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# UN-convened Net-Zero Asset Owner Alliance

# Scaling Blended Finance Position Paper

## 1. Introduction

We, the members of the Net-Zero Asset Owner Alliance (the Alliance), have pledged to decarbonise investment portfolios to net zero by 2050 based on 1.5°C low/no overshoot scenarios as defined by the IPCC Working Group I contribution to the Sixth Assessment Report (AR6). Steering investment portfolios towards net zero is a complex endeavor, with challenges surrounding how to finance the transition.

Transition to a more sustainable, low carbon global economy will provide economic growth with new investment opportunities. However, the current economic risk-return profiles for some climate solutions and clean technology investments, especially in emerging markets (EMs), are not appropriate for private institutional investors who must adhere to fiduciary duties and risk-baring capacities. We also need to ensure that the transition is just, with "fair" burden sharing across societies and across regions.

While this position paper primarily focuses on blended finance vehicles targeting investments in EMs and Least Developed Countries (LDCs), blended finance in developed markets may also support institutional investors to meet risk-return needs in the clean technology impact investing space, driving scaling.

To dramatically scale-up financing for the transition of the real economy, Alliance members have issued a Call to Action[1] to asset managers to join forces in driving the design of scalable blended finance vehicles that respond to the needs and priorities of asset owners.

The commitment of Alliance members to net zero demonstrates that there is plenty of private capital ready to invest in the transition. This position paper contextualises the Alliance members' Call to Action by providing an overview of what members see as the main obstacles and hurdles deterring investment, and some of the potential solutions to overcome these barriers.

## 2. Financing climate solutions

A pivotal part of decarbonising existing investment portfolios is the broader transition of the real economy towards an overall low carbon economy. This includes the financing of sustainable business models and climate solutions. However, many of the factors limiting the scalability of climate solution financing especially in EMs, also deter larger investment in technological climate solutions globally. Limiting factors include risk, access, as well as lack of data and know-how, preventing larger institutional investors from investing.

Climate solutions are cross-sectoral practices and technologies that focus on decarbonising the global economy to reach net zero emissions by 2050. The technological solutions that are necessary to realise a net-zero transition are capital intensive and

[1] Source: https://www.unepfi.org/wordpress/wp-content/uploads/2021/02/20210210-Blended-Finance-Call-to-Action.pdf

cover a broad range from mature and scalable solutions to innovations and new technologies, which are only just being conceptualised.

As investors shift their focus towards investment opportunities that enable positive climate action, they are looking for de-risking mechanisms to enable these investments. De-risking investments in climate solutions (e.g. in new technologies or in EMs) can be achieved via Public-Private Partnerships (e.g. through shared/split ownership of large infrastructure investments) as well as through blended finance structures (e.g. bringing together public or philanthropic concessional capital and private capital to promote small businesses in infant industries).

Blended finance vehicles can provide the necessary structures to close the existing funding gap in climate investment globally, while accommodating multiple investor profiles and priorities.

Q1

### 3. Why blended finance?

Blended finance has been identified as an effective way to address market distortions that occur from policy failures in pricing-in externalities. It allows the utilisation of catalytic capital from public or philanthropic sources to create societal or environmental benefits that are not otherwise captured, while creating a pathway for improved risk-adjusted returns for private investors.

**Through the balancing of risk-return profiles for investment opportunities, blended finance can result in the scale-up of investments in climate solutions and future technologies in both developed and emerging markets**.

Considering that the public sector alone cannot provide the investment needed in EMs, the importance of effectively deploying public finance to leverage private capital to finance the transition has been widely acknowledged. Steps in the right direction have been taken, with various players within the development finance community and the private sector joining forces in establishing blended finance instruments and vehicles to mobilise private capital into EMs. However, private capital mobilisation still remains too low.

According to Convergence's report on 'How to Mobilize Private Investment at Scale in Blended Finance' (April 2020), the volume of private capital mobilised by blended finance structures (across debt and equity) varies widely with an average of USD 1 (public) : USD 4.05 (private) and a median of USD 1 (public) : USD 2.74 (private)[2]. Private capital in this case involves private investment and investment by commercial Development Finance Institutions (DFIs).

Whilst blended finance is a well-recognised concept within the development community, it is far from mainstream for private investors and has not yet achieved the necessary scale to-date.

EMs, and in particular LDCs, offer diverse and rich opportunities for climate solutions and future technology investments, and the development of green infrastructure and renewable energy, transportation and supply chains in these regions is pivotal to the achievement of the global net-zero economy. The International Energy Agency (IEA) estimates that "by the end of the 2020s, annual capital spending needs to expand more than seven times, to above USD 1 trillion for clean energy in the developing

[2] Source: Convergence Research Report, 'How to Mobilize Private Investment at Scale in Blended Finance', page 7 (April 2020).

world to reach net-zero emissions by 2050." As the IEA states: "The catalytic role of development finance institutions, through blended finance, will be critical to attract capital to markets and sectors at early stages of readiness, or with hard-to-mitigate risks."[3]

A main focus of this position paper is on blended finance through fund structures combining public or philantrophic capital with private funding. This has been recognised by various institutional investors as one efficient way to achieve an appropriate risk-return profile for climate solution investments, particularly in EMs and LDCs, while allowing for diversification and the possibility to scale.

**Attracting long term capital via blended finance presents both a critical pathway to a low carbon future as well as an invaluable opportunity to drive a just transition.** The preamble of the Paris Climate Change Agreement[4] calls for the creation of decent work opportunities and quality jobs in accordance with nationally defined development priorities, with the aim to ensure that both environmental and social justice for historically disadvantaged communities, industries and regions are considered in advance of capital allocations. Wherever possible, the Alliance therefore seeks a balanced and equitable distribution of both the costs and benefits of the impending transition, while taking into account regional needs and the social implications of the transition for workers, communities and consumers.

## 4. Investing in Emerging Markets

While some institutional investors have managed to diversify their portfolios by finding investment opportunities in EMs with attractive risk-adjusted returns, both the number of investors and the investment volumes remain very limited. The three primary factors below seem to deter the private sector from allocating larger portions of capital into EMs. Blended finance could serve to address each of these as follows:

| **What are the main deterrents to private sector investment** in EMs**?** | **How can blended finance address these deterrents?** |
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| **Risk**: The European institutional market has a strong investment bias – driven by regulation – towards both investment grade (IG) debt opportunities and developed markets[5]. Currently, 88% of EMs are non-investment grade [6], with additional concerns around political risk, currency risk and ability to navigate complexity, making it difficult for investors to underwrite investments in EMs.<br><br>Furthermore, the higher capital charges faced by investors for non-IG transactions are rarely compensated with a commensurate increase in returns. The risk-return profiles of EM investments are often perceived as not competitive or not in line with institutional investors' risk bearing capacity to comply with fiduciary duty. The small allocation investors have for non-IG is therefore generally deployed in familiar and liquid asset classes such as high yield. | **De-risking:** To lower the capital charge, usually a first-loss tranche (typically funded, or as a guarantee for debt funds, or junior equity for equity funds) is provided that de-risks the senior tranche funded by private investors. In the case of debt, this allows the senior tranche to have IG characteristics, while for equity funds, it achieves either a profile commensurate with similar investments in OECD markets or closer to fixed income. Some blended finance structures focused on equity investments may also provide opportunity for investors to generate return upside. |

[3] Source: IEA, 'Transitions in Emerging and Developing Economies', World Energy Investment 2021 Special Report, pages 14 and 43
[4] The UNFCCC Paris Climate Change Agreement, 2015.
[5] For example, the European insurance market is 71% invested in debt, 98% of which is in investment grade; only 3% of insurance balance sheets go to EM. Source: https://www.eiopa.europa.eu/
[6] Source: Analysis based on Bloomberg sovereign credit ratings data.

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| **Restricted market access**: Many of the target countries, including LDCs and lower-middle income countries, do not have established or mature capital markets. Those that do, tend to have incredibly complex investment considerations that prevent incoming flow of external capital (e.g. withholding taxes > 30%; local regulatory restrictions; potential repatriation restrictions etc.). | **Greater market access:** Both private managers as well as DFIs with large sourcing networks on the ground, strong experience and track records in EMs, can facilitate greater access in EMs as well as in places where capital markets do not reach. For example, co-investments alongside DFIs can benefit from their preferred creditor status and can alleviate concerns around tax and regulatory constraints, simplifying investments. |
| **Lack of data transparency**: The development community typically assesses the perceived investment risk in EMs to be higher than the actual risk, especially for debt transactions. However, data to dispel this assumption is not yet available to private investors.<br><br>Lack of data translates to difficulties for investors to underwrite EM investments. For private equity (PE) investments, the lack of a robust or comprehensive historical track record (especially in more frontier markets), demonstrating sufficient returns compared to developed markets, deters investment. | **Increased data disclosure:** Greater data disclosure would close the gap between perceived and actual risk. Track records have been disclosed by DFIs (on an individual and confidential basis), when exclusivity for vehicles was granted, allowing investors to assign appropriate risk ratings (and expected returns) to transactions. |

## 5. Scaling blended finance

Alliance members have identified blended finance as one of the most efficient ways to de-risk investments in climate solutions and in market segments that currently do not have appropriate risk-return profiles to attract large-scale institutional capital. Scaling up the use of blended finance vehicles is therefore a priority, by removing barriers and overcoming existing obstacles.

Alliance members have highlighted the below potential solutions to overcome some of the existing barriers:

| What are the main barriers to scaling blended finance? | Potential solutions to overcome barriers in EMs. |
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| **Lack of scale and appropriate vehicles**:<br>According to Convergence's 'State of Blended Finance 2020 Report'[7], the median size of blended finance vehicles (2017 – 2019) was only around USD 70 million.<br><br>The institutional investors that typically consider blended finance vehicles are sophisticated and large investors, seeking to allocate at least USD 150 million in each debt investment and at least USD 50 million in each equity investment. However, due to accounting considerations they also cannot contribute more than 20% to any vehicle.<br><br>Therefore, blended finance debt vehicles need to be at least USD 750 million, and blended finance equity vehicles at least USD 250 million.<br><br>Achieving scale in EMs is closely linked to the availability of donor capital and overcoming deployment issues, mainly caused by the lack of well-structured, investable project pipelines in local markets that meet the risk-return requirements of private investors.<br><br>The supply of bankable deals has been further limited by the need for DFIs to deploy their own balance sheets (so-called A-loans). This is particularly the case in LDCs, where DFIs' A-loan targets are even higher and explicit private capital mobilisation targets often do not exist. Another reason is the limited sell down of existing loans by DFIs to institutional investors. | **Revising the deployment of donor capital:**<br>Making private sector investments in funds eligible for official development assistance (ODA) – broaden sectoral and geographic themes: Currently donor capital is very narrowly focused by region, sector and/or theme (e.g. Sub-Saharan Africa & women's empowerment), thereby limiting the investment universe and the scale of the respective blended finance vehicles. In order to scale funds above the minimum target size of USD 750 million for debt vehicles, donor capital needs to be shifted accordingly. This will require the provision of sizeable first-loss funding agnostic to theme within impact, sector or country. To this end, private capital mobilisation, on its own (agnostic to region, sector and theme), should become ODA eligible. Donor-specific needs can be addressed within a large fund through additional requirements (e.g. minimum 30% of the fund needs to be invested in Sub-Saharan Africa) – therefore scaling even more financing into focus areas, with a market creation effect.<br><br>Pooling donor funds and standardising investment: The Catalytic Capital Consortium[8] has successfully illustrated the benefit of pooling funding together and having an experienced party (e.g. MacArthur foundation) as an administrator. A donor fund which focuses on providing solutions for private capital mobilisation (for scaling funds) could be highly catalytic, as long as it is sector and theme agnostic and flexible in nature (i.e. it can provide guaranteed and funded solutions, and can take subordinated positions).<br><br>Removing "national component" requirements for donor funding: Many OECD donors make it a requirement for their funding to have a national focus, e.g. supporting a local exporter, investor etc. in private markets, and control cannot be executed over which transactions will come to market. Investors and asset managers cannot make such assurances to donors, rendering such conditional capital of little value. Ways to remove these 'national components' from donor requirements would therefore need to be explored.<br><br>Increasing the use of guarantees: An increased provision of guarantees by donors could help in redressing the risk-return imbalance. Certain risks may indeed never materialise and guarantees not be called on, which could over time result in a market for such guarantees in the commercial space. |

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| | Revising the incentives model of DFIs: Revisions to revenue models could partially overcome the limited supply of bankable deals (see Section 6 for more details).<br><br>Q2<br><br>**Enhancing the universe of investable projects:**<br><br>Increasing the flow of equity financing: Long-term, risk-bearing equity financing is necessary to create credit-worthy real economy companies and projects that can then attract further equity or debt financing. This is an area in which Multilateral Development Banks (MDBs) and DFIs should be very active. They should be enabled to take on much higher risks in order to develop the sector, which should then open further opportunities for investments by private investors. To diversify risks and support the local ecosystem of equity investing, blended finance equity investments in the form of fund of funds do allow for the mobilisation of private capital on fund of fund level, and at the same time the deployment via local fund managers. Such investments then profit from de-risked equity investments as a result of DFI investments.<br><br>Q3 |

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| **Lack of capacity and experience:**<br>Lack of local government capacity in EM economies**:** Lack of local government capacity has resulted in a lack of well-planned or established projects. In addition, a risky, unstable, non-transparent and/or not sufficiently attractive regulatory environment are typical barriers for investors.<br><br>Lack of institutionalisation and limited experience of asset managers with blended finance as a non-established asset class: In order to pass through the strict due diligence of large institutional investors, asset managers who are managing and deploying such vehicles need to be highly institutionalised/professionalised with strong expertise and history catering to institutional investors. Many blended finance vehicles in the market are managed by smaller asset managers (often even first-time managers), who typically cannot pass the strict due diligence requirements of large institutional investors.<br><br>Lack of capacity and experience of asset owners: Many, especially mid-size and smaller institutional investors, do not have the capacity and experience to cope with the relatively complex blended finance structures and the due-diligence process for these vehicles. | **Building capacity:**<br>Promoting an enabling environment and building institutional capacity: MDBs and DFIs can play a more important role not only in creating an enabling environment through sound policies linked to sectoral strategies, investment plans and sustainability standards, but also in supporting institutional capacity and project preparation through grant funded technical assistance. A closer collaboration is needed between asset managers and experts on the ground, including local government bodies, DFIs, MDBs and/or private developers.<br><br>Building the capacities of all actors and stakeholders: Capacity building including for donors and local governments, asset owners and asset managers is essential. Local governments need to define the infrastructure needed, organise tenders to developers, contractors and financiers, and respective stable and transparent regulatory and legal frameworks need to be in place.<br><br>Increasing collaboration between asset owners, donors and asset managers: Greater collaboration is needed to ensure that vehicles are structured to meet investors' and donors' needs. A faster deployment of blended finance structures could be achieved through easier access to donor capital to secure the first-loss tranche or guarantees. Constructive dialogues, common platforms and experience sharing are already happening but much more is needed in a very structured way.<br><br>Building knowledge and know-how: Greater knowledge and experience is needed to give asset owners comfort that blended finance structures are an appropriate means to diversify investment portfolios into other regions, enhancing the asset mix of portfolios in line with fiduciary duty. Similar is true on the donor side. A harmonisation of blended finance structures would be one way to address transparency and complexity.<br><br>Q4 |
| **Availability and access to data**:<br>The power of data cannot be underestimated.<br>Limited access to investment risk and performance data: For both equity and debt investments, especially in EMs, | **Generating data points to be made available and accessible:**<br>Increasing data coverage in EMs:<br>Transparently sharing the track record and impact data of DFIs and donors in EMs, would allow private investors to take better informed investment decisions. |

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| investors currently face a lack of access to investment risk and performance data. It therefore becomes extremely difficult to accurately price the level of risk an investor is assuming, and to determine the adequacy of the related return.<br><br>For example, in 2012, infrastructure debt was not an institutional asset class, whilst today it is a must have allocation for most investors. Part of the reason for this change was a Moody's default study showing lower historic losses of this asset class from the 1980s to 2019[9].<br><br>Lack of publicly available track records of DFIs: The lack of universal access of investors to the credit risk track records of DFIs and donors makes pricing of risk extremely challenging and reduces investors' confidence to enter EMs.<br><br>Lack of sufficient track records on private equity returns generated in EMs: Track records on private equity returns in EMs are also limited, particularly in LDCs, and where track records are available, they do not demonstrate sufficient historical returns against the risks taken by investors. This has been also driven by market volatility (foreign exchange in particular) and limited exit options in EMs, in particular in LDCs. | While the Global Emerging Markets (GEMs) Risk Database Consortium recently published the GEMs report [10] with details on default rates of MDBs' and DFIs' portfolios, recovery rates, which are key to understanding historical losses, were not included. The GEMs Risk Database is the world's largest credit risk database for EM operations and is compiled by a large number of MDBs and DFIs.<br><br>Due to their privileges in EMs, patient capital, as well as superior structuring (compared to public bonds), DFIs expect to have higher recovery rates on loans than comparable publicly traded securities. The publication of this information would enable accurate pricing of risk, and if net losses (defaults multiplied by recoveries) and risk levels are actually lower, this would allow for projects to be financed at lower, potentially more accurate, levels of return.<br><br>As private equity and real equity asset investment in EMs is a comparably young asset class, data available to-date is not yet as rich as in more developed markets. As local investors now increasingly see exits materialising, the basis for more data points will increase, allowing further private capital to flow. DFIs should continue to invest into direct equity transactions but also in blended finance equity vehicles in order to de-risk transactions and also contribute to generating more data points.<br><br>In addition, data providers need to play a more active role providing more coverage of emerging/frontier markets associated with enhanced disclosure.<br><br>Q5 |
| **Lack of rating methodologies**: Lack of rating methodologies for blended finance structures has left uncertainty as to how investors should rate these structures and has excluded less sophisticated investors from this asset class. | **Establishing rating methodologies:** Rating agencies, MDBs and DFIs could work together with asset managers to establish a well understood, standardised rating methodology for blended finance fund structures which would help build and increase confidence of investors. |

[9] Source: Infrastructure default and recovery rates, 1983-2019 – Moody's https://www.moodys.com/login?ReturnUrl=http%3a%2f%2fwww.moodys.com%2fviewresearchdoc.aspx%3fdocid%3dPBC_1199345%26lang%3den%26cy%3dglobal

[10] GEMs - Global Emerging Markets Risk Database Consortium of MDBs and DFIs (gemsriskdatabase.org)

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| **Lack of regulatory clarity:** Blended finance funds are complex to structure, and some structures have been questioned for qualifying as securitisations under the securitisation regulation [11] . Classifying blended finance structures as securitisation under the regulation could have significant negative consequences for European Solvency II regulated investors (i.e. increased capital charges) and asset managers (subject to retention rules and additional reporting obligations[12]). | **Increasing clarity from regulators:** More precise treatment of blended finance fund structures with respect to securitisation regulation would be helpful to build investor confidence in these structures. |

Q6

**6. How can DFIs and MDBs support in scaling blended finance?**

As highlighted above, DFIs and MDBs have an important role to play in scaling blended finance vehicles and their deployment in EMs, financing the global transition towards net zero.

Alliance members propose and reiterate the following ways in which DFIs and MDBs can support the mobilisation of private capital:

- **Aligning incentives and reducing deployment risk**: Today, MDBs and DFIs already use various financial instruments, vehicles and facilities to mobilise private capital into EMs. However, deployment under these vehicles needs be improved and instruments need to be scaled and expanded to utilise available private capital sources in support of the transition towards net zero. We have seen some positive change with a higher focus on DFIs to create new scalable projects, however more needs to be done, for example:
    - Rethinking the revenue model of DFIs: In order to meet their mandates and any corresponding profitability and rating requirements, DFIs' focus is generally attached to balance sheet financing. In order to equally shift and broaden the activity and instrument focus of DFIs, the investigation of revenue models which de-link revenue generation from actual fund deployment may prove effective (e.g. charging asset management fees for capital managed - but not deployed - on behalf of investors). Rethinking the revenue model will incentivise DFIs to participate A-loans to private investors and may allow for an efficient use of donor capital (as first-loss providers) considering the high mobilisation ratio offered by large blended finance vehicles. Note that in order for investments to benefit from the preferred creditor status and to ensure alignment of interest, DFIs would need to retain a small portion of these loans.

[11] "Securitisation Regulation" means Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation as amended by Regulation (EU) 2021/557.

[12] Articles 6 through to 9 of the Securitisation Regulation provide for requirements that must be satisfied in respect of all securitisations within its jurisdictional scope, including, most significantly:

i. a requirement under Article 6 of the Securitisation Regulation that the originator, sponsor or original lender retain a material net economic interest in the securitisation (the "EU Risk Retention Requirement"); and
ii. requirements under Article 7 of the Securitisation Regulation for the issuer, sponsor or originator to make certain disclosure and reporting in respect of the securitisation.

- Ensuring private capital mobilisation targets also in the LDCs: To shift a greater portion of the DFI activity and capital towards private capital mobilisation for transition finance, specific targets for private capital mobilisation for climate action should be set, with concrete targets per region and per country. In this respect, there should be clear disaggregation in the targets for capital mobilised from other DFIs / MDBs and private direct mobilisation, with higher targets for the latter.
- Including private sector representation on DFI boards: With private capital mobilisation being increasingly important, it makes sense to have private sector representation on DFI boards (with or without voting rights) to ensure respective managerial steering and incentivisation.
- Establishing mobilisation incentives at all levels: To align interest in private capital mobilisation, cultures (and incentives) need to change, e.g. investment officers should prioritise an investment with private sector participation over DFI balance sheet funding.

Q7

- **Data, data, data:** Transparently sharing DFIs' and donors' track records as well as impact data in EMs, would enable better informed private investment decisions.
  - As noted above, the full release of the GEMs Risk Database would provide investors with the required track record data to more adequately price credit risk in EM countries.
  - Consistent impact data on individual projects is a key requirement for many private investors to enter this space. As counterintuitive as it may sound, many DFIs have historically not collected and monitored impact data. If investors do not have such data, they cannot report such investments as "impact" (given regulatory requirements), reducing their incentives to consider complex products such as blended finance funds.

- **Equity financing:** MDBs and DFIs have been absolutely instrumental in building infrastructure equity finance and the private equity industry in EMs, especially in the LDCs. In fact, without them there would hardly be any private equity industry in EMs. However, despite their paramount importance in creating market ecosystems and increasing the supply of bankable projects and companies into the market, equity financing currently represents only a small part of MDB and DFI total investment exposure. MDBs and DFIs should substantially scale-up their investments in this space.

Q8

In summary, MDBs and DFIs have a key role to play in mobilising private capital investment in climate solutions, particularly in EMs. Leveraging their capacities, strong experience and track records to facilitate investments is a priority for scaling the deployment of blended finance and attracting long term capital towards a low carbon future, as well driving a just transition. Since public sector funds alone do not suffice to fully decarbonise our economies as quickly as we need to meet the Paris Climate Change Agreement's commitments, blended finance can address multiple barriers, including de-risking investments and improving risk-adjusted returns, providing favourable conditions for private sector to access investment opportunities at scale. Leveraging public-private partnerships and blended capital flows will enable the accelerated growth of climate solutions needed both in developed and EM countries, benefiting both businesses and societies, and financing the achievement of climate and sustainable development goals (SDGs) in just, equitable and effective ways.

## 7. Engagement Questions

The Alliance warmly invites and looks forward to receiving your feedback to the engagement questions. The Alliance will review your responses and will discuss next steps on how to further proceed in scaling blended finance, including overcoming deterrents and barriers, and consideration of the most efficient routes that asset owners can take when engaging inside and outside of their corporations. Depending on feedback, a roundtable dialogue may be convened to further the discussion.

| | Engagement Questions |
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| Q1 | Blended finance can be a very effective vehicle for scaling climate solutions also in developed markets, where investment risk is still too high for institutional investors. Why do we not see more of these vehicles for climate technology solutions? What is needed to scale-up their deployment for transition finance? |
| Q2 | Do you agree that achieving scale is closely linked to the availability of donor capital? Are there other ways of allowing for more flexible and efficient use of sizable donor funding? |
| Q3 | Do you agree with these proposals? Can you suggest other ways to increase the supply of bankable/investable projects, to facilitate the deployment of capital and scale-up investments? |
| Q4 | To what extent does this capture your view regarding capacity building needs, and/or do you have other ideas? |
| Q5 | In your view, to what extent does data availability and missing rating data impact investments in EMs? What additional data is needed to provide more transparency and support investment decision-making? Who could provide this data? |
| Q6 | Do you agree that these barriers have held back the scaling up of blended finance instruments? Are there any additional barriers? |
| Q7 | Do you agree that reviewing and changing the incentive models of DFIs could help to mobilise private capital? Can you share any further ideas to increase the mobilisation rate and improve efficiency? How can explicit region–/country–specific private capital mobilisation targets focused on private direct mobilisation for climate action (particularly in LDCs) be achieved? |
| Q8 | Can you share any further ideas about how MDBs and DFIs could substantially scale-up investments in equity financing? Why have we not achieved the scale needed, and what needs to change? |

## Acronyms

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| DFI | Development Finance Institution |
| EM | Emerging Markets |
| GEM | Global Emerging Markets |
| IEA | International Energy Agency |
| IG | Investment Grade |
| LDC | Least Developed Countries |
| MDB | Multilateral Development Bank |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PE | Private Equity |
| USD | United States Dollar |

## Glossary

**Blended Finance**

There is no universal definition of 'blended finance'. In the context of this paper, blended finance is understood as strategically bringing public and / or philanthropic capital together with private funding through a common investment structure to mobilise

private capital flows into emerging markets or into higher risk impact investments. The aim is to increase capital leverage by using limited development and / or philanthropic finance as concessional capital to improve the risk-return profile in line with private investors' requirements by shifting risks and / or managing returns.

**Development Finance Institution (DFI)**
Development Finance Institutions are specialised development banks or subsidiaries that invest in private sector projects in low- and middle-income countries to promote job creation and sustainable economic growth, and to contribute to the Sustainable Development Goals. Usually they are majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees.

**Donor Capital**
Philanthropic or concessional capital granted with no or very low return expectations – even default might be expected.

**Least Developed Countries (LDCs)**
The Least Developed Countries are a group of particularly low-income developing countries as defined by the United Nations. The list of currently least developed countries is available here.

**Multilateral Development Banks (MDB)**
A Multilateral Development Bank is an international financial institution established by two or more countries for the purpose of encouraging economic development in poorer nations. They consist of member nations from developed and developing countries and provide loans and grants to those member nations to fund projects that support social and economic development.

**Official Development Assistance (ODA)**
Official development assistance (ODA) is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries.

**Private equity**
Ownership of shares in a private company.