DATA BRIEF

BLENDED FINANCE & THE GENDER-CLIMATE NEXUS

SEPTEMBER 2020

HIGHLIGHTS

- Women are disproportionately impacted by climate change: they are over-represented in the informal sector; have less access to finance and education; and are more exposed to gender-based violence in the aftermath of climate-risk events.
- Convergence's database records 63 blended transactions targeting SDG 5 (Gender Equality) and one or more of the following SDGs: 7 (Clean Energy), 11 (Sustainable Cities), 12 (Responsible Consumption), 13 (Climate Action), 14 (Life Below Water), or 15 (Life on Land), representing aggregate financing of USD 6 billion.
- To date, blending for gender and climate change has mostly focused on off-grid and renewable energy and agriculture finance / sustainable agriculture, while our interview respondents identified clean cooking technologies and land titling as key segments that are currently emerging.
- Blended finance transactions focused on gender and climate change have largely been funds and companies, and generally below USD 100 million in size, with a median size of USD 52 million, although many transactions have fallen within the USD 100-250 million range. Sub-Saharan Africa has been the most frequently targeted region, reflecting broader trends in blended finance generally.
- Blended finance transactions targeting gender and climate change have most commonly incorporated concessional debt / equity, with development agencies like USAID and multi-donor funds providing most of the concessional capital commitments in this space.
- Looking forward, donors should explore new, longer-term financing approaches in the gender-climate nexus, while also prioritising early-stage grant support in the form of design-funding to drive market acceleration.

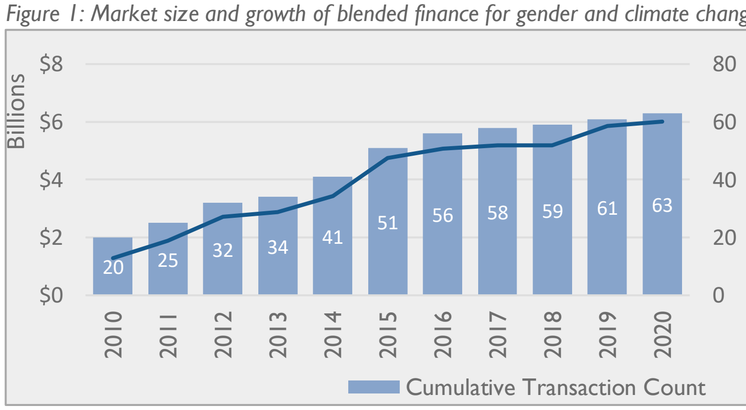
Blended finance can help address the gendered impacts of climate change

Women are disproportionately impacted by climate change. Women across developing countries: (i) are overrepresented in the informal sector and have greater responsibility for subsistence activities, leaving them more exposed to climate-related shocks; (ii) have less access to finance and education, increasing their vulnerability to natural disasters and restricting their ability to mitigate the effects of climate change; and (iii) are more exposed to gender-based violence (GBV) in the aftermath of climate events. For example, GBV and exclusion in countries like Chad have limited the ability of local communities to respond to increased droughts, extreme rainfall and flooding, in turn reinforcing GBV and discrimination. Meanwhile, the COVID-19 pandemic threatens to exacerbate the difficulties faced by marginalized communities already dealing with climate risks, GBV and socio-economic systems in which women and girls are disadvantaged.

Awareness of the gender-climate change nexus has increased over the past decade. Between 2010 and 2014, members of the OECD's Development Assistance Committee increased official development assistance for climate change targeting gender equality at a faster rate (16%) than their aid for climate change overall (3%). By 2014, 31% (around USD 8 billion) of these donors' climate portfolios supported gender equality. According to our respondents, the introduction of the Sustainable Development Goals (SDG) in 2015 and the mainstreaming of impact investing raised investors' understanding of how these development targets overlap.

This brief considers how blended finance has addressed the gender-climate change nexus, and also presents insights drawn from interviews conducted with key stakeholders. The Convergence database has recorded 63 blended transactions focusing on SDG 5 (Gender Equality) and one or more of the following SDGs: 7 (Clean Energy), 11 (Sustainable Cities), 12 (Responsible Consumption), 13 (Climate Action), 14 (Life Below Water) or 15 (Life on Land). This represents aggregate financing of USD 6 billion. Transaction examples include the Kandahar Solar Power Project, which partly looks to promote female economic empowerment in Afghanistan through improved electricity access.

Figure 1: Market size and growth of blended finance for gender and climate change

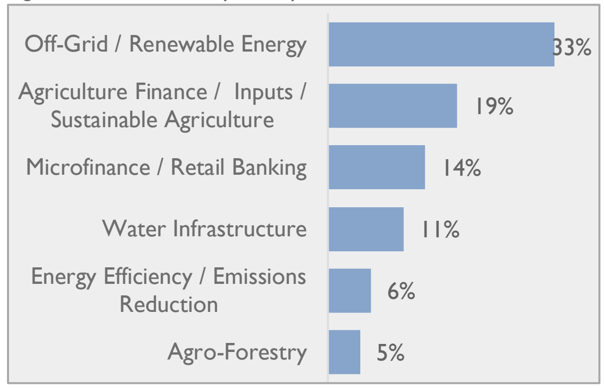


ANALYSIS

Blending for gender and climate mostly targets energy and agriculture

Blended finance transactions targeting gender and climate change have focused mostly on off-grid and renewable energy (33% of transactions) and agriculture finance / sustainable agriculture (19%). Examples include the Land Degradation Neutrality Fund, supported by a pool of first-loss capital, which invests in projects reducing or reversing land degradation while advancing gender equality from project design through to implementation. Emerging segments of interest identified by our respondents include clean cooking technologies and land titling. The latter, with the right policy interventions, can have a transformative impact by providing women with land rights, in a global context where women currently own only 15% of the world's land.

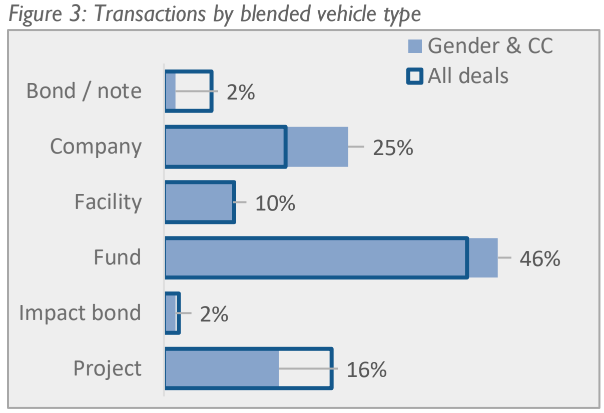
Figure 2: Transactions by activity



Funds and companies are the most common structures in blending for gender and climate

Mirroring the overall market, funds predominate amongst pooled vehicles. Companies are more prominent in the gender-climate change nexus than in the overall market (25% vs 17%), with examples including grant-supported companies like Mobisol and Devergy, both of which advance off-grid energy solutions in Sub-Saharan Africa (SSA). Meanwhile, projects are less prominent (16% vs 23%), with renewable energy accounting for a plurality of projects (40%). Bonds have played a negligible role in the gender-climate change nexus thus far. For example, one respondent noted that a deficiency of development impact bonds in the gender-climate change nexus is their binary payment structure, which overlooks the incremental changes in behaviour and norms that define true progress in this space.

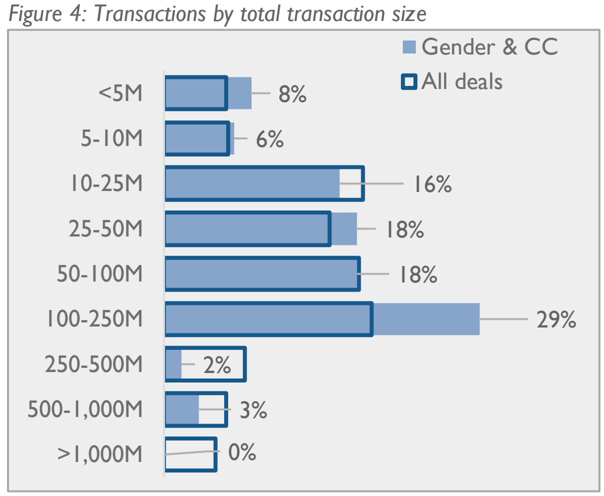
Figure 3: Transactions by blended vehicle type



Gender and climate change solutions are strong in the mid-cap range

Transactions targeting gender and climate change have been likelier to fall within the USD 100-250 million range than the market overall (29% vs 19%). Nonetheless, most (66%) blended finance transactions for gender and climate change have been below USD 100 million in size, with an overall median transaction size of USD 52 million. Looking forward, some respondents noted that concessionary and blended finance will be needed as climate adaptation solutions continue to develop and emerge, suggesting that smaller ticket sizes will remain likely as a result.

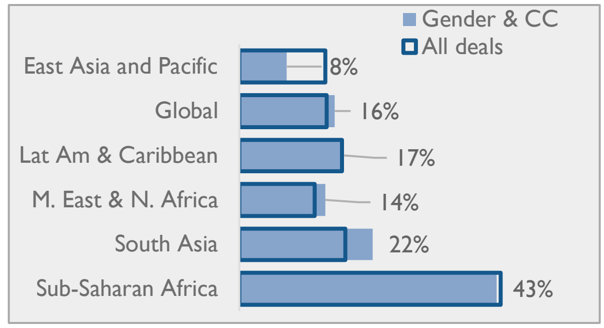
Figure 4: Transactions by total transaction size



Blending for gender and climate change has been most common in SSA

Across blended transactions for gender and climate change, Sub-Saharan Africa (SSA) has been the most common region of interest, with 43% of transactions focused in full or in part on the region, similar to the breakdown for all blended transactions. Mirroring this is the positive trend of gender being mentioned and vulnerable groups being identified in African countries' Intended Nationally Determined Contributions (INDCs) and climate change policies. Overall, the countries most targeted by blended finance for gender and climate change have been India (12 transactions), Kenya (10), Uganda (9), Mexico (7), Niger (7), Rwanda (7), and Tanzania (7).

Figure 5: Transactions by target region(s)

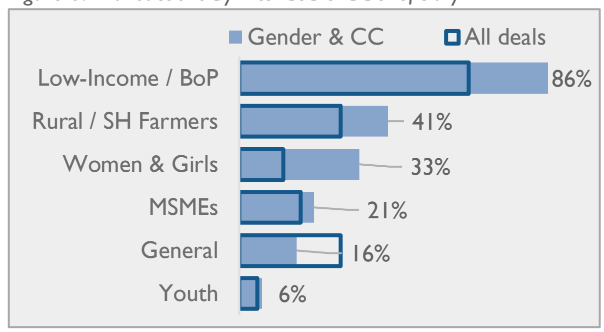


Women appear more as end beneficiaries than as direct beneficiaries in blended finance transactions for gender and climate change

Women appear more often as end beneficiaries than as direct beneficiaries in blended finance structures in the gender-climate change nexus. Women and girls were the intended end beneficiaries of a third (33%) of transactions, compared to only 12% of transactions within the overall market. Meanwhile, women were the direct beneficiaries of only 6% of transactions in the gender-climate change nexus, with blended structures more commonly targeting micro small and medium enterprises (MSMEs) (43%) and mid-sized businesses and project developers (35%). Examples of blended structures targeting women as direct beneficiaries include EcoEnterprises Fund III, a women-led fund investing in Latin American businesses that protect fragile environments, create jobs, and empower women in rural areas.

Finally, 60% of transactions within the gender-climate change nexus report gender-disaggregated data.

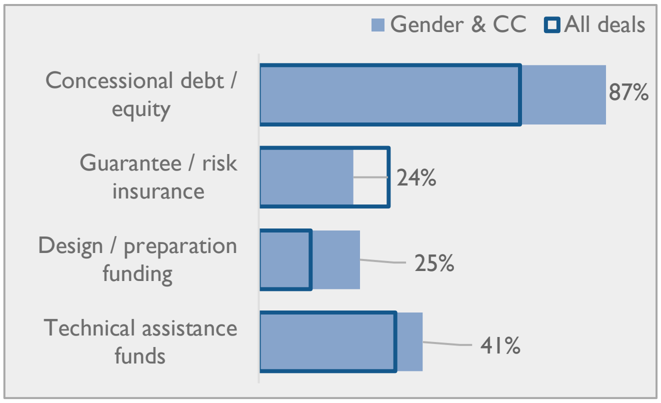
Figure 6: Transactions by intended end beneficiary



Concessional debt and equity predominate blended archetypes

Most blended transactions targeting gender and climate change have included concessional debt or equity, which appears in 87% of transactions (compared to 66% of all blended transactions). Relative to all blended transactions, solutions for gender and climate change have also been likelier to have used design-stage funding (25% vs 13%) and technical assistance (41% vs 34%) but have been less likely to involve guarantees (24% vs 33%).

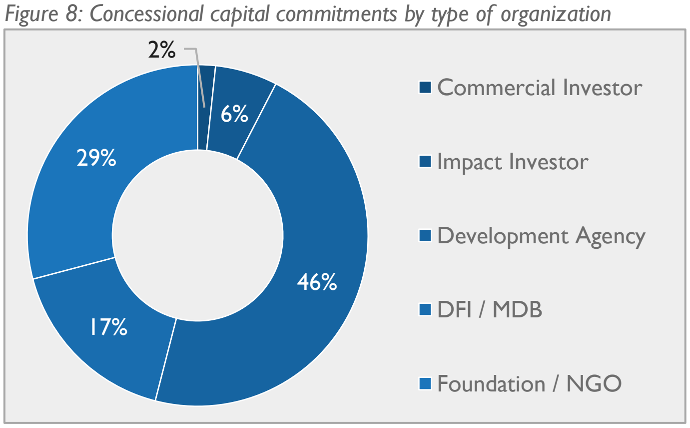
Figure 7: Transactions by blending archetype(s) deployed



USAID leads in concessional capital commitments

Concessional capital in the space has come most often from development agencies and multi-donor funds (46%), foundations and non-governmental organizations (29%) and multilateral development banks (MDBs) / development finance institutions (DFIs) (17%). Key concessional funders include the United States Agency for International Development (USAID) (20 concessional commitments), Africa Enterprise Challenge Fund (6), Green Climate Fund (GCF) (6), IDB Lab (6), FMO (Dutch DFI) (6), and Shell Foundation (6). Institutions like GCF and Shell Foundation have prioritized gender in their investment process; e.g., GCF is the first climate finance mechanism mainstreaming "gender perspectives from the outset of its operations as an essential decision-making element for the deployment of its resources."

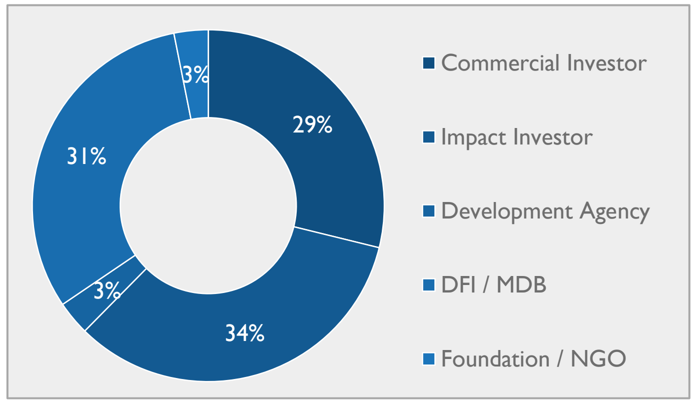
Figure 8: Concessional capital commitments by type of organization



Impact investors and DFIs have been key financiers

Each blended finance transaction mobilizes capital from at least one private sector investor. Most commercial commitments to gender and climate change transactions have been from impact investors (34%). Nearly a third (29%) of commercial commitments to these transactions have been from commercial investors, constituted largely by commercial banks (38%) and large / international corporations (28%). Finally, MDBs and DFIs like International Finance Corporation (IFC) (11 commercial commitments) and FMO (11) have also been major sources of commercial commitments to these transactions (31%).

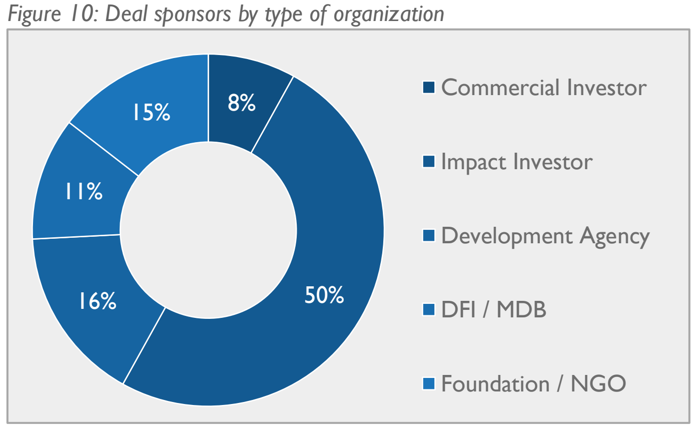
Figure 9: Commercial capital commitments by type of organization



Most deal sponsors of blended gender and climate change transactions are domiciled in the US

Private investors with an impact mandate predominate amongst deal sponsors of gender and climate change blended financial solutions (50& of transactions). Development agencies (16%) and foundations / non-governmental organizations (15%) constitute the next largest blocks of deal sponsors. A plurality of deal sponsors has been domiciled in the United States (37% of transactions), followed by the United Kingdom (10%), the Netherlands (6%), India (6%), and France (6%).

Figure 10: Deal sponsors by type of organization



REFLECTIONS

The intersection of gender and climate change is an area in which the development community and investors are still attempting to define and chart the best route forward. As our respondents from the family office Ceniarth noted, "*There is more understanding around the business case for gender and for climate change as a part of even commercial investments. There is more data on that, but still, it is not straightforward to then implement it into actual actions*."

One difficulty identified by Kaylene Alvarez, Founder of BIDUK Indonesia and Founder and Chief Executive Officer of Athena Global, relates to the timespan over which climate-gender impacts unfold: "*Changes with respect to cultural norms for gender and changes with respect to climate need to be measured in terms of generations, not in terms of an 18-month project budget. We have not yet come up with a metric system that captures those 'micro-metrics' that show we are moving in the right direction towards a longer-term goal. We are still focusing on outputs instead of outcomes*." That is, typical approaches like fund structures with traditional "2 + 20" compensation structures, 10 + 1-year or 10 + 2-year fund terms, and regular reporting processes, for example, may not have the time horizon required to fully reflect the subtle changes in outcomes that define progress in gender and climate change.

All of this suggests the need for fresh thinking amongst donors and the private sector around new financing approaches. For example, according to Alvarez: "*Permanent capital vehicles (PCVs), particularly for smaller transaction sizes or for more specific outcomes or projects that need a longer time horizon, are completely under-utilized. For example, you could fund a PCV that develops technology around drip irrigation that could then be used and applied in a more conventional fund structure for larger investments using drip irrigation*."

Blended finance, importantly, can play a key role here, by encouraging greater investment in projects with longer time horizons, and in evergreen funds and PCVs targeting smaller investments focusing on very specific outcomes within the gender-climate intersection. Finally, with the field still emerging and design funding already present in a quarter of transactions, donors should continue to prioritize early-stage grant support in the form of design funding to aid market acceleration, which could make a material difference to the size and scale of projects that come to light within the gender and climate change nexus.

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; however, there are likely more transactions that have not been captured.
2. Scope of available data: This brief analyzes 63 blended finance transactions focused on gender and climate change in developing countries. This brief defines this intersection as those transactions targeting SDG 5 (Gender Equality), and one or more of the following SDGs: 7 (Clean Energy), 11 (Sustainable Cities), 12 (Responsible Consumption), 13 (Climate Action), 14 (Life Below Water) or 15 (Life on Land). This brief also draws upon stakeholder interviews conducted with respondents from Ceniarth and with Kaylene Alvarez, Founder of BIDUK Indonesia and Founder and CEO of Athena Global.
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.

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