DATA BRIEF

MEASURING IMPACT IN BLENDED FINANCE

SEPTEMBER 2019

HIGHLIGHTS

- Development impact is at the core of blended finance; however, it is important to recognize that blended finance is a structuring approach and not a development activity. As a structuring approach, blended finance can be used to support a broad range of development activities, from renewable energy projects to improving the quality of care provided by healthcare centers.
- To date, the majority of blended finance transactions have focused on financial inclusion and SME growth. Other common development objectives have included access to clean energy and sustainable agriculture and land use. There is great potential for blended finance to be used for an even wider set of development activities.
- The majority of blended finance transactions have focused on impact at the institution level and the most common target direct beneficiaries have been entrepreneurs and small businesses. Ultimately, more than three quarters of blended finance transactions have aimed to reach low-income populations as the end beneficiary (e.g., access to goods and services).
- Impact reporting has been limited in blended finance to date, with approximately half of blended finance transactions not publicly disclosing impact outcomes. Transactions led by foundations and NGOs have been most likely to disclose impact and, when disclosed, impact outcomes are most commonly shared through an annual report. Only one quarter of blended finance transactions have publicly disclosed gender disaggregated data.
- To build more evidence to support 'better blending', development impact should be (i) tracked, reported, and communicated on a regular basis and (ii) impact metrics should be standardized, where possible, across common development activities to allow for greater benchmarking and learning.

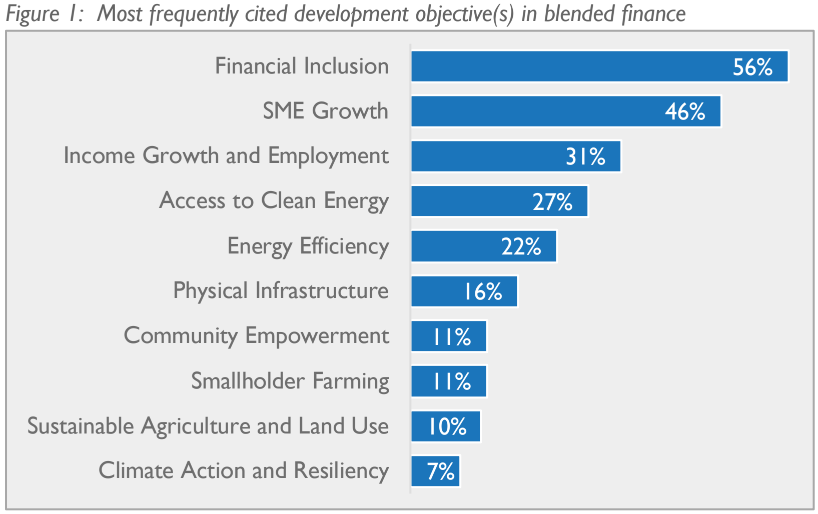
Development impact is at the core of deploying blended finance approaches

Blended finance aims to unlock greater volumes of investment capital for sustainable, market-based solutions aligned to the Sustainable Development Goals (SDGs). Development impact is at the core of blended finance; however, it is important to recognize that blended finance is a structuring approach and not a development activity. Rather, blended finance structures allow different types of capital (whether impact or commercially oriented) to invest alongside each other in projects aligned to the SDGs while achieving their own objectives (whether financial, social, or a blend).

Therefore, the impact of blended finance can be understood at two levels: the impact of the blended finance structure itself (e.g., mobilization, sustainability) and the impact on the underlying development activity. Good practice blended finance transactions use catalytic structures to mobilize additional sources of finance for a specific development activity with clear objectives and target impact outcomes. This Brief focuses on the second level of impact, seeking to benchmark (i) the types of *intended* development impact in blended finance solutions and (ii) common practices in impact measurement and reporting.

As a structuring approach, blended finance can be used to support a broad range of development activities, from renewable energy projects to improving the quality of care provided by healthcare centers. To date, the majority of blended finance transactions have focused on financial inclusion (56% of transactions) and SME growth (46%), which have both been identified as key enablers to reducing poverty and boosting prosperity. Other common development objectives have included access to clean energy and sustainable agriculture and land use. While blended finance has been concentrated around a few objectives, there is great potential for blended finance to be used for an even wider set of development activities.

Figure 1: Most frequently cited development objective(s) in blended finance

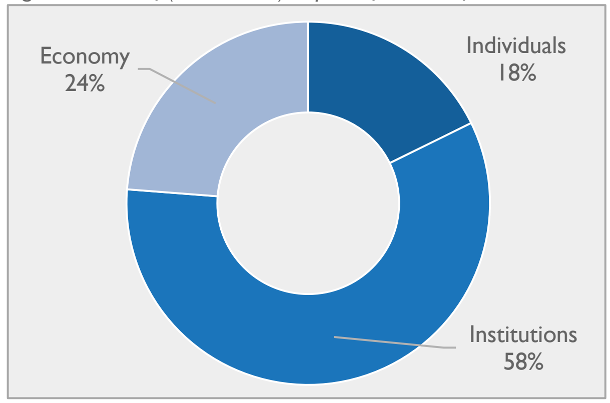


ANALYSIS

Blended finance solutions tend to measure impact at the institution level

Development impact can be measured at multiple levels: the individual (i.e., the effects of increased access to goods and services); the institution (i.e., the effects of a growing and sustainable business); and the economy (i.e., the effects of a more resilient and stable economy). The majority of blended finance transactions (58%) have focused on impact at the institution level, such as growing the operations of local businesses and institutions (e.g., healthcare facilities). Another quarter of transactions have focused on impact at the economy level, which includes those transactions that have focused on deepening capital markets and mobilizing infrastructure financing. Less than 20% of transactions have focused on impact at the individual level to date.

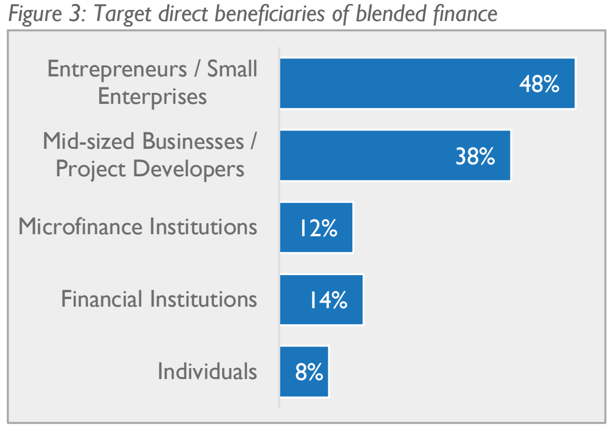
Figure 2: Level of (measurable) impact of blended finance



Entrepreneurs and small businesses are the largest direct beneficiaries

The most common target direct beneficiaries of blended finance transactions have been entrepreneurs and small businesses (48% of transactions). This includes a diverse set of social enterprises and for-profit businesses that operate in multiple sectors, from microfinance institutions to farmer cooperatives. Blended finance transactions have also frequently targeted mid-sized businesses and project developers, which can be correlated with the volume of blended finance for energy and infrastructure projects in developing countries. Only 8% of blended finance transactions have sought to directly serve individuals (i.e., end beneficiaries). Mostly commonly, these are social enterprises that have leveraged a blended finance approach (e.g., design-stage grants).

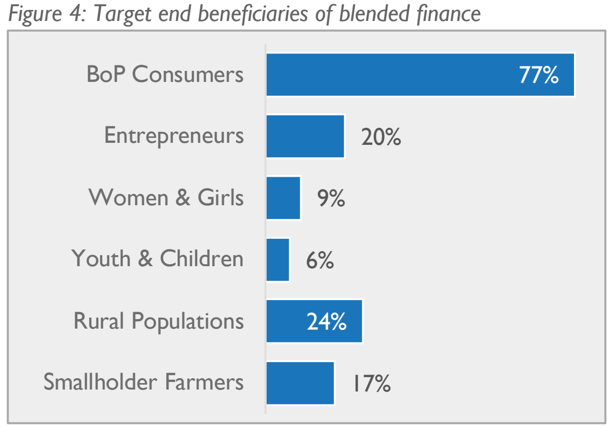
Figure 3: Target direct beneficiaries of blended finance



Blended finance transactions ultimately target low-income populations

The majority (77%) of blended finance transactions ultimately aimed to reach low-income populations and/or base of the pyramid (BoP) consumers. Approximately one third of blended finance transactions have targeted rural populations, including but not limited to smallholder farmers, as the end beneficiary (e.g., also rural electrification). Entrepreneurs and small businesses also represent an important end beneficiary for blended finance transactions, including those that are supported indirectly through financial institutions as well as through mid-sized businesses (e.g., value chain finance). To date, women and girls as well as youth and children have been the target end beneficiaries for only a small proportion of blended finance transactions.

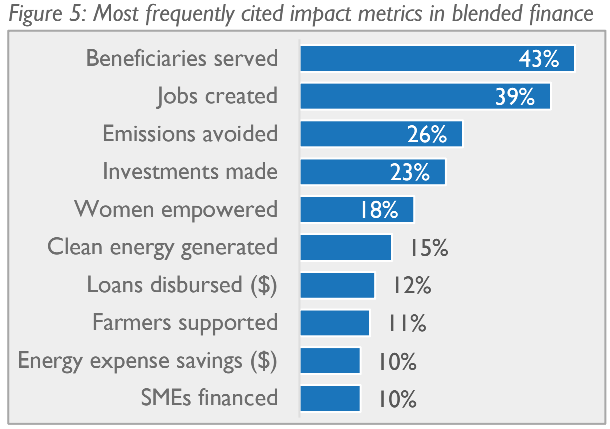
Figure 4: Target end beneficiaries of blended finance



Impact metrics tend to be specific to the development activity financed

"Total beneficiaries served" and "number of jobs created" are the most common metrics used to measure impact across all blended finance transactions, irrespective of focus sector or SDG alignment. Climate-related metrics, particularly "amount of CO^2/GHG emissions avoided", are also widely used, even among blended finance transactions that are not focused on climate change. These basic sector-agnostic metrics are measurable (i.e., straightforward to collect) and comparable (i.e., standardized across multiple projects); however, the vast majority of metrics used in blended finance transactions are specific to the development activities financed. Metrics vary significantly between sectors, but also within sectors according to those specific activities.

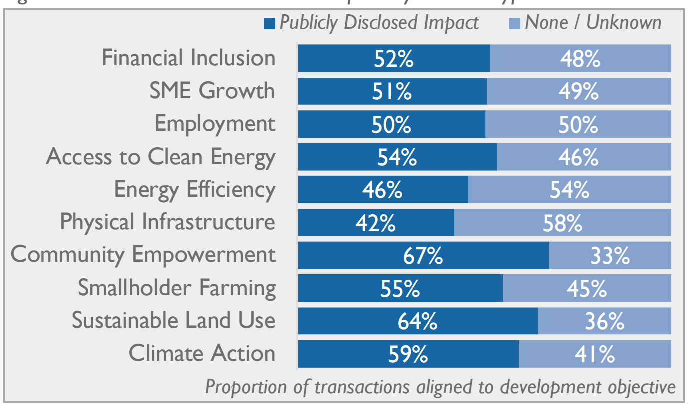
Figure 5: Most frequently cited impact metrics in blended finance



About half of blended finance transactions disclose their impact

Convergence analysis shows that reporting on impact has been limited in blended finance (as with development finance more broadly), with approximately half of blended finance transactions not publicly disclosing impact outcomes. Blended finance transactions focused on community empowerment, sustainable land use, and climate action have most commonly disclosed impact outcomes, although only by a narrow margin. At the sector level, blended finance transactions in the financial services and education sectors have been relatively more likely to disclose impact, while transactions focused on energy or infrastructure have been least likely.

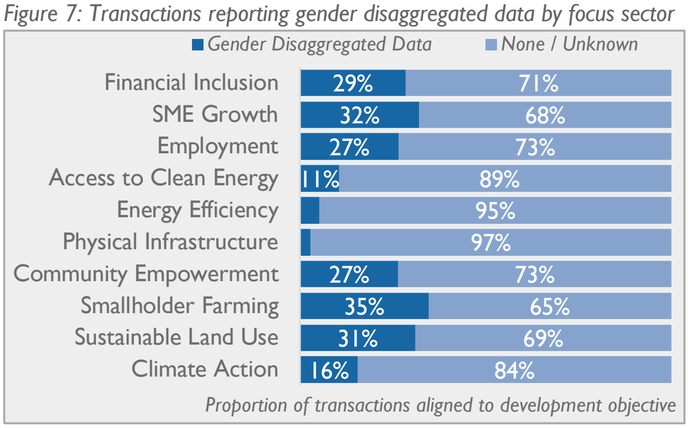
Figure 6: Transactions that disclose impact by investor type



Gender disaggregated data is not yet widely reported on

Only one quarter of blended finance transactions have publicly disclosed gender disaggregated data, or data that is collected and analysed separately on males and females. Most transactions have not publicly disclosed this information. Notably, there has been a close correlation between publicly disclosed impact outcomes and gender disaggregated data. Gender disaggregated data has been most commonly reported for blended finance transactions focused on smallholder farming, SME growth, and sustainable land use. In contrast, gender disaggregated data has been least commonly disclosed for transactions focused on energy efficiency and physical infrastructure.

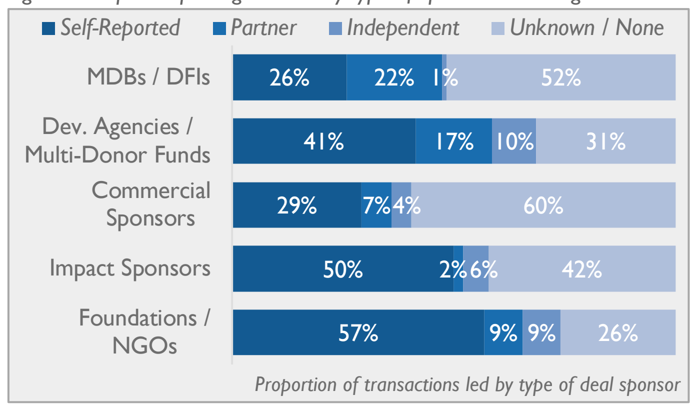
Figure 7: Transactions reporting gender disaggregated data by focus sector



When publicly disclosed, impact is self-reported by the sponsor

Blended finance transactions led by foundations and NGOs have been most likely to disclose impact, with 74% of these transactions having some form of publicly available impact report. In contrast, 60% of transactions led by commercial sponsors have no known public impact reporting. Where impact outcomes have been publicly disclosed, the majority of impact reporting has been self-reported by the lead organization. Public sector sponsors, including MDBs and development agencies, have most commonly relied on partners to capture and report these outcomes. Few blended finance transactions have used independent organizations to monitor and report on impact.

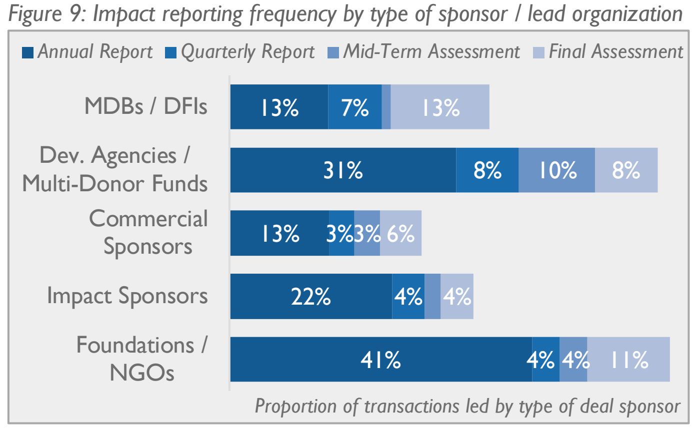
Figure 8: Impact reporting method by type of sponsor / lead organization



Annual reports are the most common form of impact reporting

For those blended finance transactions that have publicly disclosed impact outcomes, impact outcomes are most commonly shared through an annual report (21% of transactions). Blended finance transactions led by foundations and NGOs have been relatively more likely to publish an annual report (41% of transactions led by a foundation or NGO), compared to other types of deal sponsors. Transactions led by multilateral development banks (MDBs) or development finance institutions (DFIs) have been most likely to have a final impact study, while transactions led by development agencies and multi-donor funds have been most likely to have a mid-term study.

Figure 9: Impact reporting frequency by type of sponsor / lead organization



REFLECTIONS

As blended finance increasingly becomes an important part of the development finance landscape, there has been an increased focus on impact measurement and reporting. Many concessional capital providers, in particular, are seeking to understand where and how to best use blended finance approaches to achieve measurable development impact towards the SDGs. This Brief is intended as a starting point for understanding the intended impact of blended finance as well as the common practices in impact measurement and reporting. Admittedly, it can be complicated to think about the aggregate impact of blended finance given its flexibility as an approach to development finance.

Ultimately, development impact is at the core of blended finance. Yet, we need to find ways to understand the effectiveness and efficiency of blended finance in order to identify and scale the impactful solutions. Good practice blended finance vehicles have a clear theory of change with measurable impact outcomes. To build more evidence to support 'better blending', impact outcomes should be:

1. Tracked, reported, and communicated: Impact outcomes should be regularly measured and disseminated and include a baseline and endline analysis where possible.
2. Standardized, where possible: Impact metrics and reporting should be standardized across common sectors and development objectives to allow for greater benchmarking and learning.

METHODOLOGY AND NOTES

1. Convergence's database: Convergence maintains the largest and most detailed database of blended finance transactions that have reached financial close. Given the current state of information sharing, it is not possible for this database to be fully comprehensive. Information is collected primarily from credible public sources such as press releases, as well as data sharing agreements and validation exercises with Convergence members and partners. We have made efforts to capture all relevant blended finance transactions; however, there are likely more transactions that have not been captured.

2. Scope of available data: This Brief reviews 430 blended finance transactions captured in the Convergence database with information collected on intended impact and impact measurement We have tried as best as possible to capture all relevant information from what is publicly available. It is important to emphasize that our analysis is based on our own inferences from the stated objective(s) and development impact of each blended finance transaction. In addition, while we were unable to identify any publicly available reporting on impact outcomes for many transactions, some or all of these transactions may report impact outcomes directly to their stakeholders. This analysis does not speak to the rigor of impact measurement and reporting that is not disclosed publicly.