DATA BRIEF

BLENDED FINANCE IN SUB-SAHARAN AFRICA

FEBRUARY 2020

HIGHLIGHTS

- The development challenge remains acute in Sub-Saharan Africa (SSA). Given the scale of the challenge, SSA has long been the dominant region for blended finance transactions globally.
- Our database has recorded 216 blended finance transactions targeting one or more countries in SSA, representing $45 billion of capital flows. Kenya (32%), Uganda (22%), Tanzania (21%), Niger (21%), Ghana (19%), and Nigeria (19%) have the greatest shares of transactions in the region. Regionally, East Africa (65%) leads by share of SSA's transactions, followed by West Africa (57%), Southern Africa (38%), and Central Africa (34%).
- Blended finance transaction types in SSA have been broadly in line with the rest of the market. Transaction sizes in SSA have been smaller compared to other regions, with a median regional transaction size of $52.5 million and 53% of transactions being between $10-100 million in total size.
- While East Africa has been targeted most often by blended finance transactions in SSA, it has the smallest median transaction size of all of the sub-regions in SSA ($60 million).
- 36% of the investments in blended finance transactions targeting SSA have been from the private sector, with the largest share from financial institutions and asset managers. International Finance Corporation (IFC), the Netherlands Development Finance Company (FMO), and the African Development Bank (AfDB) are the most frequent investors in transactions targeting SSA.
- Blended finance can help to unblock the flow of commercial capital toward scalable sectors in SSA like infrastructure.

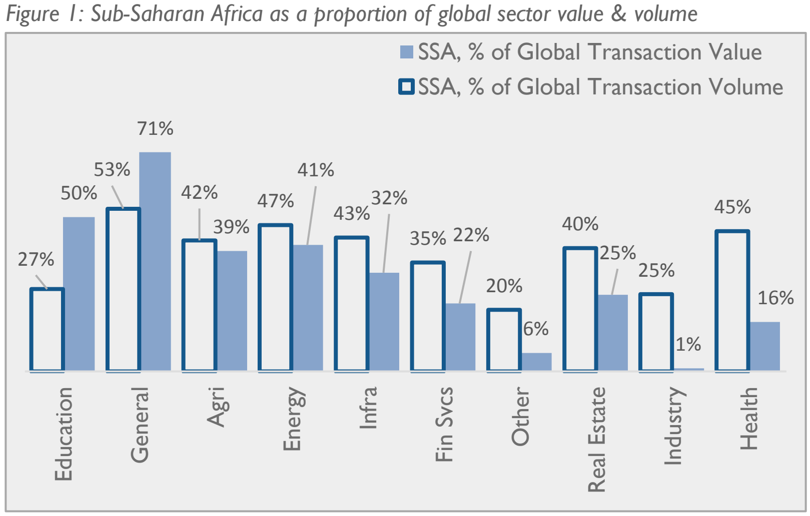
Sub-Saharan Africa remains the major focus for blended finance solutions

The global development challenge remains acute in Sub-Saharan Africa (SSA). It is among the regions that are most vulnerable to climate change-induced poverty, with annual adaptation costs across the continent potentially reaching $100 billion in a worst-case mid-century scenario of a 4 °C global warming. Up to 600 million people in SSA still lack access to electricity, with the continent facing an annual infrastructure financing gap of $68-108 billion, and an urban population of 472 million people set to double over the next 25 years. Finally, it is estimated that SSA will need $574 billion annually until 2030 to achieve the Sustainable Development Goals (SDGs). Given the scale of its challenges, SSA is the region most frequently targeted by blended finance transactions.

It's important, however, not to overstate the capability of blended finance to address long-standing development issues in the region, particularly in the Least Developed Countries (LDCs). Blended finance has not been utilized extensively in countries with weak enabling environments, although it could play a critical role in strengthening available economic opportunities, while also creating new options for long-term development outcomes, with attractive risk-adjusted returns for investors. Blended finance should also be complemented by reforms that strengthen the investment climate, while deepening local capital markets.

This Brief explores how blended finance approaches have been deployed in SSA to date. According to the Convergence database, there have been 216 transactions targeting one or more countries in SSA, representing an aggregate volume of up to $45 billion invested in full or in part in the region. Despite the high incidence of blended finance in SSA at 43% of total transactions, the aggregate value of these transactions is underweighted at 34% of database capital flows. The chart below breaks this down by sector.

Figure 1: Sub-Saharan Africa as a proportion of global sector value & volume

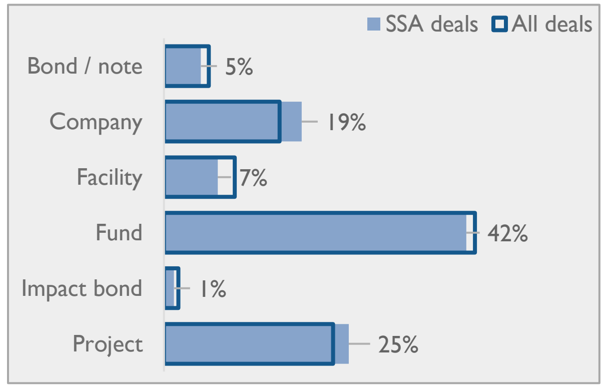


ANALYSIS

Blended finance transaction types are in line with the rest of the market

Blended finance transactions in SSA are broadly in line with transactions in all regions when considering the type of vehicle used. A plurality of funds in SSA have been generalist in focus (37%), while most projects (53%) in the region have targeted energy transactions. Median transaction sizes in SSA are lower than in all regions for transactions targeting companies ($18.5 million vs $26 million), bonds / notes ($24.7 million vs $29 million), and projects ($90 million vs $105 million), but are higher for transactions targeting facilities ($150 million vs $123 million) and funds ($67.3 million vs $60.7 million).

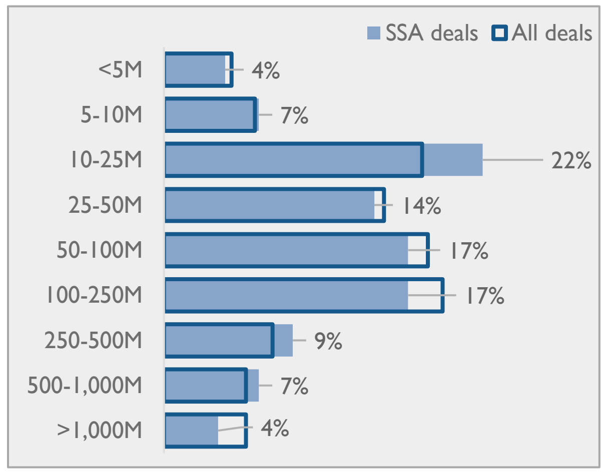
Figure 2: Blended finance transactions targeting SSA by type



Transaction sizes in SSA have been smaller than in other regions

Over half (53%) of transactions targeting SSA have been between $10-100 million in size, and 22% of transactions fall within the $10-25 million range (18% for all regions). SSA's median transaction size is $52.5 million ($57 million for all regions). For countries targeted by at least 5 transactions, the highest median transaction sizes have been in Sudan ($235 million, n=5), Botswana ($180 million, n=5), and Togo ($180 million, n=5), partly due to capital-intensive energy projects. More active markets in East and West Africa like Kenya ($69 million, n=70) and Niger ($60 million, n=45) have had smaller median transaction sizes. East Africa is the most targeted sub-region but has the lowest median transaction size in SSA ($60 million, n=141). In Kenya, the high activity of impact investors and foundations and investors' focus on smaller-scale social enterprises have contributed to smaller ticket sizes.

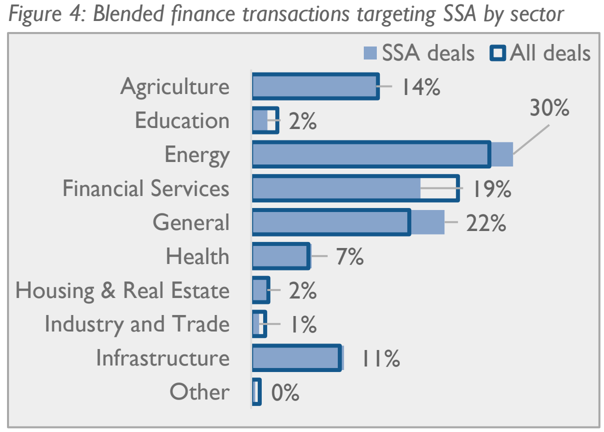
Figure 3: Blended finance transactions targeting SSA by size



Energy & Agriculture for East Africa, Financial Services for West Africa

Relative to the overall market, transactions in SSA have been most likely to target the energy sector (particularly renewable energy) or to be generalist in focus. Energy and agriculture are particularly targeted in East Africa, where increased financing and innovation is critical to adapting the region to the impacts of climate change. For example, as a proportion of agriculture transactions in SSA, countries like Kenya (32%), Tanzania (29%), and Uganda (29%) predominate. West Africa, meanwhile, has been a frequent target region for investors in financial services. As a proportion of financial services transactions in the region, countries like Niger (36%), Nigeria (33%), and Ghana (29%) stand out, although Kenya (31%) remains a key market.

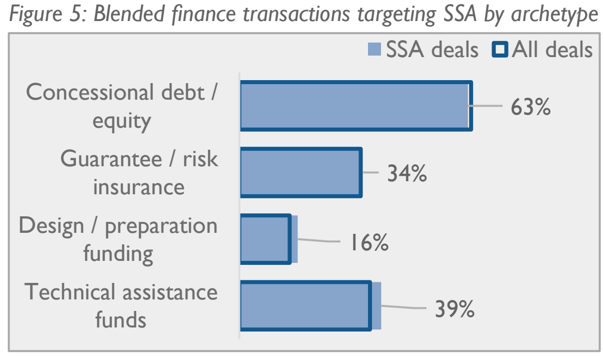
Figure 4: Blended finance transactions targeting SSA by sector



Concessional capital & technical assistance funds used most often

Archetype trends in SSA are largely in line with other regions. Transactions with guarantees have had the largest median transaction size ($136 million), while transactions with design-stage grants have had the smallest median transaction size ($25 million). A plurality of transactions in SSA using concessional capital (32%), guarantees / risk insurance (46%), and design-stage grants (51%) have been in the energy sector. However, a plurality (34%) of transactions in the region using technical assistance funds have had a general sector focus.

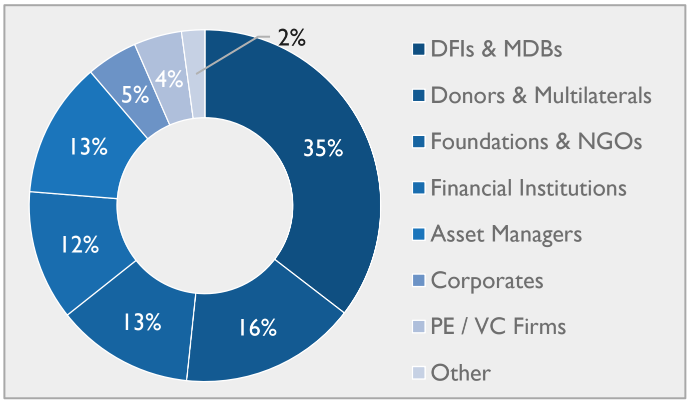
Figure 5: Blended finance transactions targeting SSA by archetype



DFIs, MDBs, and donors have been the most prominent investors in blended finance transactions in SSA

Every transaction in the database has at least one private sector participant. That said, the public and philanthropic sectors together have accounted for nearly two-thirds (64%) of investments (by count) into blended finance transactions targeting SSA. Development finance institutions (DFIs) and multilateral development banks (MDBs) accounted for the largest share of investments by far (35%). The private sector accounted for the remaining 36% of investments, led by financial institutions and asset managers (13% and 12% respectively).

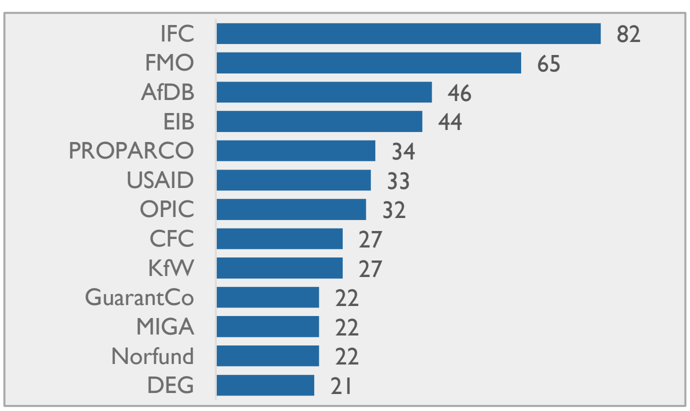
Figure 6: Investments in transactions targeting SSA by investor type



IFC, FMO, and the AfDB have been the most frequent investors in blended finance transactions targeting SSA

International Finance Corporation (IFC), the Netherlands Development Finance Company (FMO), and the African Development Bank (AfDB) have been the most frequent investors in blended finance transactions targeting SSA. These investments represent approximately 54%, 47%, and 96% of each organization's total blended finance activities, respectively. The United States Agency for International Development (USAID) is the most active donor agency in blended finance for SSA.

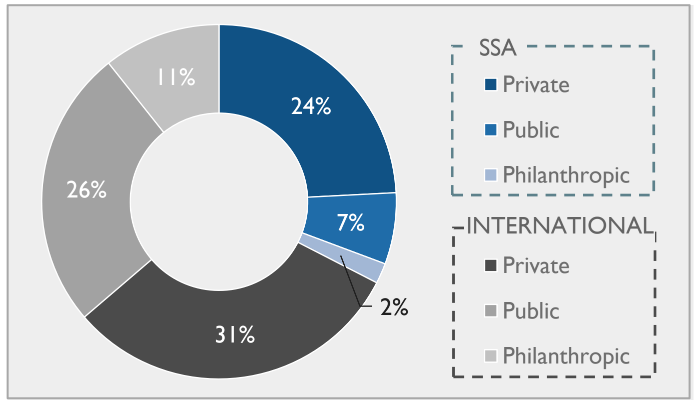
Figure 7: Investors in transactions targeting SSA by number of investments



Most transactions have been led by project sponsors domiciled outside of SSA

33% of blended finance transactions targeting SSA have been led by local organizations (project sponsors), with the majority (67%) of transactions to date led by project sponsors domiciled outside of the region. The most common international domiciles are the US, the UK, and the Netherlands. 74% of local project sponsors have been private sector organizations. International sponsors that have targeted SSA include development agencies like USAID, donor-funded vehicles like GuarantCo, and financial institutions like Deutsche Bank.

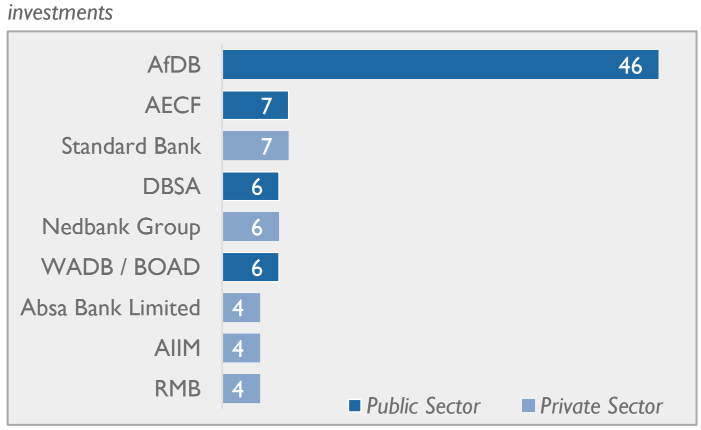
Figure 8: Sponsors for transactions targeting SSA by domicile and sector



Local investors have not been as active as their foreign counterparts in SSA

The AfDB is by far the most active SSA-domiciled investor, with 46 transactions. The African Enterprise Challenge Fund and the Development Bank of Southern Africa are other active local public-sector institutions. Increased activity from local DFIs could be key in catalyzing local investors in SSA. Local investors' understanding of the real risks of investing in SSA and their ability to invest in the local currency position them to invest where foreign investors might require a higher risk premium. Also, their presence can provide comfort to foreign investors.

Figure 9: SSA–domiciled investors in transactions targeting SSA by number of investments



REFLECTIONS

The development challenges that SSA faces are diverse and well known. However, the region's ability to attract global commercial financing to tackle these challenges is hampered by the high perceived risks of investing and a shortage of investable opportunities of scale. While blended finance is not a panacea, it can play an important role in improving risk-return profiles to attract commercial investors to transactions. In terms of scalability, we have previously argued that catalytic capital providers should prioritize portfolio approaches and vehicles operating at scale, focusing on "ready to scale" SDGs such as Goal 7 (Affordable & Clean Energy), 8 (Decent Work & Economic Growth), 9 (Industry, Innovation & Infrastructure), and 13 (Climate Action).

In SSA, blended finance can help to attract commercial capital to sectors with scalable opportunities like infrastructure. Tackling the region's largely greenfield (and thus higher perceived-risk) infrastructure gap will require MDBs and DFIs to lead the way in financing and de-risking the earlier stages of large infrastructure projects, preparing the way for the introduction of institutional capital, which typically prefers the stable yield and inflation-hedge of brownfield infrastructure assets. Blended finance's role is thus to help make otherwise unattractive greenfield projects investable, guiding global (and local) commercial capital towards sectors like transport, water and sanitation, information and communication technology, and clean energy. For instance, by enabling local pension funds to build de-risked infrastructure portfolios, blended finance could help to catalyze global commercial capital, for whom local investor participation provides reassurance.

There is increasing awareness of blended finance's potential in addressing the region's infrastructure gap. For example, the UK recently partnered with five African countries to design a new project development facility focused on developing sustainable infrastructure projects across Africa that will ultimately be commercially investable (and separately committed £350 million to help develop and finance sustainable infrastructure projects in Africa's poorest countries).

This Brief considers how blended finance approaches have been deployed in SSA to date, with the ultimate goal of encouraging thinking around how else this structuring approach can mobilize additional sources of financing for African development. Boosting financing for the SDGs in SSA will ultimately rely on domestic governments taking the lead in driving much needed economic reforms, and blended finance continuing to build its track record, strategically developing scalable, de-risked opportunities in the region for both local and international investors.

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. We have made efforts to capture all relevant blended finance transactions targeting one or more Sub-Saharan African countries from many sources; however, there are likely more transactions that have not been captured.
2. Scope of available data: This Brief analyzes 216 blended finance transactions that have targeted, in full or in part, one or more countries in Sub-Saharan Africa. For the purpose of this analysis, the following countries and territories were included in the sample: Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Central African Republic; Chad; Comoros; Democratic Republic of Congo; Republic of Congo; Djibouti; Ethiopia; Gabon; Ghana; Guinea-Bissau; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; Senegal; Seychelles; Sierra Leone; Somalia; South Africa; South Sudan; Sudan; Swaziland; Tanzania; Togo; Uganda; Zambia; and Zimbabwe.
3. Target regions and countries: Convergence tracks region and country data by stated region(s) and countries of focus at the time of financial close, not actual investment flows. Often, regions and countries of eligibility are broader than those explicitly stated.

ABOUT CONVERGENCE

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

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

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

www.convergence.finance