



Canada Forum for Impact Investment and Development

CAFIID KNOWLEDGE EXCHANGE: BLENDED FINANCE AND INNOVATIVE FINANCE

Julie Scott and Christopher Clubb

Vancouver, 26 September 2019

The Canada Forum for Impact Investment and Development (CAFIID) is a platform for members to learn, share, collaborate and act as a collective voice to strengthen the value and the volume of impact investment in developing countries.

MISSION





CAFIID will advance
Canada's contributions, and
flows of capital, towards
impact investment in
developing countries creating
more sustainable and
equitable communities.

VISION

WHO WE ARE



CAFIID is a Canadian community of individuals, organizations and investors working in developing countries who treat social and environmental impact and financial return as coexisting priorities. CAFIID members combine many years of collaboration and engagement with a track record of innovation in structuring impact investment products, delivering technical assistance, and promoting sustainable investment ecosystems.

WHAT IS IMPACT INVESTING?

What are impact investments?	<p>Made with intention to generate positive, measurable social and environmental impact alongside a financial return.</p> <p>Can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals.</p>
Who makes impact investments?	<p>Made by wide variety of investors, both individual and institutional. Including fund managers, development finance institutions and institutional investors.</p>
What are targeted returns?	<p>Impact investors have diverse financial return expectations. Some intentionally invest for below-market-rate returns. Others pursue market-competitive and market-beating returns. 64% of respondents to GIIN's 2018 Annual Impact Investor Survey pursue competitive, market-rate returns.</p>

BOARD MEMBERS REPRESENT WIDE SPECTRUM



CAFIID MEMBERS FROM COAST TO COAST¹

- **Aga Khan Foundation of Canada²**
- **AHL Ventures²**
- Akipeo
- Amy Lin (individual)
- **Anaar Kara (individual)²**
- **Anne Landry (individual)²**
- Brighter investments inc.
- Care Canada
- CIDP
- Coady Institute
- **Convergence²**
- **Cordiant²**
- Cowater Sogema
- Crystalus
- D. Keith MacDonald (DKM) Foundation
- Dalberg Group
- Deetken Impact
- **Deloitte Canada²**
- **Desjardins International Development (DID)²**
- Digital Opportunity Trust
- E.T. Jackson and Associates
- Ear Access
- Engineers without borders
- **Evalysis²**
- Finca Canada
- **FinDev Canada²**
- **FMA – Frontier Market Advisors²**
- Dr. Frederick Peters (Individual)
- Geoff Moore (Individual)
- Glen Paradis (Individual)
- Global Affairs Canada
- Goldfield and Associates
- GreenDev
- Grand Challenges Canada
- Guelph Institute of Development Studies
- **iDE Canada²**
- Impact Bridges Group
- Innovfi
- International Financial Consulting Ltd
- Jaza Energy
- Jenga Capital
- **Jewison Family Foundation²**
- Kevin Doyle
- Kindred Credit Union
- Dr. Kevin McKague (individual)
- Lotus Impact
- Marigold Capital
- **MaRS Impact Centre²**
- Mastercard Foundation
- Mennonite Economic Development Associates²
- MicroEntreprendre
- **Moonspire Social Ventures²**
- NXT Grid
- **Oikocredit Canada²**
- **One Drop Foundation²**
- Pacific Impact Investment Network (PIIN)
- Plan Canada International
- **Rally Assets²**
- Renew Strategies
- **R.J. Burnside International Limited²**
- **Sarona Asset Management²**
- Social Capital Partners
- SolarEar
- Steward Redqueen
- Ted Rogers School of Management
- Think Renewables
- UBC Impact Fund
- VanCity Community Investment Bank
- **World Vision Canada²**
- **World University Services of Canada²**

Representation from:

- Nova Scotia
- New Brunswick
- Quebec
- Ontario
- Alberta
- British Columbia
- France
- Netherlands
- Tanzania
- United States
- Vietnam

From different views:

- Academia
- Asset managers
- Banks / CU
- Corporations
- Consultants
- Foundations
- Government
- Individuals
- Non profits
- Start-ups
- Think tanks

**Over 70
members and
growing**

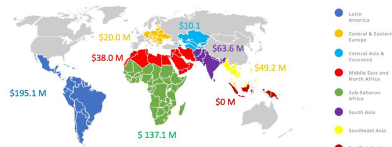
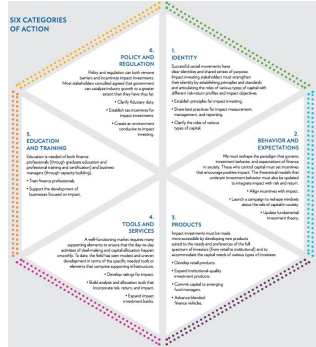
¹ As of 1 September 2019. This list includes all paying members. Several other members are in process

² These members have representatives on committees or boards

MOTIVATIONS FOR ORGANIZATIONS IN IMPACT INVESTING IN DEVELOPING COUNTRIES

- Different motivations for organizations involved in impact investment and development:
- Organizations with “**development**” mandate, like development agencies (Global Affairs Canada) & philanthropic foundations (MasterCard Foundation) seek to improve lives of people in low and middle-income countries
- Organizations with “**commercial/fiduciary**” mandate (e.g., insurance company or pension company) seek investments that meet their investment criteria and provide non-financial benefits, e.g., “responsible investing” or “Sustainable Development Goals”
- Organizations with “**dual impact and investment**” mandate managing a portfolio to achieve financial and non-financial returns

LANDSCAPE RESEARCH REPORT



Launch of report in November 2019

With the generous support of CAFIID members including:



MEMBER BENEFITS: SFF DISCOUNT, NOV 6-8



CAFIID members receive exclusive **10% discount** to the Social Finance Forum (SFF), Canada's leading impact investing and social enterprise conference

SFF is hosted at MaRS Discovery District, Toronto, Nov 6-8, 2019

TABLE OF CONTENTS FOR BLENDED FINANCE SESSION

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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 - CAIID 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.

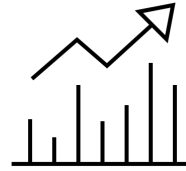
Funded by member fees/revenues and Global Affairs Canada grants.

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.

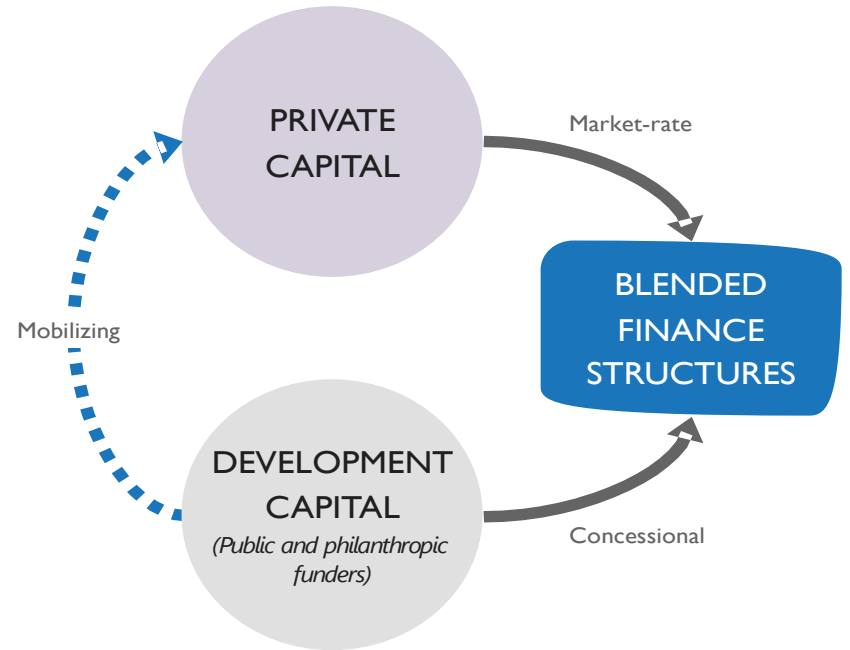


MARKET ACCELERATION

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

DEFINING BLENDED FINANCE FOR KNOWLEDGE EXCHANGE

- 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 and/or social)



**Blended finance:
Development tool to achieve
Sustainable Development Goals**

SUSTAINABLE DEVELOPMENT GOALS AGREED IN 2015 TO UNITE WORLD IN DEVELOPMENT OBJECTIVES

1 NO POVERTY



2 NO HUNGER



3 GOOD HEALTH



4 QUALITY EDUCATION




5 GENDER EQUALITY




6 CLEAN WATER AND SANITATION




7 CLEAN ENERGY



8 GOOD JOBS AND ECONOMIC GROWTH



9 INNOVATION AND INFRASTRUCTURE



10 REDUCED INEQUALITIES



11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION



13 PROTECT THE PLANET



14 LIFE BELOW WATER



15 LIFE ON LAND



16 PEACE AND JUSTICE



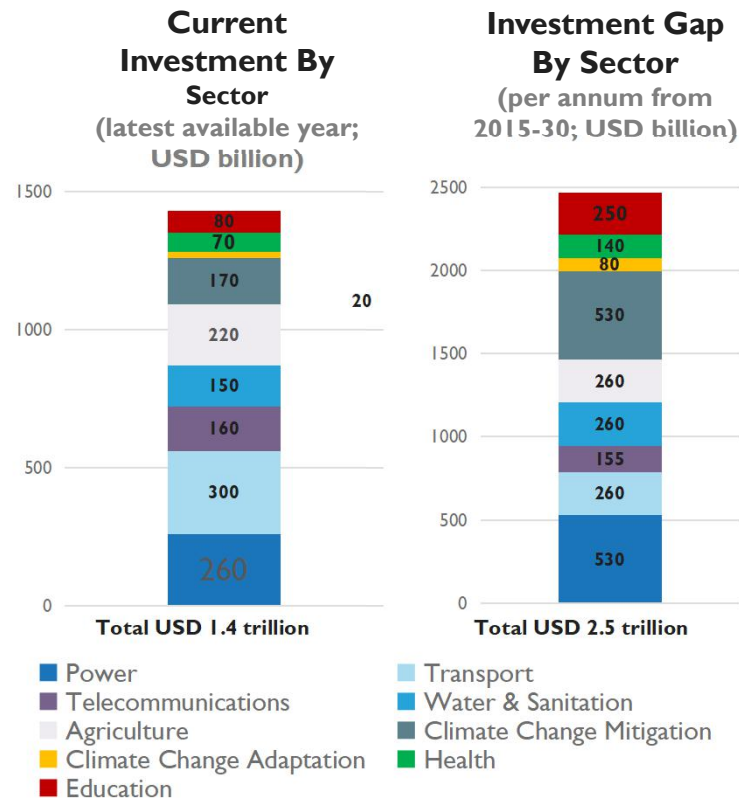
17 PARTNERSHIPS FOR THE GOALS



THE GLOBAL GOALS
For Sustainable Development

ESTIMATED INVESTMENT & FUNDING GAP BY KEY SDG SECTORS

- UN Conference on Trade and Development (UNCTAD) data on investment and funding gaps across key SDG sectors
 - \$3.9 trillion required to fund the SDGs
 - \$1.4 trillion is actual investment
- ## • \$2.5 trillion SDG Investment Gap
- GDP of low and middle-income countries equals \$29.3 million
 - SDG Investment Gap equals 8.5% of GDP
- Data expressed in annualized terms, is CAPEX only and is focused on developing countries



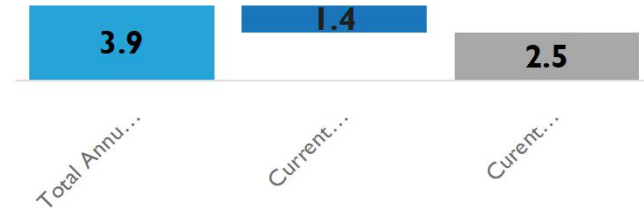
BLENDED FINANCE: MOBILIZING INVESTMENT TO IMPROVE PEOPLE'S LIVES IN DEVELOPING COUNTRIES

- UN estimates investment needs to achieve SDGs at \$3.9 trillion. Actual flows of \$1.4 trillion result in **\$2.5 trillion SDG Investment 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”

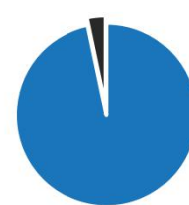
Estimated SDG Investment Gap

2015 - 2030

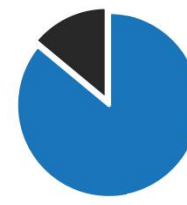
Trillions of USD, annual average



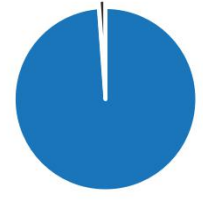
Putting the SDG Funding Gap in Perspective



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)

TYPES OF FINANCING TO NARROW SDG INVESTMENT GAP

- **Two types of SDG projects/activities in developing countries:**
 - No Revenues - NOT CONDUCIVE to blended finance. Examples public health care and public education
 - Revenues - CONDUCIVE to blended finance. Examples energy, infrastructure and SME finance

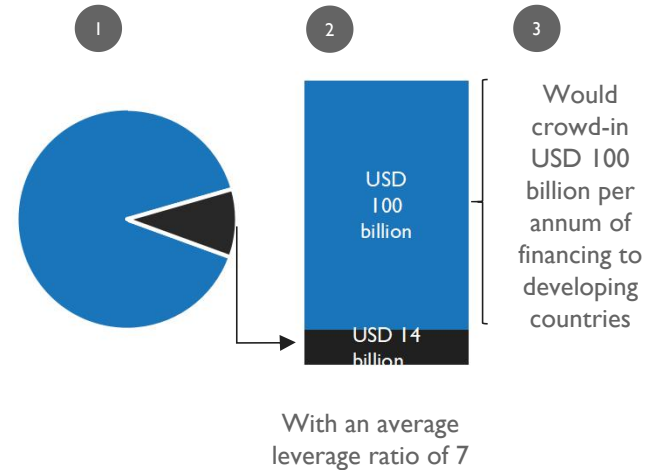
- **SDG Projects with Revenues come in many sizes:**
 - Financing to support \$50 loan to microfinance borrower
 - Financing to support \$2 billion electricity transmission line project across many countries

- **Blended finance requires many types of financial institutions:**
Microfinance institutions for \$50 loans to Multilateral Development Banks for \$2 billion loans

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

BLENDING FINANCE: TOOL IN TOOLBOX ACHIEVING SGDS

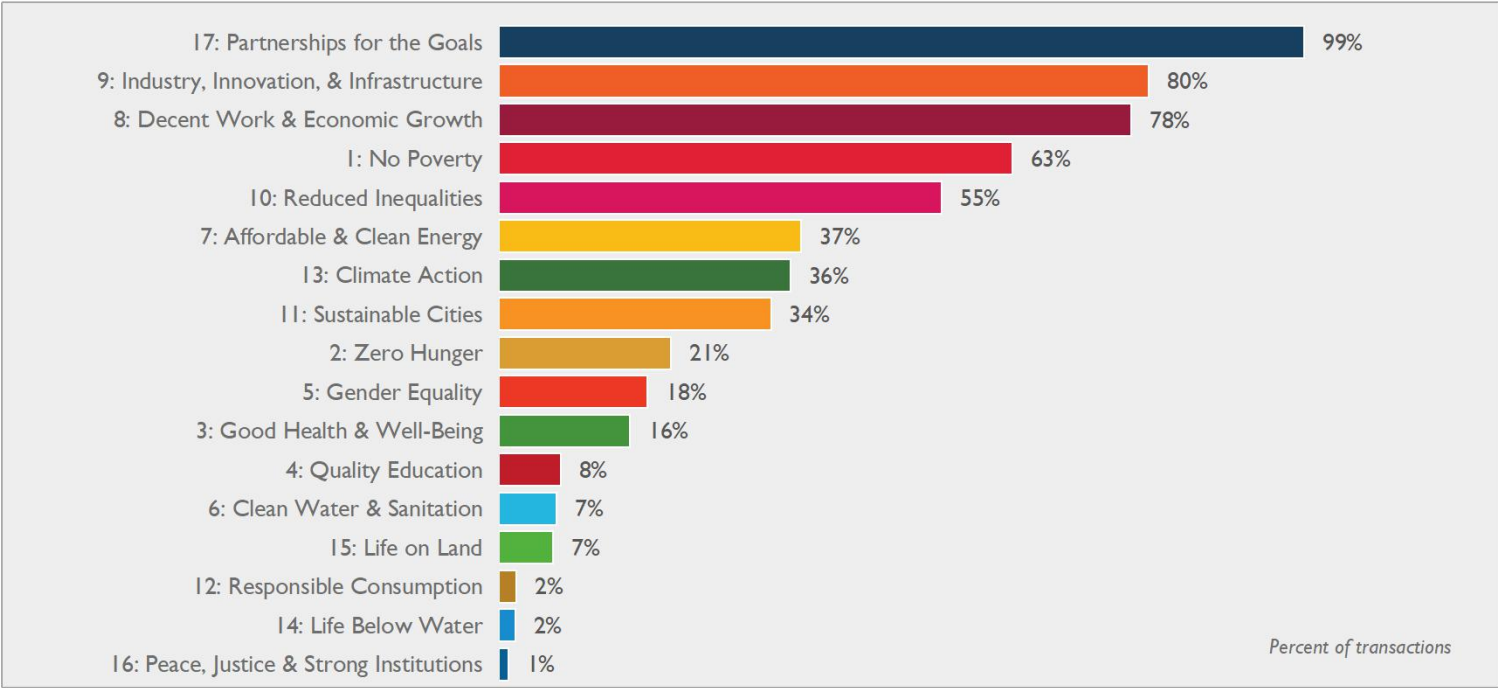
- Development organizations like Global Affairs Canada have many tools to fund SDGs - grants, technical assistance, sovereign finance, development finance and blended finance
- Majority of development requires grants
- **Blended finance is good approach only if:**
 1. Goal is to mobilize additional finance
 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 450+ blended finance projects in Historical Projects Database
- Blended finance suited to SDG projects with underlying activities that generate revenues

SDG Frequency Mapped to Blended Finance Projects In Convergence Database

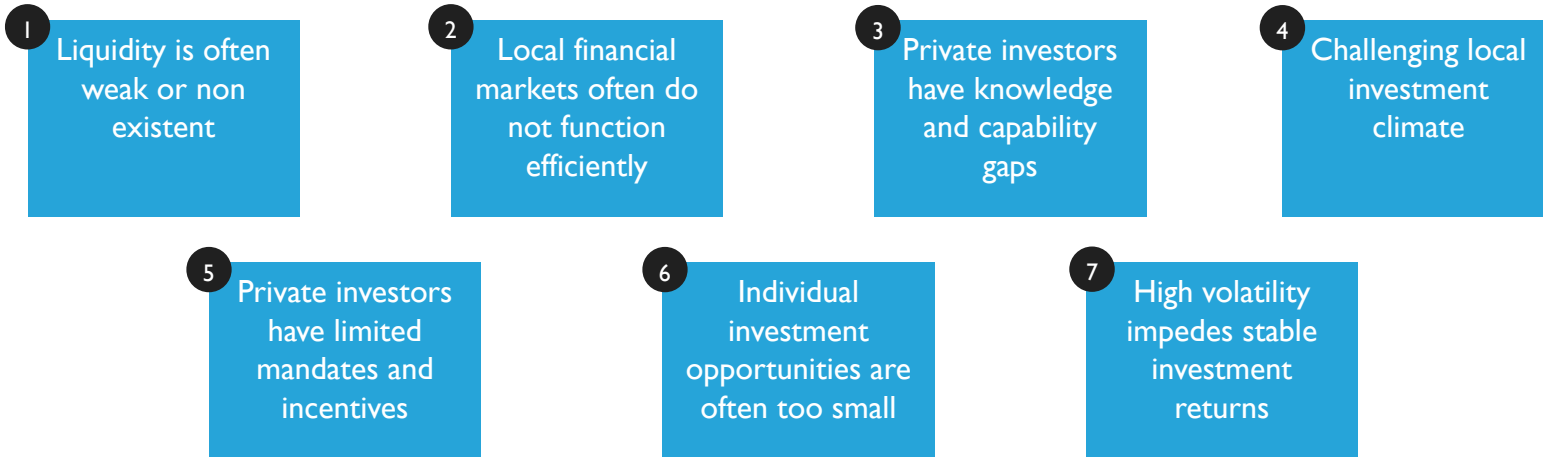


Underlying rationale for blended finance:

Creating an investment opportunity with acceptable risk-return profile to mobilise private sector investment

NUMEROUS BARRIERS IMPEDE INVESTMENTS IN DEVELOPING COUNTRIES

Developing countries: 49% of global GDP, but less than 5% of USD 330 trillion global financial markets and USD 220 trillion global capital markets.



Main challenges to private sector investment:

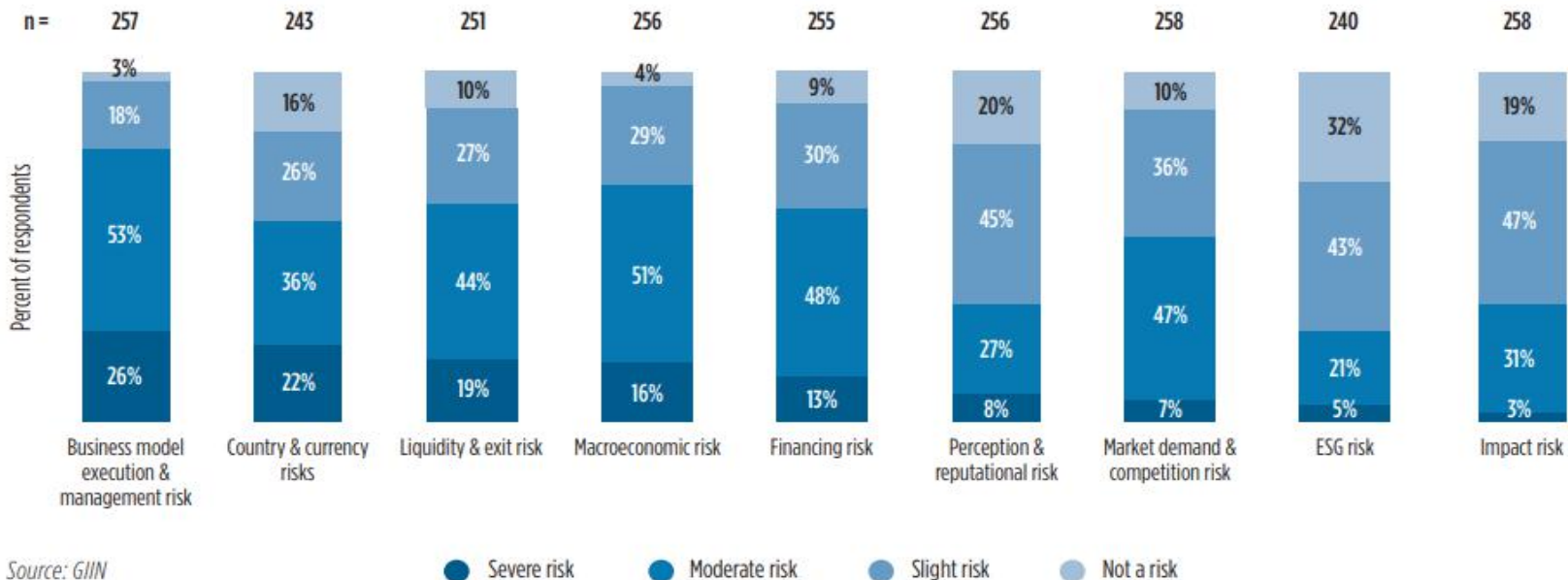
Perceived (i) high risk and (ii) weak return for risk.

GIIN MEMBERS 2019: MAIN RISK FACTORS IMPACT INVESTING

- GIIN surveyed members on risks of impact investing (in developing and developed countries)
- Macroeconomic risk, country risk and liquidity 3 of Top 4: Highly present in developing countries

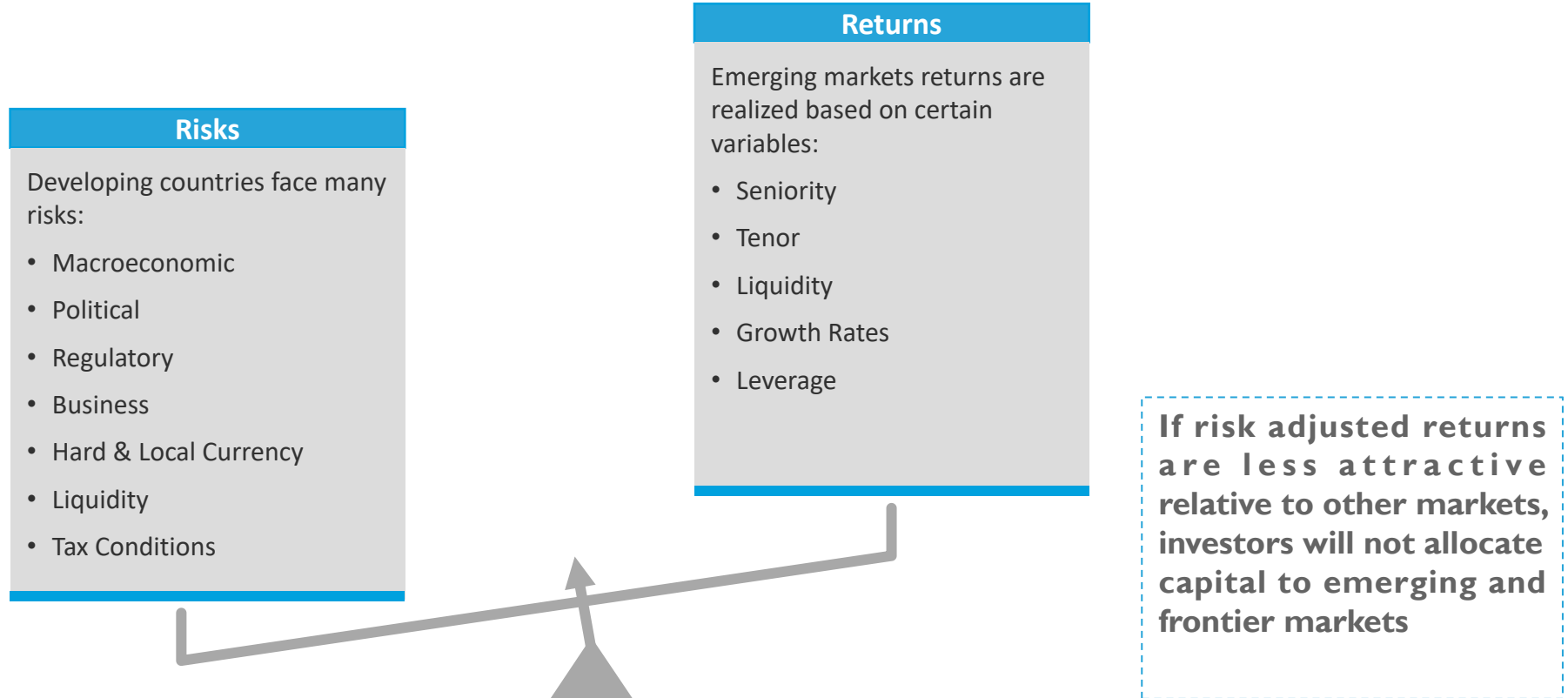
Figure 37: Contributors of risk to impact investment portfolios

Number of respondents to each option shown above each column; some respondents chose 'not sure / not applicable' and are not included. Ranked by percent that selected 'severe risk'.



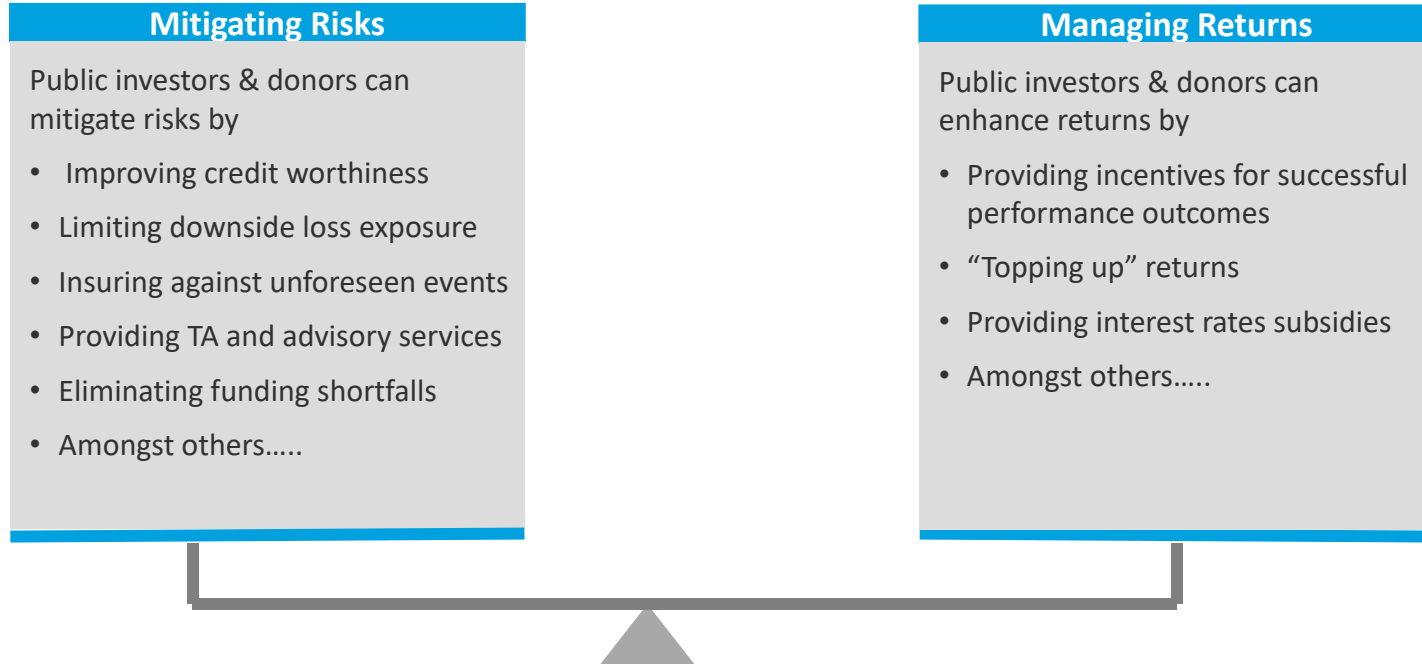
Source: GIIN

FACTORS AFFECTING RISK-ADJUSTED RETURNS



BLENDING FINANCE CAN MITIGATE RISK AND/OR IMPROVE RETURNS

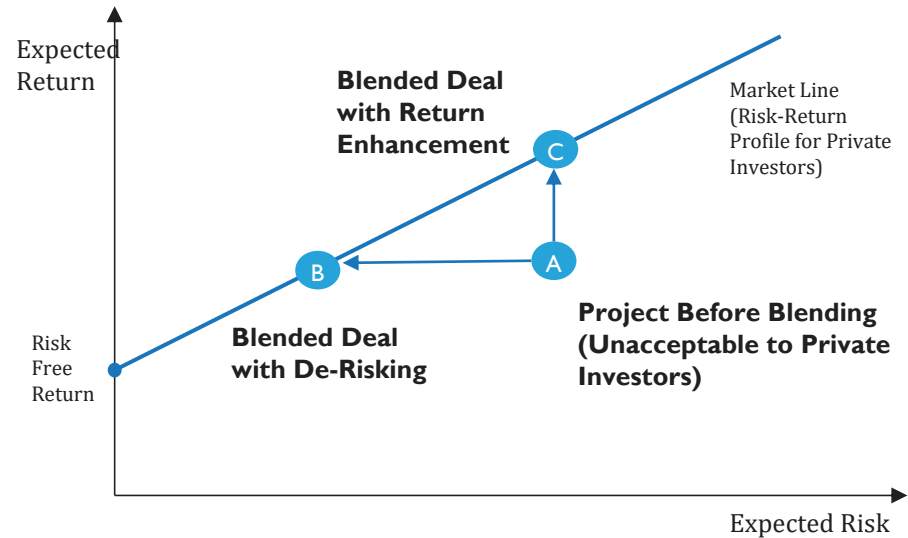
Public and philanthropic capital deployed to mitigate risk and/or manage returns
Brings risk-adjusted returns in line with criteria and market



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 low 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
		Median rated	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

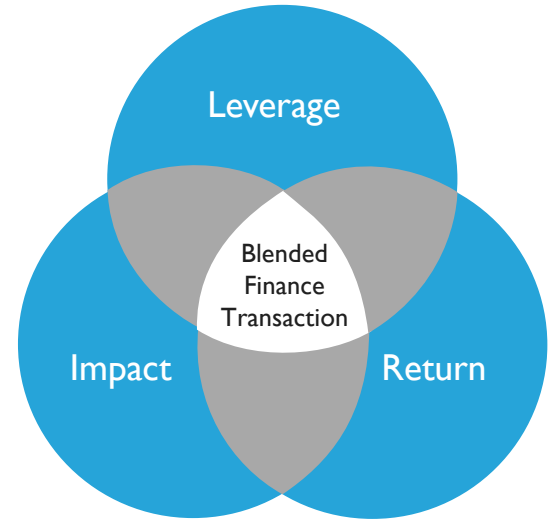
		Investment Grade Borrowers			Non-Investment Grade Borrowers (Speculative Grade)						
Agency	Statistic	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC to C
Fitch	5-yr cum default rate	0.8%	1.6%	2.7%	5.3%	5.9%	5.4%	8.1%	11.5%	8.6%	35.5%
S&P	5-yr cum default rate	1.1%	1.5%	3.0%	4.1%	6.9%	10.0%	15.0%	18.6%	26.4%	46.4%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

Key characteristics of blended finance transactions

KEY CHARACTERISTICS OF A BLENDED FINANCE TRANSACTION

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

- 1. Development Impact – Paramount.** Underlying activity contributes to SDGs in developing country; Not all parties need to have development intent
- 2. Leverage** – Funding need is large and private sector would not invest 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

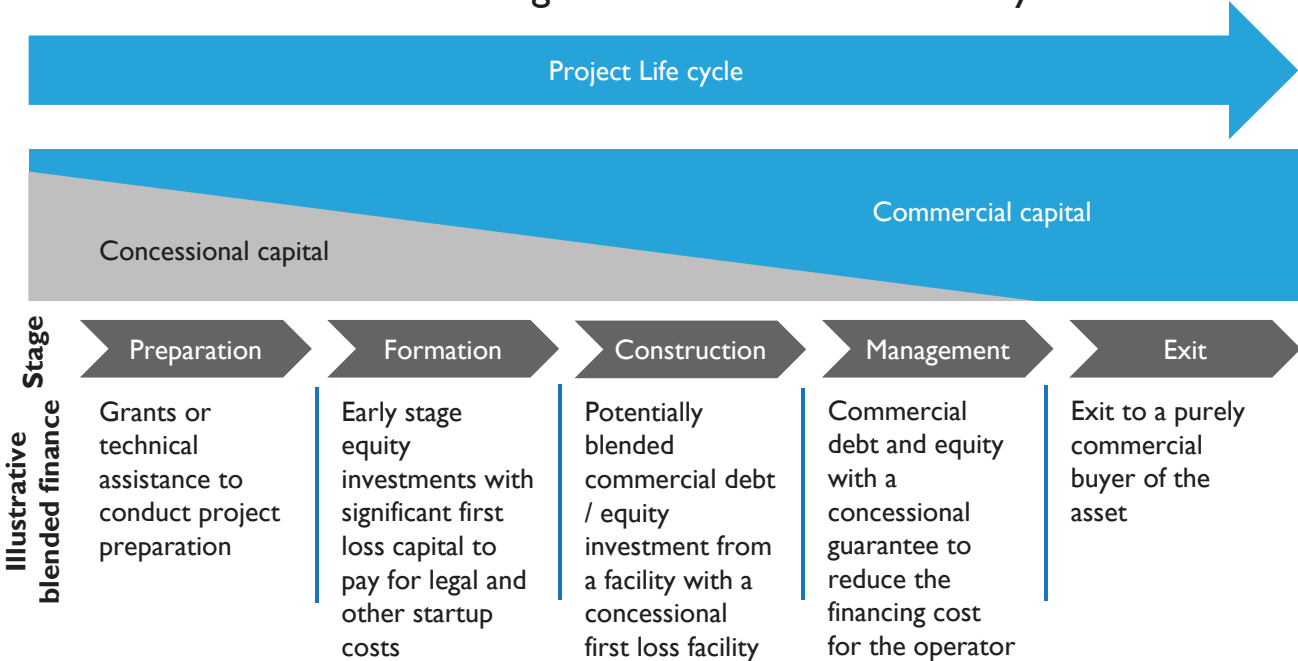
4. Facility - Long term institution set up to blended different forms of capital

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

Examples of Blending Across Different Levels	
Project Level	<ul style="list-style-type: none">• Alina Vision• Kigali Bulk Water Project
Fund Level	<ul style="list-style-type: none">• Climate Investor One• African Local Currency Bond Fund
Fund-of-Funds	<ul style="list-style-type: none">• Saronia Frontier Markets Fund 2• Global Energy Efficiency & Renewable Energy Fund
Facility	<ul style="list-style-type: none">• Global Environment Facility• GuarantCo
Intermediaries	<ul style="list-style-type: none">• Climate Policy Initiative - The Lab• US-Africa Clean Energy Finance Initiative

BLENDING 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

CAPITAL STRUCTURE

Senior Debt

Flexible Debt

Equity

Junior Equity

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

CAPITAL STRUCTURE

Guarantee

Senior Debt

Equity

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)

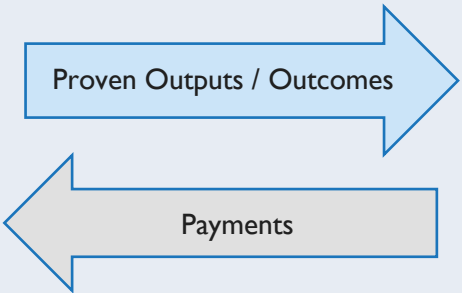
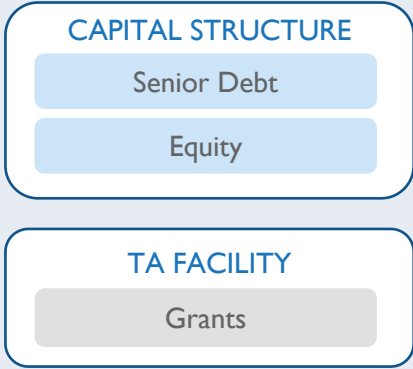
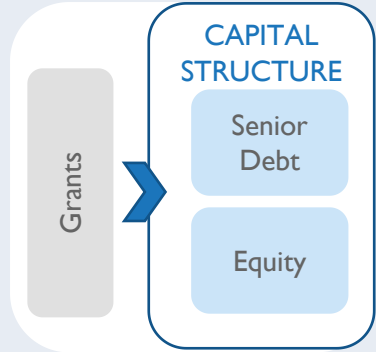
Grants

CAPITAL STRUCTURE

Senior
Debt

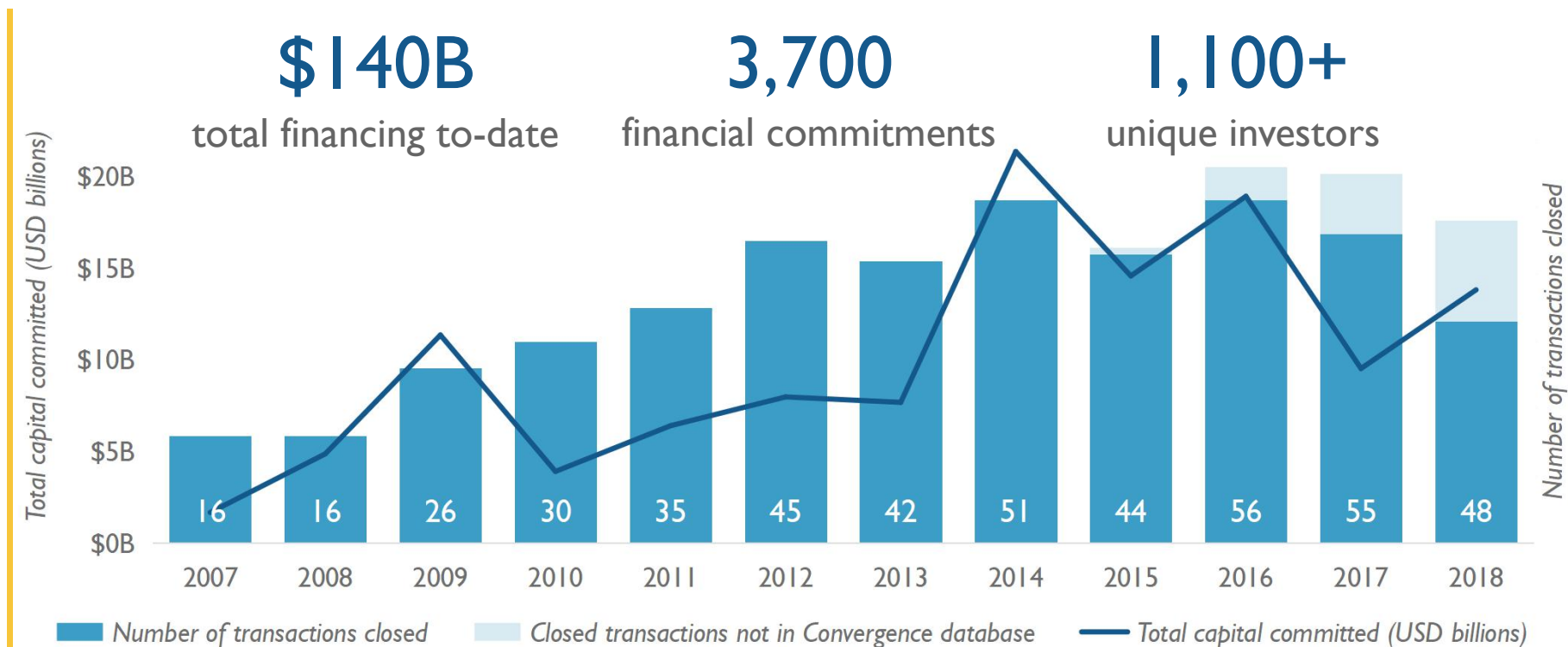
Equity

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"> • Ties payment to achievement of pre-agreed measurable outputs and outcomes • Donors pay for outputs and not inputs (the latter typical for grants) • Examples include Development & Social Impact Bonds  <p>The diagram shows a blue arrow pointing right labeled 'Proven Outputs / Outcomes' and a grey arrow pointing left labeled 'Payments', indicating a reciprocal relationship between the two.</p>	<ul style="list-style-type: none"> • Funding to supplement the capacity of investees • Aim is to maximize quality of project implementation  <p>The diagram shows two stacked boxes. The top box is 'CAPITAL STRUCTURE' containing 'Senior Debt' and 'Equity'. The bottom box is 'TA FACILITY' containing 'Grants'.</p>	<ul style="list-style-type: none"> • Used to reduce total investment required or support economics / financing of project • Deployed upfront (capital grant) or as ongoing payments (smart subsidies) • Examples include viability gap funding and interest rate subsidies  <p>The diagram shows a grey box labeled 'Grants' with a blue arrow pointing to a larger box labeled 'CAPITAL STRUCTURE' which contains 'Senior Debt' and 'Equity'.</p>

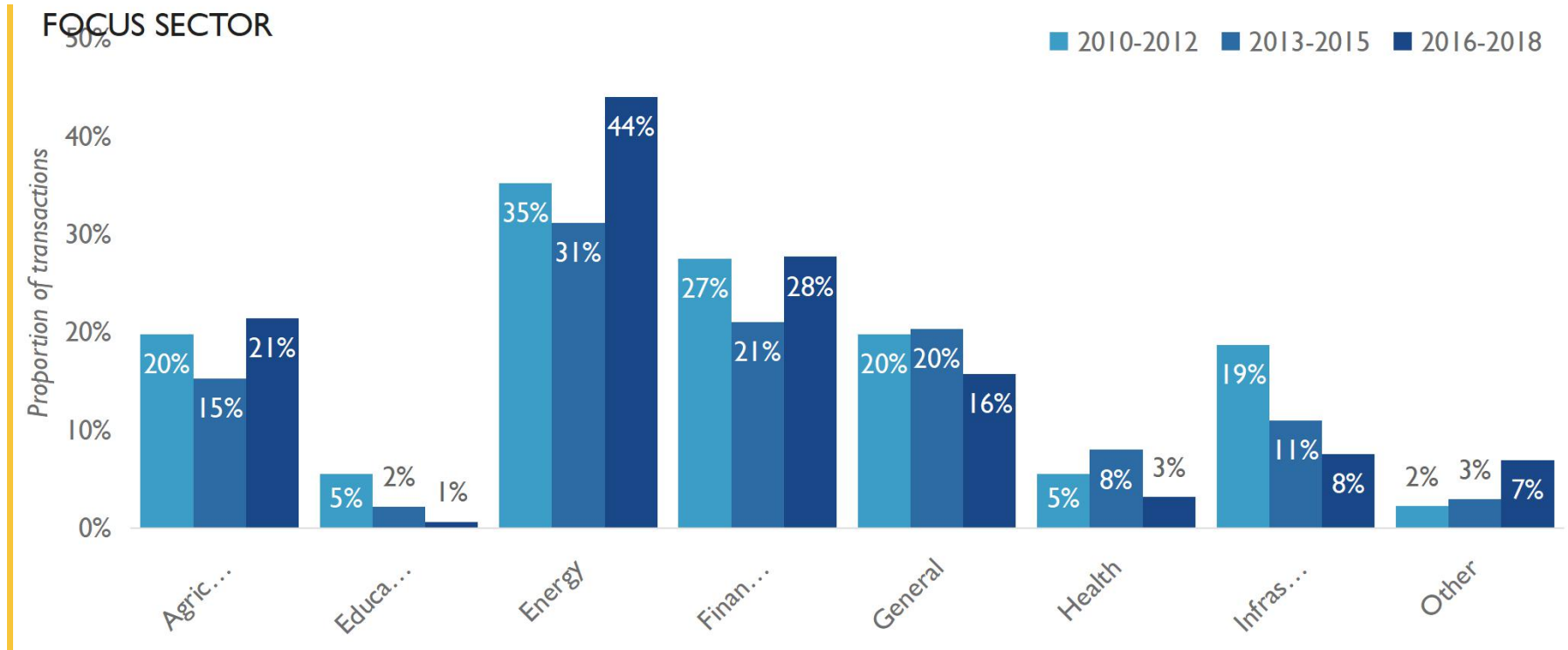
Global trends in blended finance market

STEADY GROWTH IN BLENDED FINANCE: STILL ANNUAL \$15 BILLION IS ONLY FRACTION OF NEED AND POTENTIAL



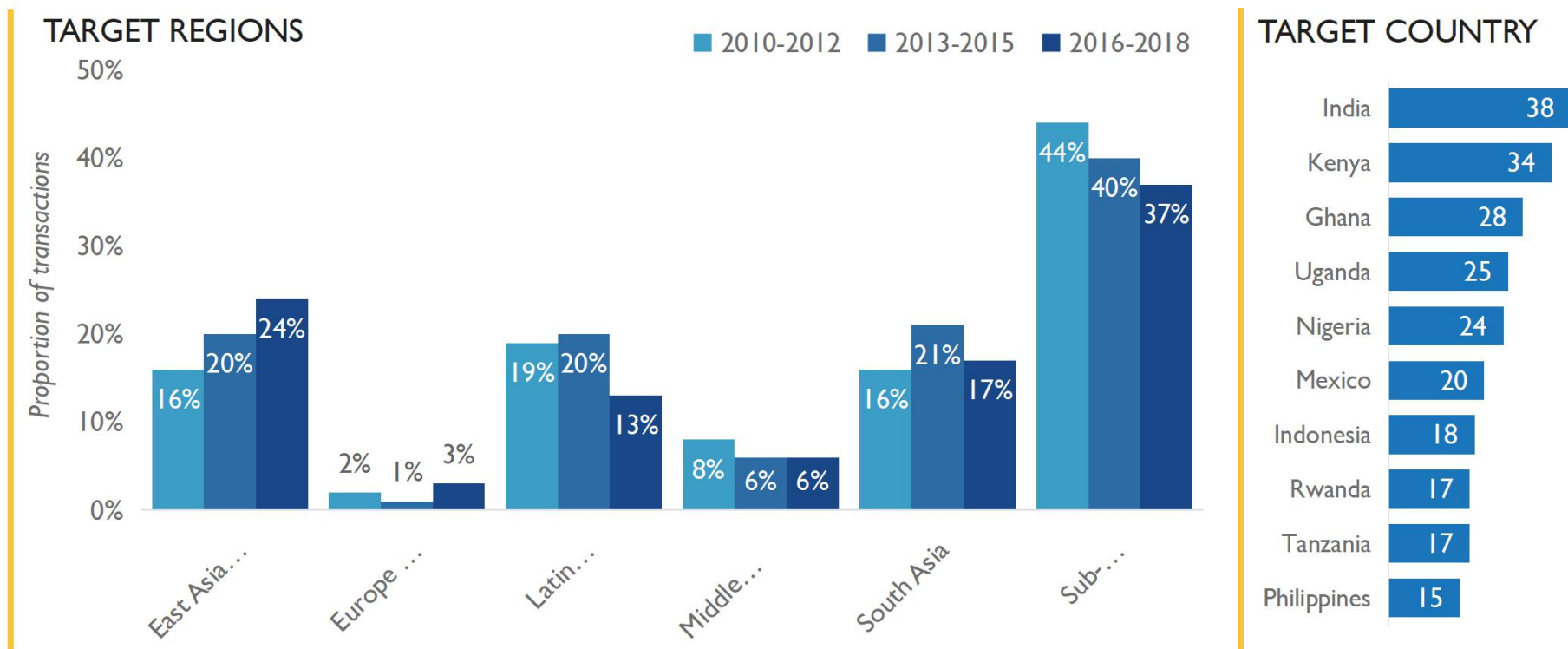
Source: Convergence, The State of Blended Finance 2019

ENERGY AND FINANCIAL SERVICES STILL DOMINATE, BUT AGRICULTURE, WASH, AND HEALTH ARE RIPE FOR MORE



Source: Convergence, The State of Blended Finance 2019

SUB-SAHARAN AFRICA CONTINUES TO BE A KEY TARGET MARKET, WITH ASIA EMERGING AS A NEW FRONTIER



Source: Convergence, The State of Blended Finance 2019

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

aecid

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 EU bank

CDC
Investment works

OPIC

TDB
THE AFRICAN 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

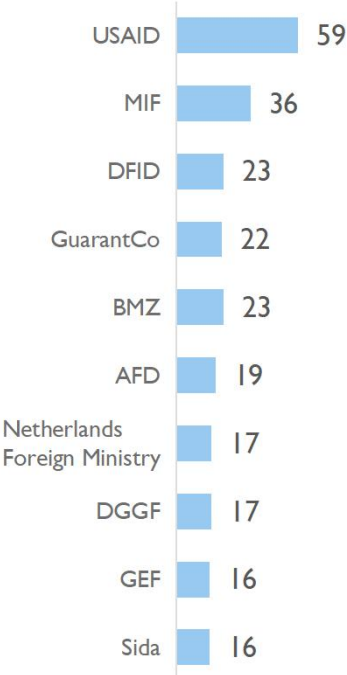
Shell Foundation

ACCION

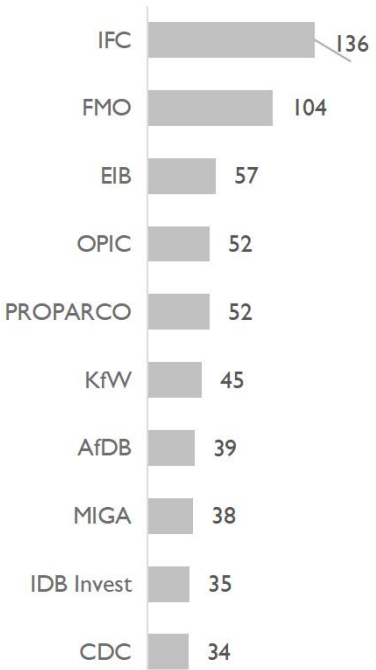
AGA KHAN FOUNDATION
An agency of the Aga Khan Development Network

BLENDING FINANCE TRENDS: TOP INVESTORS

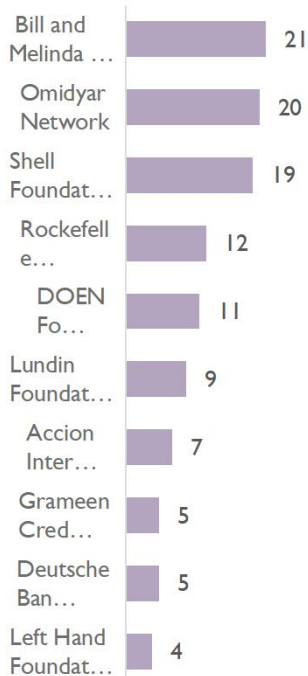
DEVELOPMENT AGENCIES & MULTILATERAL FUNDS



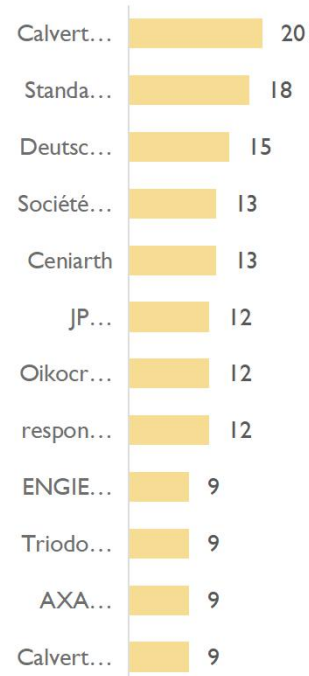
MDBs & DFIs



PHILANTHROPIC INVESTORS



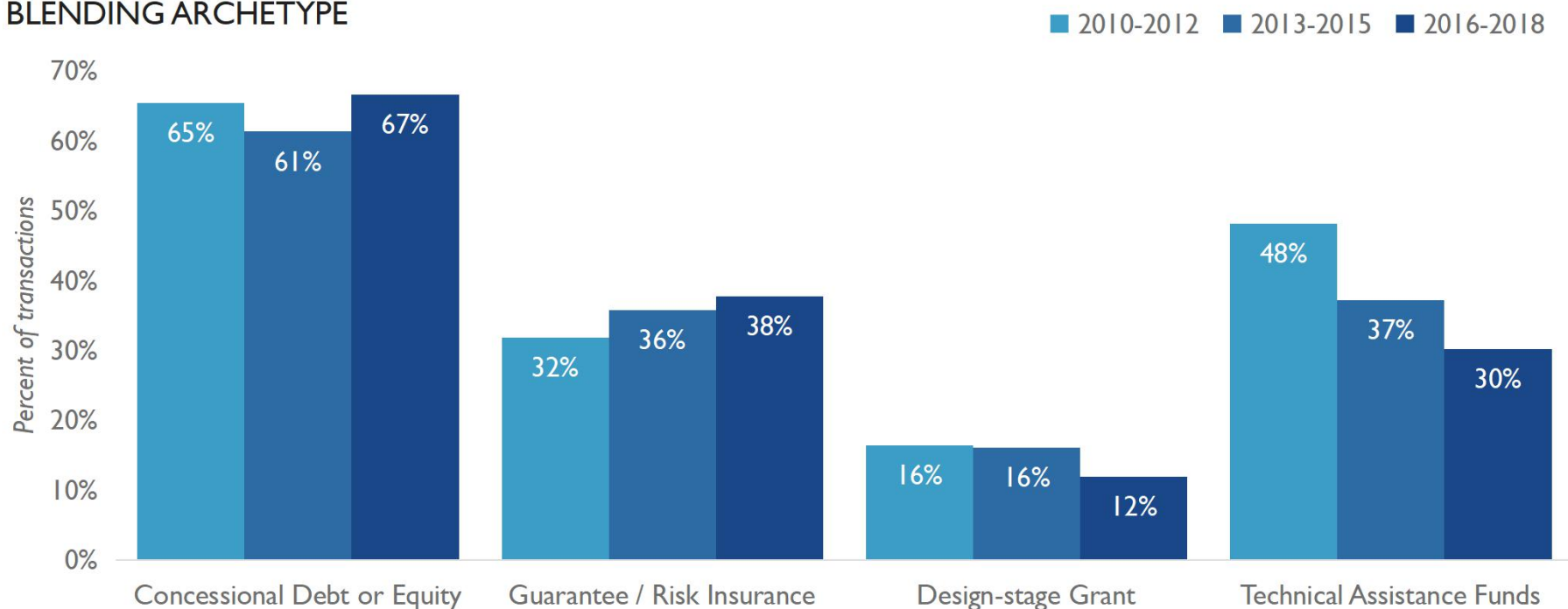
PRIVATE INVESTORS



Note: Investors ordered by number of investments.

CONCESSIONAL CAPITAL AND GUARANTEES ARE BECOMING INCREASINGLY IMPORTANT VIS-À-VIS GRANTS

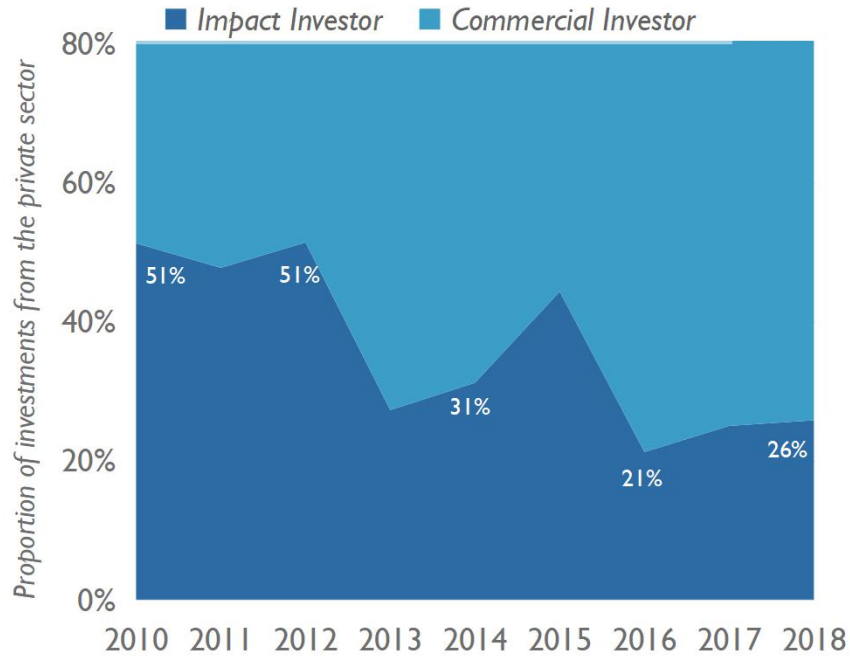
BLENDING ARCHETYPE



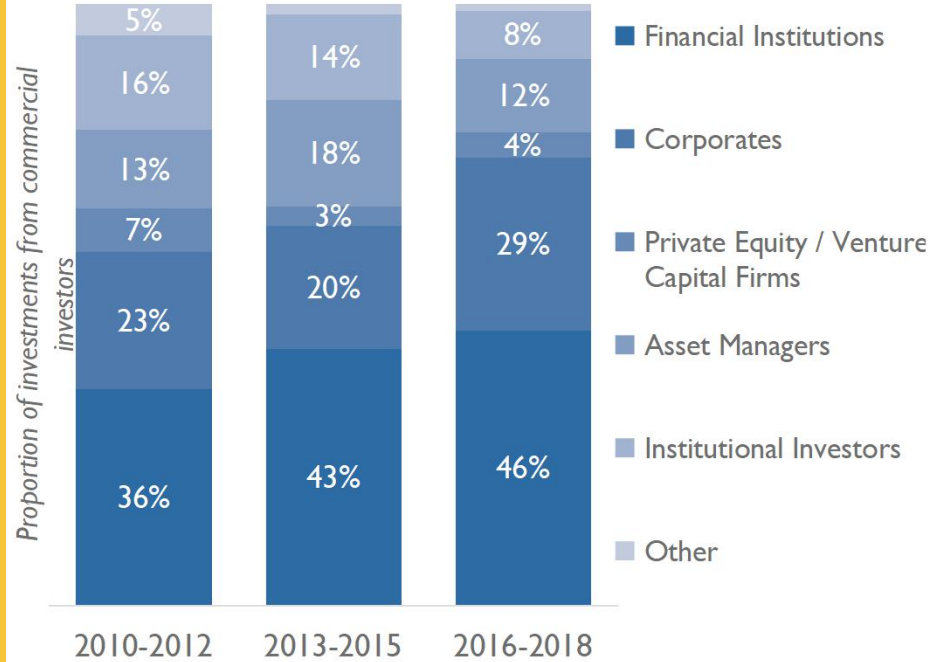
Source: Convergence, The State of Blended Finance 2019

COMMERCIALY-ORIENTED INVESTORS BECOMING MORE ACTIVE, ESPECIALLY COMMERCIAL BANKS & CORPORATES

PRIVATE SECTOR INVESTMENTS



COMMERCIAL INVESTORS



Source: Convergence, The State of Blended Finance 2019

Blended finance case studies



CASE STUDY #1

*Ilu Women's Empowerment Fund
Growing Equality in Latin America*

Empowering Women

DELIVER STRONG FINANCIAL RETURNS BY INVESTING IN BUSINESSES THAT PROMOTE WOMEN IN LEADERSHIP AND GOVERNANCE, PRODUCTS AND SERVICES THAT MEET THE NEEDS OF WOMEN AND GIRLS, GENDER-SENSITIVE VALUE CHAINS, AND WORKPLACE EQUITY IN LATIN AMERICA AND THE CARIBBEAN.



RENEWABLE
ENERGY



SME
FINANCING



WOMEN
ENTREPRENEURS



EDUCATION



HEALTH
CARE



AFFORDABLE
HOUSING

Why We Focus on Latin America and the Caribbean

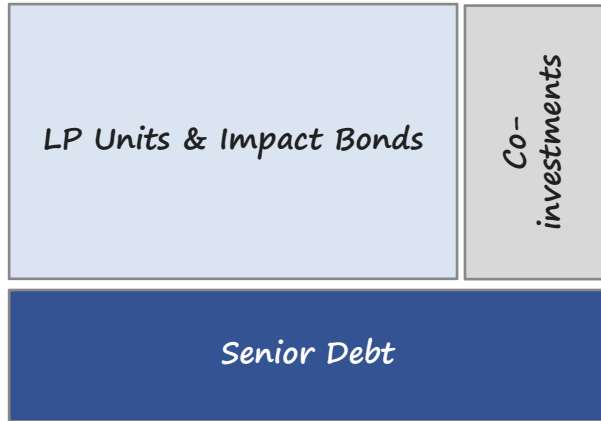
An aerial photograph of a coastal town built on a narrow strip of land, surrounded by water and mountains in the background. The town is densely packed with buildings and is situated along a winding waterway. The surrounding landscape is a mix of water, mudflats, and sparse vegetation. In the distance, there are large, rugged mountains under a cloudy sky.

- 1 in 3 people in this region live in poverty and it remains one of the most unequal in the world
- Women are disproportionately affected due to social and cultural barriers
- Like other emerging economies, the region is expected to grow at 2x the rate of advanced economies in the next 5 years
- Access to capital is key to achieve this growth
- We have deep networks and a strong pipeline of opportunities to contribute towards gender-balanced, sustainable growth

Challenges

- *Virtually no Canadian capital providers for international impact when fund was launched*
- *International DFIs wanted to see Canadian participation before committing*
- *Typical Canadian investment fund structure was not RRSP/TFSA eligible when used for international investing, and 90% of Canadian savings are held in these vehicles*
- *Canadians wanted to invest in CAD, portfolio companies wanted USD*
- *Latin America and the Caribbean perceived as high risk*
- *Concerns that investment focus was too niche or that pipeline would be limited*

Blending Approach



LP Units & Impact Bonds

- Provided by private sector investors
- Medium risk, medium return
- RRSP/TFSA eligible options

Senior Debt

- Provided by development finance institution
- Low risk, low return
- Leverage 1 : 2.5
- Adds scale to fund
- Supports investment in senior debt of portfolio companies

Co-investments

- Provided by private sector investors with high level of comfort in region & sector
- Higher risk, higher return and higher impact
- Supports investment in subordinated debt

US\$35MM Target
US\$27MM Committed

Portfolio Snapshot

60+

INVESTOR
S

12

PORTFOLIO
COMPANIES



8% ANNUAL
RETURN

NET FEES, SINCE INCEPTION
(2016)

8 FROM
MEXICO TO
ARGENTINA

COUNTRIE
S



\$25

MILLION
COMMITTED
CAPITAL

5

SDG-
IMPACTED
OBJECTIVES

Our Impact

The Ilu Fund delivers strong financial returns while also providing meaningful and measurable social and environmental benefits, with a focus on advancing the Sustainable Development Goals, specifically:



130,000 clients have received health care services

More than 115,000 clients have received business training

Clean renewable energy capacity in excess of 150 MW

Over 2,700 full time jobs, 50% female

More than 220,000 clients, 41% female



CASE STUDY #2

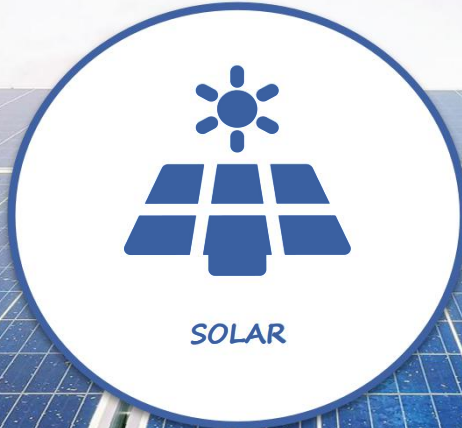
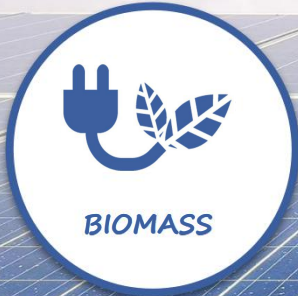
Deetken Impact Sustainable Energy Funds

Investing for Climate Action

WE INVEST IN SUSTAINABLE ENERGY INFRASTRUCTURE THAT IMPROVES ACCESS TO CLEAN AND RELIABLE ENERGY SOURCES, STRENGTHENS ECONOMIES AND BUILDS CLIMATE RESILIENCE IN CENTRAL AMERICA AND THE CARIBBEAN.

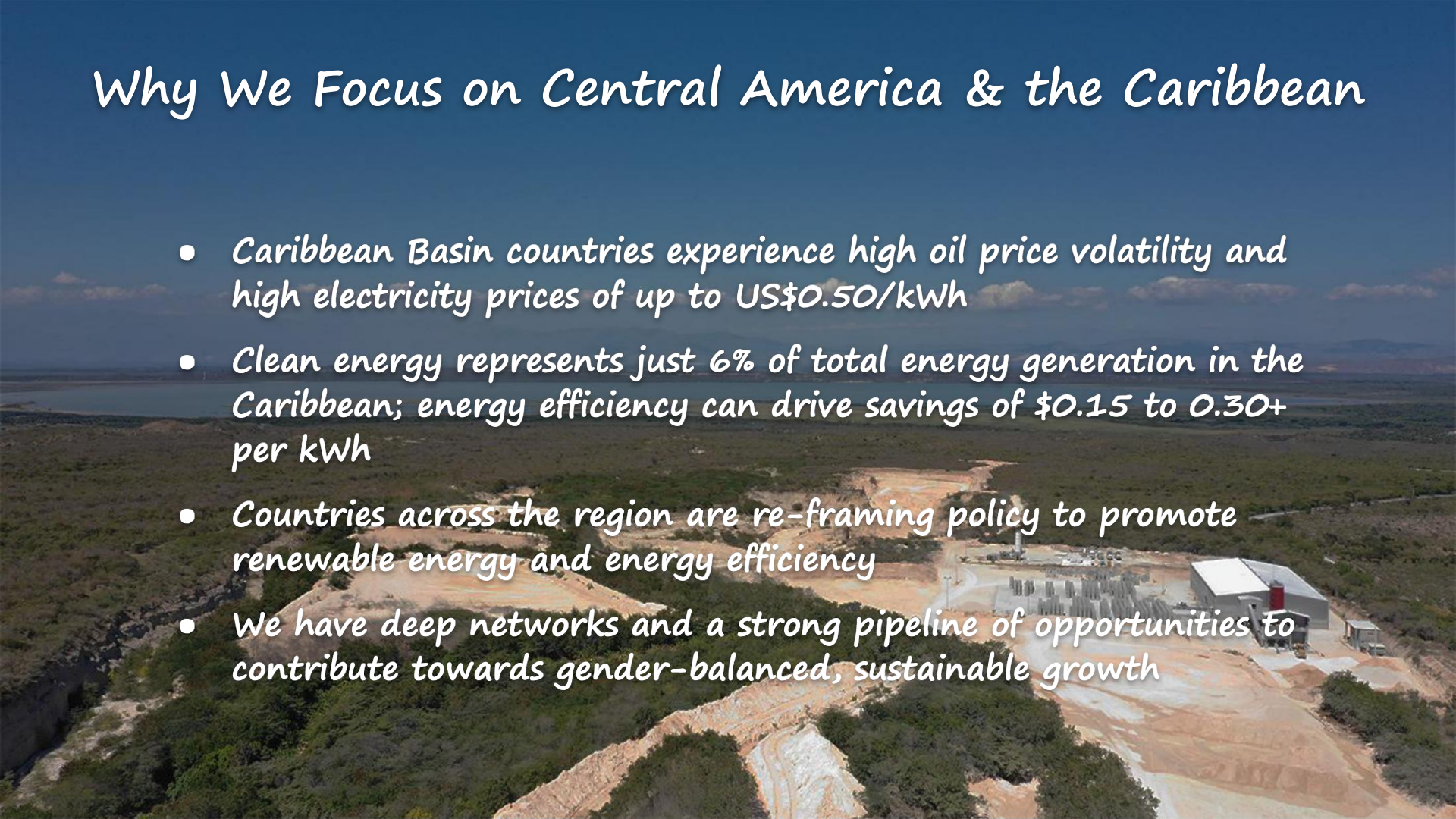
Deetken
Impact
Sustainable
Energy

Investing in Sustainable Sources of Energy



Why We Focus on Central America & the Caribbean

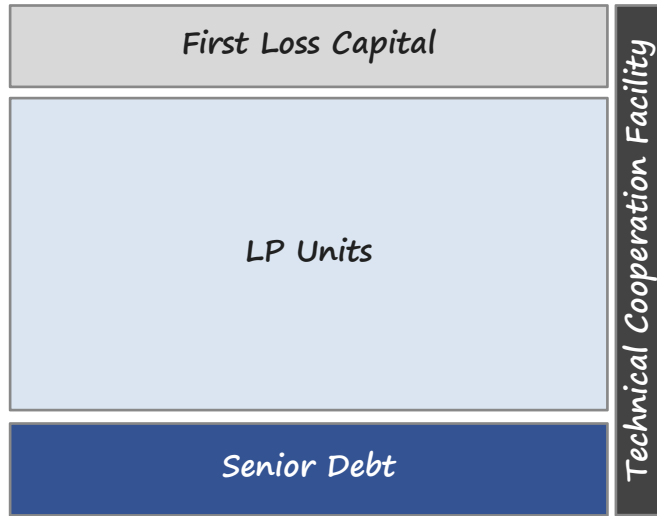
- Caribbean Basin countries experience high oil price volatility and high electricity prices of up to US\$0.50/kWh
- Clean energy represents just 6% of total energy generation in the Caribbean; energy efficiency can drive savings of \$0.15 to 0.30+ per kWh
- Countries across the region are re-framing policy to promote renewable energy and energy efficiency
- We have deep networks and a strong pipeline of opportunities to contribute towards gender-balanced, sustainable growth



Challenges

- *Serious financing gap in clean energy sector, particularly for equity and mezzanine capital for small and medium sized projects*
- *High profile negative community reactions to some renewable energy projects financed prior to the launch of the funds*
- *Lack of credit-worthy offtakers in some markets, e.g., Honduras*
- *Central America and the Caribbean perceived as high risk*
- *Concerns that investment focus was too niche or that pipeline would be limited*

Blending Approach



US\$100MM Target
US\$63MM Committed

First Loss Capital

- Provided by development finance institution (DFI)
- Higher risk, lower return
- Designed to catalyse investment into Honduras

LP Units

- Provided by DFIs and private sector investors
- Medium risk, medium return
- Supported by a portfolio of equity and mezzanine investments in sustainable energy infrastructure
- Approx. 95% of portfolio investments have long-term contracted revenue profiles

Senior Debt

- Provided by a private sector investor
- Lower risk, lower return
- Drawn down to fund investments with near-term, regular cash flow profile

Technical Cooperation Facility

- Provided by DFI
- Grant funding to support incubation and acceleration of portfolio companies, social and environmental training, community benefits and knowledge dissemination

Portfolio Snapshot

\$43

MILLION DOLLARS

13

DEALS



15% EXPECTED RETURN

6

Honduras
Guatemala
Nicaragua
Panama
D.R.

COUNTRIES

Trinidad



>\$360

MILLION

TOTAL PROJECT COST

48% SOLAR GC

26% SOLAR DG

18% HYDRO

9% BIOMASS & E

Our Impact

The Funds deliver strong financial returns while also providing meaningful and measurable social and environmental benefits, with a focus on advancing the Sustainable Development Goals, specifically:



510,000 households will receive affordable power from clean sources

3,800 temporary jobs in clean energy

500 permanent jobs in clean energy

~450 MW of clean energy capacity in the Caribbean Basin

~750,000 tCO₂e of GHG emissions displaced

Get to know us



@DeetkenImpact



@thedeetkengroup



Deetken Impact

www.deetkenimpact.com

INTERESTED TO KNOW MORE OR TO JOIN CAFIID



- Learn more on-line:

<https://www.cafiid.ca/cafiid-members/how-to-become-a-member>

- Contact us at cafiidassociation@gmail.com



Canada Forum for Impact Investment and Development

Serge LeVert-Chiasson, Chairman of the board

slevertchiasson@saronafund.com

+1.519.883.7557

55 Victoria Street North
Kitchener, ON N2H 5B7
Canada



Canada Forum for Impact Investment and Development

ANNEXES

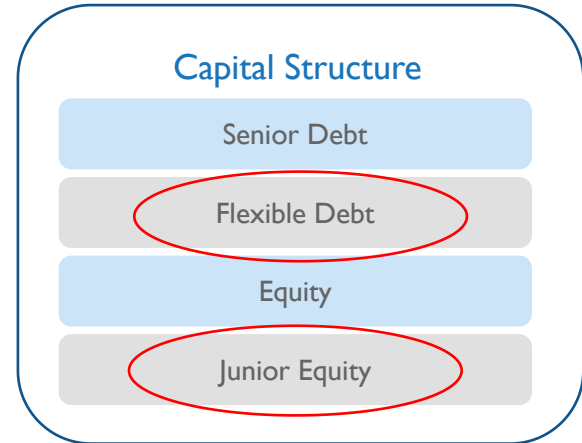
Blended Finance: Main Archetypes

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

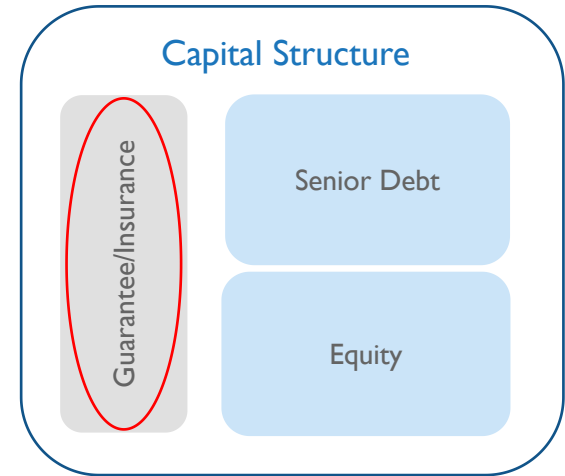
I. FUNDED RISK PARTICIPATION

- 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

Capital Structure

Debt

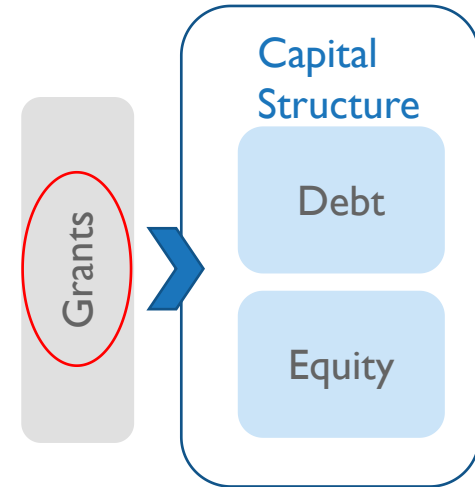
Equity

Technical Assistance

Grants

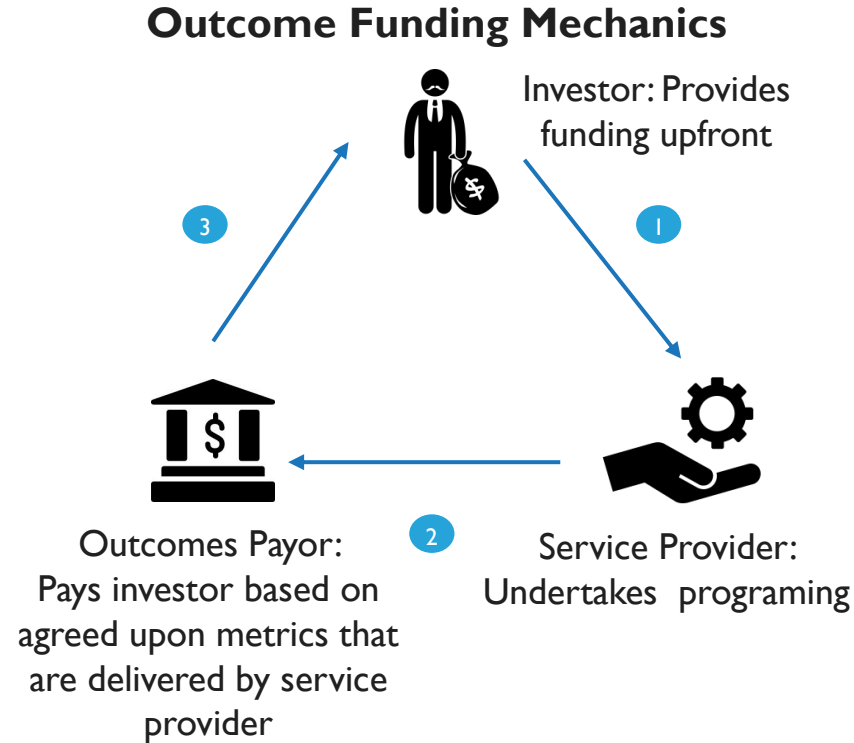
4. GRANT FOR PROJECT COST SUPPORT (VIABILITY GAP FUNDING & SMART SUBSIDIES)

- 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)



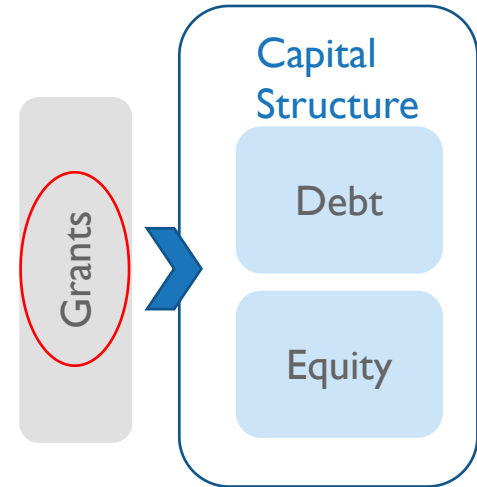
5. RESULTS BASED FINANCING (OUTCOME FUNDING AND PAY FOR SUCCESS)

- 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

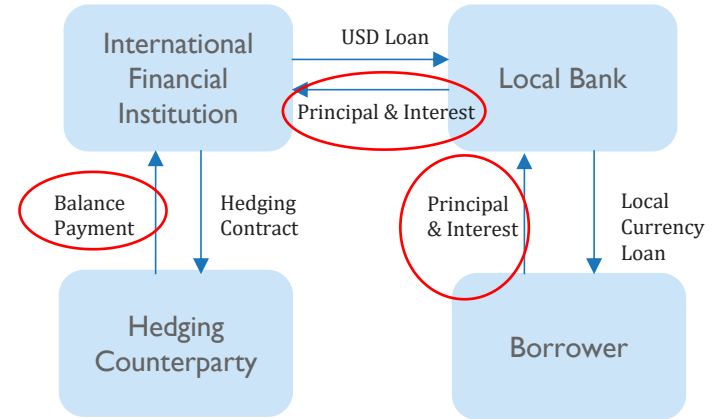
- Grants that support costs and activities that lead to bankable/investible SDG projects
- Typically provided by those who seek to catalyse SDG projects that are currently not happening – Development funders
- Typical examples include feasibility studies, proofs of concept and technical studies to prepare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



About 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.

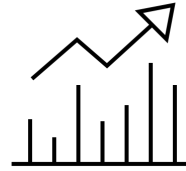
Funded by fees/revenues from members/subscribers and grants from donors.

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 300 member institutions, and over 580 staff at member institutions actively using 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 ~\$2.3 billion in diverse sectors and developing countries. These opportunities represent ~\$4.3 billion in aggregate.

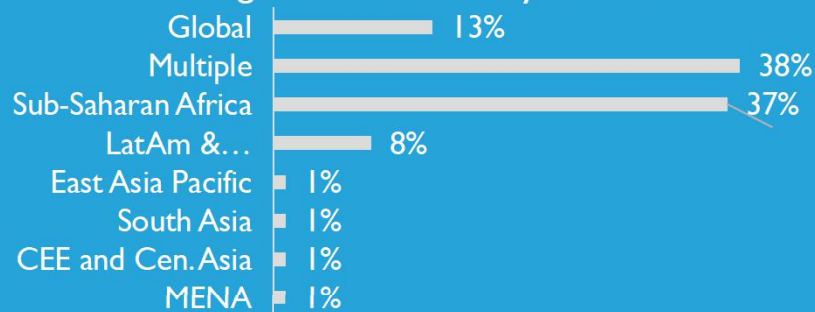
Investors and deal sponsors can connect with each other directly on the platform.

\$2.3B total funding sought

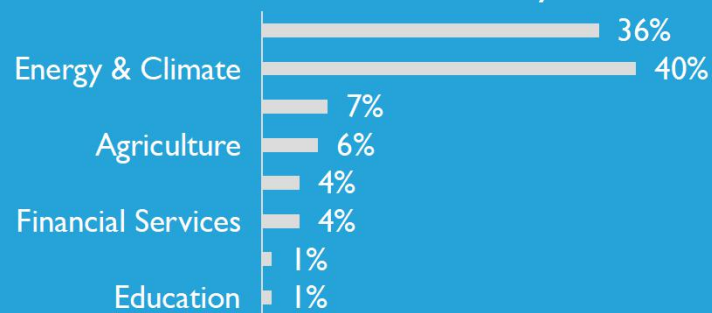
\$4.3B total deal size

\$40M median deal size

Region distribution by deal size



Sector distribution by deal size

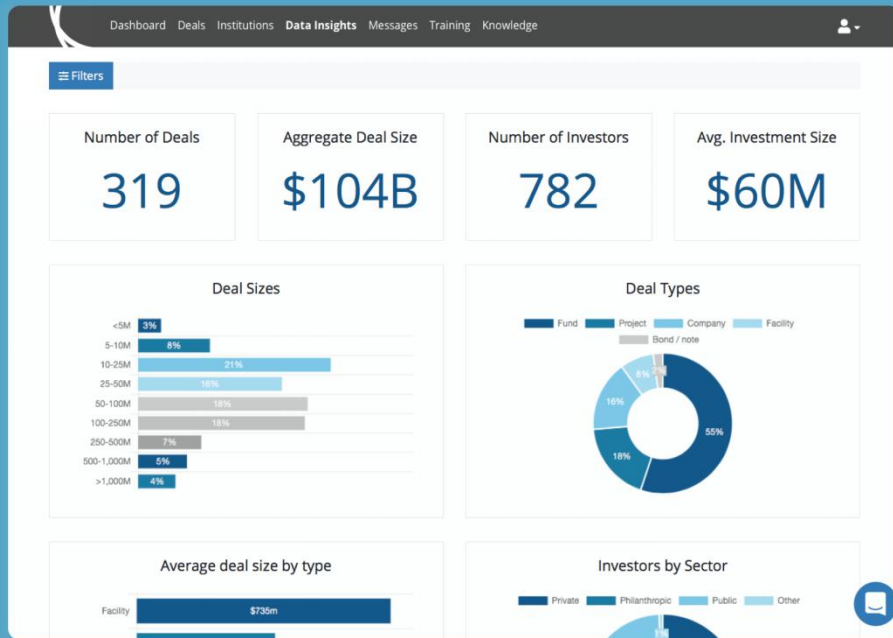


DATA INSIGHTS

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](#)



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[Convergence Blended Finance](https://www.linkedin.com/company/convergence-blended-finance)