

DATA BRIEF

BLENDED FINANCE & SDG ALIGNMENT

NOVEMBER 2018



HIGHLIGHTS

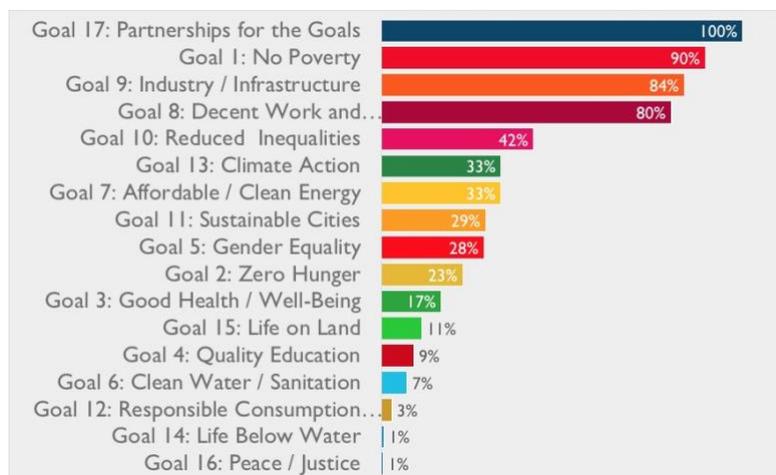
- To achieve the Sustainable Development Goals (SDGs) in developing countries, a significant scale-up of investment is required. Blended finance mobilizes additional financing for the SDGs, all aligned to Goal 17 (Partnerships for the Goals) and typically targeting two or more additional SDGs.
- Blended finance is not a panacea for achieving all the SDGs. Blended finance deals in the [Convergence database](#) have demonstrated strongest alignment to Goal 9 (Industry, Innovation, & Infrastructure), Goal 8 (Decent Work & Economic Growth), and Goal 10 (Reduced Inequalities).
- Blended finance has also demonstrated good alignment with Goal 13 (Climate Action), Goal 7 (Affordable & Clean Energy), Goal 11 (Sustainable Communities), Goal 5 (Gender Equality), Goal 2 (Zero Hunger), and Goal 3 (Good Health & Well-Being).
- Certain SDGs map to specific sectors, while others intersect multiple sectors. For example, Goal 7 (Affordable & Clean Energy) is highly aligned to a single sector, while Goal 5 (Gender Equality) intersects multiple sectors.
- Blended finance deal types (e.g., funds, projects) are aligned to multiple SDGs, with no clear trend. However, there are trends around blending approach and SDG, such as greater alignment between guarantees and Goal 6 (Safe Water & Sanitation).
- Impact-oriented deal sponsors have been relatively more concentrated on ‘basic need’ SDGs, while commercially-oriented deal sponsors have tended to concentrate on more commercially-oriented SDGs.
- The public sector has demonstrated the strongest appetite for Goal 13 (Climate Action) and Goal 7 (Affordable & Clean Energy), while commercial investors have had an appetite for investments aligned to Goal 3 (Good Health & Well-Being) and Goal 5 (Gender Equality).

To date, blended finance activities have concentrated on 11 of the 17 SDGs, with Goal 17 (Partnerships) and Goal 1 (No Poverty) out front

Achieving the Sustainable Development Goals (SDGs) would create a world that is economically prosperous, environmentally secure, and socially fair. To achieve the SDGs in developing countries, a significant scale-up of investment is required. The United Nations estimates that annual funding required to achieve the SDGs is \$3.9 trillion; but current levels of official development assistance (ODA) and foreign direct investment (FDI) amount to only \$1.4 trillion, leaving an annual funding gap of \$2.5 trillion.

This Brief considers the SDG alignment of 376 blended finance deals, using data from [Convergence’s database](#). Convergence identifies the greatest concentration of blended finance on Goal 17 (Partnerships for the Goals), especially Targets 17.3 (additional financial resources) and 17.17 (effective partnerships). Blended finance mobilizes additional financing for the SDGs by allowing organizations with different objectives (e.g., financial, social) to co-invest in impactful projects in developing countries. Ninety percent of blended finance solutions have included Goal 1 (No Poverty), with strongest concentration on Targets 1.2 (reduce poverty), 1.4 (equal access), and 1.5 (build resilience).

Figure 1: Percentage of blended finance deals aligned to each SDG



More tangibly, blended finance has been most concentrated to date on Goal 9 (Industry, Innovation, & Infrastructure), Goal 8 (Decent Work & Economic Growth), and Goal 10 (Reduced Inequalities). These goals are broadly aligned to two sectors, financial services and infrastructure, where blended finance is prominent. Blended finance has also been demonstrated to be a good development tool for Goal 13 (Climate Action), Goal 7 (Affordable & Clean Energy), Goal 11 (Sustainable Communities), Goal 5 (Gender Equality), Goal 2 (Zero Hunger), Goal 3 (Good Health & Well-Being), Goal 15 (Life on Land), Goal 4 (Quality Education), and Goal 6 (Safe Water & Sanitation). The remainder of this brief will focus on this sub-set of SDGs.

ANALYSIS

SDGs may be highly aligned to one sector or intersect multiple sectors

Certain SDGs map to specific sectors, while others cross-cut multiple sectors. Blended finance activities for Goal 2 (*Zero Hunger*), Goal 4 (*Quality Education*), and Goal 7 (*Affordable & Clean Energy*) have been highly aligned to a single sector. For example, 79% of the blended finance solutions aligned to Goal 7 are in the energy sector. Blended finance activities for broader SDGs, like Goal 5 (*Gender Equality*) and multiple others not included in this analysis, have been distributed across multiple sectors. Blended finance holds the greatest potential to mobilize additional financing for (i) investable sectors (e.g., *Clean Energy*) and (ii) cross-cutting themes (e.g., *Gender Equality*).

The largest volume of blended finance has flowed to climate change-related SDGs

Aggregate blended finance deal flow (i.e., volume of earmarked capital) has been greatest for Goal 11 (*Sustainable Cities*), followed by Goal 7 (*Affordable & Clean Energy*) and Goal 13 (*Climate Action*). This reflects the dominance of the energy sector (e.g., renewable energy, energy efficiency) in blended finance solutions to date. Goal 4 (*Quality Education*) and Goal 6 (*Safe Water & Sanitation*) have had smaller aggregate blended finance deal flows to date. Larger average blended finance deal sizes have been correlated with SDGs that align with infrastructure projects, including Goal 7 (*Clean Energy*), and also with Goal 3 (*Good Health & Well-Being*).

Blended finance deal types have been tailored to target different SDGs

Blended finance projects have more frequently concentrated on infrastructure-aligned SDGs, with 48% of blended projects aligned to Goal 7 (*Clean Energy*), 43% of blended projects aligned to Goal 11 (*Sustainable Cities*), and 41% of blended projects aligned to Goal 13 (*Climate Action*). Relative to all deals, impact bonds have more frequently concentrated on Goal 4 (*Quality Education*), while bonds / notes have more frequently concentrated on Goal 6 (*Safe Water & Sanitation*). Particularly striking, nearly half of blended finance companies have concentrated on Goal 5 (*Gender Equality*), which could reflect the existence of leading practices among social enterprises.

Gender Equality and Safe Water and Sanitation are prevalent in Asia; Zero Hunger and Life on Land are prevalent in Latin America

East Asia and the Pacific has disproportionately been the target region for blended finance solutions concentrated on Goal 5 (*Gender Equality*) and Goal 6 (*Safe Water & Sanitation*), while South Asia has been disproportionately targeted by blended finance solutions concentrated on Goal 6 (*Safe Water & Sanitation*), followed by Goal 4 (*Quality Education*). Latin America and the Caribbean has been disproportionately targeted by blended finance solutions concentrated on Goal 2 (*Zero Hunger*) and Goal 15 (*Life on Land*). Sub-Saharan Africa has not been disproportionately targeted by blended finance solutions to this sub-set of SDGs, but rather for blended finance solutions aligned to Goal 9 (*Industry, Innovation, & Infrastructure*).

Figure 2: Percentage of deals aligned to SDG by sector

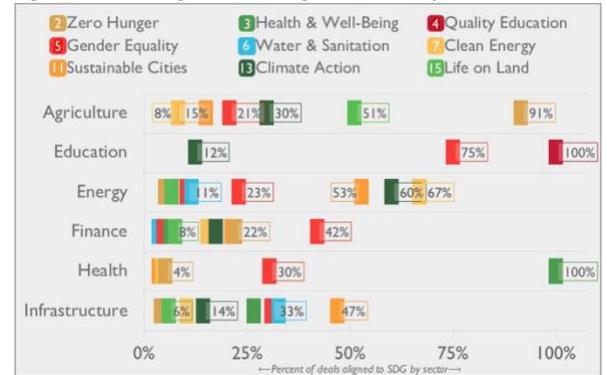


Figure 3: Aggregate deal flow and average deal size

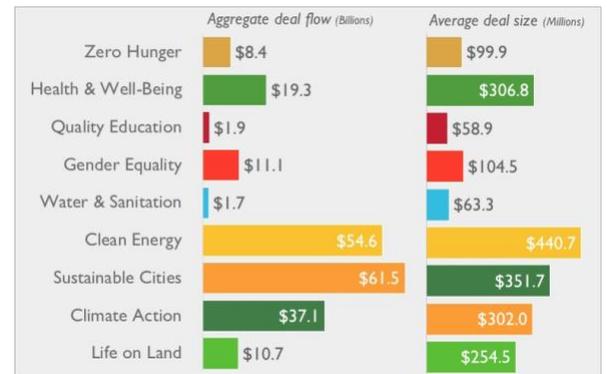


Figure 4: Percentage of aligned to SDG by deal type

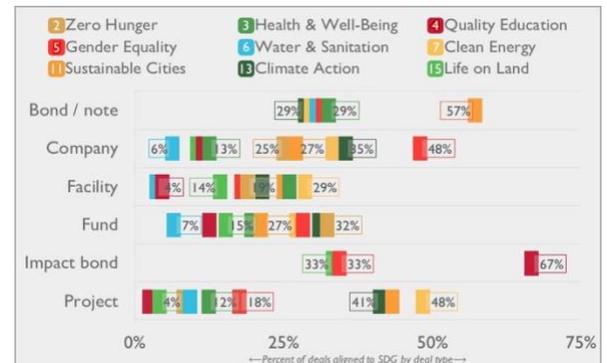
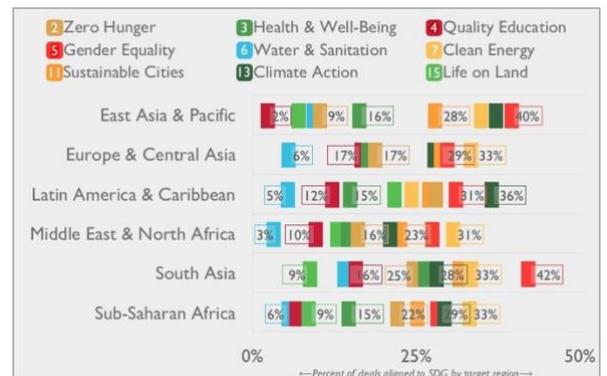


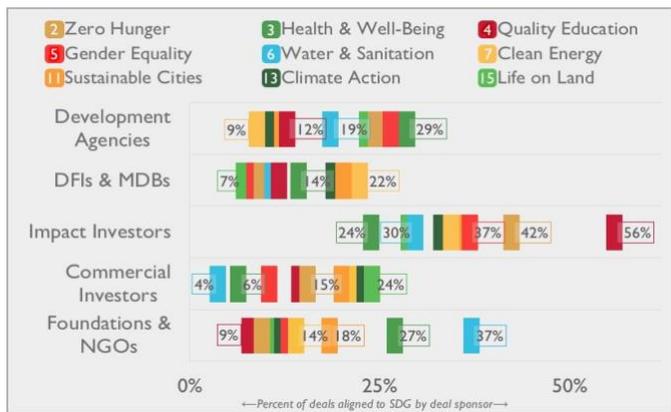
Figure 5: Percentage of deals aligned to SDG by target region



Impact-oriented deal sponsors have originated relatively more 'basic need' SDGs

Of the blended finance solutions originated by development agencies, 27% concentrated on Goal 3 (*Good Health & Well-Being*) and 37% concentrated on Goal 6 (*Safe Water & Sanitation*). Foundations or other philanthropic organizations have been relatively more concentrated on Goal 5 (*Gender Equality*) and Goal 2 (*Zero Hunger*). Commercially-oriented deal sponsors have originated blended finance solutions concentrated on more commercially-oriented goals and climate-related goals. For example, together DFIs / MDBs and private sector investors have led 76% of blended finance solutions concentrated on Goal 7 (*Affordable & Clean Energy*).

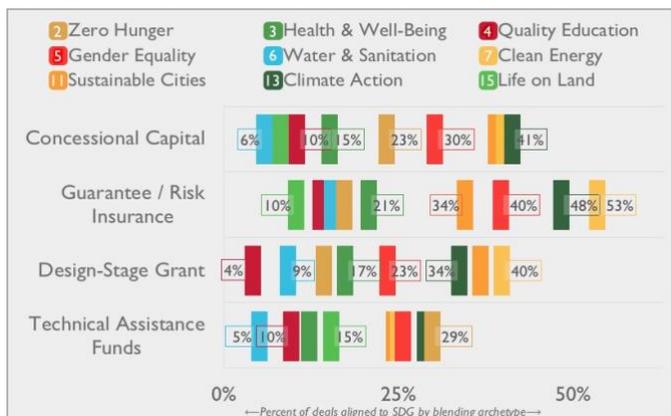
Figure 6: Percentage of deals aligned to SDG by deal sponsor



Blending approaches have varied according to the target SDG

Guarantees / risk insurance have been disproportionately deployed to higher-risk infrastructure projects, for example 33% of blended finance solutions concentrated on Goal 6 (*Safe Water & Sanitation*) and 25% on Goal 7 (*Affordable & Clean Energy*). Technical assistance has been deployed disproportionately to 53% of blended finance solutions concentrated on Goal 2 (*Zero Hunger*) and 57% concentrated on Goal 15 (*Life on Land*), potentially highlighting the value of pre- and post-investment support to agri-SMEs.

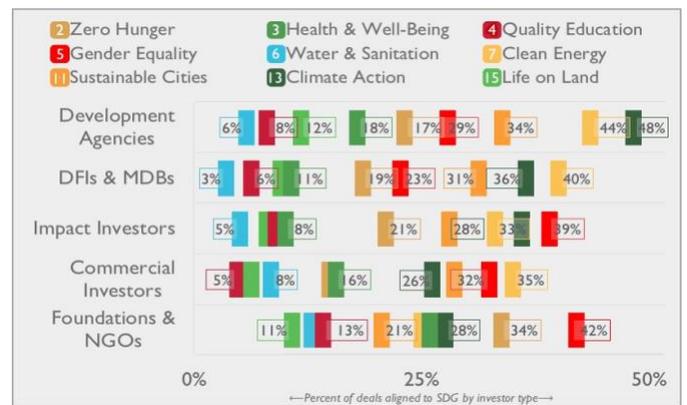
Figure 7: Percentage of deals aligned SDG by blending archetype



Commercial investors have demonstrated an appetite for investments aligned to Good Health and Gender Equality

The public sector (i.e., development agencies, DFIs, and MDBs) has demonstrated the strongest appetite for blended finance solutions for climate change, including Goal 13 (*Climate Action*) and Goal 7 (*Affordable & Clean Energy*). More notably, private sector investors have disproportionately invested in blended finance solutions concentrated on Goal 5 (*Gender Equality*): 39% of impact investors' investments and 32% of traditional commercial investors'. While the philanthropic sector does not necessarily orient its work around the SDGs, foundations have demonstrated relatively strong interest in Goal 2 (*Zero Hunger*), Goal 5 (*Gender Equality*), and Goal 6 (*Safe Water & Sanitation*).

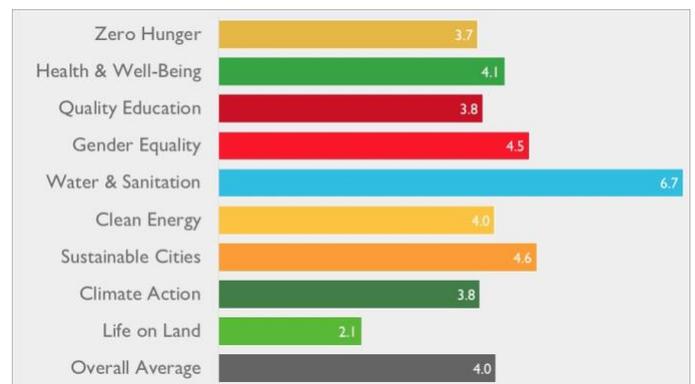
Figure 8: Percentage of deals aligned to SDG by investor type



SDG alignment is not a strong indicator of leverage

Leverage ratios can be used to evaluate the effectiveness of concessional capital in blended finance solutions. Here, leverage is measured as the amount of commercially priced capital mobilized by each dollar of concessional capital. Initial analysis suggests that there is only minor variation in the average leverage ratios of blended finance solutions by alignment to the SDGs. Goal 2 (*Zero Hunger*) and Goal 4 (*Quality Education*) have had slightly lower average leverage ratios compared to more cross-cutting goals like Goal 5 (*Gender Equality*) and Goal 9 (*Industry, Innovation, & Infrastructure*).

Figure 9: Average leverage and private sector mobilization across select SDGs



REFLECTIONS

Blended finance is playing an important role in financing the SDGs. Blended finance has demonstrated the strongest alignment to Goal 17 (*Partnerships for the Goals*), Goal 1 (*No Poverty*), Goal 9 (*Industry, Innovation, & Infrastructure*), Goal 8 (*Decent Work & Economic Growth*), and Goal 10 (*Reduced Inequalities*). The SDGs will only be realized through global and cross-sectoral partnerships. The volume of blended finance solutions that target, to varying degrees, key themes of poverty elimination, sustainable infrastructure, and decent work highlights the proven value of blended finance as a piece of the development toolkit.

Ultimately, this Brief is an early effort to map the alignment of blended finance activities to date to the SDGs. The majority of blended finance deals analyzed in this Brief launched before the SDGs were established in 2015. While this analysis provides a useful indicator of where blended finance is playing an outsized role in financing the SDGs, we will have a more rigorous understanding of blended finance and the SDGs when more deals are launched and analyzed post the establishment of the SDGs. We look forward to updating this brief in the coming years when investing in the SDGs is mainstream.

Finally, more than just financing is needed to achieve the SDGs. This Brief highlights alignment between blended finance and the SDGs to identify the greatest opportunities and limitations for blended finance to contribute to the achievement of the SDGs globally by 2030. While blended finance can be used as a tool for mobilizing greater volumes of capital to projects aligned to the SDGs, continued emphasis must be placed on the effective design of impactful and sustainable development solutions. There is a continued need to develop data-driven benchmarks and frameworks around impact outcomes.

METHODOLOGY AND NOTES

1. **Convergence's database.** Convergence maintains the largest and most detailed database of historical blended finance solutions in the market. Given the current state of information sharing, it is not possible for this database to be fully comprehensive, but it is the best depository there is to understand blended finance scale and trends. This Brief analyzes the alignment of 376 blended finance transactions with the 17 SDGs.
2. **Calculation of SDG alignment:** During data collection, Convergence codes the alignment of each transaction to one or more SDGs. This is based on qualitative assessment against a proprietary matrix using keywords and SDG sub-goals / targets.
3. **Focus on sub-set of goals:** This Brief focuses primarily on a sub-set of SDGs: Goal 2 (*Zero Hunger*), Goal 3 (*Good Health & Well-Being*), Goal 4 (*Quality Education*), Goal 5 (*Gender Equality*), Goal 6 (*Safe Water & Sanitation*), Goal 7 (*Affordable & Clean Energy*), Goal 8 (*Decent Work & Economic Growth*), Goal 9 (*Industry, Innovation, & Infrastructure*), and Goal 13 (*Climate Action*). This sub-set excludes (i) highly aligned SDGs (i.e., Goal 1 (*No Poverty*) and Goal 17 (*Partnerships for the Goals*)) and (ii) SDGs where blended finance has not been deployed often to date (i.e., Goal 14 (*Life Below Water*) and Goal 16 (*Peace, Justice & Strong Institutions*)).
4. **Data visualization:** Certain data points in the clustered bar charts have been modestly adjusted to improve the clarity and visibility. The values reflect the proportion of SDGs aligned to each variable (e.g., percentage of blended finance deals in the agriculture sector that target Goal X).
5. **Note on leverage paragraph:** The methodology for Convergence's leverage calculations and analysis is outlined in our first data brief [here](#).

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.

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