Development major developments in blended finance
- New Eur 1.5 billion guarantee program major milestone for guarantees in blended finance
- Weakness; Almost all blended finance implemented through European Development Finance Institutions. Would be better if funding was available to best ideas, whether DFI or other organizations

## EUROPEAN UNION MEMBER COUNTRIES

- OECD identifies 70 percent of European DAC members claiming to be involved in blended finance
- UK DFID is a global leader: strategy, operational department and teams, budget and allocations to DFI (CDC)
- Sweden Sida global leader in guarantees (above ODA numbers)
- France – AFD responsible for public sector and Proparco for private sector. Focus on Africa.
- Germany – KfW major blended finance organization. Increase focus on Africa
- **Switzerland, the Netherlands and UK ambition to become blended finance centres.**

# SEVERAL BILATERAL DFIs HAVE BUILT BLENDED FINANCE PRACTICES, ESPECIALLY MOBILIZING PRIVATE CAPITAL IN SUB SAHARAN AFRICA

**FMO**

Entrepreneurial  
Development  
Bank

- FMO, alongside other institutional institutions, provided cornerstone support to Climate Fund Managers which raised a \$535 million fund that will invest in renewable energy projects in emerging markets
- FMO has set strategic goal of **catalyzing one euro for every euro it invests itself by 2020**

**KfW**

- KfW has been involved in various **blended finance facilities such as the \$176 million Africa Agriculture and Trade Investment Fund (AATIF)** that is administered by Deutsche Bank and targets sustainable agriculture investments in Africa
- KfW has a robust 5 point evaluation criteria for its blended finance projects that ensures alignment with its developmental impact objectives

**PROPARCO**  
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT

- Proparco has committed over **€1billion in financing for renewable projects in the last ten years** and most recently committed €116 million with the EBRD to finance the construction of two 50MW solar plants in Sub-Saharan Africa
- Sub-Saharan Africa is a priority region for Proparco's activities, with Proparco committing €1.5 billion annually alongside African financial institutions

# **Benefits to Luxembourg financial sector and economy through blended finance**

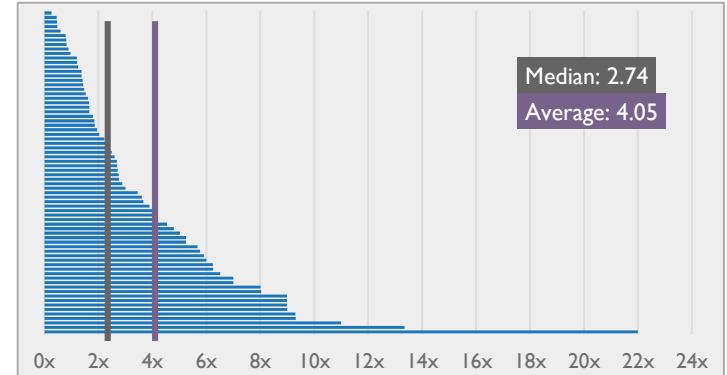
# BENEFITS OF BLENDED FINANCE TO LUXEMBOURG

- Additional development tool to achieve SDGS and achieve international development objectives
- Significant tool to support private sector development in developing countries
- “Challenge fund” approach to mobilise best development solutions for specific objectives
- Ability to focus blended finance support on financing with direct advantage to Luxembourg, such as fund management business, climate finance and sustainable finance
- Convergence would like to support Luxembourg in its blended finance activities.

# LEVERAGE RATIO DISTRIBUTION FROM CONVERGENCE DATABASE

- The historical average leverage ratio has been 4.05 for blended finance funds that are recorded in Convergence's deals database
- Measures commercial capital mobilized by concessional capital; commercial capital includes capital mobilized by private investors & MDB's/DFI's at market rates
- Leverage ratios are sometimes lower due to the need for demonstration effect and high perceived risk, however should increase over time as investors comfort level goes up

LEVERAGE RATIOS OF SELECT DEALS



Leverage ratios vary significantly across sectors and geographies according to perceived and real risks – e.g., average leverage has been greater for Latin America compared to Sub-Saharan Africa.

**Thank you for  
your interest in blended finance!**




# ANNEXES

# Types of Private Sector Investors

# THREE CATEGORIES OF PRIVATE SECTOR ORGANIZATIONS THAT CAN INVEST IN DEVELOPING COUNTRIES

Investor Type	Domestic Investors	Regional Investors	International Investors
<b>Real Economy Companies</b>	A Kenyan agribusiness company investing domestically	An Indian telecoms company investing in Nepal	A Japanese automotive company investing in Cote d'Ivoire
<b>Financial Investors (Debt)</b>	An Ethiopian bank providing loans to Ethiopian SME's	A Senegalese insurance company investing in a bond issued by a Ghanaian manufacturing company	A Canadian pension fund investing in a covered bond issued by a Nigerian bank
<b>Financial Investors (Equity)</b>	A Moroccan fund buying common equity in a Moroccan mid-cap	A Rwandan pension fund purchasing 25% of a Tanzanian mid-cap	A US private equity firm purchasing control of an Angolan oil firm

 Foreign Direct Investment

# FINANCIAL INVESTORS CAN BE CATEGORIZED INTO SEVEN SEGMENTS WITH UNIQUE CHARACTERISTICS & PREFERENCES (1/2)

	Segment	Summary	Characteristics & Preferences
Financial Asset Owners	Pension Funds	Investment pension payments from policy holders to pay future retirement benefits	<ul style="list-style-type: none"> <li>• Restrictions in some asset classes and geographies</li> <li>• Risk and liquidity constraints</li> </ul>
	Insurance Companies	Investment premium payments from policy holders to provide funding for future claims	<ul style="list-style-type: none"> <li>• Highly regulated with high capital charge for investments with high risk</li> <li>• Large investment teams and expertise to investment in developing countries</li> </ul>
	Sovereign Wealth Funds	Invest their country's wealth derived from trade surpluses and commodity revenue	<ul style="list-style-type: none"> <li>• Tend to prefer returns over liquidity</li> <li>• Higher tolerance for risk compared to other investor segments</li> </ul>
	Commercial Banks	Lend to small and large businesses	<ul style="list-style-type: none"> <li>• Do not invest; instead provide financing</li> <li>• Required to allocate high levels of capital when lending to high risk borrowers</li> </ul>

# FINANCIAL INVESTORS CAN BE CATEGORIZED INTO SEVEN SEGMENTS WITH UNIQUE CHARACTERISTICS & PREFERENCES (2/2)

	Segment	Summary	Characteristics & Preferences
Financial Asset Owners	Investment Banks	Invest in and/or arrange large transactions for institutional clients	<ul style="list-style-type: none"> <li>• Provide underwriting services, facilitate mergers and act as a broker/advisor to institutional clients</li> <li>• Tenor restrictions driven by capital charges are constraint for on balance sheet investments</li> </ul>
Financial Asset Managers	Private Equity Firms	Invest institutional and own capital into private companies and funds	<ul style="list-style-type: none"> <li>• Invest capital over long holding periods</li> <li>• Have relative freedom in their investment activities</li> </ul>
	Asset/Wealth Managers	Invest institutional and retail capital across a range of investments	<ul style="list-style-type: none"> <li>• Coordinate and oversee investment portfolios on behalf of clients like pension funds &amp; insurance companies</li> <li>• Preferences and constraints depend on nature of clients</li> </ul>

# PRIVATE SECTOR INVESTORS - SEGMENTATION AND POTENTIAL FOR INVESTING IN EMERGING MARKETS

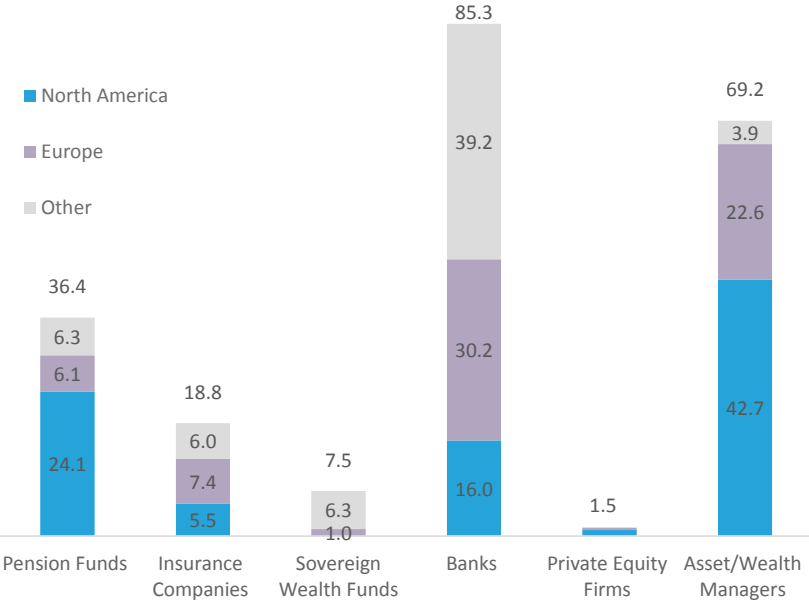
Perspectives	Plans to scale investments in EMs	Understanding of blended finance and development finance	Importance of incorporating SDGS into activities	Plans to scale activities related to the SDGs
Pension Funds	Scaling	Fair	Strong	Reducing
Insurance Companies	Maintain	Poor	Expert	Maintain
Commercial Banks	Scaling	Strong	Strong	Scaling
Investment Banks	Scaling	Fair	Expert	Maintain
PE Firms	Maintain	Fair	Strong	Unsure
Asset / Wealth Managers	Reducing	Poor	Expert	Unsure
Sovereign Wealth Funds	Scaling	Fair	Strong	Maintain
Key	Zero/Poor/Unsure	Low/Fair/Reducing	Strong/Maintain	Strong/Expert/Scaling

Source: [Who Is the Private Sector \(2018\)](#) – research, surveys and interviews to ascertain main interests and challenges to invest in emerging markets

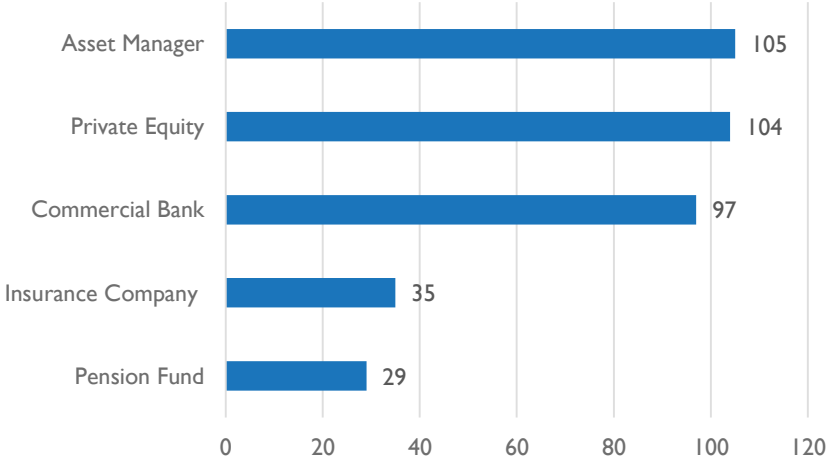
# PRIVATE SECTOR INVESTMENT TRENDS

- Seven segments described earlier represent around \$200T of financial assets under management
- Fairly active in blended finance deals, however tend to invest no more than 20% of deal size

**AUM of Institutional Investors Across Segments (USD Trillion)**



**Institutional Investor Activity in Blended Finance in Developing Countries Based on Convergence Database (# of Investments)**



# PRIVATE INVESTORS: RETURNS COMPARISONS

Despite all impressions, Private Equity Investors are not making very much commensurate to the risks they are taking; big opportunity for blended finance to stimulate more activity

Emerging Markets vs. Developed Markets, Public vs. Private (Comparative End-to-end Returns)

	Index	1-Year	3-Year	5-Year	10-Year
EM	Emerging Markets PE & VC	4.6	9.2	10.3	9.9
	MSCI Emerging Markets	11.6	-2.2	1.6	2.2
DM	U.S. PE	12.9	10.0	13.2	10.0
	U.S. VC	0.3	11.8	14.0	9.4
	S&P 500	12.0	8.9	14.7	7.0
	Western Europe PE	12.5	7.1	11.8	7.4
	Western Europe VC	-0.01	7.6	11.8	5.4
	MSCI Europe	-0.4	-3.2	6.3	0.4
	Asia-Pacific Developed PE & VC	11.6	11.8	9.3	9.3
	MSCI Pacific	4.2	1.4	7.2	1.6

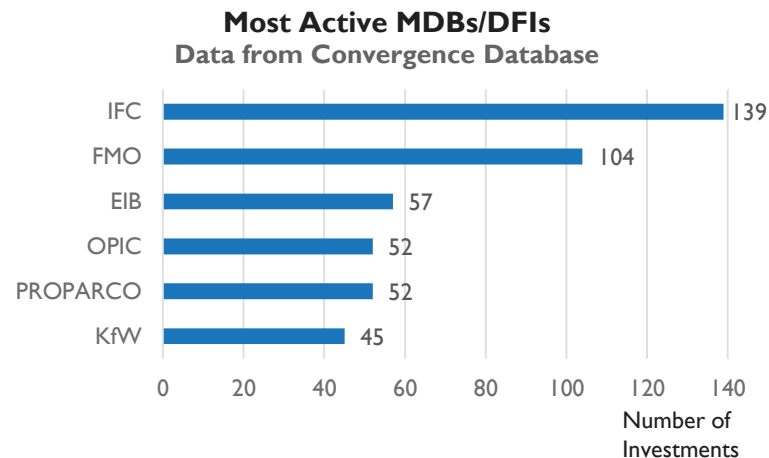
Source: Cambridge Associates LLC Proprietary Index: pooled end-to-end returns, net of fees, expenses and carried interest. All figures calculated in U.S. dollars. Data as of 31 December 2016.



# Multilateral Development Banks And Development Finance Institutions

# 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



# INTERNATIONAL FINANCIAL INSTITUTIONS CAN BE SEGMENTED INTO THE FOLLOWING GROUPS

## GLOBAL DEVELOPMENT BANKS



## REGIONAL DEVELOPMENT BANKS



European Bank  
for Reconstruction and Development



## SUB-REGIONAL BANKS

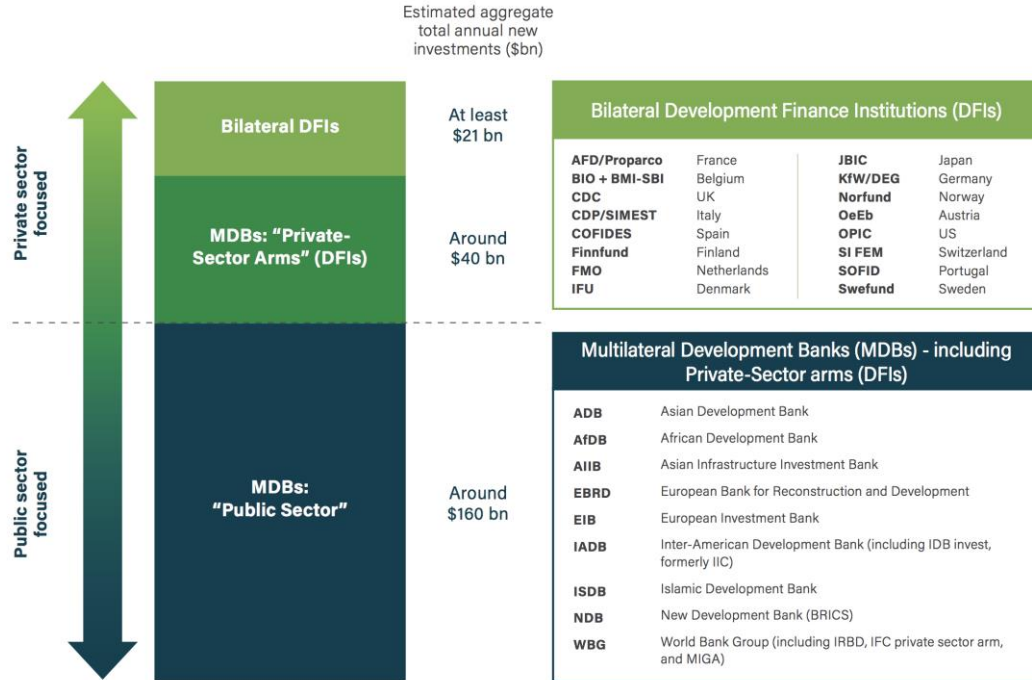


## NATIONAL DEVELOPMENT FINANCE INSTITUTIONS



Development Bank of Japan

# MDB'S & DFI'S DEPLOY ~\$60 BILLION A YEAR IN NEW INVESTMENTS THAT ARE FOCUSED ON THE PRIVATE SECTOR



# DESPITE AN INCREASE IN BLENDED FINANCE CAPABILITY, MDBS CURRENTLY HAVE LOW LEVELS OF MOBILIZATION IN THEIR PRIVATE SECTOR FINANCING

## Analysis of MDB private mobilisation in their private sector operations (2016)

MDB Private Sector Window Mobilization (FY 2016)	MDB Annual Private only operations estimate (\$bn)	Private operations share of total estimate (%)	Direct Mobilization (\$bn)	Indirect mobilization (\$bn)	Co-Financing (\$bn) (Direct + Indirect)	Direct Private Mobilization Ratio	Total Private Co-Financing Ratio
IFC (WB)	10.0	100%	4.1	16.0	20.1	0.4	2.0
MIGA (WB)	4.3	100%	4.0	3.2	7.2	0.9	1.7
EBRD	7.4	70-80%	1.5	8.5	10.0	0.2	1.3
EIB	8.8	na	3.7	5.4	9.0	0.4	1.0
IADB (IDB invest)	2.2	20%	0.7	1.0	1.7	0.3	0.8
ADB	2.5	15%	0.5	8.5	9.0	0.2	3.6
MDBX	2.7	25%	1.1	0.8	1.9	0.4	0.7
AIIB	1.7	100%	0.0	0.01	0.0	0.0	0.0
Total	39.6		15.5	43.4	58.9	0.4	1.5

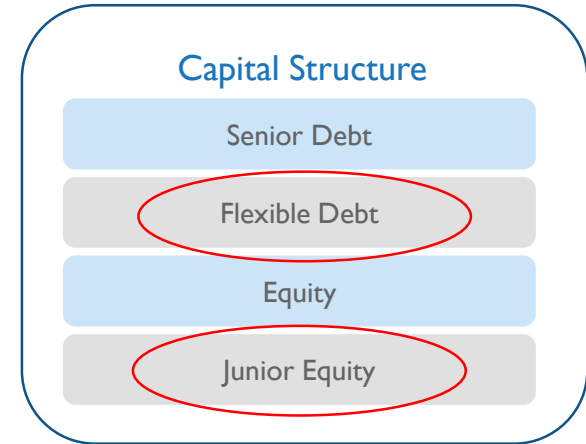
# Blended Finance: Main Archetypes

# BLENDING FINANCE: MAIN ARCHETYPES AND INSTRUMENTS

Archetype	Typical Development and Financial Instruments
1. Funded Risk Participation	Investment or Grant: Debt (Loans and Bonds), Mezzanine Capital or Equity
2. Contingent (Unfunded) Risk Participation	Investment or Grant: Guarantee
	Investment or Grant: Insurance
3. Technical Assistance Support	Grant: Technical Assistance
4. Viability Gap Funding, Smart Subsidies and Performance Payments	Grant: Capital Investment and Incentive/Affordability
5. Project Preparation & Design Funding	Grant: Project Preparation or Design Funding
6. Results-Based Financing Outcome Funding	Grant
7. Currency Risk Mitigation	Grant: Similar to Smart Subsidies Risk Sharing: Currency Risk or Credit Risk

# I. FUNDED RISK PARTICIPATION

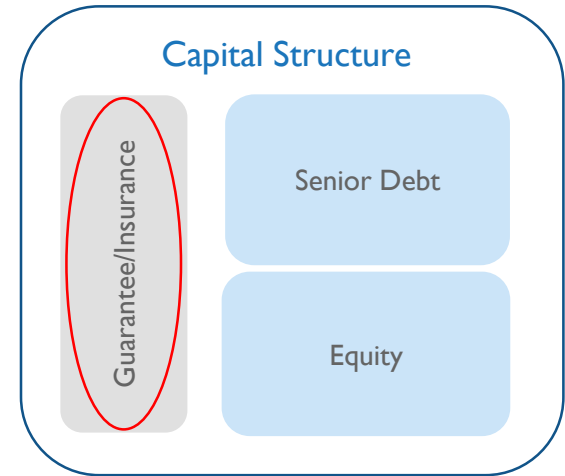
- Concessional debt or equity provide favorable terms of rates relative to market pricing; developmental capital bears non-market risk-return
- Subordinated (debt) or junior (equity) protects senior investors by taking first losses on the value of the security
- The use of direct investment instruments on concessional terms helps shift the risk-return ratio for private investors to an acceptable level
- Concessional finance can help bring down the weighted average cost of capital for a project





## 2. CONTINGENT (UNFUNDED) RISK PARTICIPATION

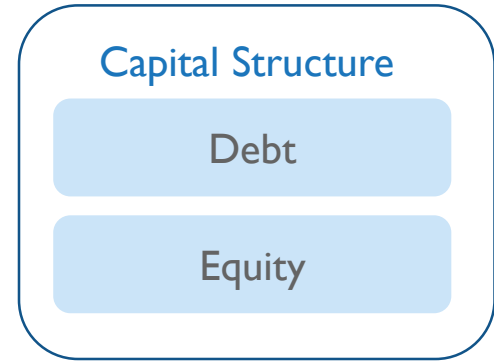
- Risk reduction tools that protect investors against capital losses
  - Guarantee provides protection to investors if guaranteed event occurs (eg: payment default of borrower); Insurance provides protection by promising compensation for specific loss in return for for a premium
- Provides investors secondary level of comfort that investment will be repaid if obligor is not able to fulfill its contractual obligations (payments)
- Lowers cost of financing for obligors as guarantor typically has better credit rating than obligor
- Helps narrow gap between real and perceived risk & typically requires no immediate outlay of cash/capital
- Primarily backstops debt (e.g. loans and bonds) and secondarily other instruments like equity and provide credit enhancements



**AfDB, MIGA, USAID & Sida  
are active users of guarantees  
for development**

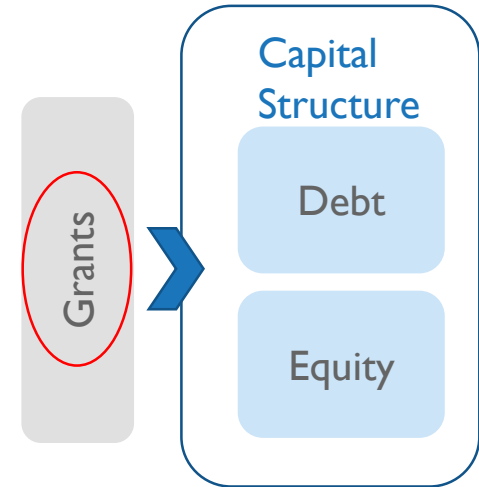
### 3. TECHNICAL ASSISTANCE SUPPORT

- Development funds deployed into Technical Assistance for many reasons. Typically:
  - Increase quality of project implementation
  - Demonstrate feasibility of projects that could be commercially viable
  - Technical studies
  - Training, capacity building and advisory services
  - Achieve systemic results beyond project (e.g., sector reforms)
- Cover costs, which if paid for by project or private investors, would drive expected return below acceptable level
- Useful to prove business models, especially in less mature sectors and riskier geographies



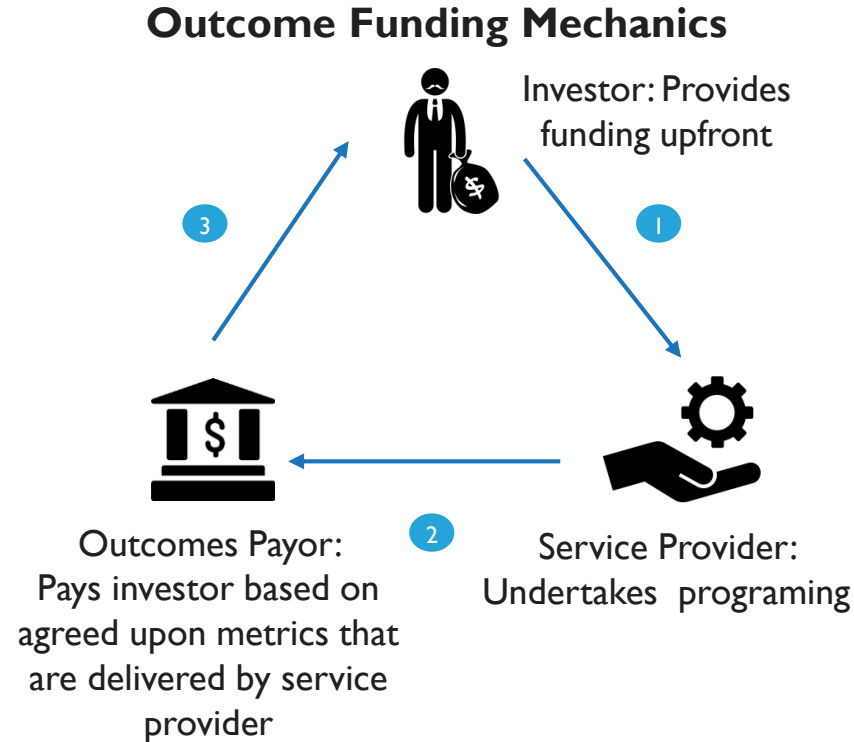
## 4. GRANT FOR PROJECT COST SUPPORT (VIABILITY GAP FUNDING & SMART SUBSIDIES)

- Grant payments used to (1) reduce total up-front investment required or (2) support ongoing economics/financing of SDG project
- Viability gap funding typically required to reduce cost of implementation to affordable level for developing country
- Smart subsidies typically required due to lack of financial viability at market terms – e.g., inability to increase user charges to sufficient levels to pay full cost of capital at market rates (e.g., renewable, clean energy projects)



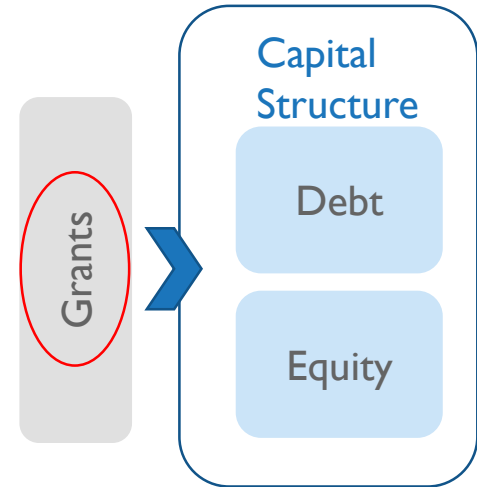
## 5. RESULTS BASED FINANCING (OUTCOME FUNDING AND PAY FOR SUCCESS)

- Transform development funds from paying for inputs to paying for results/outcomes
- Tie payment for service delivery to achieving measurable outcomes
- Typically, payor for outcomes (e.g., governments or foundations) commits to provide funding if and when the service delivered achieves contracted results
- Examples include Development Impact Bonds (DIBs), Social Impact Bond (SIBs) and Advanced Market Commitments



## 6. PROJECT PREPARATION & DESIGN FUNDING

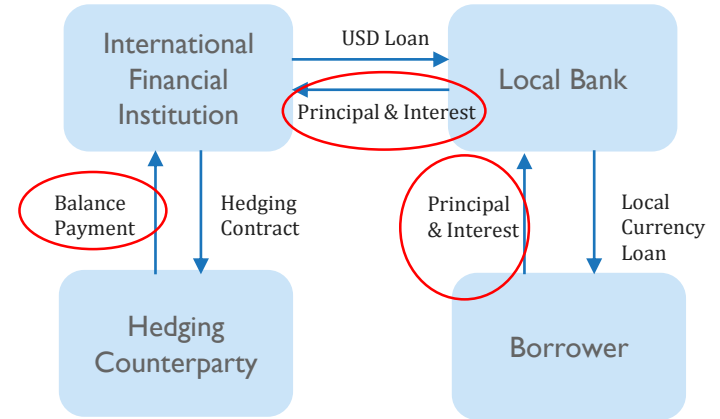
- Grants that support costs and activities that lead to bankable/investible SDG projects
- Typically provided by those who seek to catalyse SDG projects that are currently not happening – Development funders
- Typical examples include feasibility studies, proofs of concept and technical studies to prepare projects that are technically sound, sustainable and bankable/investible



## 7. CURRENCY RISK MITIGATION

- Majority of private sector debt and development finance debt to developing countries extended in hard currency
- Exposes borrower and country to high, unmitigated FX risk
- Prevailing practices cause currency risk to be borne by those least-equipped to bear and manage the risk
- FX risk reduction important to achieve project viability and sustainability and national sustainability
- Currently, main issue is cost of borrowing in FX appears nominally lower than FX-hedged debt
- To reduce extreme FX risk, development funds can be used to narrow the financing differential by reducing either currency risk or credit risk

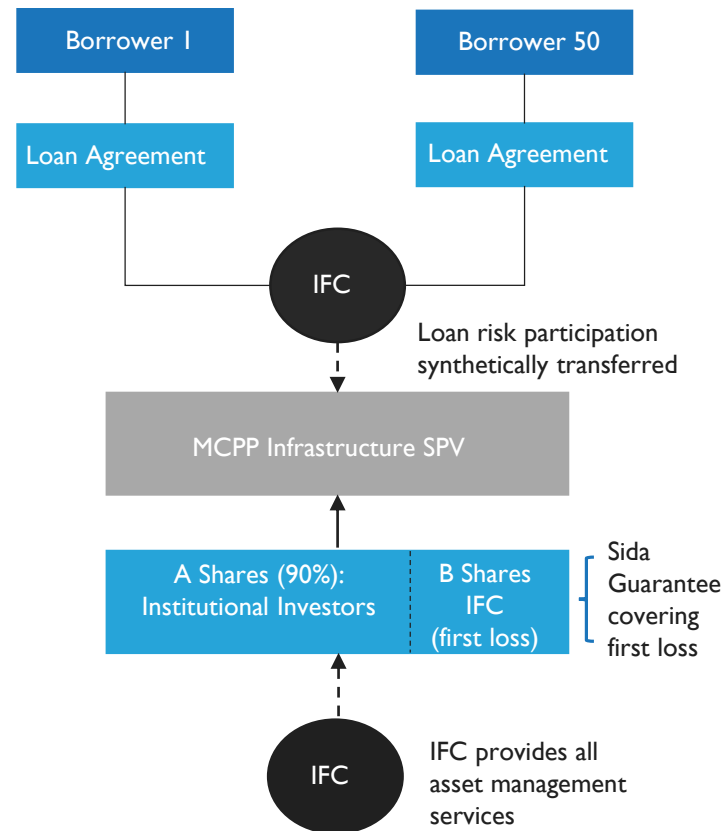
### Typical Mechanics of Development Funds in Local Currency Hedging



# Blended Finance Case Studies

# EXAMPLE OF PRIVATE SECTOR MOBILIZATION #1: IFC MANAGED CO-LENDING PORTFOLIO PROGRAM (INFRASTRUCTURE)

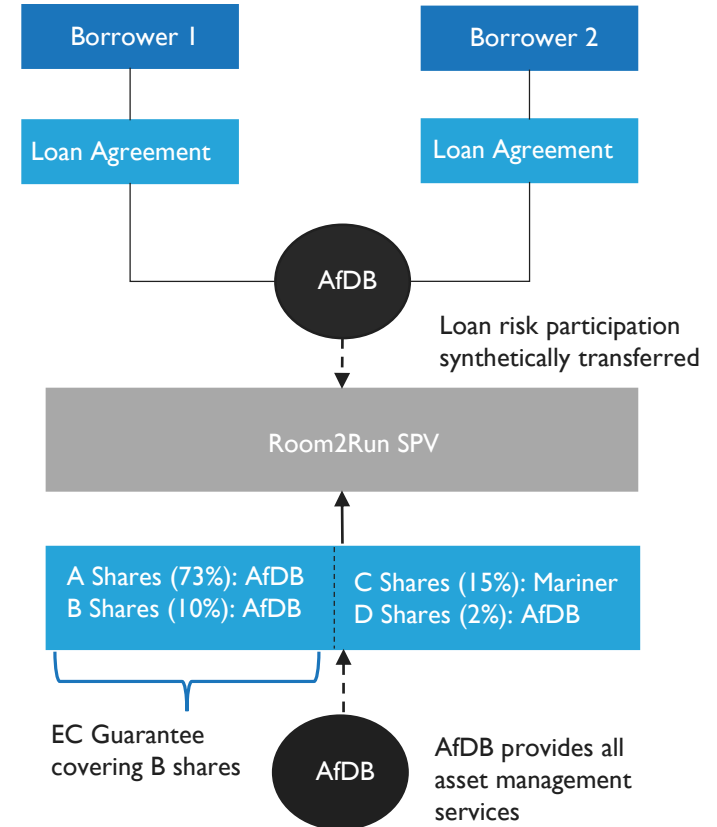
- Key details of structure:
  1. IFC synthetically sells portion (50%) of its new infra loans to new SPV
  2. SPV funds its purchase of the IFC loans by:
    - Inviting institutional investors into senior “A Shares”, 90% of total
    - Having IFC buy “B Shares” – junior, 10%
  3. Sida provided a guarantee which covers first loss portion of loan portfolio
  4. Leverage ratio achieved: 9:1
- Net Effect: Private investors benefit from **portfolio diversification**, **seniority**, and **credit enhancement**; allows underlying IFC B and BB loans to be enhanced to investment grade





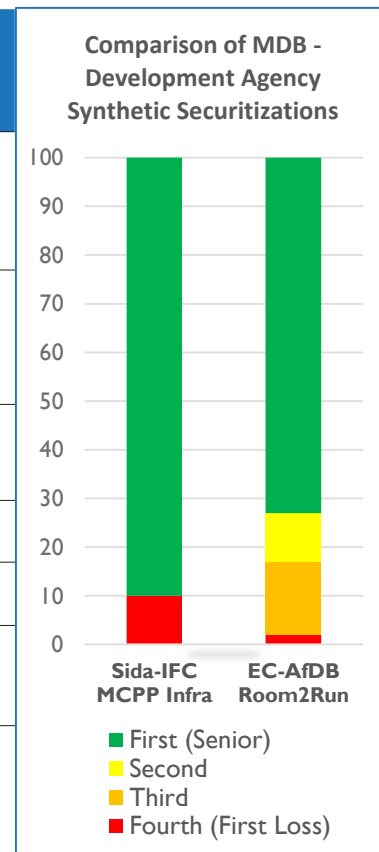
# EXAMPLE OF PRIVATE SECTOR MOBILIZATION #2: AFDB & EUROPEAN COMMISSION ROOM2RUN

- Key details of structure:
  1. AfDB synthetically sells 50% stake in portfolio of existing loans to new SPV
  2. AfDB holds fourth-position tranche (D Shares, 2% of total)
  3. Hedge fund investors buy third-position tranche (C Shares, 15%)
  4. AfDB holds most senior tranches (A & B Shares)
  5. European Commission provides concessionally priced guarantee to AfDB for second position tranche, reducing interest rate on that tier
- Net Effect: Private investors benefit from **portfolio diversification, seniority, and reduced cost of capital**; CCC, B and BB-rated loans aggregated to high-risk, high-yield B- or CCC equivalent



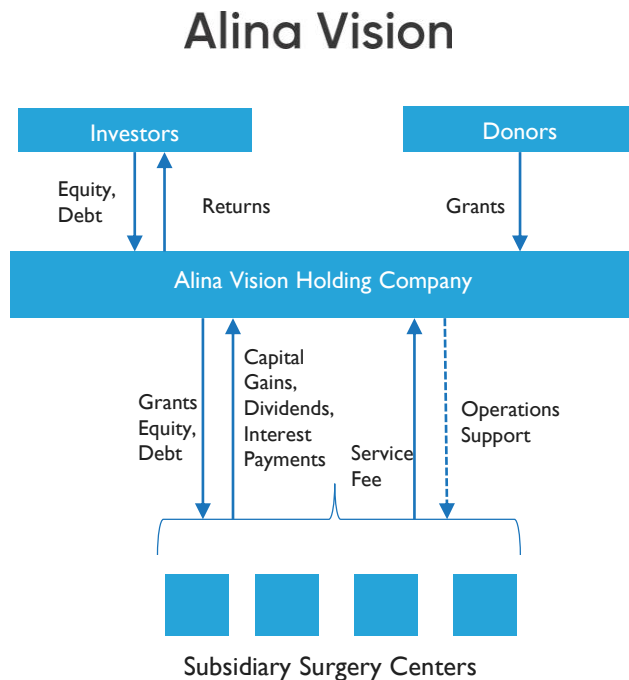
# COMPARISON OF IFC-MCPP INFRASTRUCTURE TO AfDB “ROOM2RUN”

Blended Finance Feature	IFC MCPP Infrastructure	AfDB Room to Run
<b>Summary</b>	Mobilize <b>institutional investors</b> into <b>investment grade</b> (equivalent) senior notes	Mobilize <b>high-yield investors</b> into deep <b>speculative grade</b> (equivalent) mezz. notes; AfDB achieves capital relief
<b>Ranking</b>	Private investors in first position and IFC & SIDA in second position (first loss)	AfDB in first position, EC in second position, Pvt. Investors in third position, AfDB in fourth position
<b>Pvt. Sector Investors</b>	Allianz Global Investors, Prudential & AXA	Hedge fund investors managed by Mariner Investments
<b>Illustrative Rating</b>	BBB+ or BBB	B- or CCC
<b>Illustrative Yield</b>	LIBOR + 350 bps	12%+
<b>Underlying Assets</b>	New senior loans to infrastructure projects (rated around BB)	Existing senior loans to multiple sector projects (rated around B)
<b>Development Agency Role</b>	Sida issues guarantee to share first loss with IFC - Create acceptable risk/return for investors	EC issues guarantee participating in second position to create acceptable risk/return for investors



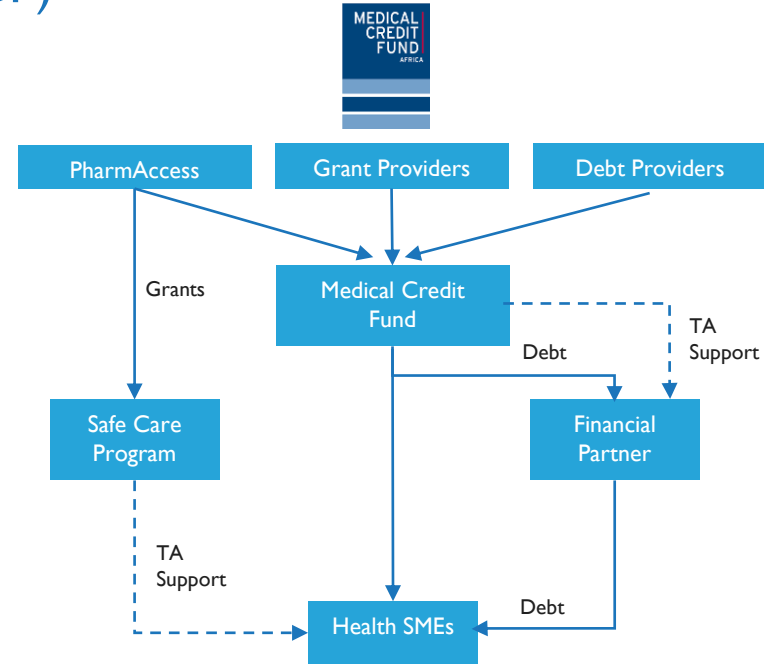
## EXAMPLE #1: ALINA VISION

- Alina Vision intends to raise ~USD 300 million to establish a global network of more than 60 eyecare hospitals in low-income communities targeting more than 1 million surgeries to prevent blindness
- Grantors, investors and lenders fund at holding company level; more efficient, better risk diversification
- USD 10 million raised to date, mostly equity, catalyzed by small amount of grants
- Holdco deploys grants to set up each new hospital, follows with equity for CAPEX; & start-up; then scales with debt once profitable
- Entire enterprise is **for profit**, commercially sustaining



## EXAMPLE #2: MEDICAL CREDIT FUND (MCF)

- First and only debt fund focused on health SMEs in Africa; the fund leverages a model which blends catalytic first loss capital, TA grants and debt financing
- Two tiered fund structure with first loss tranche having declined over time from 35% to 15% (of capitalization)
- Fund linked to two TA programs 1) PharmAccess SafeCare program used to implement quality framework for SMEs 2) Dedicated MCF technical assistance fund used to support financial partner institutions (contributed by lenders); both funds help to reduce portfolio risk
- Management costs subsidized by the Dutch Govt.; long term objective is to finance this through returns on portfolio



**First-loss capital: \$7.75m;** provided by USAID, PharmAccess, Pfizer Foundation and Dutch Govt.  
**Debt capital: \$41.5 m;** provided by OPIC, Calvert Impact Capital, EIB, Dutch Family Offices, Deutsche Bank Americas Foundation, Gates Foundation amongst others

# Convergence Blended Finance

# WHAT IS CONVERGENCE?

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

Not-for-profit established in 2016 – conceived by USAID, Sida, WEF, OECD, Canada, Gates Foundation and others to build blended finance market.

Funded by fees/revenues from members/subscribers and grants from donors.

Offices in Nairobi, Toronto and Washington



## A GLOBAL NETWORK

We have a global subscriber and [member](#) base of 320+ public, private, & philanthropic institutions



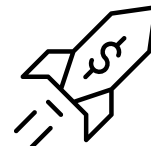
## DATA & INTELLIGENCE

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.

# 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 200 member institutions, and over 570 staff at member institutions actively using the Convergence platform.

MacArthur  
Foundation

Australian Government  
Department of Foreign Affairs and Trade

CREDIT SUISSE

AFRICAN  
GUARANTEE  
FUND

OPIC

LION'S HEAD  
global partners

DBSA

idh the sustainable  
trade initiative

Global Affairs  
Canada

TDB  
TRADE & DEVELOPMENT BANK

BRITISH ASIAN TRUST  
TRANSFORMING LIVES TOGETHER

kiva

WATEREQUITY  
REALIZE UNTAPPED OPPORTUNITY

USAID  
FROM THE AMERICAN PEOPLE

cardano  
Development

CROSSBOUNDARY

OECD

BNP PARIBAS

Sida

responsAbility  
Investments for Prosperity

Calvert  
Impact Capital™

Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra  
Swiss Agency for Development  
and Cooperation SDC

financeinmotion  
FINANCIAL INCLUSION & DEVELOPMENT

European  
Investment  
Bank

IFC International  
Finance Corporation  
WORLD BANK GROUP

FinDev  
Canada

JCMPOWER

natureVest | The Nature  
Conservancy

CAFIID  
Canada Forum for Impact Investment and Development

## 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 ~\$2.3 billion in diverse sectors and developing countries. These opportunities represent ~\$4.3 billion in aggregate.

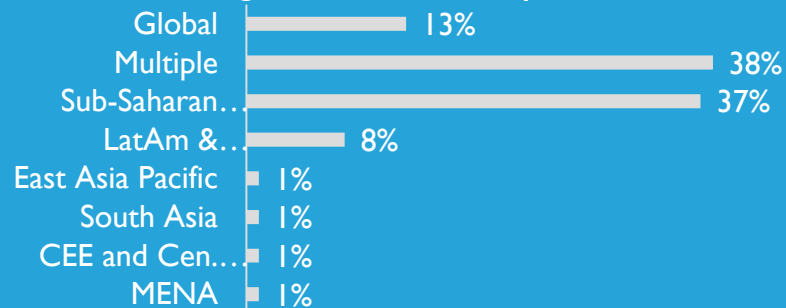
Investors and deal sponsors can connect with each other directly on the platform.

**\$2.3B** total funding sought

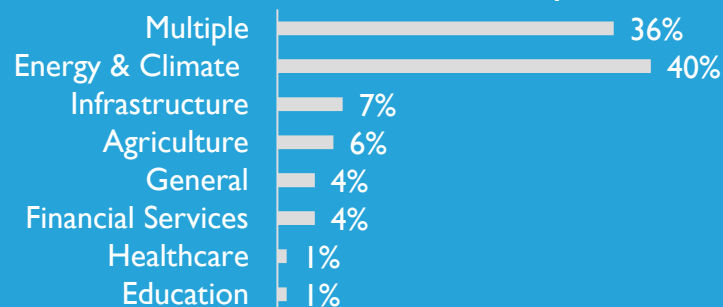
**\$4.3B** total deal size

**\$40M** median deal size

### Region distribution by deal size



### Sector distribution by deal size



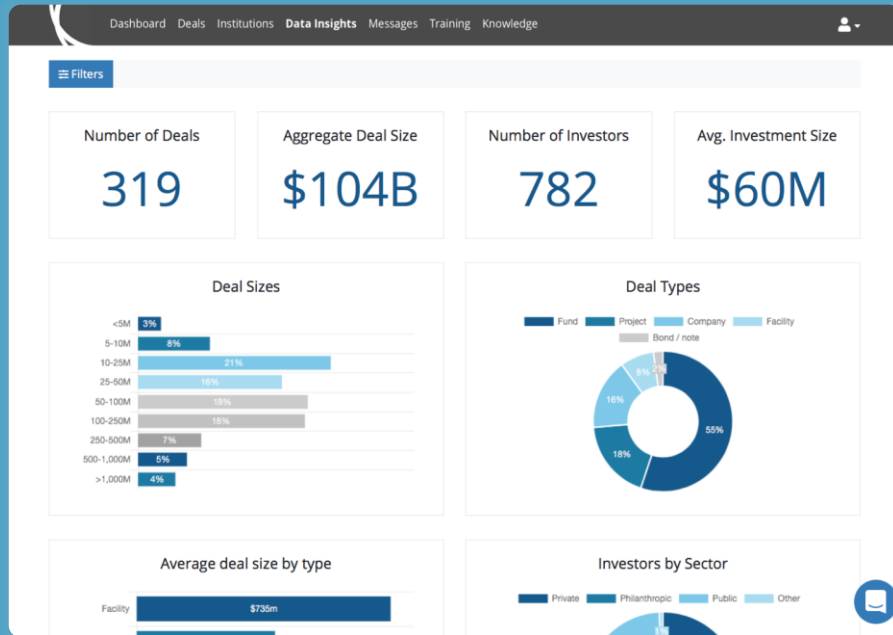


## DATA INSIGHTS

Our data insights captures over 2,900 financial commitments to over 400 historical blended finance transactions that represent an aggregate deal size of over \$126 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, including:

- Case studies on specific transactions,
- Data briefs on blended finance benchmarks
- Reports that give the state of play

Recent publications:

- [The State of Blended Finance 2018](#)
- [Tropical Landscapes Finance Facility case study](#)
- [Blended Finance for Financial Inclusion Data Brief](#)

We also maintain a [knowledge library](#) where we curate 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 1-5M
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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## 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 \$300 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](#)



Innovative financing solution to accelerate the [electrification of global transit](#)



# NT NON-PROFIT, WITH FUNDING



STAY IN TOUCH:



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