Blended finance remains nascent but shows promise

The United Nations Addis Ababa Action Agenda underscored the significance of blended finance as a key instrument for leveraging public and private sector finance to advance progress towards the 2030 Agenda for Sustainable Development (United Nations, 2015). It is an underused but potentially powerful strategy that donors have available to make their aid catalytic (see Box 2).

BOX 2 WHAT IS BLENDED FINANCE?

Blended finance is the use of concessional finance from donors and philanthropic foundations to mobilize commercial finance from DFIs and private investors to invest in projects that are too risky and lack sufficient returns for private investors. Blended finance is therefore an important strategy to bridge the investment gap to achieve SDG 2.

The OECD defines blended finance as "the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries, where additional finance refers to commercial finance" (OECD, 2020, p. 5).

The DFI Working Group defines blended finance as "[c]ombining concessional finance from donors or third parties alongside DFIs' normal own-account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources" (DFI Working Group on Blended Concessional Finance for Private Sector Projects, 2023).

For example, the Land Degradation Neutrality Fund, launched in 2017, finances projects that reduce and reverse land degradation. The French Development Agency, the European Investment Bank, the Government of Luxembourg and IDB Invest provide low-interest loans and grants. The Global Environment Facility provides grants for technical assistance. Commercial finance comes from the Fondation de France, Garance Mutuelle, BNP Paribas Cardif and others.

FIGURE 2 **THE VOLUME AND VALUE OF BLENDED FINANCE SINCE 2019 INDICATE A POSSIBLE SHIFT TOWARDS SMALLER TICKET SIZES**

Annual volume and value (in billions of United States dollars) of blended finance transactions, 2014–2022

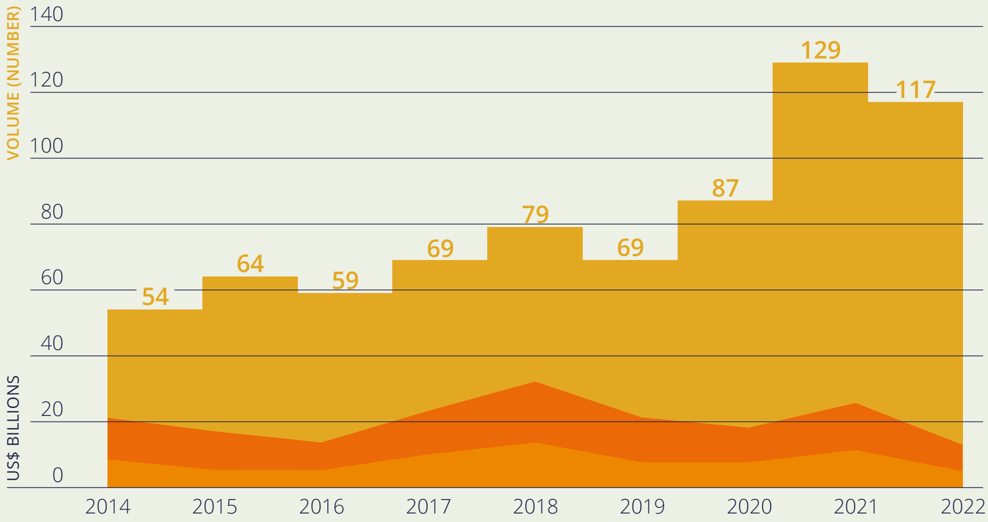
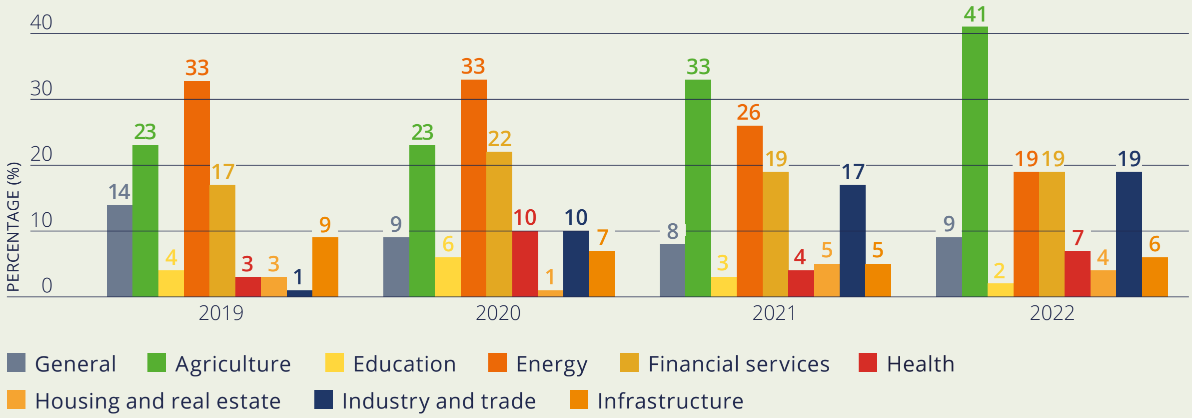


Chart: Lysiane Lefebvre | *Source:* Convergence, 2023

FIGURE 3 **BETWEEN 2019 AND 2022, THE SHARE OF BLENDED FINANCE TRANSACTIONS TARGETING AGRICULTURE STEADILY INCREASED**

Proportion of blended finance transactions by sector, 2019–2022



Note: The percentages cannot be summed to 100 per cent as a single transaction may target more than one sector.

Chart: Kamal El Harty | *Source:* Convergence, 2023

The amount of ODA that is directed towards blended finance annually is around 2 to 3 per cent of all ODA (Convergence, 2021). Over the past 10 years, the blended finance market has seen an annual average of 77 transactions, with 41 of these specifically targeting climate. Climate-related projects attract the highest volume and value of finance. The median annual financing for the entire market has been approximately US$14 billion, with about half (US$7.69 billion) dedicated to climate-focused deals.

While the number of blended finance deals per year increased from 79 deals in 2018 to 117 deals in 2022, the total amount of financing decreased from US$18.5 billion to US$8 billion over the same period. This indicates that the focus of blended finance is shifting towards smaller transactions (see Figure 2) (Convergence, 2023).

The proportion of transactions in agriculture has also grown, from 23 per cent in 2019 to 41 per cent in 2022 (see Figure 3) (Convergence, personal communications, 2023). The increase in the use of blended finance in agriculture and food systems has been primarily driven by financing agrifood businesses, particularly those involved with agricultural inputs (Convergence, 2021).