



NET ZERO ASSET OWNERS ALLIANCE

WORKSHOP

May 17, 2023

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AGENDA & OVERVIEW

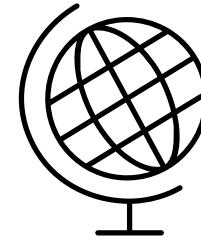
11:00am	Summary of Convergence and Blended Finance	Chris Clubb, Convergence
11:05	Collaboration Agreement: Convergence & Net-Zero Alliance	Chris Clubb, Convergence
11:10	Demonstration of Convergence Investment Platform and web-based functions	Olive Munene, Convergence
11:20	How each Alliance member can sign up for access to Convergence Investment Platform and services	Olive Munene, Convergence
11:25	Q & A	All

WHAT IS 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.

THREE AREAS OF FOCUS:

- Help build effective and efficient blended finance market
- Support successful fund raise of blended finance vehicles/transactions to increase SDG and Climate investment
- Developing Countries (Emerging Markets & Frontier Markets)



A GLOBAL NETWORK

We have a global [membership](#) of over 200 public, private, & philanthropic institutions



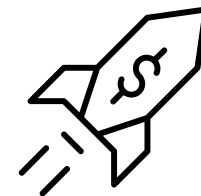
DATA & INTELLIGENCE

Original [content](#) builds the evidence base for blended finance, including data on past deals, trend reports, case studies, region and sector briefs, and webinars.



DEAL FLOW

An online match-making platform for investors and those seeking capital to connect on active deals.



MARKET ACCELERATION

Our [Design Funding](#) program awards grants for the design of innovative vehicles that aim to attract private capital to global development at scale.

\$3.5 TRILLION SDG INVESTMENT GAP PART FINANCEABLE BY PRIVATE SECTOR

UNCTAD:

\$4.5T SDG & Climate Investment Needs annually

52% Public / 48% Private

33% Climate

Actual investment only \$1.5T (30%)

\$3.0 Trillion Investment Gap

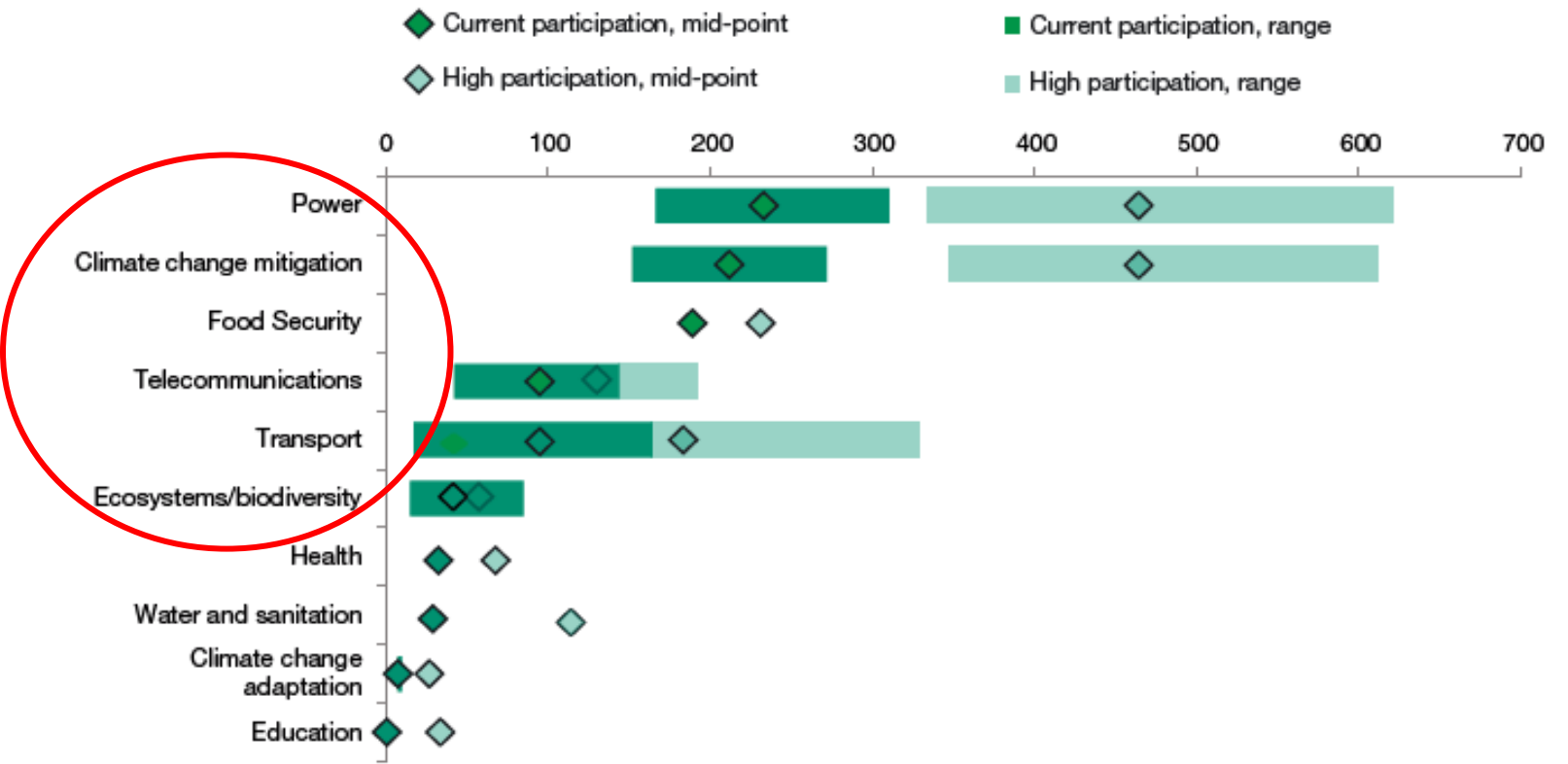
MDB-DFI investment \$140B pa (3%)

MDB-DFI Mobilization \$20B (0.5%)

Total Mobilization \$45B (1%)

T: Trillion B: Billion

Figure IV.4. Potential private-sector contribution to investment gaps at current and high participation levels (Billions of dollars)



Source: UNCTAD.

Note: Private-sector contribution to investment gaps calculated using mid-points of range estimates in table IV.2. The higher participation level is the average private-sector investment shares observed in developed countries. Some sectors do not have a range of estimates, hence the mid-point is the single estimated gap.

Source: OECD, FIGURE 2, GLOBAL OUTLOOK ON FINANCING 2021 REPORT

NET DEBT & EQUITY FLOWS TO LICS & MICS (INCLUDING CHINA)

Total public sector loans and private sector FDI, debt and equity average less than \$900 billion since 2015. Less than 25% of SDG and Paris Agreement investment needs

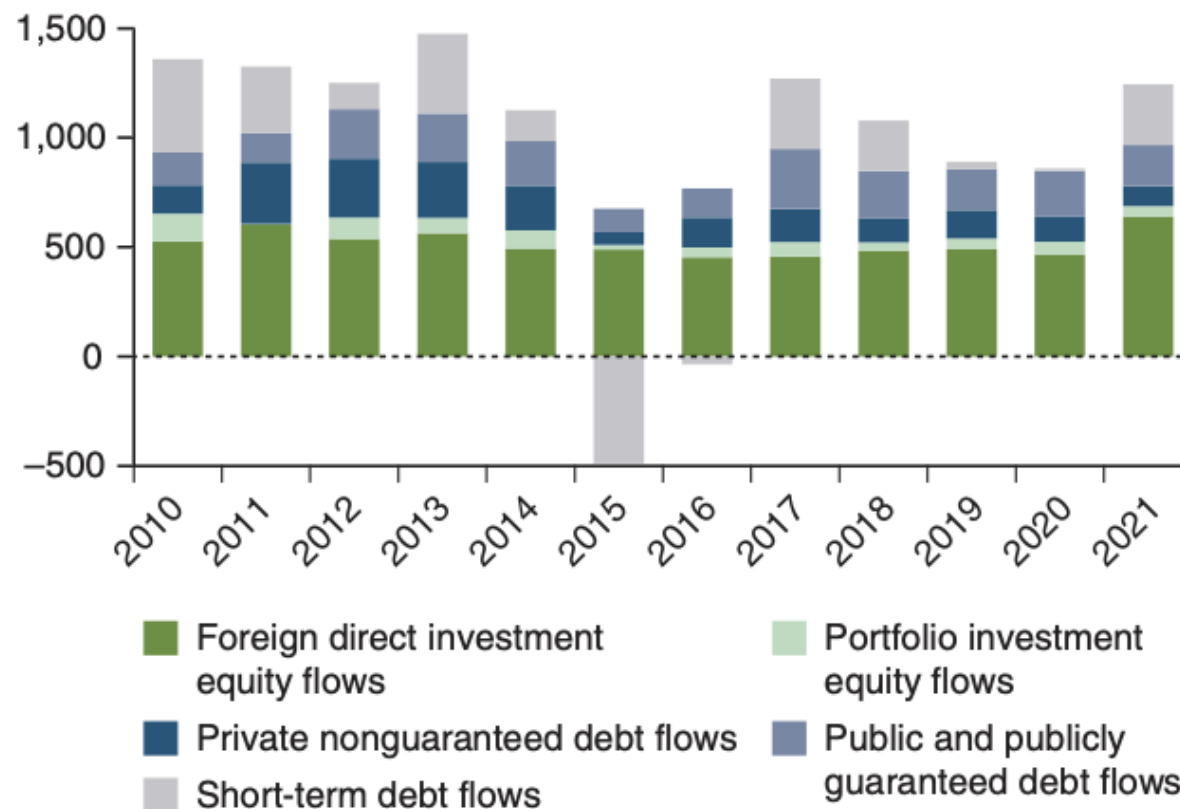
Private sector financial investment (e.g., net debt and net equity) less than \$150 billion annually

Post-SDG flows (2015) lower than before SDGs

\$6.6 trillion gross debt to LICs & MICs equals 1.5% of Global Financial Assets

Figure BO.1.1 Net Equity Inflows and External Debt Flows to Low- and Middle-Income Countries, 2010–21

US\$ (billion)



Source: World Bank, International Debt Report 2022

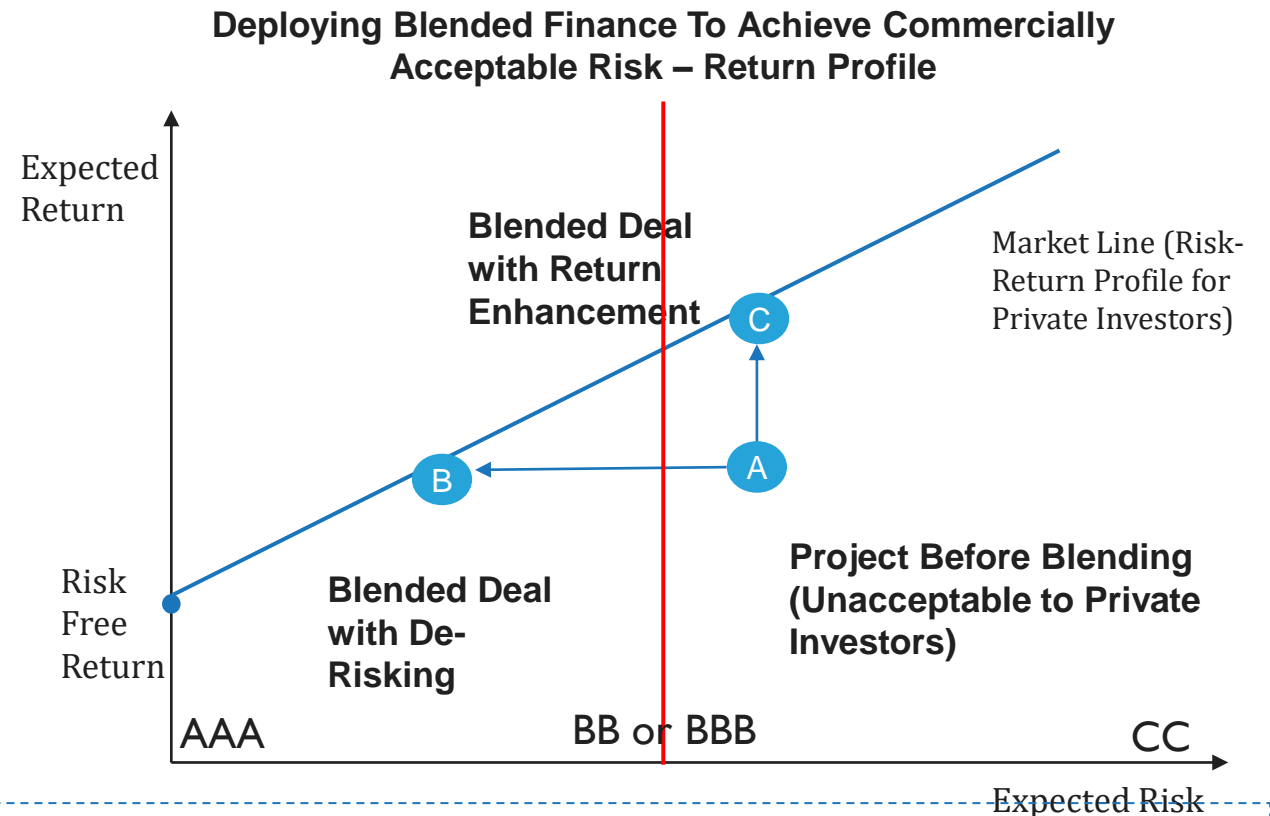
MDB PRIVATE SECTOR LOAN PORTFOLIO: LESS RISKY THAN EXPECTED

- Low & Middle-Income Countries with annual SDG & Climate investment needs of around \$4.5 trillion:
- 13 rated Investment Grade
- 76% rated B or lower
- Median risk rating of “B-”
- Many good quality projects, but located in high-risk countries
- Large majority of debt investment opportunities rated B or CCC – Beyond investors’ fiduciary and regulatory obligations
- MDBs and DFIs are not in the business of de-risking to mobilize private investment – mobilize on pari passu terms
- **Core of blended finance is (i) de-risk to within fiduciary and regulatory obligations (e.g., BBB and BB) and (ii) create market-equivalent risk-return**

OECD DAC LIST COUNTRIES BY RISK RATING							
INVESTMENT GRADE		BB		B		CCC OR LOWER	
Country	OECD Income Level	Country	OECD Income Level	Country	OECD Income Level	Country	OECD Income Level
13 Countries		17 Countries		44 Countries		49 Countries	
China	UMIC	Azerbaijan	UMIC	Albania	UMIC	Afghanistan	LDC/LIC
Malaysia	UMIC	Colombia	UMIC	Armenia	UMIC	Argentina	UMIC
Botswana	UMIC	Morocco	LMIC	Benin	LDC/LIC	Belarus	UMIC
Thailand	UMIC	Paraguay	UMIC	Fiji	UMIC	Belize	LMIC
Indonesia	LMIC	Serbia	UMIC	Honduras	LMIC	Burkina Faso	LDC/LIC
Kazakhstan	UMIC	Algeria	LMIC	Jamaica	UMIC	Burundi	LDC/LIC
Mexico	UMIC	Georgia	UMIC	Jordan	UMIC	Central African	LDC/LIC
Panama	UMIC	Guatemala	UMIC	Namibia	UMIC	Chad	LDC/LIC
Peru	UMIC	Guyana	UMIC	Rwanda	LDC/LIC	Cuba	UMIC
Philippines	LMIC	North Macedo	UMIC	Senegal	LDC/LIC	Djibouti	LDC/LIC
India	LMIC	Vietnam	LMIC	Turkmenistan	UMIC	El Salvador	LMIC
Mauritius	UMIC	Bangladesh	LDC/LIC	Bhutan	LDC/LIC	Equatorial Guin	UMIC
Montserrat	UMIC	Brazil	UMIC	Bolivia	LMIC	Eritrea	LDC/LIC
		Cote d'Ivoire	LMIC	Cambodia	LDC/LIC	Ethiopia	LDC/LIC
		Dominican Rep	UMIC	Cameroon	LMIC	Gabon	UMIC
		South Africa	UMIC	Costa Rica	UMIC	Gambia	LDC/LIC
		Uzbekistan	LMIC	Egypt	LMIC	Ghana	LMIC
				Eswatini	LMIC	Grenada	UMIC
				Kenya	LMIC	Guinea	LDC/LIC
				Kosovo	UMIC	Guinea Bissau	LDC/LIC
				Lesotho	LDC/LIC	Haiti	LDC/LIC
				Montenegro	UMIC	Iran	LMIC
				Nepal	LDC/LIC	Laos	LDC/LIC
				Tanzania	LDC/LIC	Lebanon	UMIC
				Timor Leste	LDC/LIC	Liberia	LDC/LIC
				Turkey	UMIC	Libya	UMIC
				Uganda	LDC/LIC	Malawi	LDC/LIC
				Angola	LDC/LIC	Maldives	UMIC
				Bosnia and Her	LMIC	Mali	LDC/LIC
				Cape Verde	LMIC	Mauratania	LDC/LIC
				Congo	LMIC	Mozambique	LDC/LIC
				Ecuador	UMIC	Myanmar	LDC/LIC
				Iraq	UMIC	Pakistan	LMIC
				Kyrgyzstan	LMIC	Republic of the	LDC/LIC
				Madagascar	LDC/LIC	Sierra Leone	LDC/LIC
				Moldova	UMIC	Solomon Island	LDC/LIC
				Mongolia	LMIC	Somolia	LDC/LIC
				Nicaragua	LMIC	South Sudan	LDC/LIC
				Niger	LDC/LIC	Sri Lanka	LMIC
				Nigeria	LMIC	Sudan	LDC/LIC
				Papua New Gu	LMIC	Suriname	UMIC
				St Vincent and	UMIC	Syria	LDC/LIC
				Tajikistan	LMIC	Tunisia	LMIC
				Togo	LDC/LIC	Ukraine	LMIC
						Venezuela	UMIC
						West Bank & G	LMIC
						Yemen	LDC/LIC
						Zambia	LDC/LIC
						Zimbabwe	LMIC

BLENDING FINANCE CAN CREATE INVESTMENTS THAT MEET INVESTORS' REGULATORY AND FIDUCIARY OBLIGATIONS

- Blue line is the CAPM efficient range of risk & return combinations available to debt investors
- Red line is “maximum acceptable risk” for an investor (e.g., Investment Grade)
- Investments below blue line and right of red line not acceptable to fiduciary investors
- **Developing Countries risk high: B & CCC**
- **Reducing risk to left had side of red line is critical**
- Convergence Historical Deals Database: 500+ transactions demonstrate how concessional funds deployed to mobilize private investment
- No innovations required



Goal of Blended Finance : Create “**market equivalent**” investments at acceptable risk to mobilize private sector investment to **SDG AND CLIMATE** projects in Developing Countries

Source: Convergence 2022

TWO GOLD STANDARD EXAMPLES OF MOBILIZING PRIVATE INVESTMENT AT SCALE TO MDB LOANS

ILX PRIVATE CREDIT FUND:

- Mobilizing private investment into MDB A-B loans: No concessional funds nor de-risking required
- \$1 billion of private investment mobilized – portfolio diversification with multiple MDBs
- Investment risk will be loans rated “BB-” or better: Well-rated Middle-Income Countries

IFC-SIDA MCPP INFRASTRUCTURE FUND:

- Mobilizing private investment into MDB A-B loans: Concessional and non-concessional funds de-risk investors
- \$1.5 billion of private investment mobilized – portfolio diversification with IFC
- Investment risk will be loans rated “BB” and “B”: MICs and LICs
- Thanks to de-risking, diversification, and IFC track record, investors modelled invest at Investment Grade “BBB”



ILX - SDG & Climate Focused EM Private Credit Fund

ILX Management is an Amsterdam-based specialist SDG and Climate-focused Private Credit Asset Manager. The company focusses on Global Development Finance co-investment strategies and partners with the leading Multilateral Development Banks and Development Finance Institutions such as the IFC, IDB-Invest, EBRD, ADB, AfDB and FMO. The company is AIFMD Licensed and Regulated.

Active Fund

ILX Fund I

- Investor commitments of USD 1.05 billion
- 1st close in Jan 2022
- Invests in MDB/DFI-originated USD & EUR loan participations
- Invested >USD 300 mil in 2022
- Invested 50% in Climate Finance
- SFDR Article 9 (Dark Green) Fund
- Invests across all regions and sectors in Emerging Markets
- Investment Strategy generates:
 - Attractive risk-return
 - Highest ESG safeguarding standards
 - Direct, measurable, positive SDG- and Climate-related impact

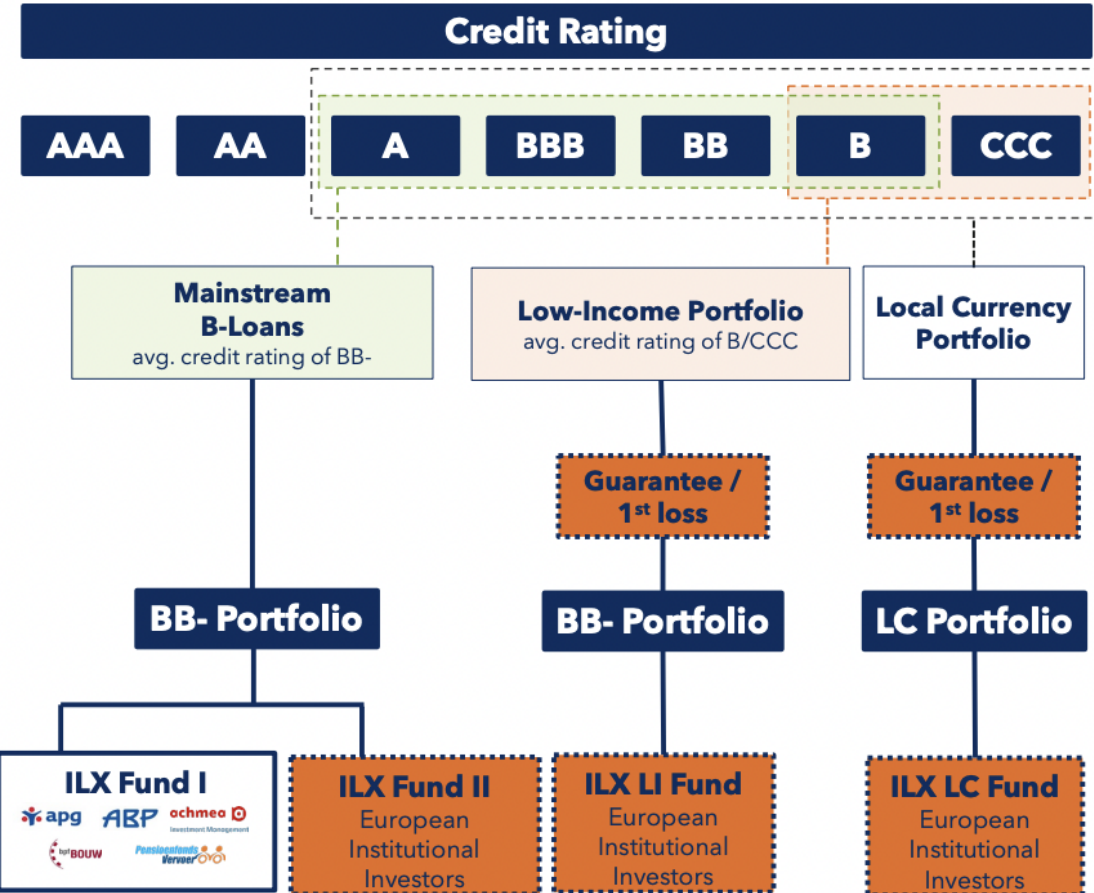
Follow-On Funds & Strategy

ILX Fund II

- Target Investor Commitments of USD 2 billion
- Target 1st Close in Q4 2023 - Q1 2024
- Similar scale-up strategy to ILX Fund I

ILX Low-Income / Local Currency Fund

- High-risk LI/LC strategies with blended structure i.e., guarantee, first-loss
- Target 1st Close in H1 2024
- Fund strategy Examples:
 - *Diversified high impact DFI investments in Low-Income Countries*
 - *Diversified Local Currency DFI Infrastructure and Renewable Energy investment across Emerging Markets*

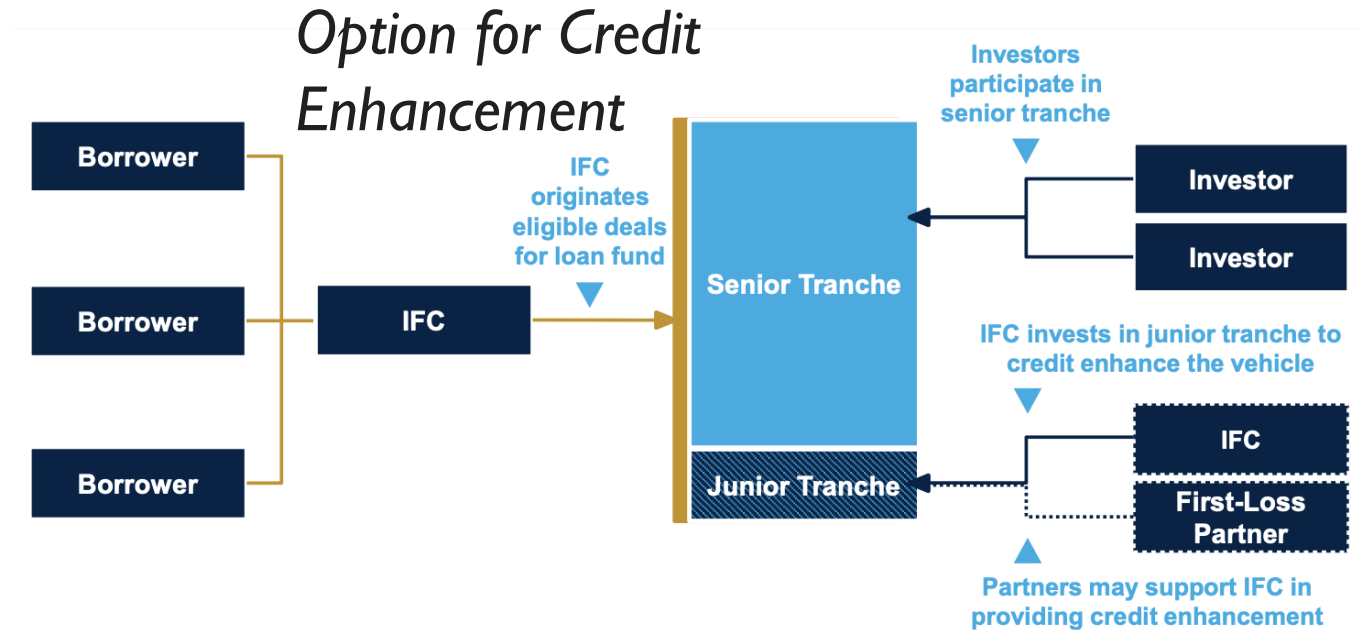


EXAMPLE: IFC & SIDA MCPP INFRASTRUCTURE PROGRAM

Core components:

- IFC arranges portfolio of senior loans to infrastructure projects
- Loans priced ca. Libor + 3.6%
- Transfer 50% of each loan to MCPP Fund
- Fund capitalized 90% by senior notes and 10% junior capital
- Senior notes modelled at BBB/BBB+
- \$1.5 billion senior notes subscribed by Alliance, Axa and Prudential

- Transaction is a unicorn – No MDB has replicated
- Scale: Repeat – Create one Fund - same structure for all MDBs and DFIs



In the MCPP Infrastructure facility, the Swedish International Development Cooperation Agency (Sida) joined IFC to provide first-loss coverage



Source: World Bank Group 2021 Annual Report

MDBs: Existing Capital Utilization and Likely Headroom

AAA rating allows only low leverage of MDB capital

Fifth column is approximate maximum leverage of equity for each MDB to maintain AAA rating

Capital utilization around 40%

Around \$1.25 trillion headroom

If shareholders prepared to govern MDBs at AA versus AAA, around 50% extra lending possible.

Analysis does not include national DFIs.

MDB	Shareholders Equity	Development Assets	Actual Leverage	Likely Leverage Possible	Maximum Development Assets	Head Room	Capital Utilization: Actual Relative Maximum
AfDB	11	34	3.1	5.0	55	21	62%
ADB	53	133	2.5	5.5	292	159	46%
AIIB	20	8	0.4	6.0	120	112	7%
CAF	13	29	2.2	6.0	78	49	37%
CDB	1	1	1.0	5.0	5	4	20%
EBRD	22	41	1.9	5.5	121	80	34%
IDB	34	106	3.1	6.5	221	115	48%
IBRD	40	211	5.3	6.5	260	49	81%
IDA	168	168	1.0	4.0	672	504	25%
IDB Invest	2	4	2.0	4.0	8	4	50%
IFC	25	47	1.9	4.0	100	53	47%
IsDB	13	25	1.9	5.0	65	40	38%
NDB	10	7	0.7	6.5	65	58	11%
Total	412	814	2.0		2,062	1,248	39%

Source: G20 2022 Independent Capital Review

Likely Leverage Possible while maintaining current risk ratings: Discussions with Big 3 Rating Agencies and MDB investor materials

Does not include EIB since only 10-14% of its balance sheet is for LICs and MICs

MDB AND DFI MOBILIZATION: \$18.7 BILLION TO MICS AND \$3.8 BILLION TO LICS & LDICS

TABLE A.13 Middle-Income Countries – By Institution

	PCf (US\$, millions)	PDM (US\$, millions)	PIM (US\$, millions)
ADB	7,781.0	1,726.9	6,054.1
AfDB	1498.9	715.3	783.5
AIIB	1,052.4	452.6	599.8
EBRD	7,622.3	370.4	7,252.0
EDFI	5,904.0	1,774.0	4,130.0
EIB	9,218.0	3,193.9	6,024.1
IDB Group	4,060.0	848.0	3,212.0
- IDB	244.0	0.0	244.0
- IDB Invest	3,816.0	848.0	2,968.0
ICD	0.0	0.0	0.0
World Bank Group	19,847.8	9,665.0	10,182.8
- MIGA	1,852.7	1,160.3	692.4
- WB	2,205.0	1,020.0	1,185.0
- IFC	15,790.1	7,484.7	8,305.3
TOTAL	56,984.3	18,746.1	38,238.2

TABLE A.10 Low-Income and Least Developed Countries –
Long-Term Financing By Institution

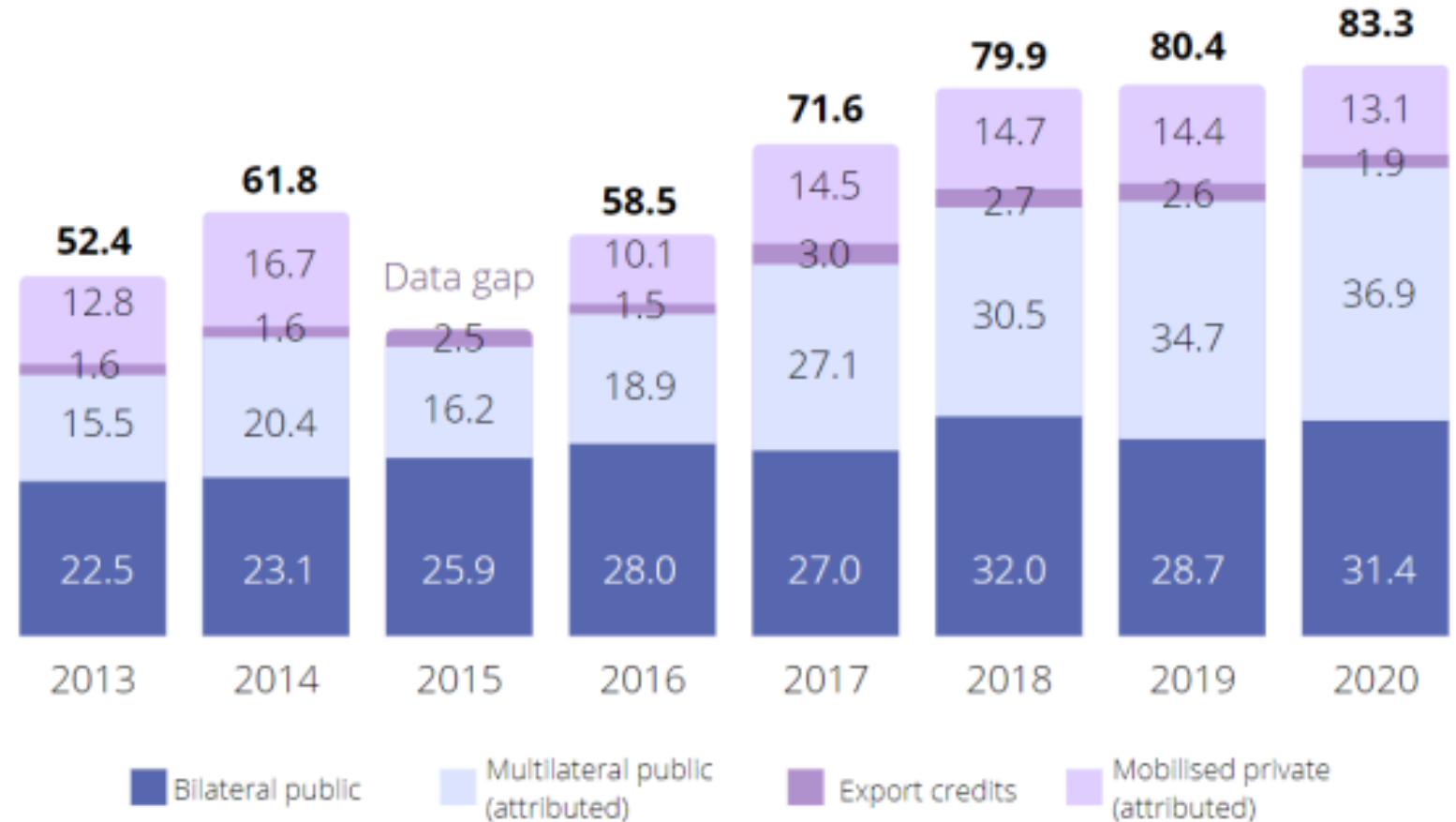
	PCf (US\$, millions)	PDM (US\$, millions)	PIM (US\$, millions)
ADB	363.5	324.7	38.8
AfDB	427.2	155.8	271.4
AIIB	0.0	0.0	0.0
EBRD	9.9	0.0	9.9
EDFI	777.0	80.0	697.0
EIB	1,550.0	91.0	1,459.0
IDB Group	0.0	0.0	0.0
- IDB	0.0	0.0	0.0
- IDB Invest	0.0	0.0	0.0
ICD	101.2	0.0	101.2
World Bank Group	6,826.5	3,486.3	3,340.3
- MIGA	1,222.0	844.9	377.1
- WB	1,484.0	992.0	492.0
- IFC	4,120.5	1,649.4	2,471.1
TOTAL	9,692.0	3,813.1	5,878.8

CLIMATE FINANCE TO DEVELOPING COUNTRIES: OBJECTIVE TO PROVIDE/MOBILIZE USD 100 BILLION ANNUALLY

At COP16 in Mexico in 2010, Developed Countries committed a collective goal to provide and mobilize USD 100 billion per annum for climate action in developing countries.

2022 OECD report:
Actual only \$83 billion with \$13 billion mobilized.

Figure 1. Climate finance provided and mobilised in 2013-2020 (USD billion)



Source: OECD, Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020, 2022

CLIMATE FINANCE DELIVERY PLAN: LOOKING FORWARD COLLECTIVE ACTIONS BY DEVELOPED COUNTRIES

1. Increase scale of climate finance
2. Increase finance for adaptation
3. Prioritize grant-based finance for the poorest and most vulnerable
4. Address barriers in accessing finance
5. Strengthen the Financial mechanism of UNFCCC and the Paris Agreement
6. Work with MDBs to increase and improve climate finance
- 7. Improve effectiveness of private finance mobilized**
8. Report on collective progress transparently
9. Assess and build on lessons learned
10. Take into account the broader financial transition required for Paris Agreement Article 2.1c

SEE COP26 Presidency Compilation of 2021-2025 Climate Finance Commitments

Source: CLIMATE FINANCE DELIVERY PLAN 2021 REPORT

NET-ZERO ALLIANCE & CONVERGENCE COLLABORATION AGREEMENT

Alliance and Convergence signed agreement in January 2023.

Collaborate in 2023 to:

1. increase the Alliance members' access to development finance and blended finance transactions seeking private investment,
2. increase direct collaboration between the Alliance members and the official development finance community,
3. Any other activity determined to be beneficial to increase Alliance members' investment

Source: Convergence



DEMO OF CONVERGENCE
INVESTMENT PLATFORM AND WEB-
BASED SERVICES

HOW EACH ALLIANCE MEMBER CAN SIGN UP FOR ACCESS TO CONVERGENCE INVESTMENT PLATFORM AND SERVICES

- **To access the Convergence platform please click on the link below:**
- <https://www.convergence.finance/sign-up>
- You will be prompted to register your institution. Kindly fill out all the information requested and upload your company logo, as well as any supporting documents that are requested, and a member of the Convergence team will be happy to facilitate access to the platform.
- Once granted access to the platform, there is no limit on the number of users from your institution who can sign onto the platform. We encourage members of the Alliance, especially those on the investment teams, to engage with this platform as often as possible, to expand their knowledge of blended finance transactions, news, and resources.



Q&A