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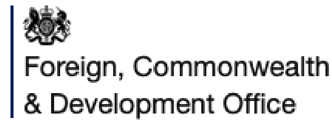

BLENDED FINANCE FOR CLIMATE REPORT: HOW TO INCREASE PRIVATE INVESMENT FOR CLIMATE FINANCE IN DEVELOPING COUNTRIES

RESEARCH REPORT

NOVEMBER 2021

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BACKGROUND

In February 2021, the UK Foreign, Commonwealth & Development Office (FCDO) launched the COP26 Blended Finance Platform within the UK Impact Programme, supported by The Palladium Group, CDC Group and Convergence Blended Finance. The initiative is focused on identifying blended finance solutions that mobilize more climate finance and investment to developing countries to achieve the Sustainable Development Goals and the Paris Climate Agreement objectives. It specifically targets private-sector institutional investors, asset owners and asset managers. The Platform is designed to help deliver additional financial commitments to climate/environment structures and projects that can be showcased and achieve financial close at or following COP26 in Glasgow in November 2021, co-hosted by the UK Government and the Italian Government.

The COP26 Blended Finance Platform brings together public, philanthropic, and private investors to finance a sustainable future, by committing to a set of focused activities that aim to:

- Educate public and philanthropic organizations of the need to allocate catalytic capital to create market-equivalent investment opportunities for private investors
- Build awareness of prospective public, private, and philanthropic organizations to fund climate/environment blended finance vehicles
- Identify and coordinate multiple blended finance vehicles to successfully raise concessional and commercial capital prior to, during, and after COP26 in Glasgow in November 2021

As part of this initiative, the UK FCDO and Convergence have established a Working Group of development organizations (ministries, development agencies, philanthropic foundations, and donor climate funds) to develop and distribute relevant data and research on blended finance climate solutions and identify and support blended finance vehicles seeking institutional private capital, including power projects, climate change mitigation, and climate change adaptation and resilience.

In this *Blended Finance for Climate Report*, Convergence:

- Looks at the overall climate finance gap and need for additional private finance to be channeled towards climate solutions
- Takes stock of where and how blended finance has been applied to date
- Explores what can be done to realize additional blended finance for climate finance going forward

Convergence thanks UK FCDO, Palladium, and the Impact Programme for commissioning this report to build a more effective and efficient blended finance market. Convergence and UK FCDO will work with partners within the development community and private sector to ensure the findings are well communicated and lead to additional blended finance transactions with a focus on climate change.

INTRODUCTION

Addressing the impact of climate change is one of the most critical targets of blended finance practitioners, based on the prominence of climate in Convergence's database of 670+ blended finance transactions. Convergence has previously identified the mismatch between the growing climate crisis and under-investment in mitigation and adaptation solutions, with national governments falling short of the targets laid out in the Paris Agreement. It is increasingly clear that government budgets alone will not be enough to raise the investment needed to tackle global warming; mobilizing billions will require bringing in the private sector. Fortunately, investment funds and vehicles targeting these spaces are beginning to line up to move significant amounts of capital.

This report has five sections:

Section I: Climate Finance Gap in Developing Countries
Section II: Blended Finance as an Efficient Tool to Narrow the Climate Finance Gap

Section III: Blended Finance for Climate Solutions – Activities to Date
Section IV: Four Effective Blended Finance Approaches to Significantly Increase Private Investment to Climate Finance
Section V: Recommendations for More Effective Blended Finance Solutions for Climate Going Forward

Annex: Key recent industry publications focused on climate finance, classified into different tiers, according to their level of importance.

SECTION 1: CLIMATE FINANCE GAP IN DEVELOPING COUNTRIES

The United Nations Framework Convention on Climate Change (UNFCCC) is the most important global treaty related to climate change and serves as the basis for the annual Conferences of the Parties (COP) to assess the progress in dealing with climate change. The UNFCCC was originally signed in 1992 and now has 197 country signatories, with those countries seeking to reduce atmospheric concentrations of greenhouse gases with the main objective of preventing dangerous anthropogenic interference with the earth's climate system.

At COP 16 in 2010 at Cancun, Mexico, the UNFCCC established the Standing Committee on Finance (SCF) to assist the COP in exercising its functions in relation to the Financial Mechanism of the Convention. This involves:

- Improving coherence and coordination in the delivery of climate change financing,
- Rationalization of the Financial Mechanism,
- Mobilization of financial resources, and
- Measurements, reporting, and verification of support provided to developing country Parties.

At COP 21 in 2015 in Paris, the UNFCCC signatories signed the Paris Agreement aiming to limit global warming to less than two degrees Celsius, and try to limit the increase to 1.5 degrees Celsius.

Also in 2015, the UN members states established the 2030 Agenda for Sustainable Development including adopting the Sustainable Development Goals. The SDGs provide a shared blueprint for peace and prosperity for people and the planet – an urgent call for action by all developed and developing countries who recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

The UNFCCC, the Paris Agreement, the COP meetings, and the SDGs all point to the overwhelming need to increase climate finance – local, national, or transnational financing drawn from public, private, and alternative sources of financing – that seeks to support mitigation and adaptation actions that will address climate change. The UNFCCC and the Paris Agreement call for developed country Parties with more financial resources to provide financial resources to assist developing country Parties to implement the objectives of the UNFCCC. Article 9 of the Paris Agreement relates to developed country finance.

One of the seven core activities of the SCF is to produce Biennial Assessment and Overview of Climate Finance Flows. The 2020 Report (delayed to 2021) estimates average annual investment flows into climate finance of $775 billion (based on the period 2015-2018). Whereas a current good estimate of the financing needs in developing countries for all the SDGs, including climate finance, is the UNCTAD SDG Investment Trends Monitor published in November 2019. UNCTAD estimates the annual investment needs in the 145 Official Development Assistance (ODA)-eligible countries to achieve the SDGs at $3.9 trillion. With actual investment amounts around $1.4 trillion, UNCTAD estimates an annual SDG Investment Gap of $2.5 trillion. The UNCTAD report identifies the investment needs across ten sectors/areas, with the three most relevant to climate finance being climate change mitigation, climate change adaptation, and power (e.g., investment in generation, transmission, and distribution of electricity). The annual investment needs for these three sectors/areas is estimated at $1.3 - $1.9 trillion, with actual investment estimated at $450 billion, leaving an annual climate finance gap in developing countries of around $810 - $1,450 billion. The UNCTAD report uses a theoretical methodology to approximate the potential for private sector investment mobilization of around $869 billion to narrow the $2.5 trillion SDG Investment Gap. UNCTAD estimates around 50% of the private sector investment mobilization potential (e.g., around $436 billion) is in the three "climate

finance" sectors/areas (e.g., climate mitigation, climate adaptation and power) – representing the highest sectoral mobilization potential amongst the SDGs.

Table 1: Estimated Annual Investment Needs in Developing Countries to achieve the SDGs

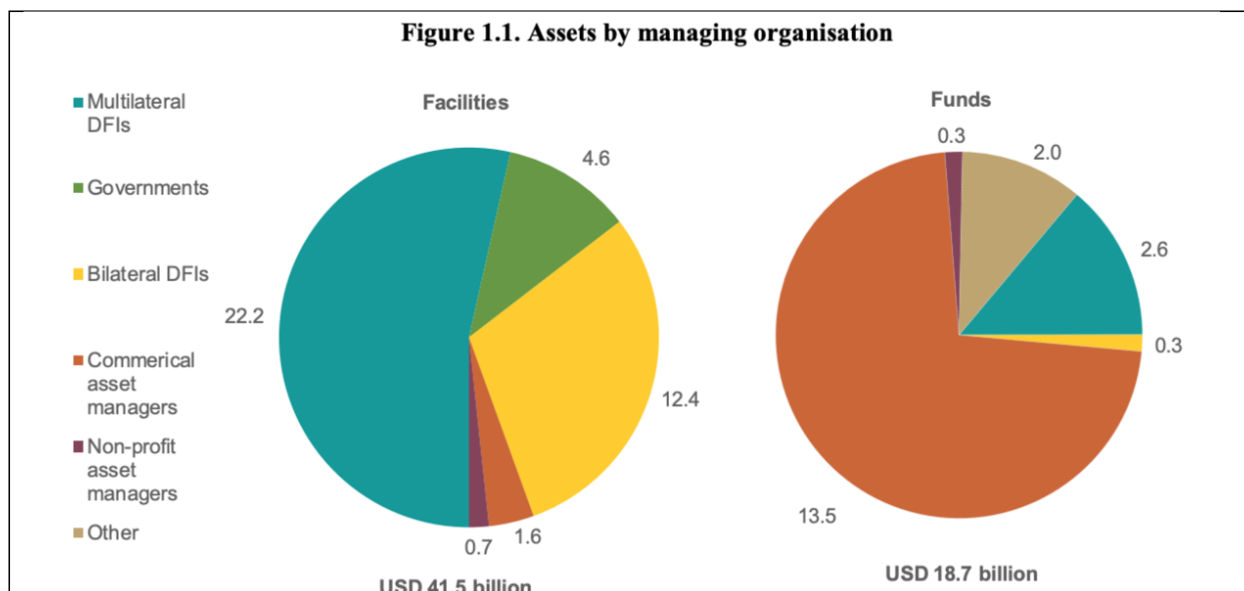
USD Billions	Investment Needs (Annual)	Existing Investment Levels	SDG Investment Gap	Private sector Participation (%)	Private Sector Mobilisation Potential
Climate Change Mitigation	550 - 850	170	380 - 680	40	212
Climate Change Adaptation	80 - 120	20	60 - 100	0 - 20	8
Power	630 - 950	260	370 - 690	40 - 50	216
Transport Infrastructure	350 - 770	300	50 - 470	30 - 40	91
Telecommunications	230 - 400	160	70 - 240	40 - 80	93
Water, Sanitation & Hygiene	410	150	260	0 - 20	26
Food & Agriculture	480	220	260	75	195
Health	210	70	140	20	28
Education	330	80	250	15	38
TOTAL	**3,895**	**1,430**	**2,465**		**869**
Source: UNCTAD, SDG Investment Trends Monitor, 2019					

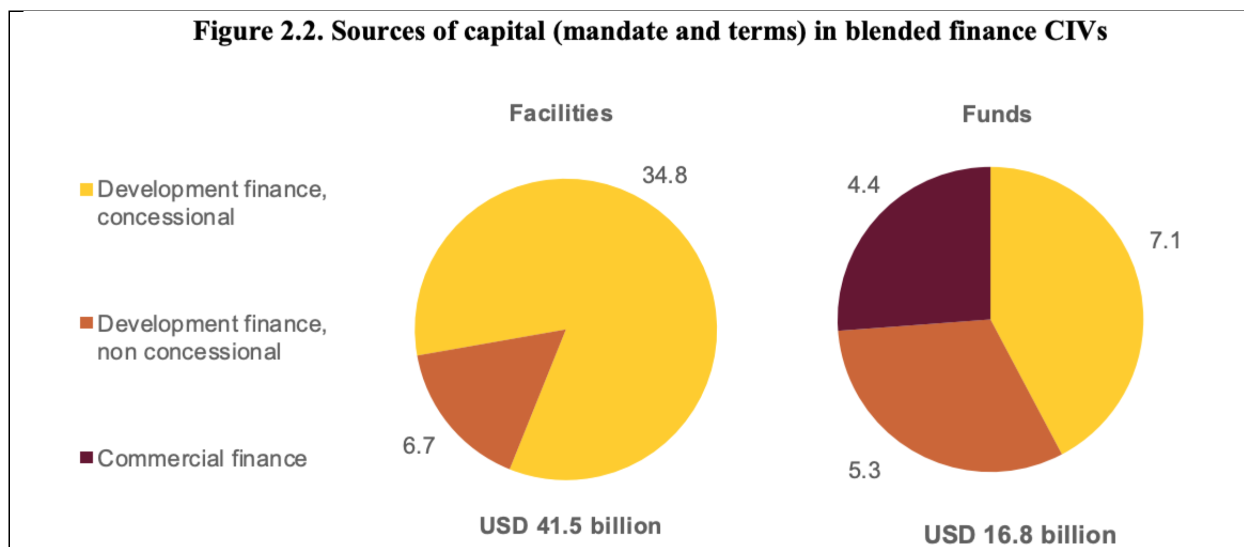
There are numerous challenges to mobilising private investment to climate finance projects in developing countries. The two most significant challenges are high country risk and high project/borrower credit risk. Of the 145 developing countries, 85 are rated by the Big 3 rating agencies (Moody's, S&P and Fitch) with a median rating of S&P-equivalent "B+". If one uses implied ratings form the OECD Export Credit Agency country rating system for the other 60 countries, the median rating of all developing countries would be S&P-equivalent "B". High country risk translates into high company, project, and borrower risk for private sector and public sector climate finance projects in developing countries. Simply, private sector investors perceive the country risk in most developing countries to be too high for them to invest. For debt investors, the probability of default and expected losses are beyond acceptable tolerances. For example, using the Big 3's standard datasets, a "B" rating implies an expected annual probability of default around 3.7% - that is, a ten-year loan/bond has an implied probability of default of around 37%. And for equity investors, the variability of return, lack of liquidity and high exit risk impedes investment. But actual default rates experienced by the multilateral development banks (MDBs) and development finance institutions (DFIs) for their senior loans to private sector borrowers in developing countries, as evidenced by their collective Global Emerging Markets (GEMS) database, is slightly better than the Big 3 data would imply. For example, the MDBS and DFIs report a 2.6% default rate for financial sector borrowers, 3.5% for infrastructure, and 4.9% for "other." Although the default loan performance has been slightly better than S&P "B" rated debt securities, the losses have been much better. Whereas the Big 3 rate unsecured bonds (mostly), the MDBs and DFIs extend secured loans (mostly). When one factors in recoveries, the "expected losses" of MDB and DFI loans have behaved more akin to a portfolio of BBB- and BB+ rated corporate bonds. When it comes to gross and net returns, the gross margins (after losses) on the senior loan portfolio has dramatically out-performed comparable bonds portfolios (e.g., IFC's average loan has been priced at Libor plus 4-4.5%). Blended finance is seen as a good development tool to address the perceived and actual high country and credit risks of investing in developing countries to mobilize private investment to climate finance projects.

SECTION 2: BLENDED FINANCE AS AN EFFICIENT TOOL TO NARROW THE CLIMATE FINANCE GAP

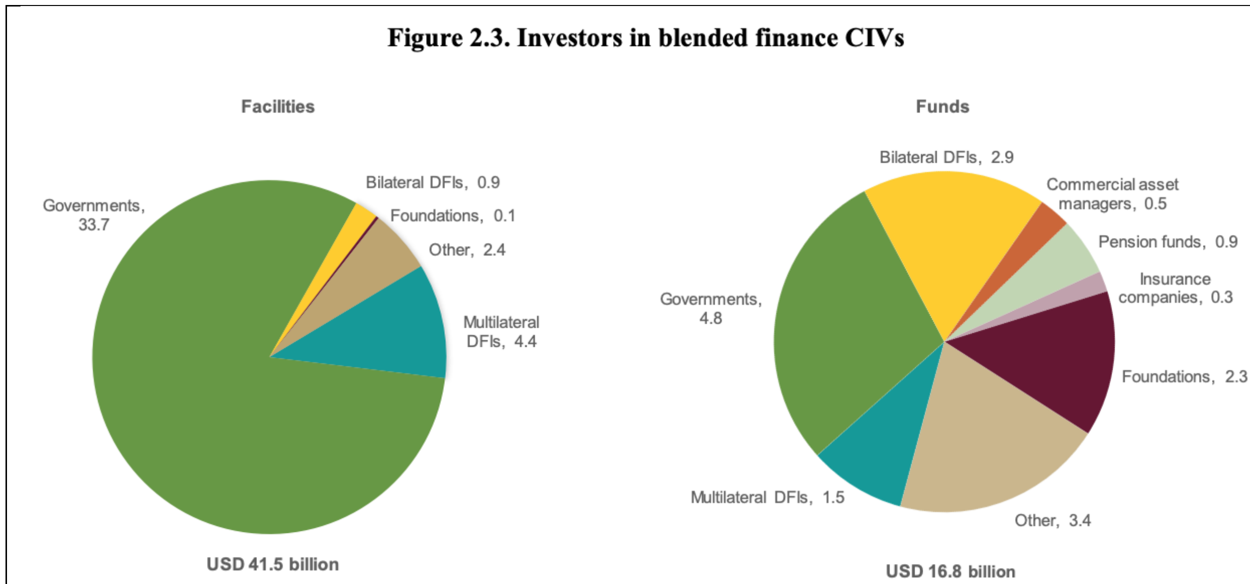
Blended finance is defined by the international development community as "*the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries*[1]," where "*development finance*" includes concessional, near-market and market finance deployed by public and philanthropic organizations and "*additional finance*" is mostly private investment. The OECD "Blended Finance Funds and Facilities – 2018 Survey Results published in 2020" attempts to ascertain private investment mobilization to the SDGs in developing countries using official development finance resources in blended finance operations. The OECD report compiles blended finance flows over the four-year period 2015-2018, since the inception of the SDGs. The report compiled information from 180 blended finance vehicles (e.g., collective investment vehicles, funds, and facilities) that mobilized a total of $60.2 billion of "assets under management" – investment from public and private organizations. Despite the large amount of total financing raised, the OECD report estimates that only $4.4 billion was mobilized from "commercial finance" sources, that is, private sector finance mobilized was around $1.1 billion per annum.

Figures 1, 2 and 3: Highlights of OECD Blended Finance Funds and Facilities – 2018 Report





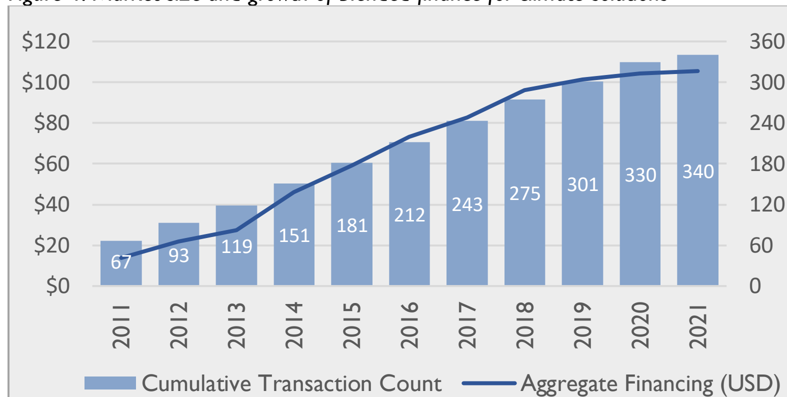
[1] OECD definition.



SECTION 3: BLENDED FINANCE FOR CLIMATE SOLUTIONS – ACTIVITIES TO DATE

Climate Blended Finance Market Overview

Figure 4: Market size and growth of blended finance for climate solutions



Convergence Blended Finance has compiled the world's largest database of blended finance transactions, containing nearly 680 closed transactions and representing just over $160 billion in aggregate financing[2]. According to Convergence's database, climate-related transactions targeting one or more of the following SDGs (13, Climate Action; 7, Affordable & Clean Energy; 11, Sustainable Cities; 12; Responsible Consumption; 14, Life Below Water; 15, Life on Land) account for 50% of all blended finance transactions, and 66% of total deal flow. As Figure 4 shows, there have been 340 blended finance transactions aligned with climate-related SDGs to date, representing

[2] To be included in Convergence's Historical Deals Database, a transaction must have attracted financial participation from one or more private sector investor(s) and must have received catalytic funding from public and/or philanthropic parties. Please see more here.

approximately $105 billion in total capital flows. Median annual blended flows to the climate finance SDGs were recorded at $11.1 billion from 2015-20.

Figure 5: Transactions by target SDG(s)

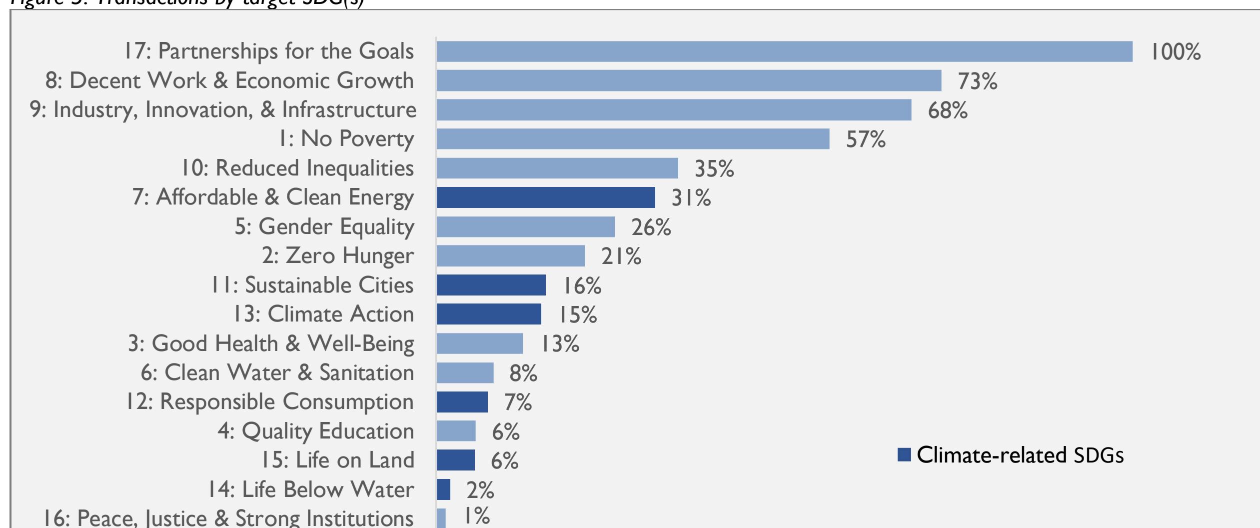
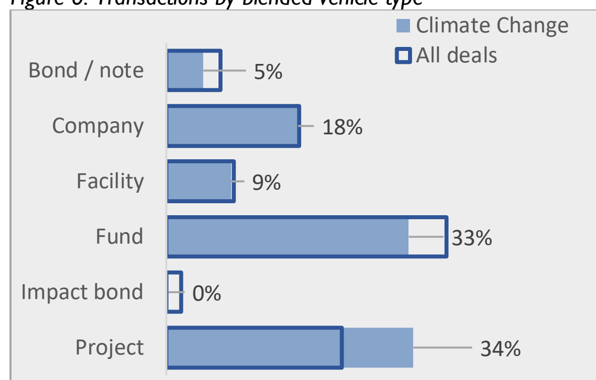


Figure 5 separates climate-related transactions into their component SDGs, with the Convergence database breaking down the proportion of all transactions targeting climate-related SDGs as follows: SDG 7 (Affordable & Clean Energy, 31%), 11 (Sustainable Cities, 16%), 13 (Climate Action, 15%), 12 (Responsible Consumption, 7%). 15 (Life on Land, 6%) and 14 (Life Below Water, 2%).

Figure 6: Transactions by blended vehicle type



As Figure 6 shows, climate-related transactions have most often been structured as either projects or funds, with a higher proportion of projects relative to the overall market (34% of climate-related transactions vs 24% of all). This has been driven primarily by energy-focused transactions. Energy, targeted by 52% of climate-related transactions, is one of the few sectors where blended solutions have most commonly been structured at the project level, with 55% of all energy transactions having been structured as projects. Interestingly, companies that have benefitted from blended capital are also prominent within the clean energy sector, such as off-grid solutions like Bboxx, d.light, Kingo, and M-KOPA. Finally, while funds are the second most common type of structure amongst climate-focused transactions, they are less prominent than in the market overall (33% vs 39% of all transactions).

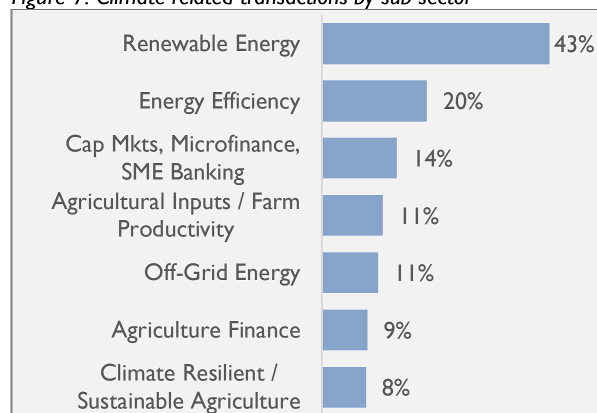
Climate Change Mitigation Versus Adaptation

Convergence has noted that, while the mismatch between the growing climate crises and underinvestment in mitigation solutions such as renewable energy means that more investment will be needed to boost the resilience of agriculture, put up seawalls, and shore up water supplies, climate adaptation has remained largely overlooked and

underinvested. The World Resources Institute, for example, recently noted that compared to more than $140 billion in annual adaptation investment needs in developing economies, the amount of public international funding flowing to nature-based solutions for adaptation is still relatively small, coming in at only $3.8-8.7 billion, or approximately 0.6-1.4% of total climate finance flows, and 1.5-3.4% of public climate finance flows (in 2018).

Indeed, most climate-related blended finance deals have targeted climate mitigation; specifically, renewable energy and energy efficiency. As shown by Figure 7, renewable energy has been targeted by 43% of climate-related transactions, while energy efficiency is the second-most popular sub-sector, targeted by 20% of climate-related transactions. Renewable energy transactions have most commonly targeted solar energy (52% of renewable energy transactions), followed by hydro (26%), and wind (20%).

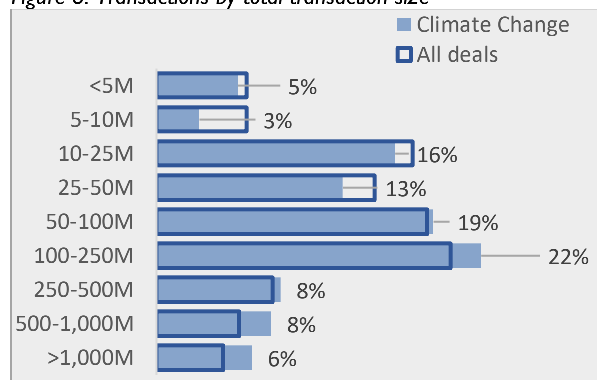
Figure 7: Climate-related transactions by sub-sector



Meanwhile, climate adaptation has not been highly targeted by blended transactions, with sub-sectors like sustainable agriculture being targeted by only 8% of climate-related transactions. Convergence has noted that adaptation to climate change is increasingly falling within the remit of host country governments, burdening developing countries with new costs (seawalls and beach nourishment) and increasing the costs of existing responsibilities (roads, drainage, and water supply). However, blended finance can and does attract commercial capital to adaptation sectors in emerging markets, including climate-resilient agriculture, water supply conservation and management, and weather insurance, among others. The InsuResilience Investment Fund (formerly the Climate Insurance Fund) from KfW, the German development bank, for example, is a tiered fund with a sidecar technical assistance facility that contributes to climate change adaptation by improving access to and the use of insurance in developing countries.

Transaction Sizes, Regions, and Blending Archetypes

Figure 8: Transactions by total transaction size



Climate transactions have typically been larger compared to the overall market; as Figure 8 shows, climate-related transactions have been slightly likelier than the overall market to fall within the largest size ranges, with the median

blended finance transaction for climate-related transactions being $80 million, compared to $57 million across the overall market. Considering the major targeted sub-sector of renewable energy, most (69%) blended transactions in this sub-sector have been larger than $50 million, with 51% being at least $100 million in size.

Figure 9: Transactions by target region(s)

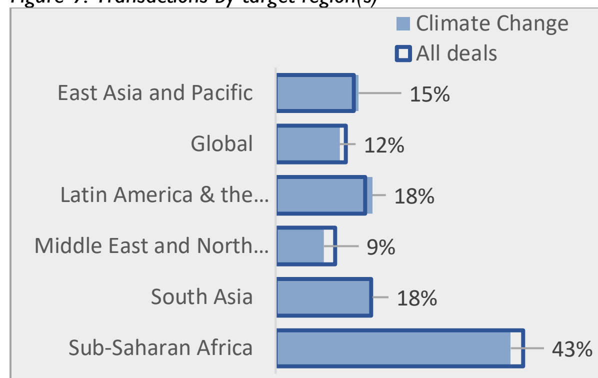
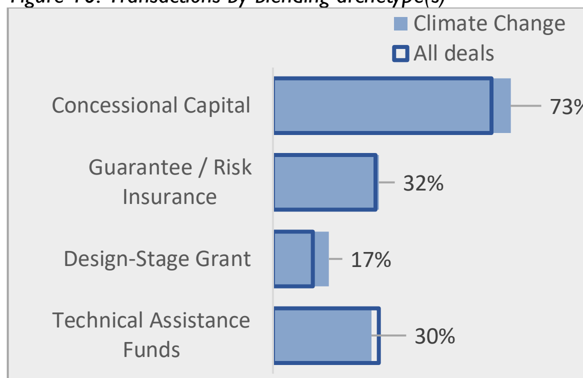


Figure 10: Transactions by blending archetype(s)



Meanwhile, Figure 9 shows that 43% of climate-related transactions have targeted Sub-Saharan Africa at a slightly lower clip than the overall market (46%). The main countries targeted by climate-related transactions include Kenya (50 transactions), Uganda (30), Tanzania (29), Rwanda (23), Niger (22), Nigeria, (21), and Ghana (19). Turning to blending archetypes deployed, Figure 10 shows that concessional debt / equity has been the most popular blending archetype amongst climate-related transactions, accounting for 73% of transactions (compared to 67% of transactions across the overall market).

Finally, turning to the investors making commitments to climate-related transactions, Figure 11 shows that DFIs / MDBs have been the most prominent investor group, similar to trends for the overall market: DFIs / MDBs account for 37% of commitments to climate-related transactions (compared to 35% of commitments to the overall market). Regarding concessional commitments, development agencies lead the way, accounting for 43% of concessional commitments to climate-related transactions (compared to 37% of concessional commitments to the overall market). As shown by Figure 12, the leading providers of concessional finance to climate-related transactions include United States Agency for International Development (USAID) (45 concessional commitments), GuarantCo (31), Dutch DFI FMO (28), BMZ (21), Private Infrastructure Development Group (PIDG) (21), the Global Environment Facility (GEF) (20), and Shell Foundation (20).

Figure 11: Investor commitments to climate-related transactions

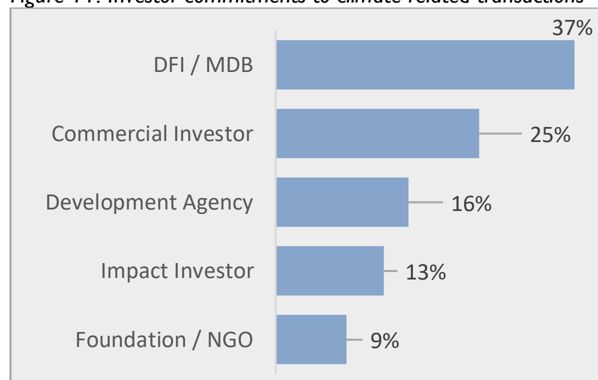
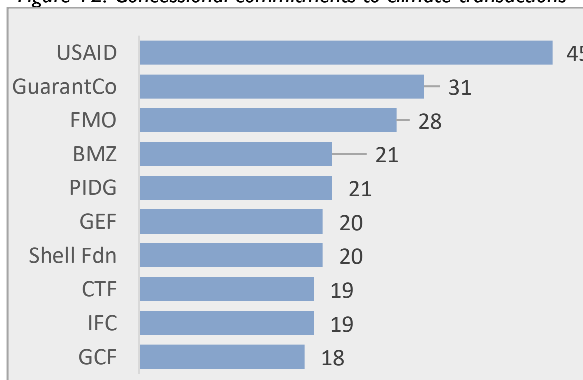
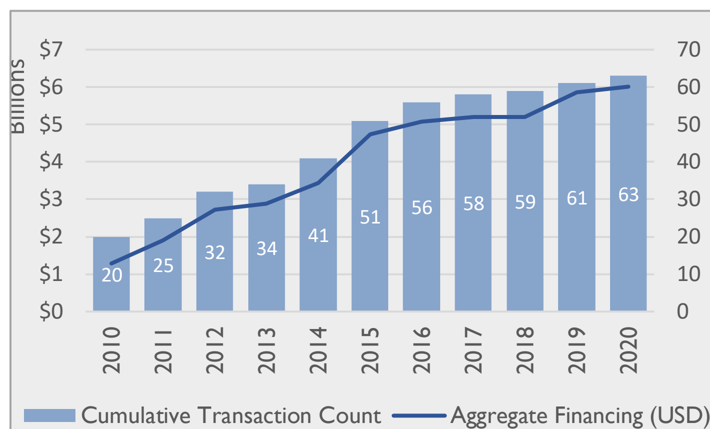


Figure 12: Concessional commitments to climate transactions



Gender & Climate Change

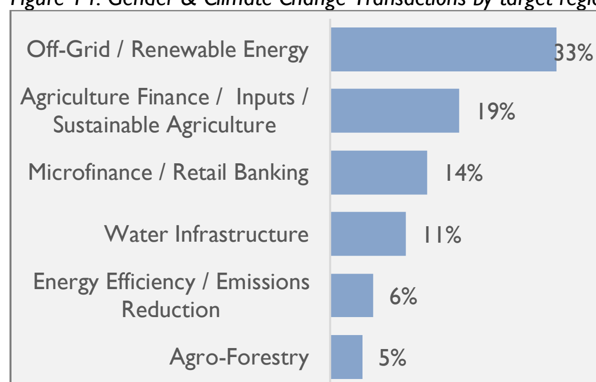
Figure 13: Market Size and Growth of Blended Finance for Gender and Climate Change



Convergence has previously explored how 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. As Figure 13 shows, 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 $6 billion.

To date, 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%). Meanwhile, climate and renewable energy-focused institutions have begun to incorporate gender-lens strategies into their investment processes.

Figure 14: Gender & Climate Change Transactions by target region(s)



SECTION 4: FOUR EFFECTIVE BLENDED FINANCE STRUCTURES TO MOBILIZE SIGNIFICANT PRIVATE INVESTMENT FOR CLIMATE FINANCE

In 2020-21, as part of the FCDO-led COP26 Blended Finance Platform, Convergence has engaged with more than 20 donors interested in blended finance solutions for climate change, more than 70 institutional investors interested to allocate private investment to the SDGs and Paris Agreement (e.g., the net-Zero Asset Owners Alliance and the Global Investments for Sustainable Development Alliance), and more than 20 asset owners to review the blended finance market to date and to hear their views on what would be the most effective blended finance structures to mobilize private investment effectively.

Based on Convergence's engagement with these organizations and other blended finance practitioners (see 'How to Mobilize Private Investors at Scale in Blended Finance), Convergence and these stakeholders have identified four

blended finance structural approaches that demonstrate the potential to meet private investor preferences and that can work well for donors. A brief overview of each is provided below, followed by an illustration, and select examples/cases for each approach.

Blended Finance Structure 1 blends private debt investment and development funds (e.g., ODA from development agency(ies) monies in a fund, and the fund in turn provides debt to bankable projects located in (high risk) developing countries.

Blended Finance Structure 2 blends private equity investment and development agency monies in a fund, and the fund in turn provides equity capital to bankable projects located in (high risk) developing countries.

Since Structures 1 and 2 to date have resulted mostly in small and medium-sized funds (typically less than $200 million), they generally do not mobilize institutional investors which seek vehicles of $500+ million. Less than 3% of blended finance vehicles have been in excess of $500 million. To mobilize institutional investors requires **Blended Finance Structure 3** – an aggregation vehicle akin to a "fund of funds" where private and development funds are co-invested, and a fund manager allocates investment capital to multiple Structure 1 or Structure 2 blended finance vehicles.

These three structures require qualified, experienced fund managers to allocate the fund's capital to SDG projects.

Blended Finance Structure 4 combines development agency monies, and sometimes private investment, in a company/entity, and that company/entity extends guarantees to support:

- Bankable projects in (high risk) developing countries (e.g., African Guarantee Fund and GuarantCo) and/or
- Near-bankable projects by providing credit enhancement for all or some risks, and all or portion of debt obligation (e.g., Multilateral Investment Guarantee Agency (MIGA))

Private investment is mobilized primarily at the project level – either domestic capital or cross-border capital. This structure requires a good quality, experienced management team to underwrite guarantees that achieve superior development impact and sufficient financial results consistent with funders' governance.

All four structures blend development-focused funds allocated at catalytic, below-market terms to mobilize private investment allocated at market terms. That is, the development-focused funds are allocated to create a "market-equivalent" investment opportunity for private investors, that is:

- Creating an investment asset in developing countries whose risk-return profile is comparable to an investment asset in developed countries, thereby making an investor financially indifferent to investing in the developing country asset compared to the developed country asset (e.g., creating an investment asset on the efficient capital market line of the Capital Asset Pricing Model) and
- Creating a lower risk profile than the S&P-equivalent "B" median sovereign risk rating of the 145 developing counties for those investors whose investment mandate and criteria preclude investing at this very high level of risk (e.g., enhancing credit risk from B and CCC equivalent to BB and Investment Grade)

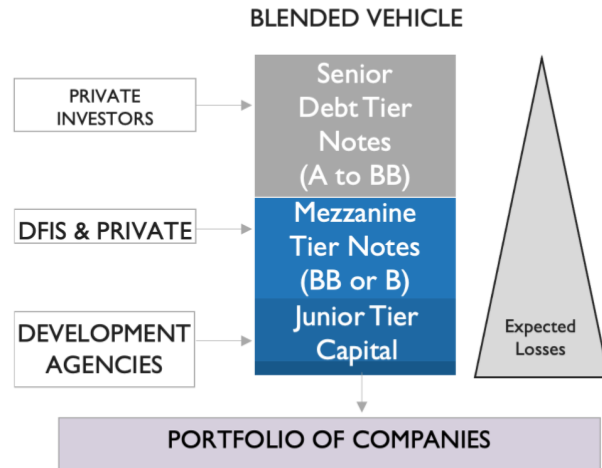
The first three structures finance a portfolio of individual investment assets to multiple borrowers, companies, and countries. This portfolio approach achieved (i) diversification benefits for investors and (ii) scale benefits in countries where scale at a project level is difficult (i.e., allows investors to invest large amounts, e.g., $100 million, which are then managed by an asset manager, portfolio manager, or fund manager, who in turn invests the proceeds in many underlying assets which are usually well below $100 million).

The fourth structure is reserved for those large individual projects where scale is possible – project-level blended finance approaches that improve an investment asset from near-bankable to bankable through risk mitigation / credit enhancement.

Structure 1: Blended Finance Vehicle to mobilize cross-border debt investment at scale (Portfolio Level)

Figure 15: Illustration of Blended Finance Structure 1

1. Establish Blended Finance Vehicle with 2-3 capital tiers
2. Vehicle typically a fund with experienced fund manager
3. Vehicle invests in portfolio of debt investments (loans) rated BB- to B-.
4. Diversification (1-2 notch uplift) and subordination (1-6 notch uplift) reduces probability of default and expected losses for senior tier investors.
5. Senior tier notes can achieve investment grade rating (e.g., A or BBB) and mezzanine notes good-quality non-investment grade rating (e.g., BB)
6. Investment grade rating allows a large universe of investors restricted by investment grade mandate



- Assume portfolio of 100 loans to borrowers with "B" risk rating
- Portfolio diversification can enhance risk rating to "BB-"
- Assume portfolio funded by three tiers of capital: (1) Senior Notes for [75]%, (ii) Mezzanine Notes for [15]% and Junior for [10]%
- Can credit enhance Senior Notes to equivalent of "Investment Grade" "BBB" subject to enough Mezzanine and Junior
- Junior and Mezzanine must be sufficient to absorb at least (1) the "expected losses" in this case between "BB-" and "BBB" or 0.63% per year (i.e., 0.79% less 0.16%) plus (2) some unexpected loss
- Possible to achieve Investment Grade "BBB" for Senior Notes with a minimum of 15% of subordinate capital (for a 10 year tenor)

Rating	Annual Expected Loss
BBB	0.16%
BBB-	0.29%
BB+	0.48%
BB	0.75%
BB-	0.79%
B+	1.21%
B	1.87%
B-	1.89%

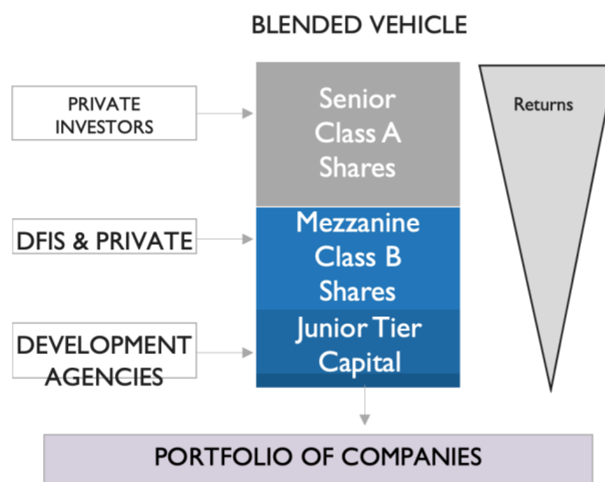
Diversification

Subordination

Structure 2: Blended Finance Vehicle to mobilize cross-border equity investment at scale (Portfolio Level)

Figure 16: Illustration of Blended Finance Structure 2

1. Establish Blended Finance Vehicle with 2-3 capital tiers
2. Vehicle typically a fund with experienced fund manager
3. Vehicle invests in portfolio of equity investments in investee companies.
4. Prioritization of waterfall of distributions:
    1. First distributions to Class A until IRR of 0-5%
    2. Second distribution to Class B until IRR of 0%
    3. Third distribution to Junior Capital until IRR of 0%
    4. Fourth distribution to capital providers by negotiation.
5. Waterfall prioritization for Senior Class A Shares: (i) reduces likelihood of losses, (ii) increases likelihood of achieving market benchmark and (iii) increases likelihood of high IRRs



Structure 3: Aggregation Vehicles for scale mobilization – either debt or equity (Portfolio Level)

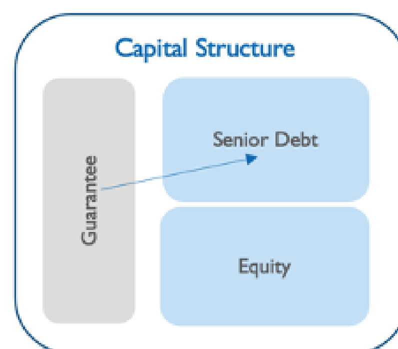
This structure is simply an aggregation of Structure 1 or Structure 2 approaches to create the scale required to mobilize institutional investors. For example, Structure 1 and Structure 2 blended finance vehicles have usually been for around $200 million. But institutional investors seek investment vehicles of $500+ million. An aggregation vehicle, such as a "fund of funds" can create the critical mass that attracts institutional investors.

Structure 4: Blended Finance Vehicle to mobilize debt investment (Project Level)

Figure 17: Illustration of Blended Finance Structure 4

- Guarantee best deployed at project level to convert a "near-bankable" project to bankable
- Guarantor must be rated (Investment Grade, e.g., "A")
- Guarantee can be used for 100% of debt obligation or less
- Guarantee can be for all risks, or a sub-set of risks (e.g., political risks)
- Big 3 Rating Agencies cap credit enhancement uplift for partial guarantees at 2 notches (e.g., "B" risk can become "BB-")

- Proposition: Investors and project would benefit more from a 100% guarantee from an "A" listed entity (e.g., GuarantCo) more than from a partial guarantee provided by an "AAA" entity (e.g., a development agency).



Additional Information and Examples aligned to the four effective structures

Table 2 provides an overview of the prevalence of the four structures in the blended finance market using the Convergence database of nearly 680 blended finance transactions. The examples include hyperlinks to short case studies.

Table 2: Select data and information on the four profiled blended finance structures

Topic	Blended Finance Structure 1	Blended Finance Structure 2	Blended Finance Structure 3	Blended Finance Structure 4
Description	Layered/structured fund to mobilize cross-border debt investment at scale	Layered/structured fund to mobilize cross-border equity investment at scale	Aggregation fund akin to a fund of funds. Either for debt or equity.	Guarantor to mobilize domestic debt (and some cross-border debt) investment at scale
Portfolio Level or Project Level	Blended at Portfolio Level	Blended at Portfolio Level	Blended at Portfolio Level	Blending at Project Level
Data from Convergence Historical Deals Database	69 Transactions $12 billion of capital raised Average size: $173 million	123 Transactions $ 14 billion of capital raised Average size: $114 million	Fewer than 10 transactions Less than $500 million capital raised	Fewer than five organizations established to issue guarantees and insurance
Select Examples	Water Credit Investment Fund 3 Emerging Africa Infrastructure Fund – PIDG Group	Danish Climate Investment Fund	Sarona Frontier Markets Fund	GuarantCo – Quantum Terminals – PIDG Group African Guarantee Fund Aceli Africa – USAID and Ikea Foundation Credit Guarantee and Investment Facility Africa Risk Capacity
Data from Convergence Matchmaking Platform	22 deals fundraising of $6 billion – 5 debt only (Note: 17 deals are seeking to invest both debt and equity)	30 deals fundraising $7 billion – 13 equity only (Note: 17 deals are seeking to invest both debt and equity)	1 deal fundraising	2 deals fundraising

Select Examples	SunFunder – Solar Energy Transformation Fund Green for Growth Fund – Finance in Motion	Catalyst MENA Clean Energy Fund Subnational Climate Fund - IUCN	SDG 500 – Bamboo Capital Partners	Africa Risk Capacity – Disaster Risk Management Octobre Liquidity Guarantee Facility

SECTION 5: RECOMMENDATIONS FOR MORE EFFECTIVE BLENDED FINANCE SOLUTIONS FOR CLIMATE GOING FORWARD

In 2021, Convergence has engaged with more than 20 donor organizations, MDBs, DFIs, 100+ investors (e.g., asset owners), asset managers and project sponsors on blended finance solutions for climate objectives. Convergence has distilled this feedback into six recommendations for a more effective blended finance market to mobilize investment at scale to climate / Paris Agreement objectives (See Table 3). These recommendations serve as recommendations to the Official Development Community to increase private finance mobilization. Realizing the recommendations would lead to significantly higher levels of cross-border private finance to developing countries in support of an increasing number of high-quality SDG and climate projects. The improvements should allow private investment mobilization amounts to increase significantly beyond the approximate $8 billion per annum for climate in developing countries – to $50 billion in the short term and towards $200 billion in the medium term. This level of mobilization could likely be achieved with (i) existing ODA resources (e.g., $160 billion per annum) and (ii) existing MDB and DFI capitalization.

Table 3: Six recommendations to increase private investment mobilization to climate finance in developing countries

#	Description
1	**Development community (e.g., OECD DAC members) strategy** to increase aggregate SDG and Paris Agreement investment in developing countries by prioritizing and budgeting development finance that mobilizes private finance
2	**MDBs and DFIs: Amend governance and business model** to increase private finance mobilization and financial additionality
3	**Support mobilization and blended finance activities** that will mobilize private finance to climate at scale
4	**Collaborate to allocate limited catalytic and/or concessional funds** to most effective mobilization proposals
5	**Standardize blended finance structures and investment assets** produced by mobilization and blended finance activities
6	**Align investment assets to investment mandates of high interest to private investors**

Recommendation 1: Development community should design and communicate a strategy that prioritizes and allocates budgets for private investment mobilization towards the SDGs and Paris Agreement objectives in developing countries

The development and development finance community, which has endorsed the SDGs as its north star, should be focused on maximizing the number of SDG projects implemented in developing countries. The SDGs will be achieved one project at a time. But in 2021, the UN and OECD acknowledge the SDG Investment Gap has likely increased from $2.5 trillion per annum to $3.2 trillion. In aggregate, only around 35% of the required SDG projects to achieve the SDGs by 2030 are being realized.

A review of annual OECD DAC member reports indicates that OECD DAC members allocate around $3 - 4 billion per annum of the estimated $150 billion of ODA and ODA-like resources per annum with the intent of mobilizing private finance (i.e., only 2% of ODA is used to mobilise private capital). Around 45% of the $3 - 4 billion is placed

with MDBs and DFIs on a wholesale basis to blend with their own capital, and the 55% balance is injected directly into blended finance transactions that do not involve MDBs/DFIs.

It is recommended the OECD DAC members collaborate to scale private investment mobilization that could include the following steps:

- Design and implement a strategy where aggregate SDG investment is a core objective and a known amount of development funds can efficiently be allocated on an annual basis to best-practice blended finance transactions (e.g., 7% of ODA, or $12 billion), targeting private finance mobilization to increase the quantity and quality of SDG and climate projects implemented in developing countries
- The strategy should clearly communicate how "private finance mobilization" fits alongside donors' traditional ODA activities. For example, how (i) $138 billion of ODA plus $12 billion of ODA that mobilizes $80 billion of private investment to SDG projects in developing countries leads to a larger number of SDG projects implemented in developing countries compared to $150 billion of traditional ODA alone, (ii) mobilization activities have development impact and increased SDG investment as their dual core objectives, and (iii) mobilization activities should be focused on scale activities to tangibly narrow the SDG Investment Gap
- The strategy should articulate how donors will collaborate and coordinate towards mobilizing private finance at scale, as opposed to the current fragmented and uncoordinated mobilization blended finance activities
- The strategy should identify how the Official Development Community will focus on mobilizing investments from institutional investors, significantly scaling from the current low investment levels
- Ensure most/all of the ODA funds will be deployed to mobilize private finance, as opposed to mobilizing MDBs and DFIs
- Ensure private finance mobilization is a core performance indicator for OECD DAC members, their development agencies, and MDBs & DFIs
- Transparently communicate availability of catalytic and/or concessional funds, including to private sector investors (e.g., asset managers and asset owners).

Recommendation 2: Shareholders should modernize the governance and business model of MDBs and DFIs to ensure private investment mobilization and financial additionality are top transparent performance indicators

To achieve the 2030 Agenda and increase private finance mobilization, it is recommended shareholders govern their MDBs and DFIs towards increasing the quantity and quality of aggregate SDG finance to increase the likelihood of achieving the SDGs:

A. **Govern towards aggregate SDG investment**
B. **Share transactions with private investors instead of focusing on deploying own funds**
C. **Maximize financial additionality by focusing on asset types less suitable for private investors**
D. **Maximize capital utilization**

A. **Govern MDBs and DFIs towards increasing the quantity and quality of aggregate SDG finance**

The MDBs and DFIs currently achieve around $165 billion of annual financing volumes as follows:

- Around $100 billion of loans to sovereign borrowers
- Around $45 billion of finance (e.g., debt, equity, and guarantees) to private sector organizations/projects
- Mobilize around $20 billion of "private direct mobilization" in their private finance operations[3] and
- Around 90% of this financing is in the form of hard currency senior loans

[3] In addition, MDBs and DFIs claim around $40 billion of co-investment as "private indirect mobilization", annually

In aggregate, this $165 billion is equal to around 4% of the annual SDG investment needs in developing countries. The MDBs and DFIs should be governed towards playing a more important role. For example, funding 5% of the SDG investment needs with their own funds and mobilizing 5% of the investment needs from private finance would be a much better result. As part of the strategy in Recommendation 1, the Official Development Finance Community should govern their MDBs and DFIs towards playing a more tangible, important role than achieving aggregate finance of only 4% of SDG investment needs annually. A short-term objective of 10% towards a long-term objective of 25% could be SMART[4] objectives.

B. **Share transactions with private investors instead of focusing on deploying own funds**

Table 4 provides an executive summary of MDBs and DFIs main development finance assets on their balance sheets. The MDBs and DFIs strongest comparative advantage is arranging and managing senior loans. The benefit of the existing MDB and DFI busines model is that their primary private sector finance asset is hard currency loans – around 80% of aggregate private sector assets. These assets are the ones which private sector financial institutions and investors provide the most, understand the most, and have the highest amount of investment capital available.

Table 4: MDB and DFI development finance assets: Ability to mobilize private finance[5]

Asset	**Ability to mobilize private capital**	**Estimated percent of MDB and DFI balance sheet (Private sector finance operations only)**	**Comment**
Public sector - (sovereign) Loans	Low		Interest rate on loans is large discount to market rates and loan tenor is very long. Net Present Value of loans is low relative to Fair Market Value.
Private sector - Hard currency loans	High	80%	MDBs and DFIs report high net interest margins, reasonable default rates and low losses.
Private sector - Local currency loans	Medium	7%	Few investors are interested to take open currency risk. MDB/DFI origination is low.
Private sector - Direct equity investments	Low	6%	In general, internal rates of return below investor expectations and requirements. Some (e.g., IFC and CDC) could mobilize.
Private sector - Portfolio (fund) equity investments	Medium - High	6%	MDBs and DFIs participate on same terms and other market investors (e.g., limited partners). In principle, could attract private finance – but no/limited precedent.

The large majority of MDBs and DFIs balance sheet exposure (for private sector operations) is consumed with arranging and holding hard currency loans, at lucrative net interest margins. For example, IFC reports a 4.1% net interest margin (on average over the past five years), compared to US banks and European banks around 2.0% and 1.5% respectively. In general, hard currency loans provide financial additionality at the lower end of the spectrum when compared to other MDB and DFI financial assets. These investments could be provided directly by private sector lenders or easily transferred to private investors through synthetic securitizations or risk transfers.

[4] SMART is an acronym for Specific, Measurable, Achievable, Relevant and Time-bound.

[5] Estimates based on analysis of MDB and DFI-reported information – which is disaggregated.

To date, MDB and DFI private finance mobilization potential has not been realized, with the MDBs' reporting for 2016-19 indicating that their current mobilization ratios have only reached around 0.4 (that is, each $1.00 of MDB financing deployed across all of their operations has directly mobilized around $0.40 of private sector finance[6]). This is further supported by the DFI Joint Reports on Blended Concessional Finance. The 2020 report shows that, in 2019, DFIs deployed $1.4 billion of concessional funds from donors into blended projects, mobilising $5.1 billion of DFIs' own-account financing and with $3.1 billion of private sector financing (indirectly co-funded or directly mobilized). Two core amendments to the MDB/DFI governance and business model would have significant impact on mobilizing much higher amounts of private finance to developing countries: shareholders governing the MDBs and DFIs (1) to transfer arranged hard currency senior loan exposure to private investors (e.g., A-B loan structures) and (2) to subscribe second tier capital in blended finance structures. Through these amendments, MDBs and DFIs should be governed as mobilizers of private finance - originating and arranging senior loans and then transferring exposure to private investors. This practice will free up MDB and DFI financial and human resources to take on the financial assets that present higher levels of financial additionality in developing counties (see below).

The most effective blended finance structures that mobilize private finance at scale include MDBs and DFIs (i) originating and arranging these hard currency loans, then (ii) distributing risk into blended finance vehicles. Best practice examples for such blended finance vehicles are the African Development Bank (AfDB) – European Commission Room2Run and the IFC-Sida Managed Co-Lending Portfolio Program Infrastructure Initiative (MCPP Infrastructure), which looks to mobilize institutional investment into emerging market infrastructure loans. For example, the MCPP Infrastructure (Blended Finance) Program has produced a 9x mobilization factor.

Table 5 summarizes the four most important organization types for successful blended finance solutions at scale and lists their main comparative advantage in blended finance structures.

Table 5: Four main organization-types for successful blended finance structures at scale

Organization type	Main comparative advantage
Arrangers of financial assets - in this case, MDBs and DFIs	Strong ability to originate, arrange, and manage good quality assets with good development impact. Ability to hold speculative credit risk (e.g., B and CCC) for the medium term.
Private investors - for scale, institutional investors like pension companies and insurance companies (e.g., asset owners)	Provide scale investment, e.g., investment of $100+ million. Ability to allocate lots of funds at reasonable interest rates if underlying risk is Investment Grade.
Donors - who can allocate development capital at below-market terms to create market-equivalent investment assets for private investors – concurrently creating development impact and mobilizing investors	Ability to allocate a small portion of their ODA budgets at below-market, catalytic terms to achieve impact and mobilize investors.
Asset managers / funds manages – who can create and manage blended finance structures and mobilize private investors	Ability to create and manage blended finance structures. Ability to mobilize institutional investors.

The most optimal blended finance structures leverage the main comparative advantage of the four main participants identified in Table 5. The biggest supply of debt capital from private debt investors is available for debt investments rated (actual or implied) Investment Grade (e.g., BBB- or better). There are USD trillions of private finance available for this risk profile at affordable prices. At the same time, MDBs and DFIs have an appetite for, and a large amount of capital for, speculative grade debt investments (e.g., BB and B). While donors have moderate amounts of resources to allocate to blended finance structures.

[6] MDBs and DFIs call this "private direct mobilization", while "private indirect mobilization" is co-investment arranged usually by project sponsor.

Given these comparative advantages, requirements, and constraints, likely the most effective blended finance structures would deploy a three-tier blended finance capital structure:

- Tier 1: Commercial investors targeting Investment Grade (e.g., BBB- or better)
- Tier 2: MDB and DFIs who can hold speculative grade BB and B risk
- Tier 3: Donor funds in most junior position to create Investment Grade investments for commercial investors and BB and B investment profiles for MDBs and DFIs

In this three-tier approach, for most debt portfolios, the amount required in Tier 3 would be 0-10% of the capital structure. For example, if 5%, the 5% of donor funding would create 95% mobilization – subject to MDBs and DFIs being prepared to hold B or BB equivalent investment risk in second tier – as opposed to MDB/DFI current practices of participating in the senior tier that achieves Investment Grade. It is understood the AfDB Room2Run transaction resulted in a AAA-implied risk rating for the senior capital with 25% subordination, and the MCPP Infrastructure initiative resulted in a BBB-implied risk for the senior capital with 25% subordination. So indicatively, the capital structure for debt vehicles could be 80% tier one, 10-15% tier two, and 5-10% tier three.

Considering the above, a reasonable mobilization ratio estimate for hard currency senior loans would be a 4 times mobilization factor. It is recommended MDB and DFI shareholders target a 3-4 times mobilization ratio for their hard currency senior loan exposure. For example, the MDBs and DFIs currently provide around $30 billion of senior loans to private sector borrowers in developing countries annually. Maintaining those same net positions retained by MDBs/DFIs, while achieving a three-times leverage ratio, would produce around $120 billion of hard currency senior loans – an extra $90 billion of financing for SDG projects.

C. **Maximize financial additionality by focusing on asset types less suitable for private investors**

Financial additionality should be a core metric of MDB and DFI performance. As of today, the MDBs and DFIs systemically, relatively, over-supply hard currency senior loans and under-supply other assets of higher financial additionality (that are systemically under-supplied by the private sector): e.g., local currency loans, equity, and mezzanine capital.

The five financial assets listed in Table 6, in principle, provide higher financial additionality for the SDGs in developing countries.

Table 6: Financial Instruments systemically under-supplied in developing countries: Financial additionality of MDB and DFI financial assets

Rank	Financial instruments	Description
1	**Common equity**	In general, the most under-supplied form of financing in developing countries is equity. Equity represents likely less than 12% of MDB and DFI aggregate exposure. MDBs and DFIs could significantly increase their equity finance. Not only would this boost the most under-supplied form of finance in developing countries, but it would increase the creditworthiness of hundreds of recipient financial institutions and real-economy companies. This in turn will increase the ability of those entities to raise debt and equity from private investors (and MDBs and DFIs). As the creditworthiness of these entities increases though higher equity capitalization, it will likely lead to deeper capital markets in developing countries: (i) these entities will be more creditworthy to issue bonds and (ii) these entities will take on governance models (though MDB and DFI part-ownership) that can put them on a path to raise equity in capital markets. However, there are special issues that come with equity. Many companies in developing markets are family-owned or otherwise tightly held, and thus often do not seek outside equity investors. Also, the illiquid nature of equity investments would require the MDBs and DFIs

		to demand a steep discount on entry, making their investment less attractive to existing shareholders in any company, who would be diluted in a down round.
4	**Local currency loans**	MDBs and DFIs do not take open currency risk for their loan portfolio. That is, they will only issue local currency loans when they can fund themselves or hedge the currency risk. But (likely) less than 10% of MDBs and DFI loans to the private sector are denominated in local currency. This hard currency lending leads to huge FX risk for borrowers - most acute for infrastructure projects and SMEs, who earn their revenues in local currency. MDBs and DFIs could increase their local currency loans for infrastructure and SME projects – including taking a limited amount of open currency risk.
5	**Mezzanine capital**	For many reasons, a large number of companies in developing countries cannot be financed by conventional common equity (e.g., very high levels of informality). For many companies, mezzanine capital is a more effective form of financing (e.g., loans with equity-like features). The financial additionality of mezzanine capital, like common equity, is generally much greater than the current stock of hard currency senior loans.
3	**Tier 1 and 2 capital for banks and microfinance institutions**	The banking and microfinance sectors are systemically under-capitalized. This translates into a significant under-financing of the real economy, especially SMEs. Increasing tier 2 capital to banks and MFIs would produce good quality assets for MDBs and DFIs, bolster capitalization and increase risk capacity for loans to SMEs and mid-caps.
2	**Subordinated funding in blended finance structures**	See Mobilization above.

In summary, it is recommended that MDB and DFI businesses models be amended in the short term along three lines:

- MDBs and DFIs should be primarily mobilizers of private finance for the assets they originate and arrange - senior loans are most attractive to private investors, but other financial assets could be attractive (e.g., direct equity).
- MDBs and DFIs should maximize their financial additionality by providing more financing to systemically under-financed assets.
- MDBs and DFIs should commit more funding to second tier capital (mezzanine capital) in blended finance transactions.

D. **Maximize capital utilization**.

The 2020 ODI Report *"All hands on deck: How to scale up multilateral financing to face the COVD-19 crisis"* suggests that MDBs only utilize around 45% of their capital. It is recommended that the shareholders require MDBs and DFIs to fully deploy their capital. For example, a key performance indicator for MDBs and DFI could be 90% capital utilization. All other things being equal, this would lead to a 100% increase in MDB and DFI balance sheets and annual development finance volumes. That is, at least an extra $45 billion of MDB and DFI private sector finance annually.

Recommendation 3: Alongside their current business, the development community should deliberately support $500+ million blended finance vehicles or aggregation structures that will mobilize private finance at scale

Convergence's State of Blended Finance 2021 Report identifies that the median overall deal size for blended transactions in 2020 was $30 million, compared to $49.5 million in 2019, and $77.7 million in 2018, respectively. At the same time, institutional investors have advised they seek individually to invest $100+ million in each investment

and prefer to hold no more than 20% of the financial exposure. Therefore, it is not possible/practical for institutional investors to invest in most blended finance transactions - they are too small. Based on feedback from investors, the development community should be supporting blended finance vehicles of $500+ million. As an example, the MCPP Infrastructure initiative has attracted $1.5 billion of commitments from three investors - each allocating $500 million.

In general, there are two ways to achieve blended finance vehicles of $500+ million:

1. Support individual blended finance transactions where the aggregate deal size is $500+ million. In addition to the MCPP Infrastructure initiative, other examples include the BlackRock Climate Finance Partnership, Climate Fund Managers' Credit Fund, Allianz Global Investors' Emerging Market Climate Action Fund.
2. Support innovative "aggregation" structures like Bamboo Capital's SDG 500 Fund. In this example, one macro funding vehicle of $500+ million will raise funds that will be injected into six micro blended finance transactions - each around $100 million. This "aggregation" approach can produce results of benefit for all parties:
    a. The donor allocates its development funds to a small vehicle that pursues specific development impact results
    b. The institutional investors can identify large amounts (e.g., $100+ million) to meet their minimum investment criteria
    c. The fund manager of the micro fund would usually be an "impact" fund manager with experience in impact investing
    d. The fund manager of the macro aggregation fund could be a traditional, mainstream fund manager that will attract institutional investors (e.g., one of the Top 50 global asset managers, like BlackRock)

Recommendation 4: Development community should allocate its scarce catalytic and concessional funding to the best mobilization / blended finance proposals through competition / calls for proposals

The UN and OECD identify a $2.5-3.2 trillion annual SDG Investment Gap in developing countries. The underlying financing needs in the private sector range from a $100 loan to a microenterprise to a $2 billion loan for a large regional infrastructure project. There are likely more than 5,000 financial intermediaries providing this breadth of financing across the 145 developing countries – usually in the form of loans from local banks and microfinance institutions (MFIs). Ideally, blended finance solutions can support incremental risk capacity and funding into this whole spectrum of financing activity. Many of these organizations have good, blended finance proposals to accelerate the SDGs by financing more good-quality projects, but they lack the funding and risk capacity. In 2021, there appears to be three effective main channels to allocate catalytic (concessional) capital:

- Multilateral organizations, like the European Commission, Global Environment Facility, Green Climate Fund, and IDA Private Sector Window, allocate catalytic capital to proposals submitted by a limited number of entities. Usually, these entities are MDBs and DFIs.
- Bilateral organizations (e.g., UK FCDO) allocate funds to unsolicited proposals or for specific requests for proposals.
- Donors create "challenge funds" open to many organizations to submit proposals, and the best proposals are identified and funded.

But the third type is the least funded. It is recommended donors should collaborate to fund the best mobilization / blended finance proposals, with a transparent process implemented to encourage proposals and better understanding of decision-making. This best-practice approach could be implemented across any/all of these three channels. But the key is to create a process that consolidates limited funding from donors and then in turn funds the best proposals.

Recommendation 5: Development community should promote standardized mobilization and blended finance structures

The Convergence State of Blended Finance 2021 Report identifies nearly 680 blended finance transactions. Most have been unique, tailor-made, and not replicated. This results in a proliferation of blended finance structures, different forms of donor participation, and myriad investment assets. They are exceptionally heterogeneous. To encourage scale, donors should ensure funds are allocated to blended finance transactions that pursue standardized solutions that have potential to mobilize investors at scale. This will have many positive impacts, a larger primary market and, over time, a secondary market that can provide liquidity. For example, Section 4 summarizes four blended finance structures that donors and institutional investors agree hold a lot of promise to mobilize at scale through standardization of structure.

It is recommended that the Official Development Community:

- Support standardized mobilization and blended finance solutions that mobilize private finance at the project level (e.g., a $300 million infrastructure project in a developing country)
- Support standardized blended finance solutions that mobilize private finance at the portfolio level (e.g., a $1 billion fund that will invest in ten infrastructure projects in multiple developing countries)

Recommendation 6: Development community's mobilisation efforts should deliver transactions that match the specific mandates of private investors

Private investor interest in investment assets aligned to "purpose" investments, such as *Responsible Investment, ESG Investment, Climate Finance, Green Finance, Sustainable Finance, and Impact Investing* is growing substantially. Investors continue to have low interest/appetite for investments labelled *developing countries* and *frontier markets*. Therefore, mobilization and blended finance activities should produce investment assets aligned to one or more of these investment themes in demand by investors – to attract investors and overcome their lack of appetite for developing countries and frontier markets. All reasonable projections point to huge growth in investment demand for these investment themes, which will be realized in developed countries unless the official development finance community can create market-equivalent investment opportunities in developing countries.

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ANNEX

Finally, we present in this section a compendium of recent industry publications focused on climate finance in developing economies. In Table 7, we highlight eight publications that we judge to be of particular importance to current industry discussions around blended finance and climate change. Table 8 presents the full selection of industry reports focused on climate change mitigation and adaptation in developing economies.

Table 7: Key industry publications on climate change in developing economies

Title	Date	Author	Summary
Adaptation Finance in the Context of Covid-19	January 2021	Climate Policy Initiative	A world in which global crop yields fall by almost one-third, billions of people are left with insufficient water, and hundreds of millions in coastal cities are forced from their homes is not some dystopian fantasy. It is part of the stark reality facing our planet if we do not collectively accelerate action on climate change. The good news as we enter a new year is that there is not only an array of tools at our disposal to tackle this existential challenge, but also growing recognition of the urgency to do so.
Attracting Private Climate Finance to Emerging Markets: Consultation Paper on Private Sector Considerations for Policymakers	November 2020	Climate Finance Leadership	As the COVID-19 pandemic continues to take a devastating toll around the world, the work that countries are doing to rebuild their economies also presents an unprecedented opportunity to accelerate our progress fighting climate change — including in the emerging markets that are most vulnerable to its effects. The more we do to improve investment conditions in those markets, the more private capital we can mobilize towards projects that cut carbon emissions, grow the economy, and build resilience. The financial community has an important role to play, by actively supporting policy changes that attract investment in low-carbon projects and businesses in those markets. To that end, the Climate Finance Leadership Initiative (CFLI), in partnership with the Association of European Development Finance Institutions (EDFI) and the Global Infrastructure Facility (GIF), are working to identify discrete hurdles to climate finance in emerging markets; support public-private dialogue around those challenges; and highlight ways for the financial sector to help strengthen investment conditions.
Capitalising Conservation: How Conservation Organisations Can	2017	Clarmondial	Clarmondial and the WWF Landscape Finance Lab have produced "Capitalising Conservation", a new report exploring how conservation organizations and their partners can mobilize private investment in conservation. The report provides a framework to guide the identification,

Engage with Investors to Mobilise Capital			structuring and execution of investments in conservation. It describes various roles conservation organizations can play to unlock investment capital and supports effective investor engagement. The publication highlights how leading conservation organizations have pioneered investment strategies and structures in conservation finance, illustrated by case studies involving Conservation International, NatureVest (The Nature Conservancy), Rewilding Europe, Wildlife Conservation Society, Wildlife Works and WWF. It features a foreword by Naoko Ishii, the CEO of the Global Environment Facility (GEF), and the perspective of corporates and investment partners including Nespresso and Finance in Motion.
Delivering on the $100 billion Climate Finance Commitment and Transforming Climate Finance	2020	Independent Expert Group on Climate Finance	Meeting the pledge by developed countries to mobilize at least $100 billion a year to support developing countries in mitigating and adapting to climate change, lagging even before the COVID-19 pandemic, requires urgent action. Since economic distress is now acute, and the climate crisis is only getting worse, the report emphasizes surpassing $100 billion in 2021 and beyond. It also stresses the sum as a starting point for significantly ramping up climate finance from all sources. This will be imperative to drive strong and sustainable recovery packages, ambitious climate action plans, and accelerated progress towards carbon neutrality and climate-resilient growth. The new report outlines the finance landscape during the pandemic and makes a series of recommendations on meeting and going beyond the $100 billion target, getting more money to flow into the system, and mobilizing the financial system at large. The experts recommend at least doubling grant finance. Grants, a lifeline for vulnerable and poorer countries, have declined to around $12 billion according to 2016-2018 data. A second issue is to increase adaptation finance, still only a small share of overall climate finance. Being able to adapt and build resilience to ever worsening and more frequent climate disruption is a critical challenge for people, communities and countries on the frontlines of the climate crisis. The UN Secretary-General recently called on all donors and multilateral development banks to increase the share of adaptation and resilience finance to at least 50 per cent of climate finance support. The report advocates channeling more climate finance to the least developed countries and small island developing states, many of which have contributed little to greenhouse gas emissions but are already experiencing severe impacts, such as from droughts, floods and rising sea levels. Finally, it recommends that the international community do more to expedite access to climate finance for developing countries, as this is currently a cumbersome process that strains technical and other capacities.
Financing Nature: Closing the Global	September 2020	Paulson Institute	We need to be spending an additional $598-824 billion annually to reverse the biodiversity crisis by 2030—but much of that money can be found by changing existing spending flows.

Biodiversity Financing Gap			The "Financing Nature" report offers the most comprehensive assessment to date on how much the world currently spends to benefit nature, how much more we need to be spending, and how we can close that nature funding gap now.
Investing in Nature: Private finance for nature-based resilience	November 2019	The Nature Conservancy	*Investing in Nature: Private Finance for Nature-based Resilience*, a joint report from *Environmental Finance* and The Nature Conservancy. It features a global survey of institutional investors and market intermediaries about their current activities in natural capital, their ambitions for the future and the challenges they face in scaling up the flow of capital to nature-based projects.
Public International Funding of Nature-based Solutions for Adaptation: A Landscape Assessment	March 2021	World Resources Institute & Climate Finance Advisors	This paper provides the first assessment of the landscape of public international funding for nature-based solutions for climate adaptation, covering both climate finance and Official Development Assistance (ODA). It seeks to help donor countries, multilateral institutions, and developing countries better understand the current state of funding, and provides recommendations to address barriers that are hindering public donor funding support for nature-based solutions for adaptation. The Global Commission on Adaptation's 2019 flagship report Adapt Now: A Global Call for Leadership on Climate Resilience identified access to finance as one of three key barriers that impede the scaling up of nature-based solutions for adaptation in many countries. This paper shows that the amount of public international funding flowing to nature-based solutions (NbS) for adaptation in developing countries is still relatively small. This paper was produced by World Resources Institute and Climate Finance Advisors in support of the Global Commission on Adaptation.
The Ecosystem of Private Investment in Climate Action	2020	UNDP	Private investors have a pivotal role to play in closing the multi-trillion dollar climate investment gap. Yet, the way they operate, their risk return expectations, and the way they view the threats and opportunities presented by climate change, are often not well understood by development and policy professionals. 'The Ecosystem of Private Investment in Climate Action' report acts as a resource guide for any stakeholders interested in better understanding the broader ecosystem of private investment and the market facilitators that impact and enable climate-aligned investment, including how they interact with public actors.

Table 8: Full list of recent industry publications on climate change in developing economies

Title	Date	Author	Summary
Adaptation Finance in the Context of Covid-19	January 2021	Climate Policy Initiative	A world in which global crop yields fall by almost one-third, billions of people are left with insufficient water, and hundreds of millions in coastal cities are forced from their homes is not some dystopian fantasy. It is part of the stark reality facing our planet if we do not collectively accelerate action on climate change. The good news as we enter a new year is that there is not only an array of tools at our disposal to tackle this existential challenge, but also growing recognition of the urgency to do so.
Advances in Blended Finance: GEF's Solutions to Protect the Global Environment	November 2019	GEF Secretariat	Unprecedented transformation is required to achieving the Sustainable Development Goals and safeguarding the global commons. The global community called the private sector to step-in with bold action and new frontier investments. such ambitious investments will be significantly unlocked by a combination of private and public sources; blended finance is a key tool to mobilize private capital. With the support of our donors, the GEF is expanding its focus on the use of blended finance and identifying additional strategies to engage the private sector as a full partner in reversing environmental degradation, protecting natural resources, and promoting sustainable development. Learn more about the GEF's blended finance approach through this publication.
An Institutional Truth: Increasing Institutional Investor Involvement in Climate Finance	2015	Brianna Baily, Georgetown University Law Center	In the effort to mobilize climate finance, no private actors are more important than institutional investors, and their entry into this sector is only possible through measures implemented at the national, regional, and international levels to reduce risk and incentivize investment. However, an appropriate balance must be struck between increasing climate finance and safeguarding systemic stability of financial markets. This note explores the relationship between institutional investors and climate finance, and it seeks to develop and evaluate solutions to the issues institutional investors may face. Part I provides an introduction and outline. Part II offers a background on climate finance by looking at its consumer foundation, the growth of the market, and the involvement of large investors, and it introduces the three avenues for financing. Part III explores institutional investors' lack of involvement in climate finance by looking into their underlying concerns. Part IV explains the first prong in a two-step plan to increase the involvement of institutional investors, which is centered on risk reduction. Part V explains the second prong, which discusses the need to reduce barriers to this involvement and add incentives to promote investment. Finally, Part VI contains general conclusions.
Attracting Private Climate Finance to Emerging Markets:	November 2020	Climate Finance Leadership	As the COVID-19 pandemic continues to take a devastating toll around the world, the work that countries are doing to rebuild their economies also presents an unprecedented opportunity to

Consultation Paper on Private Sector Considerations for Policymakers			accelerate our progress fighting climate change — including in the emerging markets that are most vulnerable to its effects. The more we do to improve investment conditions in those markets, the more private capital we can mobilize towards projects that cut carbon emissions, grow the economy, and build resilience. The financial community has an important role to play, by actively supporting policy changes that attract investment in low-carbon projects and businesses in those markets. To that end, the Climate Finance Leadership Initiative (CFLI), in partnership with the Association of European Development Finance Institutions (EDFI) and the Global Infrastructure Facility (GIF), are working to identify discrete hurdles to climate finance in emerging markets; support public-private dialogue around those challenges; and highlight ways for the financial sector to help strengthen investment conditions.
Blending Climate Funds to Finance Low-Carbon, Climate-Resilient Infrastructure	June 2018	Brookings Institution	Report explores how blending climate funds can finance low-carbon, climate-resilient infrastructure.
Capitalising Conservation: How Conservation Organisations Can Engage with Investors to Mobilise Capital	2017	Clarmondial	Clarmondial and the WWF Landscape Finance Lab have produced "Capitalising Conservation", a new report exploring how conservation organizations and their partners can mobilize private investment in conservation. The report provides a framework to guide the identification, structuring and execution of investments in conservation. It describes various roles conservation organizations can play to unlock investment capital and supports effective investor engagement. The publication highlights how leading conservation organisations have pioneered investment strategies and structures in conservation finance, illustrated by case studies involving Conservation International, NatureVest (The Nature Conservancy), Rewilding Europe, Wildlife Conservation Society, Wildlife Works and WWF. It features a foreword by Naoko Ishii, the CEO of the Global Environment Facility (GEF), and the perspective of corporates and investment partners including Nespresso and Finance in Motion.
Catalytic development capital: The opportunity for investors	2020	PwC	Investors are looking to developing markets as a way to secure both competitive returns and positive social impact. However, the actual and perceived risks associated with investing in these geographies can make it difficult to realise these opportunities. The report aims to raise awareness of the potential investment opportunities created in frontier markets by the UK Government's deployment of catalytic development capital.

			The report fills the current information gap around these opportunities, by examining, among others, how much capital the UK Government has invested, how it is deployed to different markets and sectors, and the ways in which investors are working with development capital to generate impact and profit.
Catalyzing Capital for the Transition toward Decarbonization: Blended Finance and Its Way Forward	Spring 2020	Stanford University Sustainable Finance Initiative	Attention on blended finance thus far has largely focused on volumetric contributions of blended finance, partly because of the quantitative financial targets set by the international community. Often missing is a qualitative assessment of blended finance that examines the processes and mechanisms through which sources of capital are mobilized and operationalized. Having a clearer picture of the internal governance configuration of blended finance vehicles and their investment strategy will greatly facilitate efforts to assess and determine additionality, scalability, and transformative impact of climate finance. Only then can public and private actors effectively determine the ways to mobilize, structure, and coordinate flows of climate finance towards sustainable and decarbonized development pathways at scale. This paper explores blended finance both in principle and in practice based on extensive literature review and case studies of blended finance vehicles. Specifically, the paper examines the role and application of blended finance for decarbonization in developing countries, organizing them around five themes: 1) changing features of climate finance, where we observe a shift from a model of direct investment to a layered mechanism with thicker and lengthened value chains; 2) governance of blended finance, focusing on how blended vehicles originate, structure, and function; 3) transparency, which has significant implications on monitoring and evaluation, scalability, and impact; 4) additionality, whose interpretation and application need to be broadened to improve the quality and effectiveness of climate finance; and 5) transformative impact, which every blended finance vehicle strives to achieve but with various interpretations and applications. The paper investigates, and draws insights from, three cases: the Global Energy Efficiency and Renewable Energy Fund (GEEREF), the Climate Public Private Partnership (CP3), and Climate Investor One (CI1). The paper concludes with a proposed research agenda that can assist in enhancing the potential for blended finance.
Catalyzing Climate Finance: A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient	2011	UNDP	This guidebook is part of a series of manuals, guidebooks and toolkits that draw upon the experience and information generated by the United Nations Development Programme's (UNDP) support for climate change adaptation and mitigation projects and National Communications to the United Nations Framework Convention on Climate Change (UNFCCC) in some 140 countries over the past decade. These resources are intended to enable project managers, UNDP Country Offices, and developing country government decision makers to acquaint themselves with a variety of methodologies most appropriate to their development contexts in support of the preparation of low-emission climate-resilient development strategies (LECRDs). In a flexible and non-prescriptive manner, the reports offer detailed step-by-step

Development — Version 1.0			guidance for the identification of key stakeholders and establishment of participatory planning and coordination frameworks; generation of climate change profiles and vulnerability scenarios; identification and prioritization of mitigation and adaptation options; assessment of financing requirements; and development of low-emission climate-resilient roadmaps for project development, policy instruments, and financial flows. This publication focuses on the review of policy and financing options to catalyze capital toward green, low-emission and climate-resilient development.
Climate finance briefing: the Green Climate Fund	November 2016	ODI	The Green Climate Fund (GCF) is the newest actor in the multilateral climate finance architecture and became fully operational in 2015. Since then, it has approved USD 1,170 million for 27 projects. A final board meeting is planned for December 2016, where the Fund hopes to make further progress towards its target of approving USD 2,500 million by the end of this year. The GCF is an operating entity of the Financial Mechanism of the UNFCCC. A legally independent institution hosted by South Korea, it has its own secretariat and the World Bank as its interim trustee. It functions under the guidance of, and is accountable to, the UNFCCC COP. The 24 GCF Board members, with equal representation of developed and developing countries, and support from the secretariat have been working to operationalise the fund since their first meeting in August 2012. This year, the GCF focused on addressing policy gaps in essential policies and frameworks to receive, manage, program and disburse finance as well as measure and account for its results and impacts. By mid-October, it also accredited a total of 41 implementing entities. The initial resource mobilization effort that began in June 2014, raised USD 10.3 billion from 43 contributing countries (including eight developing countries) as well as a handful of regions and cities. By October 2016, USD 9.9 billion of pledged finance was formalised through contribution agreements. Heading into COP 22 in Marrakesh, this Climate Finance Fundamental provides a snapshot of the operationalisation and functions of the Fund. While the Fund's role in a post-2020 climate regime as the major finance channel under the Convention was confirmed, the scale of its resourcing remains to be clarified post-Paris. Past editions of this Climate Finance Fundamental detail the design and operationalisation phases of the Fund.
Climate Finance Provided and Mobilised by Developed Countries in 2013-18	2020	OECD	This report was prepared to inform the international climate community about climate finance provided and mobilized by developed countries for climate action in developing countries in the context of the United Nations Framework Convention on Climate Change (UNFCCC). By adding figures for 2018 to the previously published 2013-17 time series (OECD, 2019[1]), the report provides insights on the evolution of the following four distinct components of climate finance provided and mobilized by developed countries over the period of 2013-18: • Bilateral public climate finance; • Multilateral climate finance attributed to developed countries; • Climate-related officially supported export credits; and • Private finance mobilized by bilateral and multilateral public climate finance, attributed to developed countries.

Critical Issues for Channelling Climate Finance Via Private Sector Actors	2013	UK Bond Development and Environment Group	This paper examines the evidence from existing channelling of development and climate finance via private sector instruments to identify the probable risks and benefits of such approaches. The particular aim of this paper is to stimulate debate within the UK context.
Delivering on the $100 billion Climate Finance Commitment and Transforming Climate Finance	2020	Independent Expert Group on Climate Finance	Meeting the pledge by developed countries to mobilize at least US$100 billion a year to support developing countries in mitigating and adapting to climate change, lagging even before the COVID-19 pandemic, requires urgent action. Since economic distress is now acute, and the climate crisis is only getting worse, the report emphasizes surpassing $100 billion in 2021 and beyond. It also stresses the sum as a starting point for significantly ramping up climate finance from all sources. This will be imperative to drive strong and sustainable recovery packages, ambitious climate action plans, and accelerated progress towards carbon neutrality and climate-resilient growth. The new report outlines the finance landscape during the pandemic and makes a series of recommendations on meeting and going beyond the $100 billion target, getting more money to flow into the system, and mobilizing the financial system at large. The experts recommend at least doubling grant finance. Grants, a lifeline for vulnerable and poorer countries, have declined to around $12 billion according to 2016-2018 data. A second issue is to increase adaptation finance, still only a small share of overall climate finance. Being able to adapt and build resilience to ever worsening and more frequent climate disruption is a critical challenge for people, communities and countries on the frontlines of the climate crisis. The UN Secretary-General recently called on all donors and multilateral development banks to increase the share of adaptation and resilience finance to at least 50 per cent of climate finance support. The report advocates channeling more climate finance to the least developed countries and small island developing states, many of which have contributed little to greenhouse gas emissions but are already experiencing severe impacts, such as from droughts, floods and rising sea levels. Finally, it recommends that the international community do more to expedite access to climate finance for developing countries, as this is currently a cumbersome process that strains technical and other capacities.
Ecosystem Marketplace Insights Brief: Voluntary Carbon and the Post-Pandemic Recovery	September 2020	Ecosystem Marketplace: A Forest Trends Initiative	This Insights Brief is the first installment in the State of Voluntary Carbon Markets 2020 series of analyses, to be published over several months in late 2020. In this installment, we discuss key insights and findings garnered from Forest Trends' annual 2020 Ecosystem Marketplace Carbon Survey cycle. Every year since 2006, Forest Trends' Ecosystem Marketplace initiative has tracked, through its globally-recognized survey, what would otherwise be an opaque voluntary carbon market. The *State of the Voluntary Carbon Markets* reports have served as a consistent and comprehensive price discovery mechanism, while at the same time

			shedding light on the active project developers and intermediaries, thus answering fundamental questions about market dynamics, supply, and demand. Companies worldwide are taking steps to eliminate greenhouse-gas emissions from their operations, but most find it's either technologically impossible to eliminate all emissions immediately or that the costs of doing so are prohibitively high. In order to deliver deep and cost-effective reductions now, many companies have pledged to become carbon-neutral in the near term by financing emission-reductions elsewhere–or, in climate parlance, "offsetting" any emissions they can't yet eliminate. As a result, we are seeing near-record volumes being transacted in the voluntary carbon markets, despite the global COVID-19 pandemic.
Final Report of the Expert Panel on Sustainable Finance	June 2019	Government of Canada	This Final Report – Mobilizing Finance for Sustainable Growth – presents a package of practical, concrete recommendations focused on spurring the essential market activities, behaviours and structures needed to bring sustainable finance into the mainstream in Canada. If Canada is to meet its long-term objectives, sustainable finance must become, simply, finance. In other words, climate change opportunity and risk management need to become business-as-usual in financial services, and embedded in everyday business decisions, products and services. The Panel presents 15 recommendations for achieving this goal, which include the use of blended finance models to mobilize private investment in areas of strategic priorities.
Financing Nature: Closing the Global Biodiversity Financing Gap	September 2020	Paulson Institute	We need to be spending an additional $598-824 billion annually to reverse the biodiversity crisis by 2030—but much of that money can be found by changing existing spending flows. The "Financing Nature" report offers the most comprehensive assessment to date on how much the world currently spends to benefit nature, how much more we need to be spending, and how we can close that nature funding gap now.
Green Infrastructure in the Decade for Delivery: Assessing Institutional Investment	October 2020	OECD	Building green is not only imperative to achieve global climate and development commitments in this "decade for delivery", but will also be critical to sustain socio-economic development during the COVID-19 recovery. Private investment in particular is needed to bridge the infrastructure investment gap, given institutional investors' large pools of long-term capital. After several years of efforts to upscale institutional investment in infrastructure, where does the level of investment stand today? This report provides a first-of-its-kind empirical assessment of investment in infrastructure by institutional investors domiciled in OECD and G20 countries, presenting a snapshot from February 2020. Based on a new detailed view of investment channels, financial instruments, sectoral allocations, regional preferences and trends, the report provides guidance on policy levers and priorities to scale-up institutional investment in green infrastructure.

Guide for Understanding and Accessing Blended Finance at the Global Environment Facility	December 2020	GEF Secretariat	Increasingly, stakeholders across the public and private sector are seeking to follow the guidance of global environmental conventions that the GEF supports and engage in protecting the global environment. This guide is a resource on the GEF Council guidance and policies that helped shape the Global Environment Facility's approach to blended finance. It may also help private sector, CSO, and potential project developers navigate the application process to become investment partners in innovative blended finance projects.
How Do Development Agencies Support Climate Action?	April 2020	Center for Global Development	It is widely recognized that climate change presents an acute threat to global development that could push an additional 100 million people into poverty by 2030. Development agencies are called to respond to this threat—which underlies both the Sustainable Development Goals (SDGs) and the Paris Agreement—by incorporating climate objectives into development programs and across portfolios. This blog undertakes an initial analysis to map the ways that development agencies are integrating climate objectives into their development programs. Using a review of climate-finance data and policy documents from all 30 bilateral members of the Organisation for Economic Cooperation and Development's Development Assistance Committee (OECD-DAC), we identify trends in concessional climate spending and summarize key instruments used to integrate climate mitigation (preventing climate change) and adaptation (enabling countries to cope with the effects of it) objectives into development programs. Development agencies are currently dealing with COVID-19–but will need to balance this with the ongoing threat of climate change.
IFC-Canada Blended Climate Finance Program: 2019 Implementation Progress Report	2020	IFC	The Blended Climate Finance Program (BCFP or the "Program"), established in 2018, is a partnership between the Government of Canada (GoC) and International Finance Corporation (IFC) to catalyze private sector financing for resilient infrastructure, climate-smart agriculture, and renewable energy. The Program provides concessional financing (financing at below-market rates and/or lenient grace periods) for private-sector led projects across the globe, with a growing focus on the poorest and most vulnerable countries. The BCFP promotes gender-responsive climate action, recognizing that climate change disproportionally effects girls and women.
Impact Investments in Sustainable Development Goal #15: Life on Land	December 2019	Global Impact Investing Network	Impact investments aimed at achieving the targets of Sustainable Development Goal (SDG) #15: Life on Land have the potential to deliver critical social and environmental results at scale. SDG #15 calls to "protect, restore and promote sustainable use of terrestrial ecosystems, sustainably managed forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss." The estimated USD 5-7 trillion funding gap to achieve the SDGs is enormous, but addressing the targets that underly this SDG is imperative not only to the conservation and continued sustainability of ecosystems, but also to the survival of the planet.

			The GIIN hosted two successive product structure workshops in 2019, bringing together asset owners with fund managers in the midst of structuring investment products. These workshops aimed to expose asset owners to a range of funds targeting SDG #15 and improve the alignment between investor needs and investable products. This issue brief is a synthesis of the conversations between 13 participating investors and 6 fund managers during the two workshops—one hosted in May 2019, by GIIN Investors' Council Member, Nuveen; and a second, hosted in October 2019, as part of the GIIN Investor Forum.
Investing in Nature: Private finance for nature-based resilience	November 2019	The Nature Conservancy	*Investing in Nature: Private Finance for Nature-based Resilience*, a joint report from *Environmental Finance* and The Nature Conservancy. It features a global survey of institutional investors and market intermediaries about their current activities in natural capital, their ambitions for the future and the challenges they face in scaling up the flow of capital to nature-based projects.
Mobilizing finance across sectors and projects to achieve sustainable landscapes: Emerging models	August 2020	EcoAgriculture Partners	A pioneering new report from EcoAgriculture Partners, ´Mobilizing finance across sectors and projects to achieve sustainable landscapes: Emerging models´, by Seth Shames and Sara J. Scherr details models of financial mechanisms that can enable integrated, landscape-scale transformations. The study was undertaken in collaboration with CPIC's Landscape and Seascape working group, WWF's Landscape Finance Lab and the 1000 Landscapes for One Billion People Initiative. While it identifies and describes a wide range of innovative models, there is still much more to learn about how they work, how they can work better, and how to scale them up so they can reach their full potential.
Mobilizing Investors to Protect Climate, Land and Biodiversity: Summary of Three Key Events on Natural Capital Investing November 2019, and outlook 2020	2020	Global Landscapes Forum	There is an urgent need to mobilize finance at scale to support nature-based solutions if we are to have any hope of responding effectively to the ongoing climate and biodiversity crises. The private sector has a key role to play, alongside scientists, civil society and governments. Unfortunately, the restoration of ecosystems is still an undervalued tool for climate change mitigation and adaptation. The Biodiversity Finance Initiative (UNDP BIOFIN) estimates annual investments of over US$400 billion are needed to protect biodiversity, but we can track only US$52 billion as of 2019. Many investors are deterred by the difficulty in finding projects of a suitable scale, a lack of data to measure impact, and a high level of uncertainty or project risk around many projects. We need an economic rationale and innovative financial methods to effectively build a global, biodiversity-friendly economy. In response, the organizations Environmental Finance, Finance for Tomorrow, Global Landscapes Forum, Mirova and IDH – The Sustainable Trade Initiative organized three important events in November 2019, dedicated to exploring ways of investing in natural capital. These events aimed to create common ground and understanding about natural capital investments, help build a track record for investors, and foster partnerships among stakeholders. This 2020 Outlook for Investing in Nature builds on that experience, in order to share key insights for mobilizing economic actors in building sustainable landscapes and protecting our climate, land and

			biodiversity. It is part of a collective, sustained effort to bring the natural-capital asset class to maturity
Payments for Ecosystem Services: A Best Practice Guide	May 2013	URS Infrastructure & Environment UK Limited	The purpose of this Guide is to help with the design and implementation of Payments for Ecosystem Services (PES) schemes and its publication fulfils a government commitment in the 2011 Natural Environment white paper, The Natural Choice: securing the value of nature. PES schemes involve payments to the managers of land or other natural resources in exchange for the provision of specified ecosystem services (or actions anticipated to deliver these services) over-and-above what would otherwise be provided in the absence of payment. Payments are made by the beneficiaries of the services in question, for example, individuals, communities, businesses or governments acting on behalf of various parties. Beneficiaries and land or resource managers enter into PES agreements on a voluntary basis and are in no way obligated to do so. Ecosystem services, simply defined, are the benefits we derive from the natural environment. These include, for example, the provision of food, water, timber and fibre; the regulation of air quality, climate and flood risk; opportunities for recreation, tourism and cultural development; and underlying functions such as soil formation and nutrient cycling. Maintaining and enhancing ecosystem services – and restoring them where they have been lost or degraded – is increasingly recognised as essential for sustainable economic growth, prosperous communities and promoting peoples' wellbeing.
Private Sector Investment in Climate Adaptation in Developing Countries: Landscape, Lessons Learned and Future Opportunities	2016	Climate Investment Funds	The report "Private Sector Investment in Climate Adaptation in Developing Countries: Landscape, Lessons Learned and Future Opportunities" examines the evidence base on efforts to support private sector investment in climate adaptation. Analysis shows that multilateral development banks (MDBs) and the Pilot Program for Climate Resilience (PPCR), a funding window of the Climate Investment Funds (CIF), are at the forefront. In the challenging, complex field of private sector adaptation, MDBs are uniquely positioned to provide the technical and financial support that lenders and investors need to overcome barriers to action. The PPCR draws on the comparative advantages of the five MDBs that implement its funding, and today is the only multilateral climate fund supporting private sector adaptation projects.
Public International Funding of Nature-based Solutions for Adaptation: A	March 2021	World Resources Institute & Climate Finance Advisors	This paper provides the first assessment of the landscape of public international funding for nature-based solutions for climate adaptation, covering both climate finance and Official Development Assistance (ODA). It seeks to help donor countries, multilateral institutions, and developing countries better understand the current state of funding, and provides

Landscape Assessment			recommendations to address barriers that are hindering public donor funding support for nature-based solutions for adaptation. The Global Commission on Adaptation's 2019 flagship report Adapt Now: A Global Call for Leadership on Climate Resilience identified access to finance as one of three key barriers that impede the scaling up of nature-based solutions for adaptation in many countries. This paper shows that the amount of public international funding flowing to nature-based solutions (NbS) for adaptation in developing countries is still relatively small. This paper was produced by World Resources Institute and Climate Finance Advisors in support of the Global Commission on Adaptation.
Scaling Innovative Climate Finance Instruments: Experience from the Lab	November 2020	Climate Policy Initiative	The Global Innovation Lab for Climate Finance (The Lab) identifies, develops, stress tests, and helps launch innovative financial instruments that address investment barriers and drive private finance for energy efficiency, renewable energy, sustainable transport, climate smart agriculture, nature-based solutions, adaptation & resilience, and other sectors key to a sustainable economy. In six years, the Lab has supported the launch of 49 instruments, which have collectively mobilized over USD 2.3 billion, including USD 800 million from the private sector.
The Ecosystem of Private Investment in Climate Action	2020	UNDP	Private investors have a pivotal role to play in closing the multi-trillion dollar climate investment gap. Yet, the way they operate, their risk return expectations, and the way they view the threats and opportunities presented by climate change, are often not well understood by development and policy professionals. 'The Ecosystem of Private Investment in Climate Action' report acts as a resource guide for any stakeholders interested in better understanding the broader ecosystem of private investment and the market facilitators that impact and enable climate-aligned investment, including how they interact with public actors.
Three Ways to Ensure COP-26 Delivers for Poor People	February 2021	Center for Global Development	COP-26—the latest global gathering of parties to the UN Framework Convention on Climate Change—meets in Glasgow this November. Six years after the Paris climate conference, the conference will mark the passage of new "Nationally Determined Contributions:" country commitments to reduce carbon emissions ahead of 2030. But it will also revisit a number of long-time controversies, including financing to help developing countries respond to the risk of climate change, carbon markets, and taxes and tariffs on carbon. How those debates unfold could have a considerable impact on people in the world's poorest countries —those least responsible for climate change who are likely to suffer the most from its impacts. Three ways that COP-26 could deliver for those countries are to properly define what counts as "new and additional" climate finance, make sure carbon markets rather than aid pays

			for the additional costs of mitigation in poorer developing countries, and agree to exempt the poorest countries from carbon tariffs.
Tipping or turning point: Scaling up climate finance in the era of COVID-19	October 2020	Green Climate Fund	The Covid-19 pandemic has brought the world to a tipping point or a turning point in the fight against climate change. Decisions taken by leaders today to revive economies will either entrench our dependence on fossil fuels or put us on a path to achieve the Paris Agreement and the Sustainable Development Goals (SDGs). For the COVID-19 pandemic to prove a turning point, climate action and COVID-19 economic stimulus measures must be mutually supportive; and developing countries must be able to access long-term affordable finance to develop and implement green recovery measures. This working paper aims to support policy makers, the financial industry and international financial institutions in these efforts by ensuring that financial decision-making takes climate change into account. Specifically, the working paper highlights the risks posed by climate change to the finance system as well the risks and opportunities related to investment in low emission, climate resilient infrastructure in developing countries. It assesses the impact of COVID-19 pandemic on access to finance in middle and low income countries for low emission, climate resilient investments; and it identifies a combination of policy, financial and institutional initiatives to scale up climate finance to enable developing countries to realize their climate ambition in the era of COVID-19.
Understanding and Increasing Finance for Climate Action in Developing Countries	2018	Climate Policy Initiative	This report explores the current state of finance for climate adaptation and proposes practical, near term solutions to both fill in knowledge gaps and to increase investment. While many of the suggestions can also be applied in developed countries, which often face similar challenges in measuring and deploying adaptation finance, the focus of the report and selected examples highlight the role for developing country national governments and stakeholders, such as development finance institutions, local governments, and civil society organizations including academic institutions in supporting increased knowledge and investment in adaptation. The report benefits from discussions held during three adaptation finance focused workshops organized by CPI and Adelphi in 2018 to present and discuss preliminary findings of this study.
Updated View on the Global Landscape of Climate Finance 2019	2020	Climate Policy Initiative	Climate Policy Initiative's flagship analysis, the Global Landscape of Climate Finance ("The Landscape"), has provided the most comprehensive overview of global climate-related primary investment available since 2012. The Landscape aims to comprehensively track domestic and international investment from both the public and private sectors in activities that address and respond to climate mitigation and adaptation actions. To inform the United Nations Framework Convention on Climate Change (UNFCCC) fourth Biennial Assessment and Overview of Climate Finance Flows, we reviewed estimates using updated data on climate finance flows for the years 2017 and 2018, as previously reported in the Global Landscape of Climate Finance 2019.

			Additionally, this update report offers a preliminary estimate for finance in 2019, drawing on data published in 2020. Reflecting a unique year for the global economy and to set the stage for the next full Landscape in 2021, we also make a high-level and early assessment of the likely impact of the COVID-19 crisis on climate finance flows. Finally, we look to trends in the climate finance community, in policy and in financial sector practice which will be needed to meet the challenge of aligning finance flows across the whole economy with Paris climate goals.
Weathering Climate Change: Opportunities and risks in an altered investment landscape	Spring 2021	PGIM	Weathering Climate Change: Opportunities and Risks in an Altered Investment Landscape, draws from the insights of more than 45 investment professionals across PGIM's fixed income, equity, real estate, private debt, and alternatives businesses; interviews with 30 leading academics, economists, policymakers, scientists, and climate change investors; and a proprietary survey of 100 global institutional investors to better understand their current strategies around climate change.