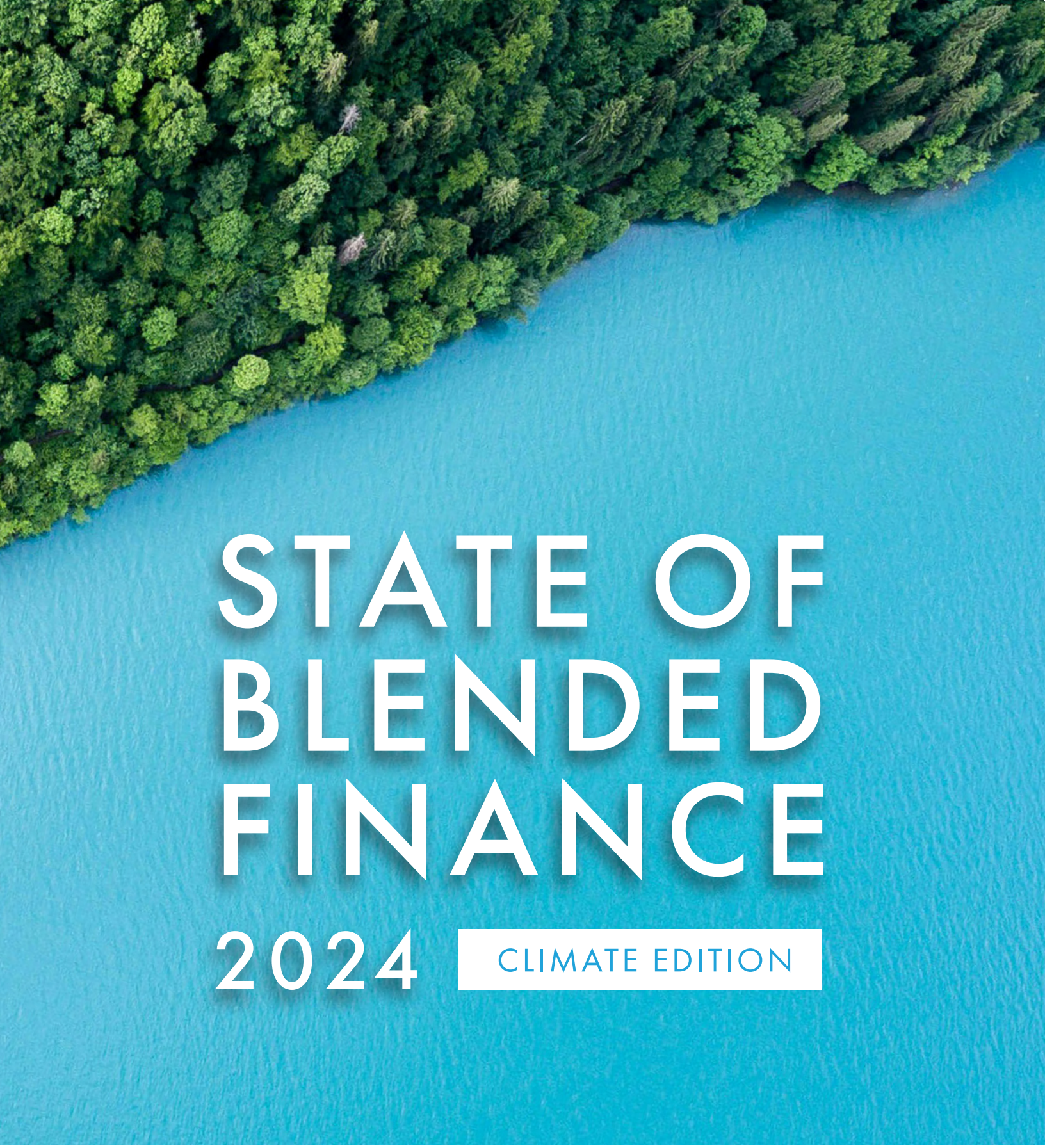

STATE OF BLENDED FINANCE

2024 CLIMATE EDITION

CONVERGENCE
BLENDING GLOBAL FINANCE

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ACKNOWLEDGEMENTS

SUGGESTED CITATION:
Convergence Blended Finance (2024). *The State of Blended Finance 2024*. Convergence Report.

We would like to thank the following organizations for their thought leadership and written contributions to this year's report:

Asian Development Bank (ADB)

African Development Bank (AfDB)

Climate Policy Initiative (CPI)

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ - German Development Corporation)

Glasgow Financial Alliance for Net Zero (GFANZ)

Government of Belize, Ministry of Economic Development

NDC Partnership

Patamar Capital

RMI

The Nature Conservancy (TNC)

United Nations Framework Convention on Climate Change (UNFCCC)

LETTER FROM CEO

This was the first year we published two State of Blended Finance reports, one in the spring focused on the entire blended finance market, and this edition focused on climate. We decided to publish an annual climate edition because of investors' increasing focus on climate and the urgent need for up-to-date data. Our spring report saw a shift in the trajectory of the market, which reached a five-year high in 2023, following a period of decline. Encouragingly, we see this trend continue in the current report; the climate blended finance market saw its highest ever annual financing total in 2023.

This rebound is notable because the amount of donor capital entering blended finance has stayed constant year on year, indicating that the increase is coming from the private sector and commercial capital. Private sector investment into climate blended finance increased by almost 200% in 2023. We also saw a 60% increase in commercial financing from Development Finance Institution (DFIs) and multilateral development banks (MDBs) to reach a six-year high.

This tells us the market is finally getting smarter, more efficient, and bolder with how it uses limited catalytic capital. As a result of this shift, a small number of very large transactions, which we cite in the report, have come on the market recently that have the potential to be replicated and are providing much needed momentum.

This shift is timely. This report has a thematic focus on countries' Nationally Determined Contributions (NDCs), which will be renegotiated in early 2025. We are at a critical juncture, as a crucial component of the global framework to tackle climate change gets re-appraised. This is the time to take a step back and reflect on the challenges to implementing the NDCs and see how blended finance can support governments in developing economies to create investment plans that can better direct investors to where climate financing is most needed.

While the outlook is rosier, we have lost time. Our expectations for blended finance when we first published this report eight years ago have hardly been met. Achieving major results will require maintaining this direction, but progressing at a much faster pace.

As we head into COP29 and the renegotiations of the NDCs, I hope this report will guide investors, donors, policymakers, and others on what is possible, where the opportunities lie, and what needs to happen for us to change the tide not only of blended finance, but also of climate action.

JOAN M. LARREA
CHIEF EXECUTIVE OFFICER,
CONVERGENCE

GLOSSARY OF KEY TERMS

ADAPTATION BLENDED FINANCE
The use of blended finance structures to deliver private sector investment to climate adaptation transactions in developing countries.

BLENDED FINANCE
The use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the Sustainable Development Goals (SDGs). Blended finance is a structuring approach, not an investment approach.

BLUE ECONOMY
The sustainable use of ocean resources for economic growth, improved livelihoods and jobs, and ocean ecosystem health.

CARBON CREDIT
A carbon credit represents a volume of greenhouse gas (GHG) emission reduction, typically about one metric tonne, created by a specific project or activity, such as reforestation. Carbon credits are verified/certified by specialist agencies such as Gold Standard. Credits are sold by credit-generating projects on a "carbon market" to buyers seeking to "offset" their own GHG emissions with the carbon reduction represented by the credit. The exchange facilitates carbon neutrality. Part of the credit verification process ensures a threshold of additionality—that is, the GHG emission reduction would not have occurred if the project had not been implemented.

CARBON MARKET
The primary and secondary financial markets where carbon credits are traded. Carbon credits represent one metric tonne of GHG emission reduction. In the primary carbon market, companies buy and sell carbon credits based on their emissions allowances determined by relevant domestic and supranational regulations. In the secondary market, companies, banks, and other market actors trade carbon credits to provide liquidity to the market and hedge exposure to future price increases.

CARBON OFFSET
Carbon offsets are used by net emitters of GHG to "balance out" an equal share of their emissions output. Offsets come in the form of carbon credits, which are bought and sold in the carbon market, with each carbon credit representing one metric tonne of atmospheric carbon reduction. The exchange facilitates "carbon neutrality" equal to the carbon credit value. Carbon credits are generated by companies (in a cap-and-trade system) or projects funded with carbon credit proceeds. Offsets are often used by entities to achieve net-zero emissions.

CATALYTIC CAPITAL/FUNDING
Financial instruments allocated to transactions with the intent to mobilize private sector investment. The definition of catalytic capital can vary widely. In this report, catalytic capital refers to financial instruments priced below market (concessional), with the intent to mitigate investment risks and/or enhance expected returns for private sector investors, deployed through one of Convergence's four blending archetypes:

i. concessional debt/equity,
ii. concessionally priced guarantees/insurance,
iii. project preparation or design-stage grant funding, and
iv. technical assistance grant funding.

CARBON CAPTURE, UTILIZATION, AND STORAGE (CCUS)
CCUS involves the capture of CO2, generally from large point sources like power generation or industrial facilities that use either fossil fuels or biomass as fuel. If not being used on-site, the captured CO2 is compressed and transported by pipeline, ship, rail, or truck to be used in a range of applications, or injected into deep geological formations such as depleted oil and gas reservoirs or saline aquifers.

CLIMATE ADAPTATION FINANCE

Climate adaptation involves channeling investment to efforts focused on adjusting to the already apparent and expected effects of climate change. These effects include, but are not limited to, rising ocean levels, increased ocean temperatures, more frequent and intense extreme weather events (hurricanes, droughts, monsoons), and irregular seasonality. Climate adaptation interventions are often linked to the concept of increased "resiliency" in human, biological, ecological, and geological systems. This includes resilient food systems, livelihoods, and natural systems, like biodiversity.

CLIMATE BLENDED FINANCE

The use of blended finance structures to deliver private sector investment to transactions that explicitly aim to combat and/or respond to the effects of climate change in developing countries.

CLIMATE MITIGATION FINANCE

Climate mitigation finance channels investment toward interventions aimed at reducing the current level of GHG emissions produced by human activity to prevent the future consequences of climate change. It also includes investment in efforts to remove GHGs from the atmosphere, such as carbon sequestration.

CONCESSIONAL CAPITAL

Funds provided on below-market terms within the capital structure of a transaction to reduce the overall cost of capital for the borrower and/or provide additional downside protection to senior investors (e.g., in a first-loss position). Concessional capital can be provided through various instruments, including debt, equity, grants, and mezzanine capital.

CONSERVATION FINANCE

Investments that support the management of natural systems, including land, water, air, and natural resources. Conservation finance is distinct from climate adaptation finance, as it may also target climate mitigation outcomes and focuses exclusively on natural capital. Climate adaptation finance targets human systems impacted by climate change.

CROSS-CUTTING MEASURES

Interventions that address climate change by integrating both mitigation and adaptation strategies across multiple sectors. Sectors can also be considered cross-cutting if they seek to address mitigation and adaptation outcomes, such as the sustainable agriculture sector.

CURRENCY SWAP

An agreement between two parties to exchange principal/interest payments of a loan in one currency for an equivalent loan in another currency. Investors or borrowers use currency swaps to hedge their exposure to currency risk.

GENDER-RESPONSIVE CLIMATE FINANCE

Climate finance that addresses women's specific needs, vulnerabilities, and capabilities to mitigate and adapt to climate change.

GREENHOUSE GASES (GHGS)

Gases produced by both human activity and natural processes that are trapped in the atmosphere and contribute to global warming. The main GHGs include carbon dioxide, methane, nitrous oxide, water vapor, and synthetic fluorinated gases.

JUST ENERGY TRANSITION PARTNERSHIP (JETP)

A financing mechanism designed to deliver large-scale funding to emerging markets for decarbonizing the energy sector, while also supporting domestic development priorities. JETP funding is led by public resources from the International Partners Group (IPG), which includes donor governments (primarily advanced economies) and private capital mobilization. JETPs have been announced for countries like South Africa, India, Indonesia, Senegal, and Vietnam.

JUST TRANSITION

Climate mitigation and adaptation efforts in emerging markets and developing economies that take other development goals into consideration to ensure equitable transitions to greener economies.

LEVERAGE RATE
The ratio of concessional capital (below market-price) to all commercial capital (market-priced) in a transaction. Commercial capital includes capital from private, public, and philanthropic sources.

MITIGATION BLENDED FINANCE
The use of blended finance structures to deliver private sector investment to climate mitigation transactions in developing countries.

MOBILIZATION RATE
The ratio of concessional capital (below-market-price) to commercial capital from private sector sources only.

NATIONALLY DETERMINED CONTRIBUTIONS (NDCS)
Country-specific commitments to cut GHG emissions and/or adapt to climate change, as required by all parties to the Paris Agreement. NDCs contribute to the global goal of limiting warming to 1.5°C and must outline targets, monitoring, and verification methods, and be updated on a five-year cycle.

NATURAL CAPITAL
The planet's stock of water, air, land, and renewable (e.g., wind, solar energy, forests) and non-renewable resources (e.g., mineral deposits). Natural capital refers to resources that provide ecosystem services supporting human activity.

NATURE-BASED SOLUTIONS
Efforts to protect, manage, and/or restore ecosystems to address societal challenges like food insecurity, climate vulnerability, and public health. These solutions recognize that healthy ecosystems are critical for both natural systems and sustainable economic development.

NET ZERO
The state in which the amount of GHGs emitted into the atmosphere equals the amount being removed. Achieving net zero stops the process of global warming. Net zero commitments are made at various levels—supranational, sovereign, industry, or company. Net zero differs from absolute zero emissions, which means the complete cessation of GHG emissions.

SMALL ISLAND DEVELOPING STATES (SIDS)
A group of 58 developing countries that face unique social, economic, and environmental vulnerabilities, particularly to natural disasters and climate change impacts.

EXECUTIVE SUMMARY

With its continued focus on climate, this year's report arrives at a pivotal moment in global efforts to combat climate change and achieve the Sustainable Development Goals (SDGs). This edition unveils a complex landscape of opportunities and challenges, emphasizing the role of blended finance in mobilizing private capital for climate initiatives, particularly in Emerging Markets and Developing Economies (EMDEs).

The report reveals a landmark year for climate blended finance, which has defied broader macroeconomic headwinds to achieve unprecedented growth. The recovery from last year's downturn signals a potential shift in the climate finance landscape. Total climate-related financing reached unprecedented levels in 2023, demonstrating blended finance's potential to mobilize significant private capital for climate action. This growth, however, brings into sharp focus the persistent barriers to scaling private investment in adaptation, as well as the geographical imbalances in funding, particularly in lower-middle-income countries.

As the world approaches critical 2030 climate and sustainability targets, the need for blended finance to fill financing gaps becomes even more pressing. This year's findings emphasize the importance of continued innovation, collaboration, and scaling of capital to meet the climate challenge. While the successes and lessons documented in this report provide a critical foundation for future climate action, gaps remain. The ability to scale adaptation finance lags behind mitigation, and private sector participation in these projects remains limited. Furthermore, the report highlights the urgent need for greater collaboration between public and private sectors, as well as clearer frameworks to de-risk investment in climate-vulnerable regions. To build on the momentum of the past year, more standardized structures for blended finance deals, increased data transparency, and expanded concessional capital are required to bridge financing gaps and catalyze transformative change.

One key factor in the growth trajectory of climate blended finance will be the role of local stakeholders as countries implement their Nationally Determined Contributions (NDCs) under the Paris Agreement. These commitments signal long-term climate ambitions, making them essential for aligning private sector capital with national climate goals. The report explores this theme and delves into real world examples of blended finance initiatives driving climate mitigation and adaptation efforts in EMDEs. These examples showcase how blended finance structures are being implemented in practice, highlighting both the successes and challenges of mobilizing capital for climate solutions.

Blended finance continues to evolve as a critical tool in driving climate investments in EMDEs. The path forward will require sustaining recent progress while accelerating efforts to address challenges. The report, therefore, features blended finance transactions aimed at achieving both climate mitigation and adaptation outcomes in EMDEs by analyzing their practical implementation and impacts.

In **PART 1** of the report, blended finance data and insights provide:

- A market overview.
- A look back at previous findings.
- An assessment of the macroeconomic context.

The climate blended finance market rebounded significantly from the previous year's downturn despite global macroeconomic challenges. The market saw an increase in large-scale transactions, with six deals exceeding $1 billion. This upward trend reflects growing private sector interest in climate mitigation and adaptation efforts.

In **PARTS 2 AND 3**, climate data, deal trends, and investor trends are presented through various lenses including climate themes and archetypes. Data findings are further divided across vehicle type, geographic region and country, country income level, recipients, and SDG alignment. Investor trends focus on investor activity and investor type and incorporate stakeholder perspectives of key market participants engaging in climate blended finance.

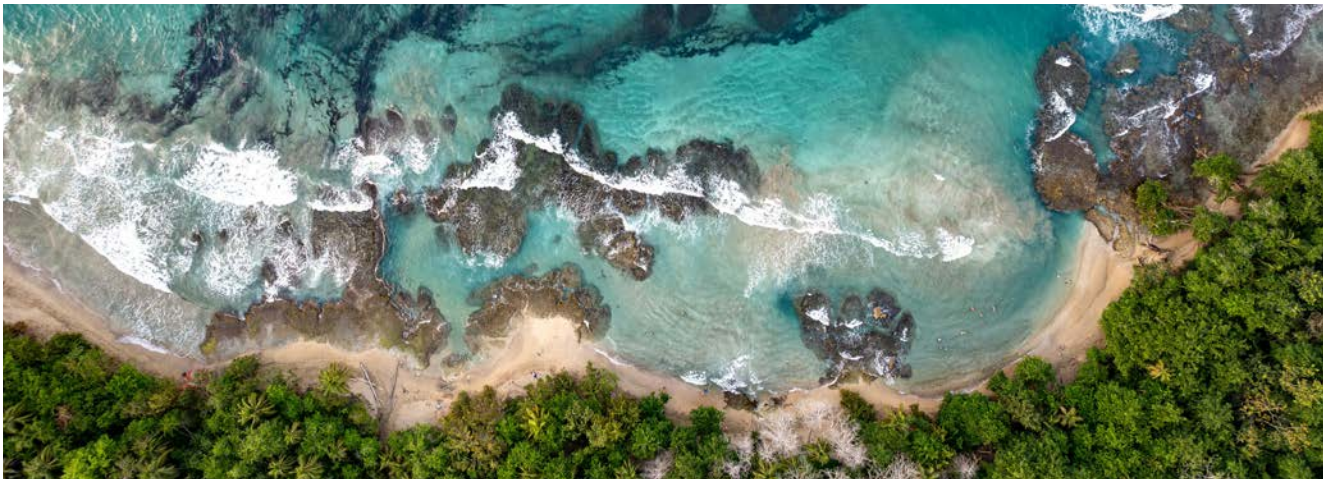
PART 4 provides a contrasting view of climate themes broken down into mitigation, adaptation, nature-based solutions, and cross-cutting climate transactions. Climate finance remains heavily focused on mitigation efforts while adaptation finance continues to be underfunded. Nature-based solutions (NbS) and cross-cutting initiatives, which address both mitigation and adaptation, are gaining traction as investors recognize the potential for these projects to generate both environmental and financial returns. The section also highlights the emerging importance of gender-responsive climate finance in driving inclusive outcomes.

PART 5 explores the pivotal role of NDCs in driving climate action at the national level. As countries update their NDCs with more ambitious targets for 2030 and beyond, the integration of blended finance within these frameworks becomes even more crucial for achieving climate goals. Case studies from Rwanda, Belize, and Indonesia are presented and illustrate how blended finance has been leveraged to support NDC implementation, particularly in renewable energy and conservation finance. The section points out both gaps and recommendations to improve the quality and detail of NDC roadmaps.

In **PART 6** the report concludes that while the climate blended finance market has made significant progress, critical gaps remain, particularly in adaptation finance and the mobilization of private capital for climate resilience projects. Key recommendations are offered on the role blended finance can play in driving private investments at scale while identifying the appropriate solutions in developing regions.

KEY FINDINGS

- According to Convergence's Historical Deals Database, financing totals grew by 120% in 2023, reaching its highest ever financing total.
- Capital flows from the private sector grew by almost 200% in 2023 to reach the highest annual aggregate total recorded by Convergence at $6 billion. This comes at the same time official development assistance (ODA) to climate blended finance declined to a four-year low in 2023.
- The number of transactions featuring guarantees/risk insurance rose by 185% from 2023 to 2022. Conversely, there has been a steady decline in the use of technical assistance in the market.
- Financing to blended climate funds grew by over 70% in 2023, while the volume of blended climate bonds nearly doubled.
- Mitigation deals have an average leverage ratio of 3.6, vs. cross-cutting deals at 2.80 and adaptation at 2.12.
- When compared to the broader global climate adaptation market, blended finance is demonstrably mobilizing higher levels from the private sector, with 33% of blended adaptation financing from 2021 to 2023 coming from private sources.
- The financing volume for cross-cutting deals increased from an average of $2 billion per year between 2014 and 2022 to $6.6 billion in 2023.
- To help EMDE governments implement their NDCs more effectively going forward, Convergence recommends that:
  1. donors should deploy TA to support EMDE governments in the creation of comprehensive, time-bound investment roadmaps;
  2. TA support from donors must also assist EMDE governments in reviewing and reforming their domestic policy landscapes to remove any policy disincentives to investing in NDC-aligned sectors; and
  3. donors and international financial institutions that are more experienced in climate finance can support the mobilization of local private sector institutions into domestic NDC projects by partnering with them within transactions.



INTRODUCTION

THE MACRO CONTEXT

As stated in our Spring Edition of the State of Blended Finance, 2023 was beset by a suite of macroeconomic challenges. Professional and retail investors alike struggled to forecast anticipated policy rate cuts as inflation remained stubbornly high in both developed markets as well as EMDEs for most of the year. Concerns of a "demand driven slowdown" in EMDEs are currently mounting as accelerated rate cuts aimed at curbing inflation could lead to a recession. Existing geopolitical issues intensified, stoking investor fears of regional instability and provoking capital flight from countries in most need of development and humanitarian funds. Sovereign and corporate debt levels in many EMDEs are at a breaking point—high borrowing costs and foreign exchange (FX) volatility fears have EMDEs borrowing at rates nearly five times higher than their developed market counterparts.

The implications for climate finance are clear. With some EMDEs currently allocating upwards of 10% of their public budgets to external interest payments, meeting debt service requirements and funding critical climate adaptation and mitigation efforts are becoming seemingly mutually exclusive outcomes. It is estimated that nearly 50 EMDEs would default if they invested what was necessary under their Nationally Determined Contributions (NDCs) over the next five years.

In this context of immense fiscal pressure in EMDEs, the case for blended finance for climate initiatives has never been stronger. The climate blended finance market weathered the macroeconomic headwinds of 2023 to register its highest annual financing total ever recorded by Convergence. Blended finance structures are proving their ability to draw institutional investors seeking portfolio diversification back into climate investing in EMDEs and are seizing on positive market and legislative developments for climate investment occurring in these economies. Many EMDEs rank among the global leaders in decarbonization efforts for example, and are primed to deliver robust pipelines of energy transition opportunities. Numerous EMDEs have also exhibited a strong commitment to improving the private sector investment landscape in their countries, strengthening their investment regimes, and enhancing regulatory transparency. Nevertheless, questions remain. Will increased public spending on climate projects in EMDEs buoy inflation? Will climate finance opportunities lose appeal if recessionary fears reduce their profit outlook?

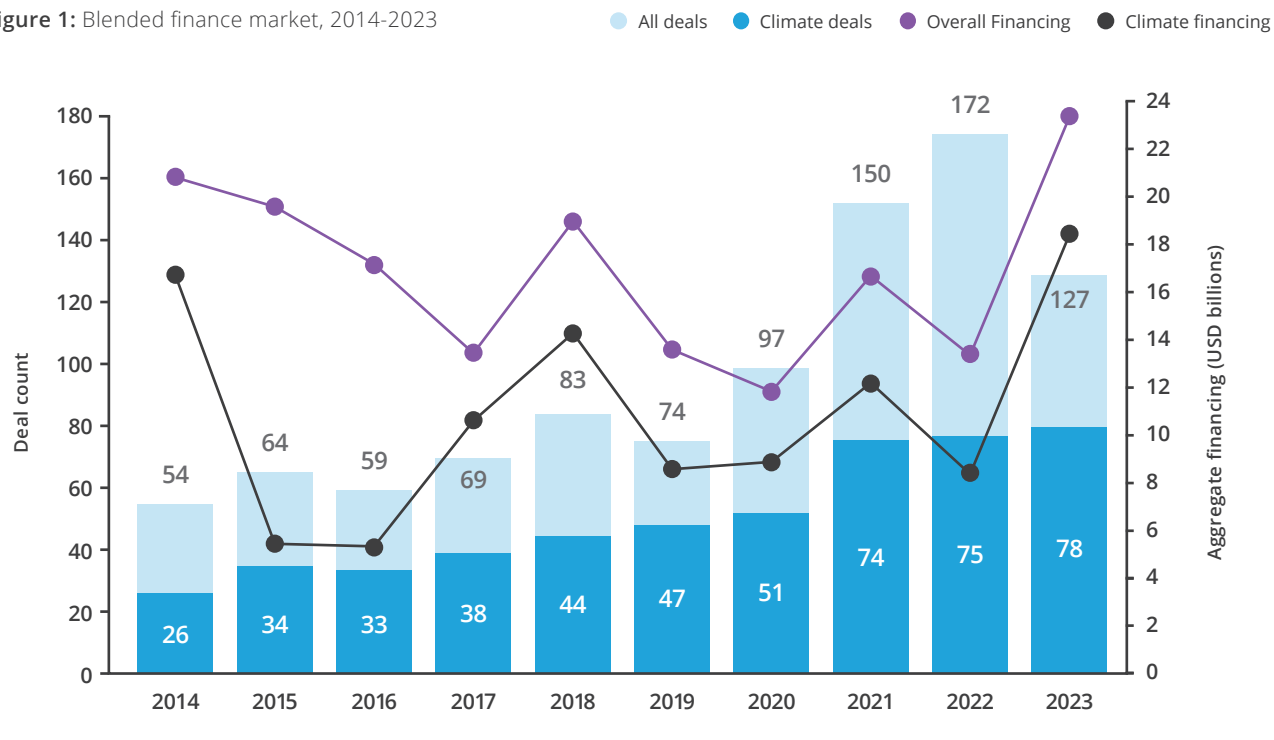
Political will and responsive monetary policy will be critical to sustaining the growth of climate blended finance activity as macroeconomic and political challenges evolve and continue to challenge conventional investment models.

PART I: MARKET OVERVIEW

PART I:
MARKET OVERVIEW

OVERALL BLENDED FINANCE MARKET

Figure 1: Blended finance market, 2014-2023



Following the precipitous drop in climate blended finance investment in 2022, the market rebounded markedly in 2023, reaching its highest annual financing total. According to Convergence's Historical Deals Database (HDD), financing totals grew by 120% in 2023, increasing to $18.3 billion in aggregate investment from $8 billion the year prior. The centrality of climate as an investment theme within the blended finance market is significant. Climate related investment was the primary driver of overall market growth in 2023, with the volume of non-climate related deals effectively stagnating at $4.9 billion from 2022 to 2023. Climate blended finance's share of market capitalization in 2023 was also its highest ever, accounting for 80% of total market value, exceeding the previous maximum of 74% in 2021.

To date, Convergence has recorded 1,233 blended finance transactions with a total market value of $231 billion. Climate blended finance accounts for about 57% of market capitalization ($132 billion) and half of all deals recorded across all years. The prominence of the climate blended finance market has been progressively trending upward. Aggregate deal volume over the last 3 years (2021-2023) comprised one-third of overall climate blended financing recorded across all years. Likewise, median annual deal count for the last 3 years was 75 compared to 46 since 2014.

As the quantum of climate finance needs in EMDEs continues to swell, Convergence observes climate blended finance is responding and more consistently delivering scaled solutions in recent years. The median climate blended finance deal size grew over 160% in 2023, reaching $105 million. The share of climate deals sized at $100 million or greater was 56% in 2023, up from 23% in 2022, while the

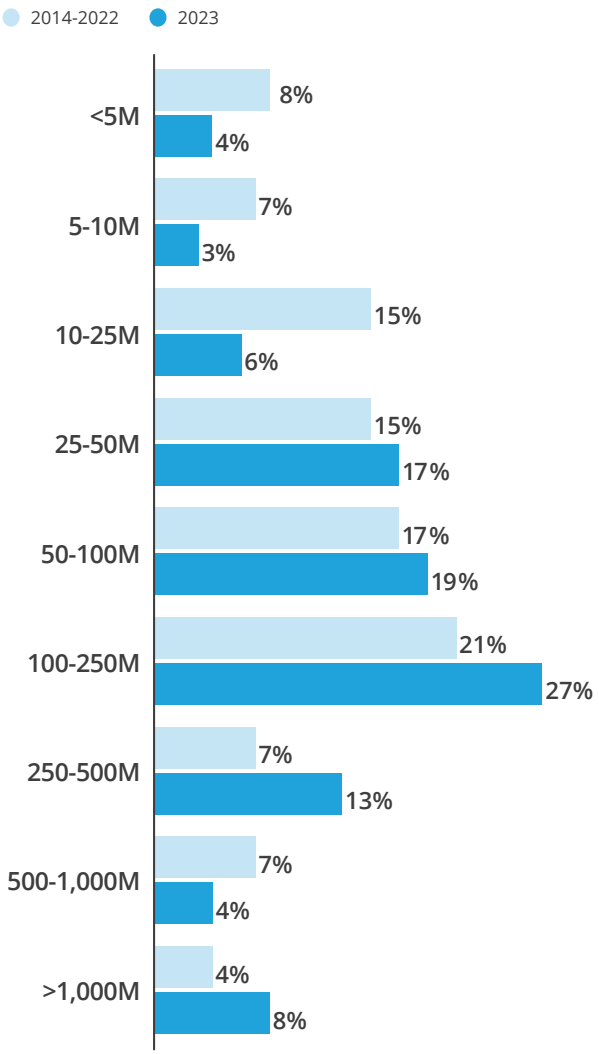
proportion of climate deals with a size greater than $500 million stood at 12% in 2023 compared to just 4% in 2022. In fact, more than 80% of all blended transactions greater than $500 million recorded in 2023 incorporated a climate focus.

Convergence recorded six climate blended finance transactions sized $1 billion or greater in 2023, which is roughly equivalent to the last five years combined.[1] This pod of "whale" deals have indeed influenced market trends over the past year, accounting for about 45%, or $8.1 billion, of total financing. Of the six, five are large-scale multi-purpose infrastructure or utility-scale renewable energy projects and as such, have primarily raised private sector capital via corporate or project finance debt alongside sponsor equity. These transactions also heavily feature the participation of development finance institutions and multilateral development banks (DFIs/MDBs) on commercial terms, as well as multi-donor funds such as the Green Climate Fund (GCF) as concessional capital providers. About 50% of the deals are either based in Latin America and the Caribbean or target investment opportunities in the region.

Last year's uptick in whales is anomalous when contextualized within historical market trends in climate blended finance and typical of the peaks and troughs seen in portfolio investing in EMDEs. However, these transactions undoubtedly present encouraging signs of appetite from key investor groups for scaled investment opportunities and the ability of blended finance structures to deliver the appropriate assets. The SDG Loan Fund, a $1.11 billion private debt fund jointly conceived by Allianz Global Investors (AllianzGI) and Dutch Development Bank (FMO), is a core example. By leveraging first-loss equity from FMO, reinforced by a second-loss guarantee from the John D. and Catherine T. MacArthur Foundation (MacArthur Foundation), the fund achieved a 1:9 mobilization ratio, entirely capitalized by institutional investors.

Nevertheless, while 2023 marked an unprecedented burst of whale transactions, the pace at which these transactions are conceived, launched, and replicated must continue to accelerate. Greater structural standardization of large portfolio and project-level climate blended finance assets is a critical first-step in this regard.

Figure 2: Proportion of climate blended finance deals by size, 2014-2022 and 2023



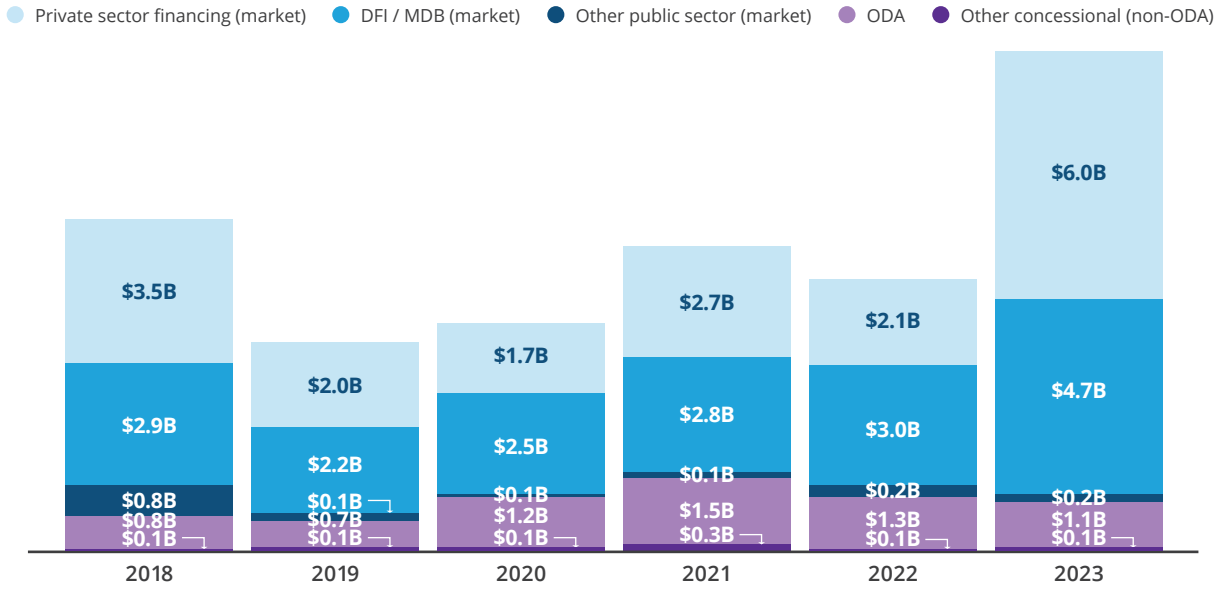
Overall, Convergence has recorded over 4,100 financial commitments into climate blended finance deals from 1,200 unique investors. Approximately 60% of all investors who have made at least one investment into a blended finance transaction, have participated in at least one climate deal. The historical median investment size into climate blended finance deals is $10 million (excluding guarantees and insurance).[2] The median investment size for 2023 was $15 million.

1 2023 deals greater than $1 billion: Águas do Rio - Bloco 1 and 4, Gulf of Suez Wind II, São Paulo Metropolitan Train, SDG Loan Fund, Yerköy-Kaseryi Electric Railway.

2 Convergence excludes financial guarantees and insurance products from this calculation to avoid double counting investment totals.

SOURCES OF FINANCING

Figure 3: Sources of financing to climate blended finance deals (excluding guarantees and insurance instruments), 2018-2023



There was a substantial increase in private sector investment into climate blended finance in 2023. Capital flows from the private sector grew by almost 200% to reach the highest annual aggregate total recorded by Convergence at $6 billion.[3] Historically, every dollar of concessional capital has mobilized 2.2 dollars of private sector investment. In 2023, the mobilization ratio increased to 2.65, and to 4 for deals sized $250 million or more. Convergence likewise observed a 60% increase in commercial financing from DFIs and MDBs last year to reach a six-year high. Both investor groups are ramping up their focus on climate opportunities—80% of all DFI/MDB market-rate investment and 86% of investment from the private sector into blended finance in 2023 went to climate deals. This aligns with wider DFI/MDB climate finance investment trends—the *Joint Report on Multilateral Development Banks' Climate Finance 2023* found that MDB climate finance to private sector recipients in low- and middle-income economies grew over 25% in 2023, from $12.3 billion in 2022 to $15.7 billion in 2023. Our data indicates, commercial investment from DFIs/MDBs and the private sector accounted for approximately 90% of all capital provided to climate blended finance deals in 2023 and 82% on average over the last three years.

ODA funding for climate blended finance declined to a four-year low in 2023, totalling $1.12 billion. The same trend was noted in our Spring Edition of the State of Blended Finance. Convergence has observed that concessional guarantees from ODA providers are gaining traction, with the absolute dollar value of these risk-transfer instruments increasing 100% from 2022 to 2023. This is likely in part due to the newly revised treatment of guarantees and risk insurance by the Organization of Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) members, which now permits their eligibility toward meeting donor countries' ODA commitments. Yet, even when considering risk-transfer instruments in ODA calculations, the quantum of concessional dollars to climate blended finance deals in 2023 remains paltry compared to what is necessary to mobilize commercial investment at scale.

While the OECD recently reported that 2023 marked a new high in ODA deployment to EMDEs, increasing by 3.2% to reach $224 billion, these findings are influenced by the impact of humanitarian support for Ukraine. The urgent need for aid in Ukraine is requiring a reallocation of development funding,

3 Totals are based on investment data recorded in Convergence's HDD. Completeness and accuracy of investment data is affected by Convergence's ability to ascertain investment amounts from public and confidential sources. Private sector investors tend to disclose fewer investment details than public sector counterparts.

rerouting ODA away from other objectives and regions. According to the OECD, net ODA to Ukraine rose to $20 billion in 2023 and accounted for about 9% of all ODA last year. Other regions, such as Africa, saw their ODA flows decline both as a share and on absolute terms. The majority of Ukraine-bound funding came from European Union (EU) institutions and the United States (US), essential sources of concessional financing for climate blended finance. Additionally, we are not yet seeing ODA funding disbursed to Ukraine via blended finance or climate blended finance structures because blended finance, with its core aim of drawing in private capital, is not naturally conducive to situations requiring emergency humanitarian response, defense spending assistance, or active conflict zones. Nearly all Ukraine-bound ODA was in the form of highly concessional loans to ensure macroeconomic stability.

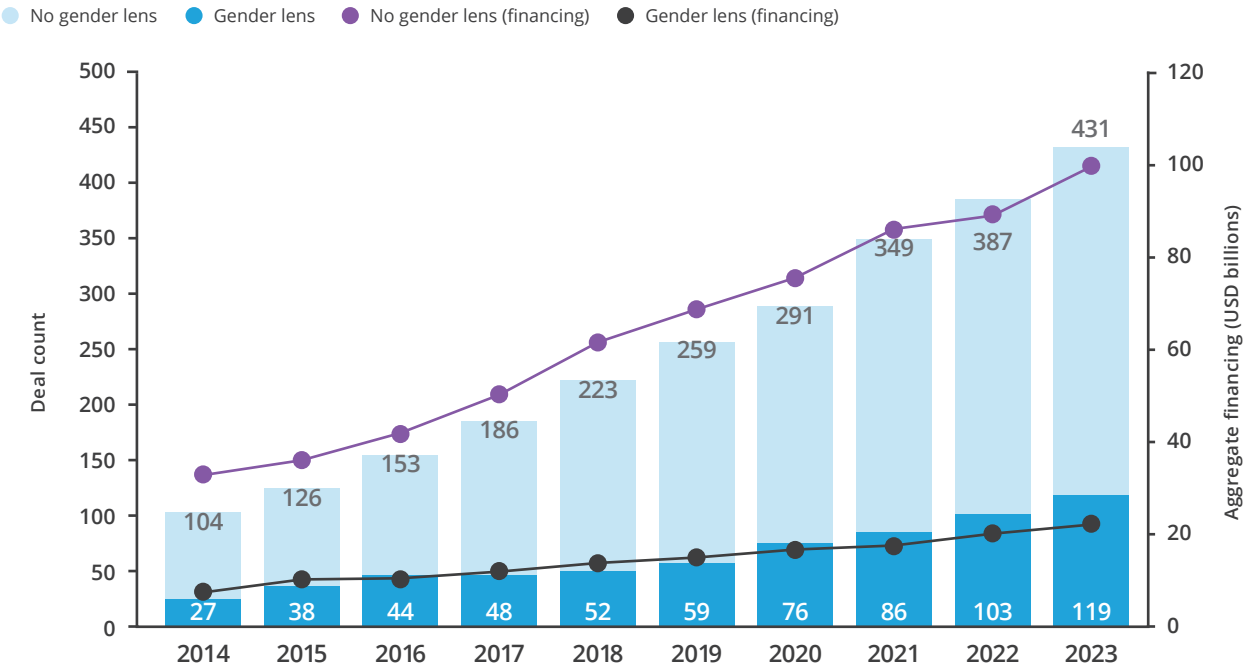
The more ubiquitous presence of DFIs/MDBs in climate blended finance deals (DFIs/MDBs feature in about 85% of climate deals) has a "confidence boosting" effect for other investors and can potentially depress the amount of concessional dollars necessary to make a deal financially attractive. Convergence finds that in climate deals greater than $100 million, every dollar of concessional capital mobilizes more private sector commercial investment when there is a DFI or MDB present on commercial terms—a mobilization ratio of 2.1 with DFI/MDB investment vs. 0.8 with no DFI/MDB investment. When looking at deals greater than $500 million, the mobilization increases to 5.9 with DFI/MDB commercial participation vs. 1 without.[4]

Other factors are also at play. Many climate blended finance opportunities offer long-term assets that have retained value, such as green bonds. For institutional investors who seek asset-liability matching opportunities as a risk reduction strategy and have the capabilities to offset FX risk through hedging instruments, these investments are conventionally appealing and likely require less risk mitigation support. Moreover, critical sub-segments of the climate blended finance market, such as renewable energy and energy efficiency, are widely considered commercially viable in many EMDEs and receive the bulk of investment. Combined with burgeoning EMDE private debt and credit markets and scaled ticket sizes, these asset classes have sustained appetite from the private sector and thus a reduced need for ODA coverage.

4 Convergence has recorded only two climate blended finance deals valued greater than $500 million which do not feature DFI/MDB participation.

CLIMATE-GENDER NEXUS

Figure 4: Climate-gender nexus in climate blended finance (climate blended finance deals only), 2014-2023.



Gender-responsive transactions form a small share of the climate blended finance market. Convergence finds that just 22% of all climate deals captured in the HDD applied a gender lens to investment activities, representing a total deal value of $25 billion or 19% of the entire climate blended finance market. In fact, climate blended finance deals less frequently incorporate gender considerations into their impact mandates than non-climate deals (22% of climate deals vs. 34% of non-climate deals). Even foundational gender lens practices such as disaggregating beneficiary data on the basis of sex, are uncommon in the climate blended finance space—only 30% of all climate deals collected gender disaggregated data. Some minor progress has been made in recent years in the climate blended finance space. The share of gender-responsive climate blended deals in 2023 increased modestly to 22% after stagnating around 19% for the last five years. By comparison, Climate Policy Initiative (CPI) found that just 2% of the entire climate finance market has a gender element. The higher frequency in the climate blended finance space suggests that the presence of a catalytic actor may increase the likelihood that gender-lens elements are combined with climate outcomes. Climate-gender assets also proved remarkably resilient during the 2022 market downturn, reaching its highest annual deal volume ($2.3 billion) in the last decade and increasing 170% from the year prior.[5]

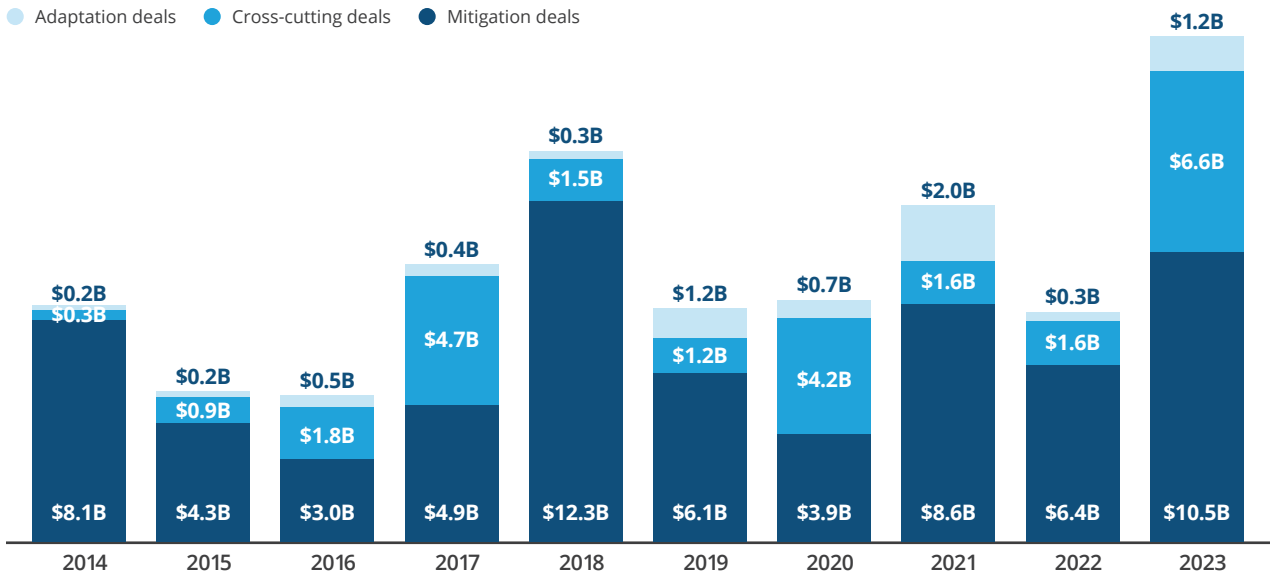
5 For an in-depth exploration of the climate-gender nexus in blended finance, see the recently released *Blended Finance and the Gender-Energy Nexus: A Stocktaking Report* authored by the CC Facility Learning Hub, a partnership between Convergence and CPI.

PART II:
DEAL TRENDS

PART II:
DEAL TRENDS

CLIMATE THEMES

Figure 5: Aggregate annual financing volume in the climate blended finance market, 2014-2023



Mitigation

Mitigation finance focuses on addressing climate change by reducing greenhouse gas (GHG) emissions through two main strategies;

1. lowering emissions from human activities, such as supporting renewable energy development, facilitating the transition away from high emission energy sources, energy efficiency, and lower emission transportation; and
2. actively removing GHGs from the atmosphere by enhancing natural carbon sinks through measures such as reforestation, afforestation, and improved soil management practices.

The climate blended finance market mainly targets mitigation outcomes, both in terms of transaction count and total financing. Since 2018, approximately 59% of annual climate deals recorded in the HDD have been exclusively dedicated to mitigation, amounting to over $48 billion in funding.

Blended mitigation deals tend to be the largest, with a median deal size of $91.5 million, compared to $57 million for cross-cutting deals[6] and $39 million for adaptation deals. They also mobilize the greatest amount of commercial financing per deal—mitigation deals have an average leverage ratio of 3.6, vs. cross-cutting deals at 2.8 and adaptation at 2.12. While the mitigation sector encapsulates a wide range of both new and emerging technologies and sub-sectors, this reflects the general ability of mitigation transactions to attract higher levels of commercial capital due to current advantages over adaptation transactions, such as investor familiarity and clearer revenue streams.

6 Cross-cutting refers to what was previously termed "hybrid" in Convergence reports.

Adaptation

Adaptation finance is focused on helping communities, ecosystems, and economies adjust to the anticipated or already evident impacts of climate change. According to the United Nations Environment Programme (UNEP) Adaptation Financing Gap Report 2023, developing countries require approximately $215 billion annually for adaptation finance through 2030. However, CPI found that only $56 billion in adaptation finance was tracked for the years 2021 to 2022, indicating a need for nearly a fourfold increase in annual financing volumes.

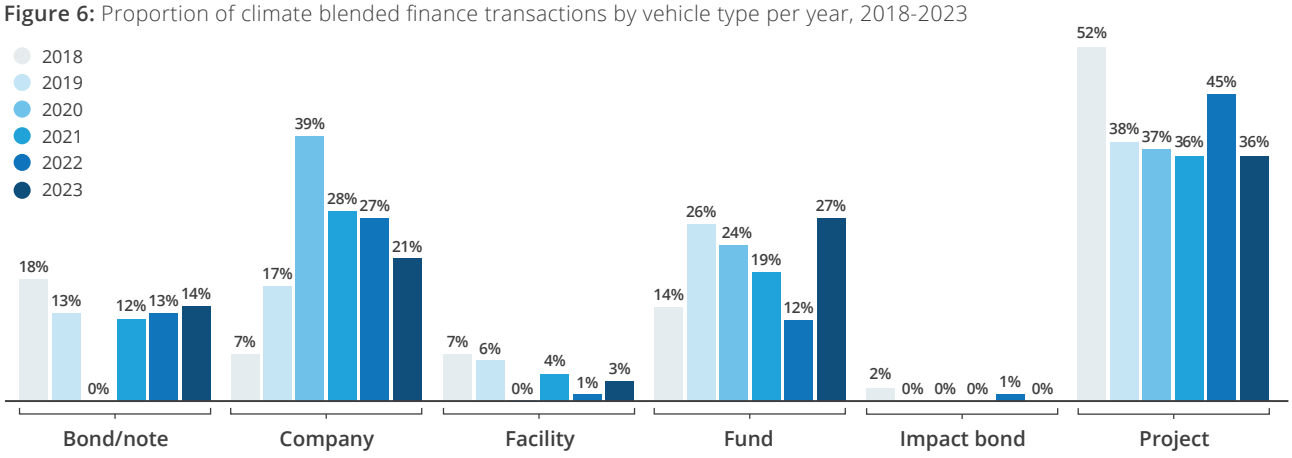
The lion's share of adaptation finance continues to come from the public sector. This is partly due to the lack of country-specific climate risk data and information needed for investment decisions that address market failures, and barriers related to finance, policy, and governance. There is growing evidence on the viability and profitability of adaptation initiatives for private sector investors. For instance, a recent report from Boston Consulting Group, in partnership with the Global Resilience Partnership and US Agency for International Development (USAID), estimates that for every dollar invested by a company for the implementation of adaptation and resilience efforts, the potential financial returns could range from $2 to $15. Despite the potentially longer-term payback period of adaptation transactions, there is also a growing movement to account for future climate risks, with companies quantifying the long-term cost of inaction to justify implementing adaptation initiatives.

Cross-Cutting

Cross-cutting activities integrate mitigation and adaptation benefits, simultaneously aiming to reduce emissions and increase resilience to climate impacts. An example is green infrastructure that uses renewable energy to meet its energy requirements while accounting for the future impacts of climate change (such as more intense storms) within its design plan. The financing volume of cross-cutting deals saw a substantial increase in 2023. While cross-cutting climate finance has averaged approximately $2 billion each year between 2014 and 2022, aggregate financing increased to $6.6 billion in 2023, driven by three "whale" transactions with a cross-cutting focus: (SDG) Loan Fund and two large-scale infrastructure projects in Brazil. These deals underscore the capacity of blended finance to drive comprehensive climate action at scale and the growing appetite among commercial investors for these investments.

VEHICLES

Figure 6: Proportion of climate blended finance transactions by vehicle type per year, 2018-2023



Convergence's database categorizes blended transactions across five primary financial vehicle types:[7]

1. Bonds/notes (i.e., privately placed issuances, listed instruments on public exchanges)
2. Companies (i.e., direct private equity and debt financing of businesses on both market-rate and below market-rate terms)
3. Facilities[8]
4. Funds (i.e., limited partnership private equity and debt funds, as well as funds-of-funds)
5. Projects (i.e., greenfield and brownfield projects, and programs funded through a combination of market-rate and below market-rate capital)

Bonds

While bonds have consistently accounted for about 14% of climate blended finance deals from 2018 to 2023, total financing volumes have been generally rising since 2018. Financing levels increased sharply in 2023, nearly doubling from $0.8 billion to $1.5 billion. This recovery reflects a broader resurgence in the bonds market, with green, social, and sustainability-linked (GSSS) bond issuances in emerging markets (excluding China) increasing by 65% to reach $111 billion in 2023. The World Bank Group attributes this increase to easing inflation concerns, a positive growth outlook, regulatory improvements, maturing financial markets, and increased efforts by governments and companies to tackle climate challenges.

The majority of blended climate bond issuances recorded in the HDD within the past five years were placed by corporates (59%). Nearly a third of these bonds placed were in the financial services sector (32%), while 29% were in energy and 24% in infrastructure. For instance, in 2023, Burn Manufacturing, a clean cookstove manufacturer in Kenya, issued a green bond to expand production and build a new factory in Nigeria. Financial Sector Deepening Africa (FSD Africa) supported this issuance by providing technical assistance (TA).

Other bonds have been structured with financial incentives tied to climate targets, such as the $100 million Commercial International Bank (CIB) Green Bond in Egypt. This deal involved $1.4 million in concessional capital from the International Finance Corporation (IFC) in the form of performance-based incentives as well as TA grants from Green Bond TA Program,

7 Impact Bonds were excluded from this report due to insufficient data.

8 Convergence defines a blended facility as an earmarked allocation of public development resources with private capital at the vehicle level, for deployment towards a specific recipient or intervention. This also includes risk-sharing facilities, or bilateral transactions, typically between donor or public entities and financial intermediaries, where the concessional capital helps mitigate potential losses on underlying loans originated by the financial institution.

with funding from the Swedish International Development Cooperation Agency (SIDA), and the Market Accelerator for Green Construction Program, with funding from the UK's Department for Business, Energy and Industrial Strategy (BEIS). Bond proceeds are being used to finance businesses looking to invest in green buildings and renewable energy.

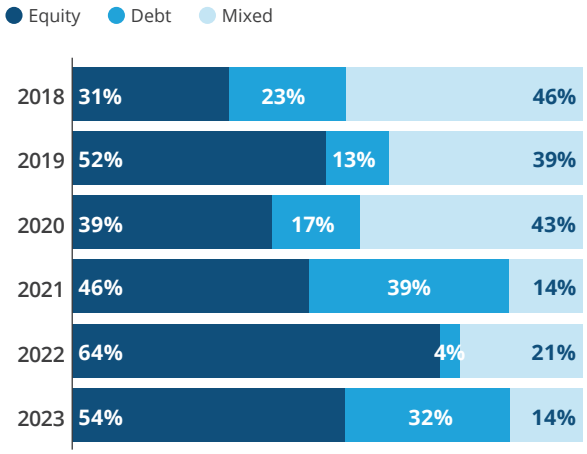
Funds

After experiencing a decline since 2018, blended climate funds rebounded to account for 27% of transactions in 2023. Total financing volumes also increased by 71%, rising from $2.1 billion in 2022 to $3.6 billion in 2023. The median deal size also grew during this period, rising from $93.5 million to $127 million in 2023.

As outlined in last year's report, the relatively stagnant activity in blended climate funds between 2020 and 2022 was driven by the combination of high inflation and rising interest rates, which created a challenging investment environment. High inflation reduced the value of future returns, leading to lower valuation multiples that made the funds less attractive. At the same time, rising interest rates increased borrowing costs, making it more expensive for funds to leverage debt for value creation.

The rebound in blended climate fund activity and volume in 2023 likely resulted from early signs of a recovery. Despite ongoing economic uncertainties, easing inflation concerns and rising expectations for interest rate cuts contributed to a more optimistic outlook, leading to an increase in blended fund activity. It is important to note that many of the funds launched in 2023 are managed by established managers with previous experience raising blended funds, such as BlueOrchard, Mirova, and Aavishkaar Venture Capital.

Figure 7: Breakdown of climate blended funds by investment strategy, 2018-2023



Private equity remains the dominant strategy of climate blended funds despite its share decreasing from 64% in 2022 to 54% in 2023. This mirrors the larger impact investing market Phenix Capital found that in 2023, there was the lowest growth rate for private equity funds since their database launched, at 1.2%. This slowdown was partially explained by fund managers taking longer to invest assets and competition for fresh capital. BlackRock similarly found a slowdown in private equity globally, driven by rising rates, inflationary pressure, economic and geopolitical uncertainty, and a correction in the broader public equity markets.

Private debt is gaining traction. Although the number of emerging market private debt funds saw a dip in 2022[9],they made up 39% of fund strategies in 2021 and 32% in 2023. According to Phenix Capital, there is increasing investor interest in private debt due to its regular cash flow, lower volatility compared to equities, and relatively stable returns. Indeed, many private debt funds in the climate blended finance market are focusing on mid-market companies, which are typically less volatile than smaller startups but offer higher growth potential compared to large, established firms.

Projects

Project transactions have been the dominant form of climate blended finance since 2018 and, on average, have made up 41% of climate deals annually. With the exception of 2020, project transactions also comprised the largest share of total financing. From 2021 to 2023, they attracted an average of $6.7 billion in climate finance annually, representing 52% of total climate blended finance flows over that time

9 The decline in private debt funds in 2022 resulted from strong macroeconomic headwinds which limited the number of funds overall, but particularly private debt funds, due to rising interest rates that increased borrowing costs, currency volatility that heightened risk, declining company valuations that made debt less attractive, and banks writing down existing debt which signaled greater credit risk.

period—a slight decrease from the 56% share they held between 2018 and 2020. The robust deal activity witnessed for climate projects in the blended finance market mirrors broader climate finance trends. As noted in the most recent World Investment Report, greenfield investment in developing countries proved to be a "bright spot" in 2023, seeing a 15% increase in project announcements and a 20% rise in values from 2022.

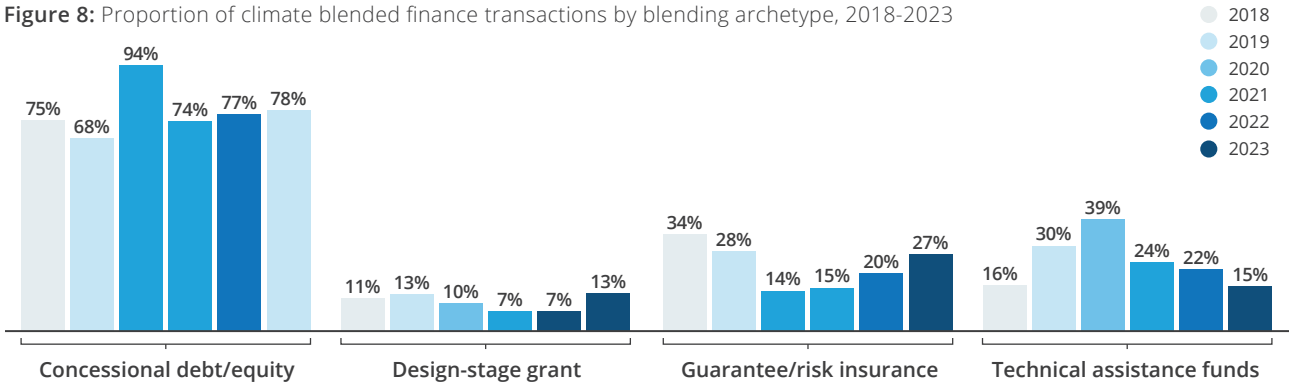
Despite a decline in aggregate financing for climate blended finance projects to $3.8 billion in 2022, financing rebounded strongly in 2023, reaching $10.7 billion. In particular, there were five major project transactions in 2023 valued at or above $1 billion, namely, Águas do Rio - Bloco 4 ($1.6 billion), Águas do Rio - Bloco 1 ($1.5 billion), São Paulo Metropolitan Train Lines 8 and 9 ($1.5 billion), all in Brazil, Yerköy-Kayseri Electric Railway ($1.3 billion) in Turkey, and the Gulf of Suez Wind II ($1 billion) in Egypt.

The majority of project activity in recent years has occurred in Sub-Saharan Africa (32 transactions between 2021 and 2023 or 36% of climate blended finance projects), with most projects falling within the energy sector (72% of Sub-Saharan Africa project-level transactions). Latin America and the Caribbean followed with 16 project transactions (18%), with half in the energy sector and 44% in non-energy infrastructure, Europe and Central Asia had 14 project transactions (16%), again with the majority (71%) in energy.

Renewable energy continues to account for the largest share of climate blended finance projects. Although renewable energy projects have historically been concentrated in upper-middle-income countries, there has been a notable shift towards lower-middle-income countries since 2020. The number of blended renewable energy transactions targeting lower-middle income countries increased by 75% between the 2018 to 2020 period and 2021 to 2023 period while there was a decrease of 20% for upper-middle income countries. This change likely reflects the financial maturation and track record of renewable energy markets in upper-middle-income regions, where attracting commercial capital has become more feasible without the need for blended finance instruments, this has allowed for a redirection of scarce concessional funding to markets that still face significant barriers to private investment.

ARCHETYPES

Figure 8: Proportion of climate blended finance transactions by blending archetype, 2018-2023



Convergence categorizes blended finance transactions into four commonly used archetypes:

1. Public and/or philanthropic investors providing capital on below-market terms into a transaction's capital stack, thereby enhancing its credit profile or adding loss protection to the benefit of more senior investors (typically called "concessional debt or equity" or grant funding).
2. Project design, preparation, and structuring activities being grant-funded to ensure and accelerate transaction launch (i.e., "design-stage grants").
3. Public and/or philanthropic investors extending partial or full guarantees or insurance instruments on below-market terms to enhance the credit profile of a transaction and/or mitigate specific risks (i.e., currency risk, political risk).
4. A transaction being linked with a grant-funded TA facility used to finance pre-investment (business design), post-investment (personnel training), and cost-of-investment (legal structuring fees).

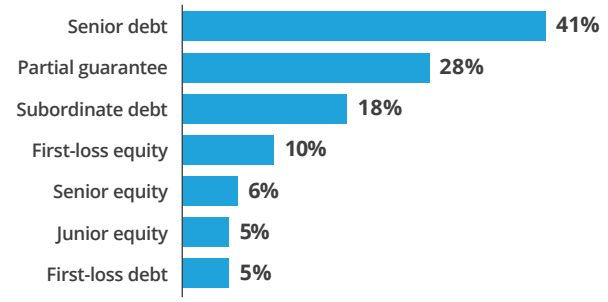
The predominant archetype in the climate blended finance market is concessional debt or equity, used in 78% of climate blended finance transactions in 2023. Among these concessional sub-instruments, senior debt is the most prevalent, representing 53% of transactions within this category between 2021 and 2023. Concessional senior debt is frequently deployed by DFIs and MDBs through donor-funded blended finance capital pools, alongside their own account lending. It can be priced below market rates to provide credit enhancement, while still ranking *pari passu*[10] with other senior lenders. Additionally, it can help fill critical financing gaps that impede project bankability, taking on greater risk than other instruments typically accommodate.

An upcoming Convergence case study on the Bac Ninh waste-to-energy facility in Vietnam demonstrates how senior debt from the Finland-IFC Blended Finance Program addressed the key operational, construction, and credit risks presented by a weak regulatory regime and lack of project precedents in the Vietnamese waste-to-energy market, that otherwise prohibited the commercial viability of the project. This concessional capital effectively bridged the financing gap and enabled joint project sponsors, JFE Engineering Corporation and Thuan Thanh Environment JSC, to establish one of the first waste-to-energy plants in northern Vietnam.

In recent years, the climate blended finance market has seen increased use of guarantees and risk insurance. The proportion of transactions involving these instruments surged from 14% of the market in 2020 to 27% in 2023, with the absolute number of transactions benefitting from guarantees rising 185%. Guarantees and risk insurance were present in 27% of mitigation deals between 2018 and 2023, significantly higher than in cross-cutting and adaptation deals, where it appeared in 21%, and 6% of deals respectively.

10 Pari passu means on equal footing, it describes a situation in which different classes of debt or equity investors have equal rights to repayment or claims on assets.

Figure 9: Proportion of climate blended finance transactions by concessional sub-instrument, 2018-2023

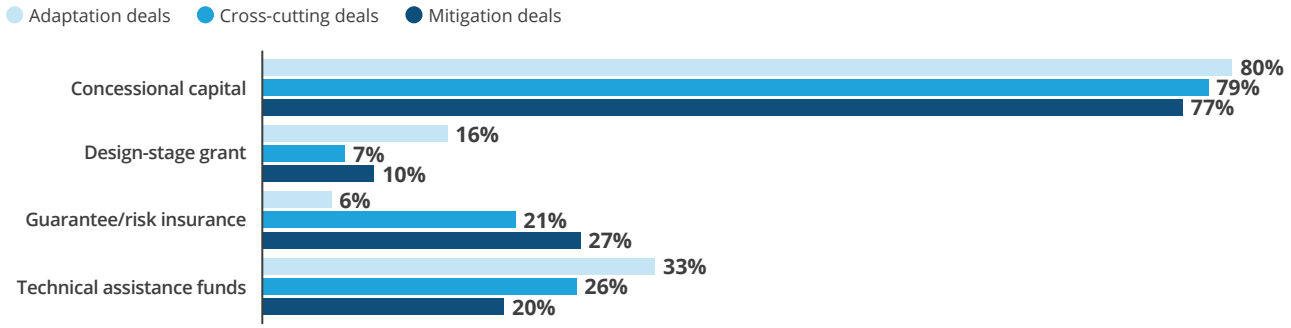


The growing prevalence of concessional guarantees and risk insurance was likely motivated by evidence demonstrating its mobilization potential and capital efficiencies. Research indicates that substantial and well-structured credit guarantee facilities can mobilize 6 to 25 times more financing compared to traditional debt. Concessional guarantees and insurance can also provide a demonstration effect for private providers, which may then feel more comfortable entering deals less with risk mitigation support.

Conversely, Convergence reports a steady decline in the use of TA in the climate blended finance market, with TA featured in just 15% of deals in 2023, down from 39% in 2020. This decline corresponds to a 40% reduction in the absolute number of TA transactions. While various investors previously provided TA in climate blended finance, many appear to have shifted their focus away from this instrument. Notably, philanthropic organizations have rarely provided TA in recent years. Foundations like the Bill & Melinda Gates Foundation and the Shell Foundation, which were previously involved, have noticeably reduced their contributions. Only the Private Infrastructure Development Group (PIDG) and the European Bank for Reconstruction and Development (EBRD) have consistently maintained their TA offerings during this period, and we observed growing involvement from the GCF.

Nevertheless, TA was a strong component of adaptation blended finance deals, appearing in 33% of these deals, compared to 26% in cross-cutting deals and 20% in mitigation efforts from 2018 to 2023. The need for TA in this space likely stems from the complex and region-specific nature of climate adaptation deals. As noted by the World Bank, there is no standardized set of actions for investors to easily refer to, disclose, or put into practice for

Figure 10: Proportion of climate blended finance transactions by blending archetype and climate sub-theme, 2018-2023.



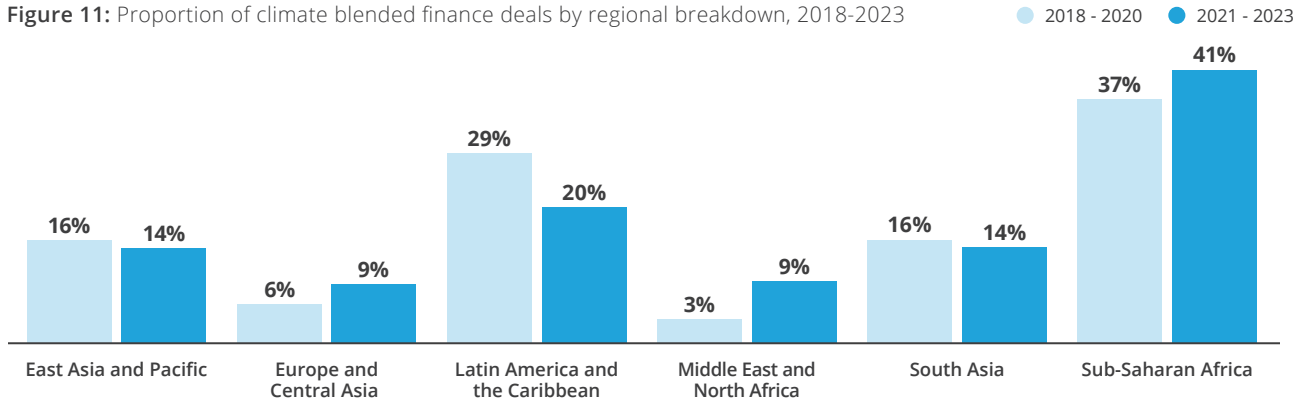
adaptation and resilience efforts.

We see a rise in the use of design-stage grants, which constituted 13% of all climate blended finance deals in 2023. Indeed, the absolute number of deals launched involving design-stage grants has remained relatively stable over the past few years, but in 2023, this figure increased twofold. The increase in design-stage grant usage in 2023 was notably driven by the World Bank Group program, Scaling Solar, which awarded various preparatory grants to deals launching last year. For example, the Samarkand Solar Plant in Uzbekistan benefited from project preparatory funding from this program to assist with the government's tender process and project structuring. Construction financing for the plant was led by the Asia Development Bank (ADB), EBRD, European Investment Bank (EIB), and Asian Infrastructure Investment Bank (AIIB), with additional B loans provided by ADB, FMO, and the ILX Fund, a Dutch emerging market credit fund supported by Dutch pension funds.

Convergence has hosted various climate-related design-stage funding windows, including the Catalytic Climate Finance Facility (CC Facility, in partnership with CPI), the Asia Climate Solutions Design Grant, and the Gender-Responsive Climate Finance Window, among others. For instance, Convergence awarded a proof-of-concept grant to Mirova SunFunder Inc. for the design and launch of the Gigaton Empowerment Fund, and to ADM Capital Group for the Asia Climate-Smart Landscape Fund.

REGIONS AND COUNTRIES

Figure 11: Proportion of climate blended finance deals by regional breakdown, 2018-2023



Between 2021 and 2023, 41% of climate-blended finance transactions targeted Sub-Saharan Africa, either directly or through multi-regional initiatives. Although there are extensive investment opportunities across sustainable agribusiness and renewable energy in Sub-Saharan Africa, these industries still face challenges in attracting private investment due to actual and perceived risks, as well as small ticket sizes. Convergence finds that blended finance is increasingly common in mobilizing capital for these industries. Indeed, deal activity rose by 80% from 2018 and 2020 to 2021 and 2023. The energy,

agriculture, and financial services sectors were the main drivers of this growth, but there is increasing interest in infrastructure initiatives as well.

East Asia and the Pacific, together with South Asia, represent the second most frequently targeted region for climate blended finance, with 28% of deals directed toward this broader area between 2021 and 2023. The region's heavy reliance on coal during its period of remarkable economic growth has resulted in significant greenhouse gas emissions, making the region integral to global efforts to combat climate change. Consider that the region is responsible for 39% of the world's greenhouse gas emissions and 60% of the world's coal consumption. Blended finance holds great potential to support the region's transition away from fossil fuels and increase the flow of private climate finance. There was a 47% absolute increase in deal activity from the period 2018 and 2020, to the period 2021 and 2023. Particular initiatives to note include the launch of the Innovative Finance Facility for Climate in Asia and the Pacific, a donor-funded guarantee instrument backed by the governments of Denmark, Japan, the Republic of Korea, Sweden, the United Kingdom, and the US, to support climate projects and specifically the phase out of coal energy. ADB is in continuing conversations with additional donor governments and philanthropies with the aim to raise $3 billion in guarantees for up to $15 billion in project value over five years. Another is the South East Asia Clean Energy Fund II (SEACEF II), one of the first-ever funds in the region combining public, private, and philanthropic investors to accelerate the green energy transition. The fund leverages first-loss equity from philanthropies, like the Global Energy Alliance for People and Planet (GEAPP), and public sector donors such as Australian Development Investments, to mobilize capital from DFIs/MDBs and private investors for investment into renewable energy asset development, energy efficiency, and electric mobility.

ADB is also supporting three pilot Energy Transition Mechanisms (ETMs) in Indonesia, Vietnam, and the Philippines to re-purpose and retire 50% of the countries' coal fleets. To date, concessional funds have been provided by the governments of Japan, Germany, and New Zealand, as well as from GEAPP. Concessional capital is required to support these ETMs, including for feasibility-stage work and as financial incentives to compensate owners of coal plants to retire assets early. Policy efforts will also be crucial to support a successful and just energy transition, to ensure that incentives are aligned.[11]

Latin America and the Caribbean has also attracted substantial climate blended finance. Although its share of transactions from 2021 to 2023 fell, the number of deals increased by 14% on absolute terms. As pointed out by Climate Investment Funds (CIF), the Latin America and the Caribbean region is endowed with immense natural wealth, including forests that cover nearly 50% of the region's total land area. However, these vital ecosystems are at

11 See the Indonesia case study in Part IV for more information on the role of energy policy in supporting a just energy transition in Asia.

risk due to climate change, which is contributing to deforestation, species extinction, and ecosystem degradation. The destruction of these natural assets weakens their ability to absorb carbon, increasing the vulnerability of both local communities and the global environment. Blended finance has been used in a variety of ways to address these risks including, structuring for the blue economy deals, biodiversity funds, and sustainability-linked bonds.

Although the share of climate blended finance deals targeting the Middle East and North Africa has historically made up only a small share of the market, it has increased substantially in recent years. The number of deals in the region grew by 325% from 2018 and 2020 to 2021 and 2023. Much of this new activity was concentrated in Egypt, which was targeted by 8 of the 17 transactions from 2021 to 2023. Of note was the second phase of the 500 megawatt (MW) Gulf of Suez wind power project. Developed by project company Red Sea Energy, the project expands on the existing 262 MW of installed capacity that has been in commercial operation since 2019. Project finance was jointly led by EBRD, GCF, and Japan Bank for International Cooperation (JBIC), which contributed $50 million, $150 million, and $240 million in senior debt, respectively. In addition, EBRD and GCF provided TA grants to cover costs related to legal structuring and enhancing local policies and planning. This public sector funding successfully mobilized $350 million in private sector co-financing from several commercial banks, including Sumitomo Mitsui Banking Corporation, Norinchukin Bank, and Société Générale. Furthermore, Nippon Export and Investment Insurance will provide insurance for the private loans, while the remaining project costs will be covered through sponsor equity.

Middle East and North African countries are increasingly focusing on renewable energy and sustainable industries to diversify their economies and energy matrices beyond oil and gas, stimulate growth, and create jobs. The region's vast solar energy generation potential positions it as a possible key player in renewable energy, while its climate vulnerability creates a pressing need for adaptation and resilience measures. Convergence's recent data brief discusses how this has driven rising interest in impact investing and sustainable finance, as well as growth in the green bond market.

Climate blended finance was primarily concentrated in a select group of countries from 2021 to 2023. India led with 22 transactions, followed by Nigeria (21), Kenya (17), Brazil (15), and Vietnam (13). In terms of aggregate financing, Brazil received the largest share, totaling $7.2 billion, followed by Uzbekistan with $3.5 billion, and India with $3.3 billion. The high level of deal activity and financing volumes in Brazil from 2021 to 2023 was primarily facilitated by the private sector arm of the Inter-American Development Bank (IDB), IDB Invest, and the Brazilian Development Bank (BNDES). Combined, they supported projects in renewable energy, sustainable infrastructure, forest conservation, and low-carbon agriculture. Alongside these efforts, private sector investors like Banco Santander were active in the country, contributing to the capital base available to climate blended finance deals.

Figure 12: Number of climate blended finance transactions by country, 2021-2023

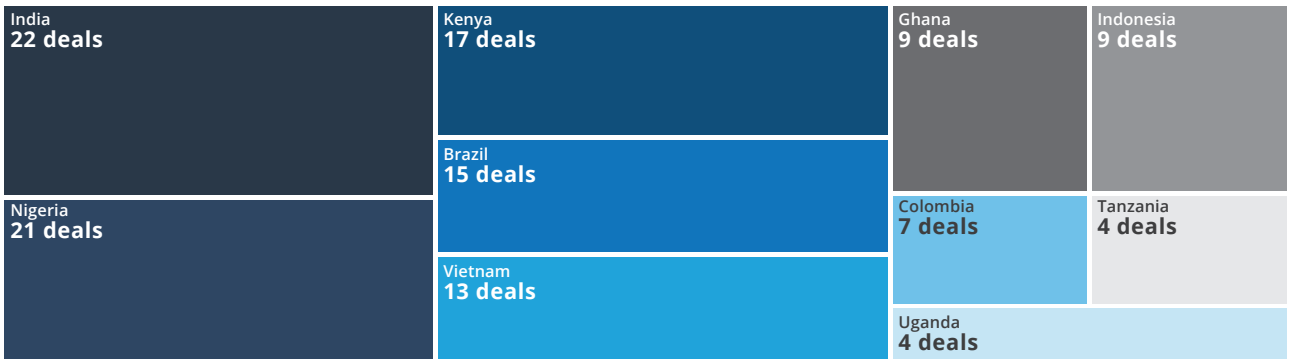
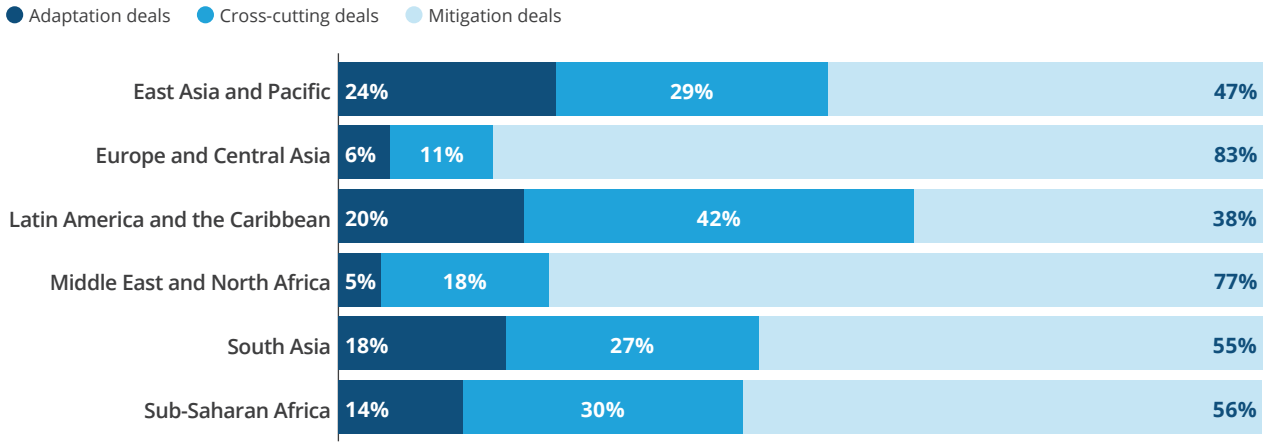


Figure 13: Proportion of climate blended finance transactions across regions by climate sub-theme, 2021-2023

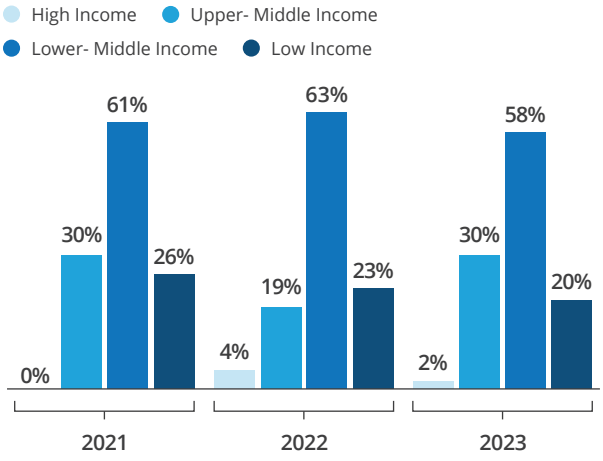


Mitigation was the leading focus of climate blended finance across all regions from 2021 to 2023, although the level of emphasis varied. The vast majority of transactions in Europe and Central Asia, as well as the Middle East and North Africa, were focused on mitigation outcomes, accounting for 77% and 83% of deals in each region, respectively. Although mitigation efforts are vital in these regions, there is a need to simultaneously scale cross-cutting and adaptation deals. Europe and Central Asia face rising temperatures and shifting weather patterns that threaten agriculture and water resources. Meanwhile, extreme heat and water scarcity are major challenges in the Middle East and North Africa. In these regions, blended finance offers a useful tool for increasing investment into climate resilience and adaptation measures. One example is a recent deal involving Kumulus, a Tunisian technology firm pioneering water extraction from air humidity to tackle water scarcity. CrossBoundary, an emerging markets advisory firm, and Flat6Labs, a startup accelerator, leveraged grant funding from USAID INVEST, to help Kumulus raise nearly $1 million in investments from venture and angel investors, including Wilco and Bpifrance.

Meanwhile, other regions, including Latin America and the Caribbean, along with East Asia and the Pacific, saw a slightly more balanced distribution of investments across mitigation, adaptation, and cross-cutting projects from 2021 to 2023. Both regions have been hubs for innovative financial instruments that tackle the impacts of climate change. For example, Central American bank Banco Promerica, issued the first-ever sustainable bond with a gender-inclusive scope in Guatemala. Subscribed to by IDB Invest and the LAGreen Fund, bond proceeds will be used to fund green and social projects, with a gender-centric performance-based incentive, provided by Women Entrepreneurs Finance Initiative (We-Fi), tied to expanding access to climate financing for women-owned businesses. In the Pacific Islands, Fiji issued its first-ever sovereign blue bond with early stage structuring support from the United Nations Development Program (UNDP) and the UK's Blue Planet Fund. Proceeds of the $20 million issuance, which was three times overscribed by private investors, will go towards developing coastal protection, aquaculture, and solid waste management.

INCOME LEVELS

Figure 14: Proportion of climate blended finance transactions by country income level, 2021-2023



From 2021 to 2023, lower-middle-income countries were the most frequent targets in the climate blended finance landscape, securing $16.8 billion in financing, followed by upper-middle-income countries with $13.2 billion. Although upper-middle-income countries saw fewer transactions, their deals were larger on average—the median deal size in these countries reached $100 million, nearly double the $55 million median in lower-middle-income countries. Upper-middle-income countries, specifically those with near or investment-grade credit ratings such as Brazil, Mexico, and South Africa, tend to attract larger transactions due to their more developed capital markets, which provide easier access to international capital and institutional investors.

Between 2021 and 2023, low-income countries accounted for 23% of transactions and secured $4.8 billion in funding. The median deal size in these countries has also been smallest among the income groups at $43 million. The financing trend has been volatile over the past few years, starting at $2 billion in 2019, experiencing sharp declines in 2020 and 2022 at $0.5 billion and $0.4 billion, respectively, but seeing substantial increases in 2021 ($2.8 billion) and 2023 ($1.7 billion).

Nevertheless, there is growing recognition surrounding the importance of scaling private climate finance for low-income countries. For instance, the World Bank Group, through its International Development Association (IDA) and IFC Private Sector Window (IDA-IFC-PSW), has placed an explicit emphasis on mobilizing private investment for climate projects in low-income and fragile states. By collaborating with the World Bank Group's private sector entities—IFC and the Multilateral Investment Guarantee Agency (MIGA)—IDA provides financing, guarantees, and advisory services to finance private sector initiatives across sectors including green housing, green appliances, green mobility solutions, and distributed solar. An upcoming data brief by Convergence on blended finance in fragile and conflict-affected situations (FCS), investigates the growing trend of renewable energy sector investments in these regions, the unique risks that often hinder such initiatives, and how concessional instruments, such as TA and guarantees, can be leveraged to boost investment in these vulnerable countries.

One notable example of this approach is in Somalia, where decades of conflict have left the country reliant on costly and inefficient diesel generation for electricity. With over 90% of its electricity supplied by private energy service providers using isolated networks, power costs in Somalia rank among the highest globally. To address this, the IDA-IFC-PSW provided support to MIGA, which issued a $5.67 million guarantee to Kube Energy for its investment in a solar hybrid power plant. This project, a collaboration between Kube Energy Norway, CrossBoundary Energy, and the Somali government, is expected to reduce greenhouse gas emissions by 2,800 metric tons of carbon dioxide (CO_2) annually. MIGA's guarantee also covers risks associated with expropriation, war, and civil disturbance, which are significant concerns in fragile states like Somalia. Additional concessional support from the Renewable Energy Catalyst Trust Fund (RECTF) further de-risks the project by providing first-loss capital.

It is essential to underscore the unique challenges confronting the 45 countries classified as Least Developed Countries (LDCs).[12] These nations are characterized not only by low income but also by heightened vulnerability to economic shocks, structural limitations, and weak institutional capacity.

12 UNCTAD classifies LDCs across eight indicators within gross-national income (GNI), health, education, economic, and environmental. The World Bank income level assessment is based solely on GNI. Therefore, the LDC classification encompasses both low-income and lower-middle income countries.

The 2023 UN Trade and Development (UNCTAD) LDCs Report highlights the significant hurdles LDCs face in attracting the necessary finance to meet the SDGs and fulfill climate commitments. Their acute fiscal constraints, limited access to credit, and elevated risk profiles make it difficult for them to attract public and private investment.

Between 2021 and 2023, 26% of global climate blended finance deals were directed toward LDCs, totalling $7.1 billion in financing. Despite substantial growth in the climate blended finance market in 2023, financing for LDCs experienced only modest increases, rising from $1.6 billion in 2022 to $2 billion in 2023.

Between 2021 and 2023, the most frequent locations of climate blended finance deals among LDCs were Cambodia and Senegal (7 deals each), the Democratic Republic of Congo and Ethiopia (6 deals each), and Burkina Faso, Liberia, and Rwanda (5 deals each). In terms of aggregate financing, the leading recipients were Lao People's Democratic Republic (PDR) ($1.1 billion), Ethiopia ($1 billion), and Senegal ($953 million). Notably, many deals in LDCs relied on concessional financing administered by DFIs/MDBs to encourage project sponsors to contribute their own debt or equity, often without the involvement of third-party private investors.

Most climate blended financing in LDCs flowed to climate mitigation 2021-2023, (80% of total financing or $5.6 billion) but there is a pressing need to scale adaptation finance in these regions. UNCTAD notes that LDCs made up 17 of the 20 countries most at risk from climate change and least equipped to respond in 2021. In the climate blended finance market, adaptation projects in LDCs received only 1% of total financing, amounting to just $96.3 million from 2021 to 2023. However, it is encouraging to see a growing appetite from investors for cross-cutting initiatives that integrate both mitigation and adaptation efforts. These cross-cutting deals accounted for 19% of financing for LDCs during the same period, amounting to $1.3 billion.

Figure 15: Climate blended finance volume breakdown by recipient country income level, 2021-2023

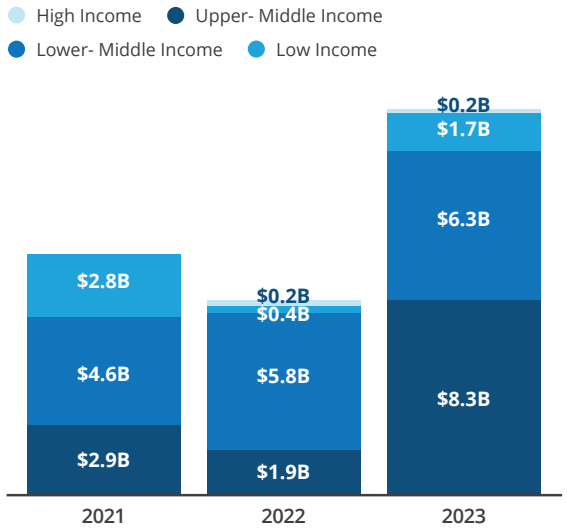
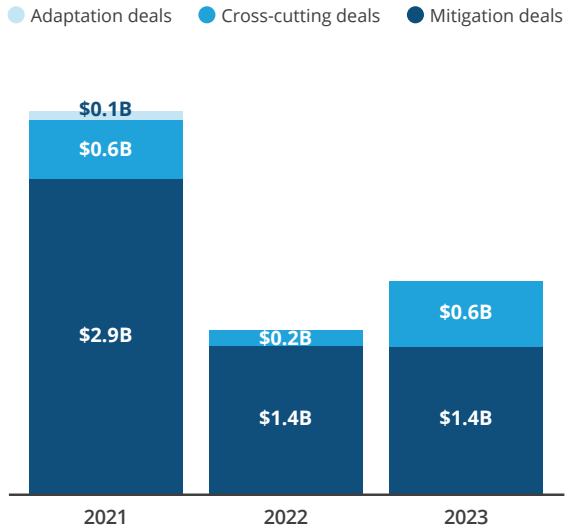
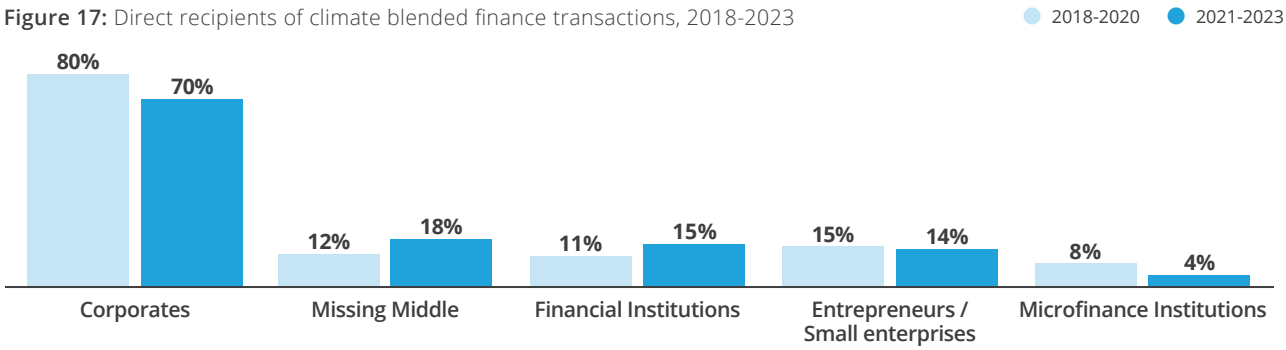


Figure 16: LDC climate blended finance volume, 2021-2023



RECIPIENTS

Figure 17: Direct recipients of climate blended finance transactions, 2018-2023



Direct Beneficiaries

Corporates were the primary recipients of climate blended finance, accounting for 80% of deals from 2018 to 2020 and 70% from 2021 to 2023. Although their proportional share of deals decreased due to a rise in deals among mainly missing middle and financial institutions, the total number of transactions increased by 42% from 113 to 160 during these periods. This increase is mainly due to the prevalence of project transactions in recent years, especially in the renewable energy sector.

Meanwhile, the proportion of deals targeting the "missing middle"[13] grew from 12% in the period 2018 to 2020 to 18% in the period 2021 to 2023. This increase was primarily driven by the rebound in climate funds witnessed in 2023, with many of these funds placing an explicit focus on investing in small and growing businesses. For instance, the Acceso Impact Fund provides flexible debt financing to impact-driven businesses, including those with a climate focus, across Central America and the Caribbean. The fund specifically targets businesses that fall into the "missing middle" as they are too large for microfinance but have insufficient balance sheets to attract larger investment. The fund offers revenue-based loans[14] tailored to the businesses' growth stages. This approach addresses a critical financing gap by offering businesses more flexible debt structures that are appropriate to their needs while promoting sustainable business models.

Financial institutions also saw an increase from 11% in 2018 to 2020 to 15% in 2021 to 2023. The surge in deal activity usually involves financial institutions issuing green and blue bonds or securing debt to expand their climate portfolios.

End Beneficiaries

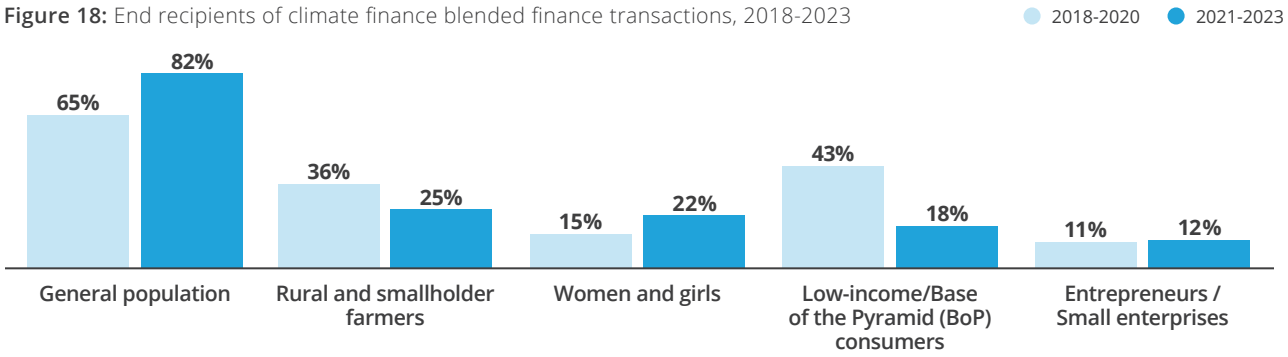
The majority of climate blended finance transactions ultimately benefit the general population, accounting for 82% of end beneficiaries between 2021 and 2023. This is naturally linked to mitigation outcomes which produce emission reduction benefits that impact the entire population. Adaptation focused projects can also generate population-wide benefits through efforts like enhancing infrastructure resilience and improving resource management to reduce climate vulnerability.

The share of climate blended finance transactions targeting women as end beneficiaries increased from 15% in 2018-2020 to 22% in 2021-2023. This uptick aligns with growing evidence surrounding the importance of mainstreaming gender considerations in climate finance for not only gender equality purposes but also to enhance the effectiveness and sustainability of climate projects. A recent OECD report highlights how the effects of climate change, environmental degradation, and biodiversity loss harm gender equality by worsening food insecurity, poverty, disease, and displacement, which disproportionately impact women.

13 "Missing Middle" or Small and Growing Businesses (SGBs) are commercially viable firms with growth potential. Yet, they typically encounter fundraising challenges because they are too big for microfinance, too small or high-risk for traditional banks, and could be unsuitable for venture capitalists.

14 Revenue-based loans are a type of financing where repayments are tied to the borrower's revenue. Instead of fixed monthly payments, the borrower repays a percentage of their revenue until the loan, plus interest, is fully repaid.

Figure 18: End recipients of climate finance blended finance transactions, 2018-2023



Furthermore, research shows that gender lens investing improves climate outcomes by ensuring that climate solutions address the specific needs of women, who are often more vulnerable to climate impacts. Empowering women in decision-making roles leads to better resource management, innovation, and community resilience, making climate projects more effective and sustainable in the long term.

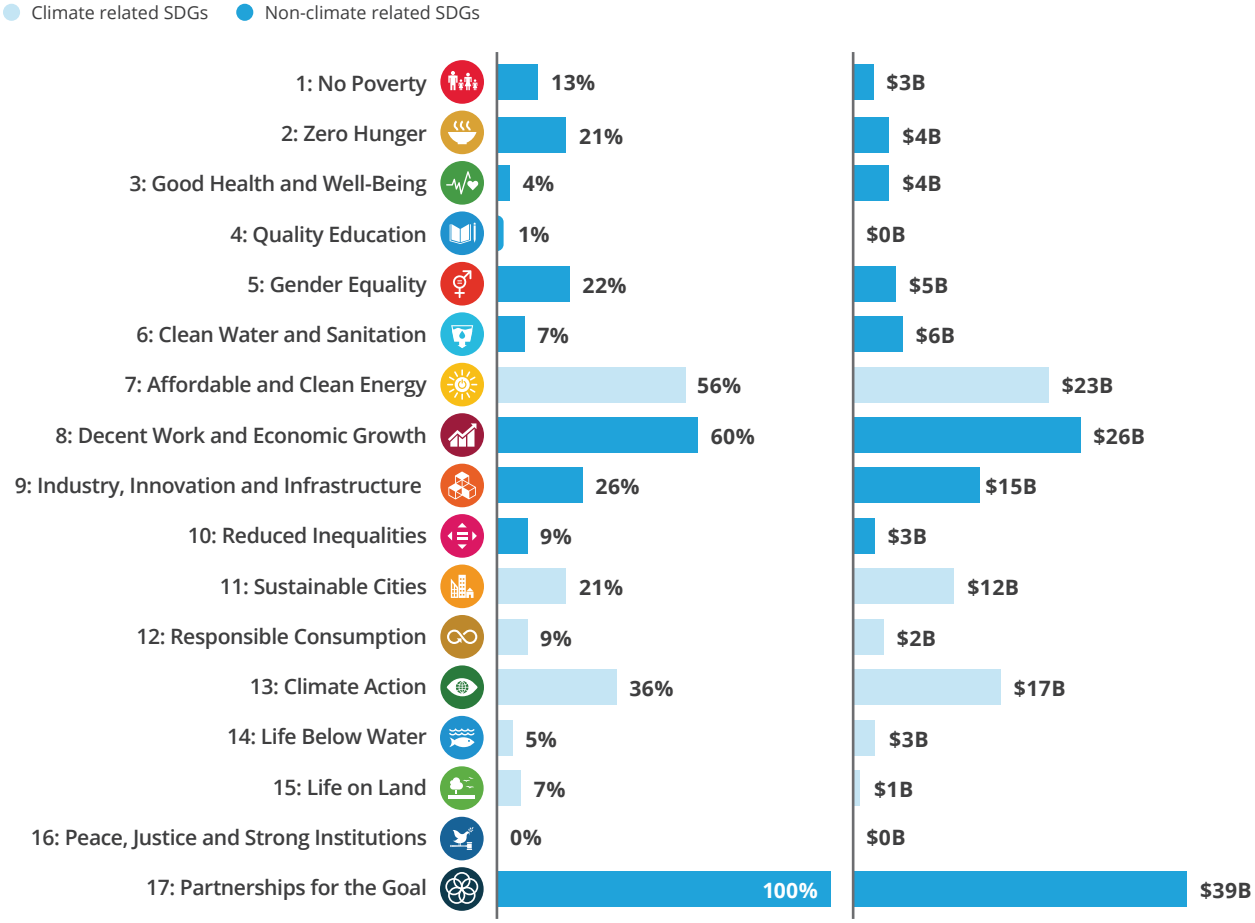
There are multiple ways to leverage blended finance to ensure gender-responsive climate finance. For instance, concessional loans, including those linked to specific performance indicators or key performance indicators (KPIs) related to gender outcomes, incentivize the integration of gender equity within climate finance vehicles. These loans not only reduce financial barriers but also align investment objectives with gender equality goals. Similarly, TA funds can play a crucial role in supporting gender integration. These funds assist investees in fund structures and deal sponsors in direct investments by streamlining gender considerations into their business operations and investment pipelines.

The second most targeted end beneficiaries of climate blended finance transactions were rural and smallholder farmers, representing the end target of 25% of transactions between 2021-2023. Despite a massive decline in climate finance levels for rural and smallholder farmers in the broader market, total financing volumes in the blended finance market only decreased from $6.1 billion in the 2018-2020 period to $5.6 billion in the 2021-2023 period. This underscores the counter-cyclical role blended finance can play by helping to sustain investments to those most vulnerable to the impacts of climate change when conventional market conditions are weak. To bolster this work, Alvaro Lario, President of International Fund for Agricultural Development (IFAD), emphasizes the need to transform NDCs and National Adaptation Plans (NAPs) into practical investment strategies, including developing bankable projects and using innovative financial tools to attract private investment.

There was a marked decline in the proportion of climate blended finance transactions that generate downstream benefits for low-income or base of the pyramid (BoP) consumers. For the 2021-2023 period, only 18% of transactions targeted these consumers, a sharp decline from the previous period, where 42% of transactions targeted them. Several factors could explain this shift. First, the growing focus on mitigation deals, such as large-scale renewable energy projects, often targets public goods like reducing carbon emissions. While these projects may benefit BoP communities indirectly through improved air quality or energy access, their direct impact on low-income groups can be harder to quantify, leading to lower recorded BoP targeting. This does not necessarily mean these groups are excluded, but their inclusion may not be explicitly prioritized in the design of mitigation focused projects. Second, the slow uptake of adaptation finance plays a crucial role. Adaptation, aims to increase resilience among the most vulnerable populations, typically those in low-income communities. The underfunding of adaptation projects—due to higher perceived risks, longer timelines for returns, and challenges in creating clear investable opportunities—means fewer resources are flowing to BoP populations who are often on the frontlines of climate impacts like floods, droughts, and food insecurity.

SDG ALIGNMENT

Figure 19: Proportion of climate blended finance transactions by SDG, 2021-2023



Many blended finance transactions demonstrate a "synergistic" relationship between climate action and sustainable development, where investments in climate-related SDGs simultaneously enhance outcomes in non-climate related SDGs. For example, approximately 60% of climate blended finance transactions from 2021 to 2023 resulted in local employment opportunities, thereby contributing to the achievement of SDG 8 (Decent Work and Economic Growth). Additionally, 26% of these deals have specifically targeted SDG 9 (Industry, Innovation, and Infrastructure), underscoring the co-benefits associated with developing climate-smart industries and infrastructure.

However, intentional efforts are needed in some cases to maximize these synergies. For example, to prevent climate action from placing undue burdens on low-income households—such as job losses in the fossil fuel sector—complementary policies and initiatives must be implemented which promote a just transition. For example, the Engie Decarbonization Instrument involved the accelerated decommissioning of two coal-fired power plants and the construction of the Calama wind farm near the city of Calama in northern Chile. The project featured a sophisticated just transition strategy, including the engagement of government entities, coal plant workers, trade unions, and municipalities to ensure the early closure of the coal plants, which were significant contributors to local economic stability, was both socially and economically aware. Central to this approach was the focus on retraining and redeploying workers from the decommissioned coal plants and equipping personnel with the skills needed for new roles in the renewable energy sector. Convergence will release a case study that delves into the Engie Decarbonization Instrument

next month. This case study will cover critical details, including the design of the project, its fundraising efforts, the structure of the transaction, and its overall impact.

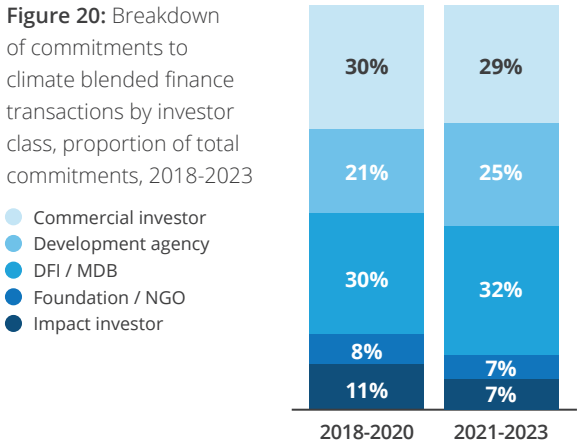
Furthermore, We-Fi has played a key role in ensuring climate blended finance transactions drive progress for SDG 5 (Gender Equality). This concessional financing facility uses performance-based financial incentives to ensure that women entrepreneurs are not only included in climate action but are also empowered to lead it. An example of this is a recent transaction where Banco Pichincha, a leading bank in Ecuador, issued a green bond designed to increase the supply of green financing in the country, specifically for renewable energy, energy efficiency, and sustainable transportation projects. IDB Invest provided a $200,000 performance-based grant on behalf of We-Fi to support lending initiatives focused on women. The bond was issued in two tranches, with Tranche A attracting investments of $50 million each from Société de Promotion et de Participation pour la Coopération Economique (PROPARCO), IFC, and IDB Invest. Half of PROPARCO's contribution was concessionally funded through Agence Française de Développement (AFD). The remaining portion of the bond was subscribed to by private sector investors. The emphasis on women-focused lending aims to empower female entrepreneurs, enhance their access to capital, and support gender equality in the country's climate transition. A report produced by IDB Invest and Dalberg with support from We-Fi, outlines key findings and recommendations on using performance-based financial incentives to promote gender equality, serving as a practical resource for DFIs and MDBs.

PART III: INVESTOR TRENDS

PART III:
INVESTOR TRENDS

OVERALL LANDSCAPE

Figure 20: Breakdown of commitments to climate blended finance transactions by investor class, proportion of total commitments, 2018-2023



Consistent with the previous year's findings, public sector commitments still account for more than 50% of total commitments between 2021 and 2023 with the private sector making up approximately 40%. The share of public sector commitments made by DFIs/MDBs increased by 13% in 2023, while the share of commitments made by the private sector declined from 31% in 2022 to 23% in 2023. This decrease, however, is largely attributable to increased activity by DFIs and MDBs, rather than a decline in absolute private investment.

In line with last year's findings, public sector spending continues to outpace private sector investment in climate blended finance, with $8.9 billion in 2023 coming from public sector sources compared to $6.2 billion from the private sector. In fact, the gap between public and private spending has widened to an average of $2.95 billion per year, up from $2.35 billion reported previously. This surge is primarily attributed to a substantial rise in the investment volume of guarantees and insurance provided by public sector investors in 2023.

Nevertheless, private sector financing is on the rise; private sector investment surged from $1.8 billion in 2022 to $6.2 billion in 2023. Notably, the median investment size for private sector investors was higher than that of public sector investors in 2023, at $27 million compared to $15 million. This significant growth, as explained later in the report, is largely driven by increased financing from financial institutions and institutional investors.

Figure 21: Aggregate annual financing by investor sector.

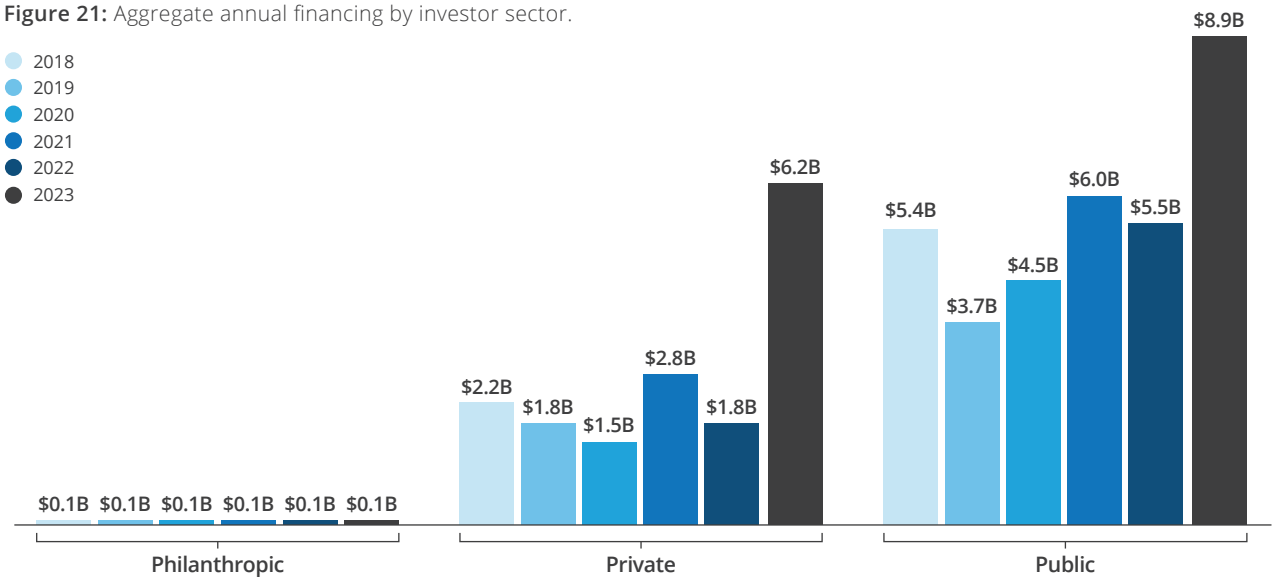
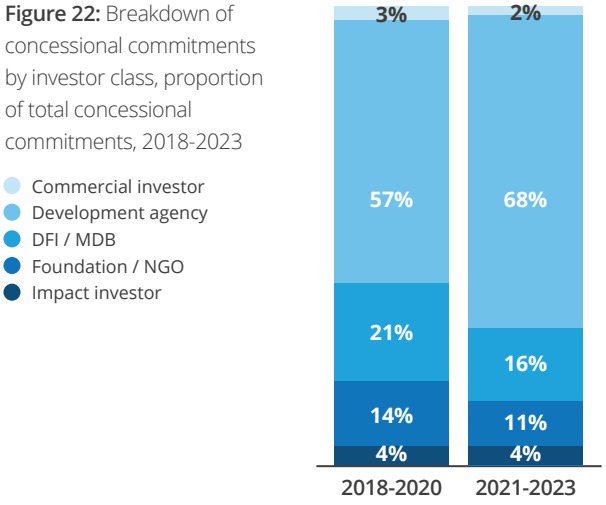


Figure 22: Breakdown of concessional commitments by investor class, proportion of total concessional commitments, 2018-2023



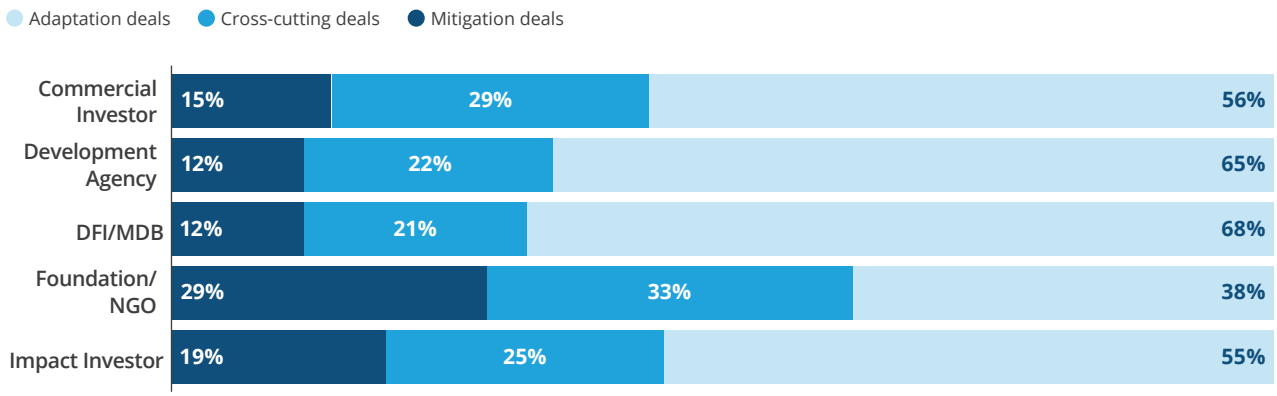
Development agencies remain the most common providers of concessional capital for climate blended finance transactions, contributing 68% of all concessional investments between 2021 and 2023. Investments from donor pools and multilateral funds, such as the GCF and the World Bank's Clean Technology Fund (CTF), are markedly more prevalent than those from individual government agencies in terms of financing volumes (54% in 2021-2023 compared to 45% for government agencies). In contrast, DFIs and MDBs primarily participate on commercial terms, with concessional capital accounting for just 17% of the total capital they provided from 2021 to 2023, down from 25% in 2018 to 2020.

It is worth noting that concessional senior debt and equity have increased from 15% of total concessional commitments in 2018 to 2020 to 23% in 2021 to 2023. In 2023, concessional senior debt and equity made up the largest share of all concessional sub-instruments at 21% (77% of which was senior debt), followed by partial guarantees at 17%; this trend is largely driven by development agencies and multi-donor funds.

Investors across all categories have primarily focused on mitigation focused blended finance transactions in recent years. Among these groups, foundations and NGOs are the most balanced, with over 60% of their investments directed toward adaptation and cross-cutting measures. Public sector investors have a greater emphasis on mitigation, with 68% of DFIs/MDBs' and 65% of development agencies' investments going towards mitigation initiatives between 2018 and 2023.

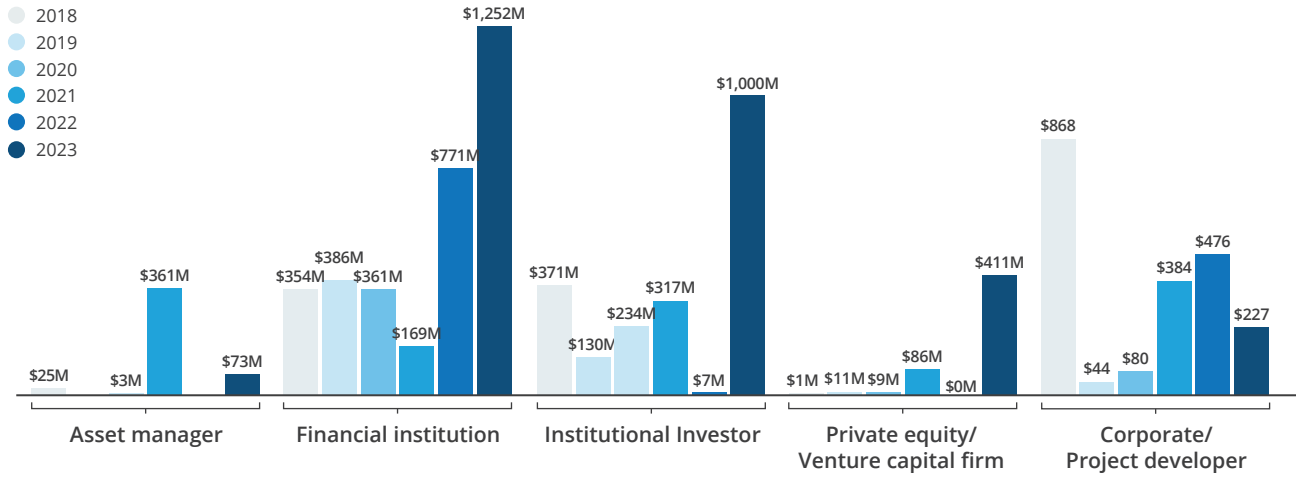
This emphasis on mitigation stems from the fact that adaptation measures are typically planned and implemented by the local leadership, requiring a degree of decentralization and, to-date, Convergence is yet to see much locally-led and capitalized climate blended finance activity. Locally led climate adaptation projects enable subnational authorities to prioritize investments based on community-specific needs, fostering greater participation and accountability. While this approach is beneficial, adaptation projects often require extensive customization to address the unique risks of specific geographies, sectors, or populations. These investments typically support public goods, whose full value may not be reflected in economic transactions. As such, blended finance plays a critical role in reducing both real and perceived risks, making these investments more appealing, particularly for private sector involvement in the short term.

Figure 23: Proportion of commitments by climate sub-theme, 2021-2023



PRIVATE SECTOR INVESTORS

Figure 24: Annual recorded financing totals, by commercial investor sub-type, 2018-2023



Since 2018, Convergence has recorded $16.3 billion worth of investment into climate blended finance transactions by commercial (private sector) investors. As previously mentioned, private sector investment surged from $1.8 billion in 2022 to $6.2 billion in 2023, representing the largest increase among investor categories. This rebound, as noted in the Spring 2024 report, was particularly driven by developments in the latter half of 2023, including faster-than-expected easing of global inflation (especially in EMDEs), surprisingly resilient emerging market currencies, and a rise in private debt activity fueled by favourable lending conditions.

Corporates and project developers have been the most active commercial investors in climate blended finance, accounting for 37% of all private sector commitments between 2021 and 2023, followed by financial institutions at 33%. This is primarily because the participation of even large corporates is limited to a few projects owing to the risk of possibly entering a nascent market or a new region / country and local project developers, for their part, typically participate in just one blended finance project. Moreover, in terms of financing volume, financial institutions lead, providing over $1 billion in 2023 alone, compared to $227 million from corporates. Commercial investors primarily take equity positions (57% from 2021 to 2023), with debt financing making up 39%. This is influenced by the participation of project developer companies in renewable energy asset development deals.

Among private sector investors, financial institutions have been the most consistently engaged in climate blended finance, with Mitsubishi UFJ Financial Group (MUFG) leading the way, having participated in 12 investments between 2018 and 2023. In fact, Nuveen Investments and BlueOrchard are the only investors in the league table that are not financial institutions. The prevalence of financial institutions in climate blended finance deals is largely due to their sectoral focus within climate finance; in the last three years this investor class has invested $7.2 billion and $4.2 billion in renewable energy and energy efficiency/emissions reductions respectively. Financial institutions are tightening their lending criteria to align their portfolios with climate goals, which is expected to limit the availability of debt financing for fossil fuel projects. This trend is already evident in the coal sector, where over 100 institutions have implemented

Figure 25: Breakdown of private sector commitments by private sector investor sub-type, proportion of total private sector commitments, 2018-2023

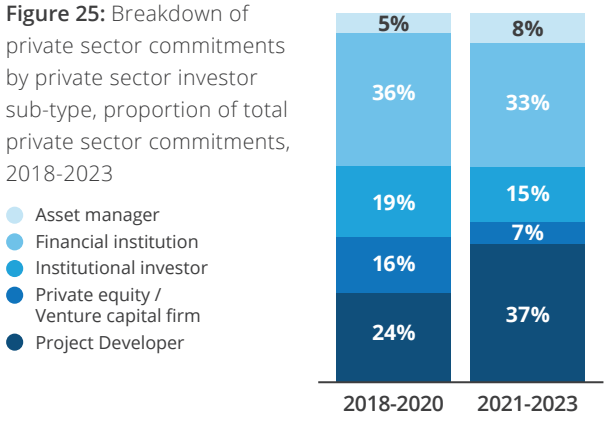
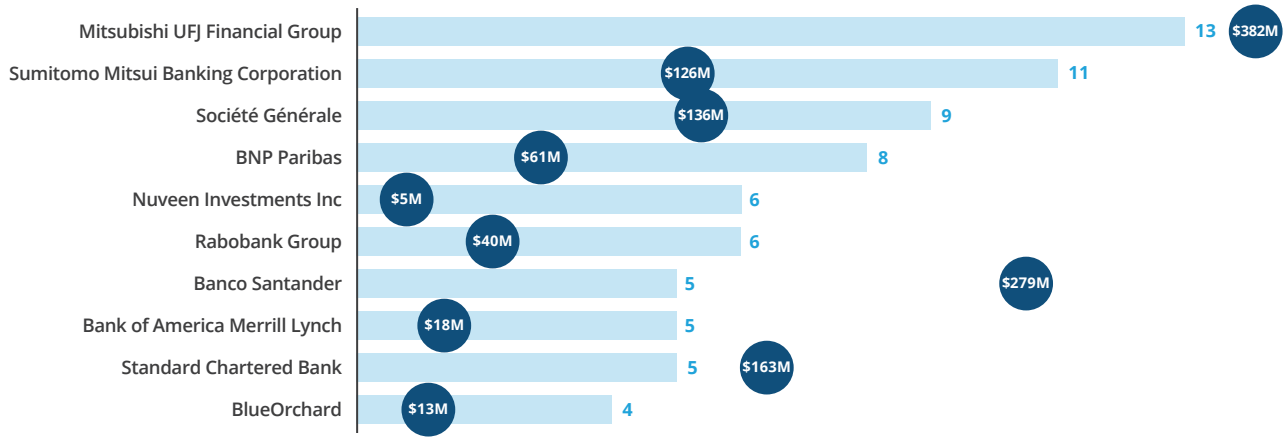


Figure 26: Most frequent private sector investors in climate blended finance by number of commitments and aggregate investment size (including guarantees/risk insurance), 2018-2023



such restrictions. Moreover, Glasgow Financial Alliance for Net Zero's (GFANZ) Asia-Pacific Network released its final guide to support the financing of the early retirement of coal-fired power plants in Asia Pacific in 2023. Financial institutions also invested $3.8 billion towards transportation and transmission. In contrast, financial services for climate finance only received $1 billion in the past three years.

Over the past three years, 60% of all blended finance deals involving institutional investors have focused on climate initiatives. These investors primarily committed capital to climate-focused funds, such as the Emerging Market Climate Action Fund. In 2023, financing from institutional investors rebounded sharply to $1 billion, following a significant decline in 2022 and several years of relative stagnation.

DFIS AND MDBS

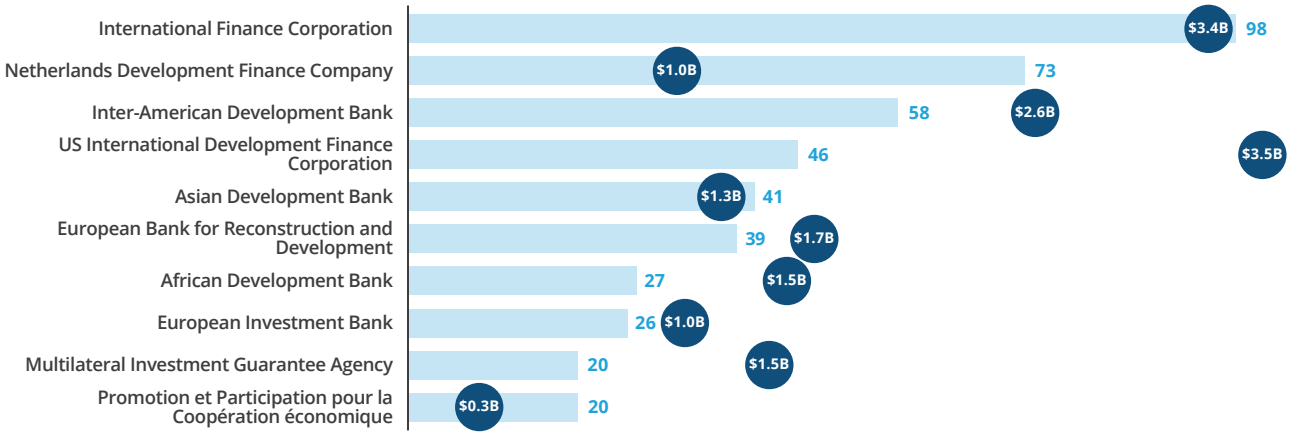
DFIs and MDBs have invested approximately $23 billion in climate-focused blended finance transactions since 2018, largely participating on commercial terms. Investment volumes from DFIs and MDBs nearly doubled, rising from $3.4 billion in 2022 to $6.3 billion in 2023. Between 2021 and 2023, around 40% of their investments were directed to Sub-Saharan Africa, followed by 18% to Latin America and the Caribbean. During this period, these institutions predominantly utilized debt instruments (58% of their financing), with equity investments accounting for 26%. Only 8% of the debt and equity financing volume was provided on concessional terms. According to the HDD, these investors participated in over 80% of climate-focused projects over the past three years. More than 70% of these investments supported the development of renewable energy assets, while 20% targeted emissions reduction projects. Additionally, nearly 90% of blended climate funds featured participation from at least one DFI or MDB during this period.

DFIs and MDBs are playing an increasingly crucial role in advancing the global energy transition. MDBs conduct comprehensive assessments of their operations, including environmental and social impact evaluations. DFIs typically implement 'safeguards' to identify and mitigate potential adverse environmental and social impacts of their projects. In blended finance, the role of this investor class goes beyond mobilizing private capital; they also ensure that projects and funds are aligned with specific climate goals. In 2023, MDBs released the Joint MDB Methodological Principles for Paris Alignment Assessment of New Operations and are either meeting or on track to meet their respective timelines for aligning their activities with the goals of the Paris Agreement. Moreover, many development banks are adopting a "project-level alignment" approach, conducting detailed assessments to ensure that new financing activities are fully in line with recipient countries' low-emission, climate-resilient development pathways.

IFC, FMO, and IDB Invest remain the most active investors in this sector by commitment count. US International Development Finance Corporation (US DFC) leads in terms of financing volume ($3.5 billion from 2018 to 2023). It must be noted that 20% of the DFI's commitments were in the form of political insurance or guarantees, with a median investment size of $88 million. MIGA, which offers political risk insurance and credit enhancement guarantees, has the highest median investment size at $46.3 million. The Dzhankeldy Wind Farm Project in Uzbekistan received a $333 million guarantee from MIGA against risks such as breach of contract, transfer restriction, expropriation, and war and civil disturbance. This 500 MW greenfield project is expected to generate at least 1,577 gigawatt-hours of electricity annually and help avoid at least 879,907 tons of carbon dioxide equivalent per year.

When it comes to gender-responsive climate finance, DFIs are at the forefront among all investor classes. Their leadership was underscored by their pivotal role in establishing the 2X Challenge at the 2018 Group of Seven (G7) Summit in Canada. DFIs continue to set the standard with their innovative gender-responsive investing methodologies and tools. Additionally, initiatives like the Development Finance Institution Gender Finance Collaborative facilitate the sharing of best practices and insights.

Figure 27: Most frequent DFI/MDB participants in climate blended finance deals by number of commitments and aggregate investment size (including guarantees/risk insurance), 2018-2023



DEVELOPMENT AGENCIES AND MULTI-DONOR FUNDS

Since 2018, development agencies and multi-donor funds have invested approximately $8.5 billion in climate blended finance transactions, with a median investment of $10 million. Development agencies most frequently use TA grants in blended deals. Over the past six years, this group has used debt financing and grants equally, each accounting for 36% of their investments. Among debt instruments, senior concessional debt comprised 70%. As mentioned earlier, this is primarily due to DFI/MDB administration of donor funded blended capital pools, which are invested into by the DFIs/MDBs themselves alongside financing their own account to enable their participation. Examples include the Canada Climate Fund for the Private Sector in the Americas (C2F) and the Leading Asia's Private Infrastructure Fund (LEAP). These donor pools, resulting from collaborations between donor countries and MDBs (e.g., the Government of Canada and IDB Invest for C2F), aim to mobilize private capital and are administered by the latter.[15] According to the HDD, over 70% of these donor funds had a climate focus; about 40% of the pools targeted Sub-Saharan Africa and 26% targeted Latin America and the Caribbean. Leveraging concessional donor funds to structure blended finance instruments is becoming an increasingly important strategy for MDBs to scale private capital in EMDEs. Donor funds are often in a senior position in these transactions along with the MDBs and DFIs.

As noted previously, the use of catalytic guarantees for climate blended finance has doubled in the past three years—from 14% in 2020 to 28% in 2023—while the proportion of TA grants has decreased. This trend is largely driven by this investor class, with PIDG leading the investor league table. PIDG most frequently provides guarantees (48% from 2018 to 2023), followed by TA grants (35% from 2018 to 2023). Another trend contributing to the decline in the use of senior concessional debt and equity, which increased from 19% in 2018 to 32% in 2023.

Until recently, guarantees were only counted as ODA on a grant equivalent basis and to the extent that they were called and payments were made, thereby disincentivizing donors to deploy these instruments through ODA-eligibility mechanisms. As a result, specialized guarantee-issuing agencies like GuarantCo (a PIDG company) emerged as alternatives, allowing donors to use ODA funds to support these institutions and their guarantee mechanisms. This approach also addresses the issue that many donor countries lack the capacity and budget to issue guarantees themselves. By channeling grants to multi-donor funds, donors can overcome these constraints and increase the use of guarantees. Additionally, these specialized agencies can access international financial markets to expand their balance sheets and, unlike regulated financial institutions, they can employ unfunded guarantees and optimize their balance sheet capacity without being restricted by traditional accounting rules.

A noteworthy example is the African Guarantee Fund (AGF), a specialized guarantee provider, which aims to support financial institutions in expanding their lending to African small- and medium- sized enterprises (SMEs) through financial guarantees and capacity building assistance. AGF is backed by many shareholders including the Spanish Agency for International Development Cooperation (AECID), Investment Fund for Developing Countries (IFU), and USAID's West Africa Trade & Investment Hub (WATIH). AGF's suite of guarantee products have helped unlock $4.3 billion in SME financing in 43 countries in Sub-Saharan Africa.

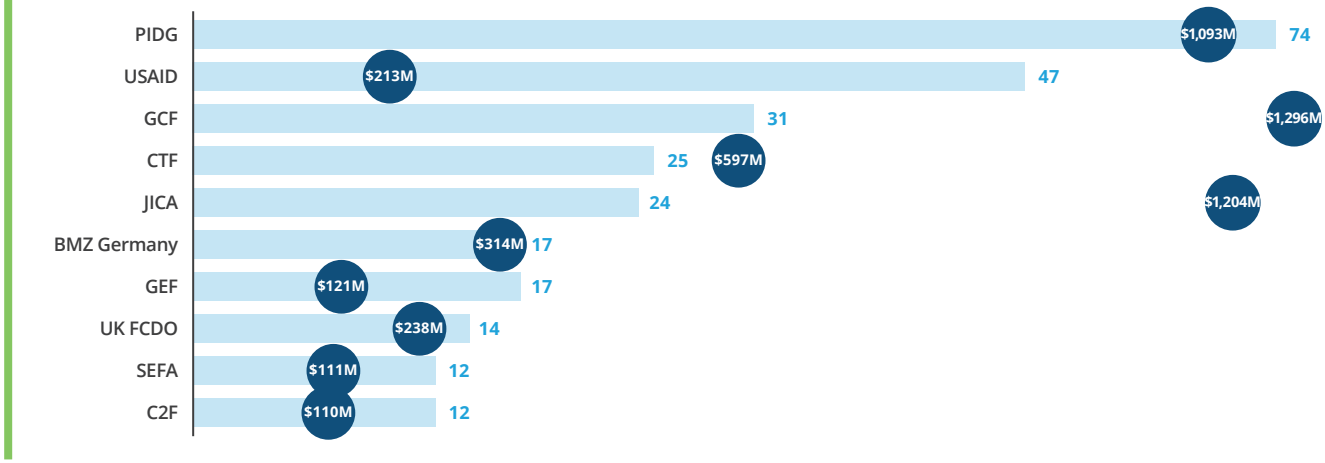
Among all investor groups, development agencies allocate the highest proportion of their funds to projects (45% from 2021 to 2023). An example is the $316 million Bukhara Solar and Battery Energy Storage project in Uzbekistan, developed by Masdar Clean Energy. The IFC administered a $20 million concessional senior loan on behalf of the Canada-IFC Blended Climate Finance Program, and the Japan International Cooperation Agency (JICA) provided a concessional senior loan of approximately $27 million to enhance the project's bankability. The 250 MW solar photovoltaic (PV) plant, along with a 63 MW battery energy storage system (BESS), will supply clean and

15 Note that while MDBs and DFIs use concessional financing from these donor pools to mobilize commercial capital from their own accounts, Convergence only includes transactions in the HDD that also involve private sector capital.

reliable electricity to about 75,000 households and reduce around 27,000 metric tons of CO2 emissions annually by generating over 585 gigawatt-hours of renewable energy.

Multi-donor funds, such as PIDG and the GCF, remain the top investors within this investor class. While most leading investors focus primarily on climate mitigation (82% of PIDG's commitments and 71% of the GCF's), USAID stands out for its greater emphasis on climate adaptation. The agency has made 18 commitments to climate adaptation and 19 to cross-cutting transactions, compared to 10 for climate mitigation. An example is the Water Access Acceleration Fund (W2AF). In 2021, USAID INVEST provided the Incofin Foundation with $760,000 in concessional funding for the Fund. By 2023, W2AF achieved its first close at $38 million, including approximately $10 million in equity financing from US DFC and $11 million from EIB. The Fund aims to provide 20 billion liters of safe drinking water by 2030 to 30 million people. Additionally, USAID has prioritized gender-responsive climate initiatives through programs like the Climate Finance for Development Accelerator (CFDA), a $250 million initiative that seeks to mobilize $2.5 billion in public and private climate investments by 2030.

Figure 28: Most frequent development agencies and multi-donor funds in climate blended finance deals by number of commitments and aggregate investment size (including guarantees/risk insurance), 2018-2023



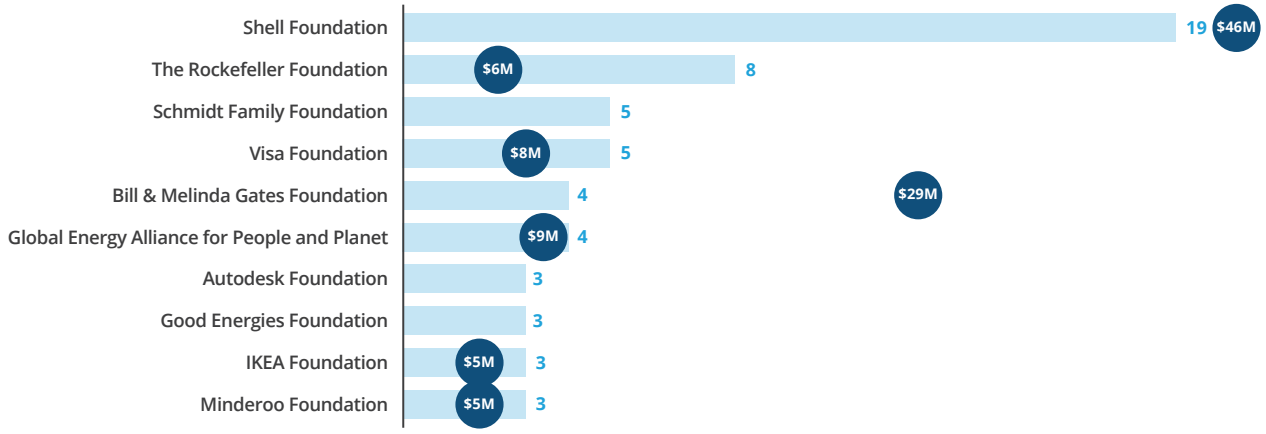
PHILANTHROPIC INVESTORS

Since 2018, philanthropic investors have contributed $400 million to climate blended finance initiatives, and are the only investor class with a balanced focus on both climate mitigation and adaptation—over 60% of their investments support adaptation and cross-cutting measures. Within this group, the Rockefeller Foundation and the Bill & Melinda Gates Foundation are particularly notable, with 75% and 100% of their investments, respectively, directed toward cross-cutting efforts. For instance, in 2023, Omnivore Partners, an impact venture fund, raised $150 million for its Omnivore Agritech & Climate Sustainability Fund, securing equity contributions from DFIs and MDBs such as KfW, FMO, BIO Invest, and IFC. IFC's participation included a $4.5 million first-loss guarantee, provided by the Bill & Melinda Gates Foundation through its Inclusive Agritech Facility, to facilitate investment.

Philanthropic investors primarily allocate their resources to climate funds (49% between 2018 and 2023), followed by direct investments in companies (31%). Their focus has been on lower-middle-income (71%) and upper-middle-income countries (31%), particularly in Sub-Saharan Africa (51%) and Latin America and the Caribbean (31%). They also play a crucial role in gender-responsive investment vehicles within the climate blended finance market, representing 27% of all funding.

The Shell Foundation leads among foundations in the league table with 19 commitments totaling $46 million over the past six years, primarily offering design-stage grants for climate blended finance projects, followed by investment-stage grants.

Figure 29: Most frequent philanthropic investors in climate blended finance deals by number of commitments and aggregate investment size (including guarantees/risk insurance), 2018-2023



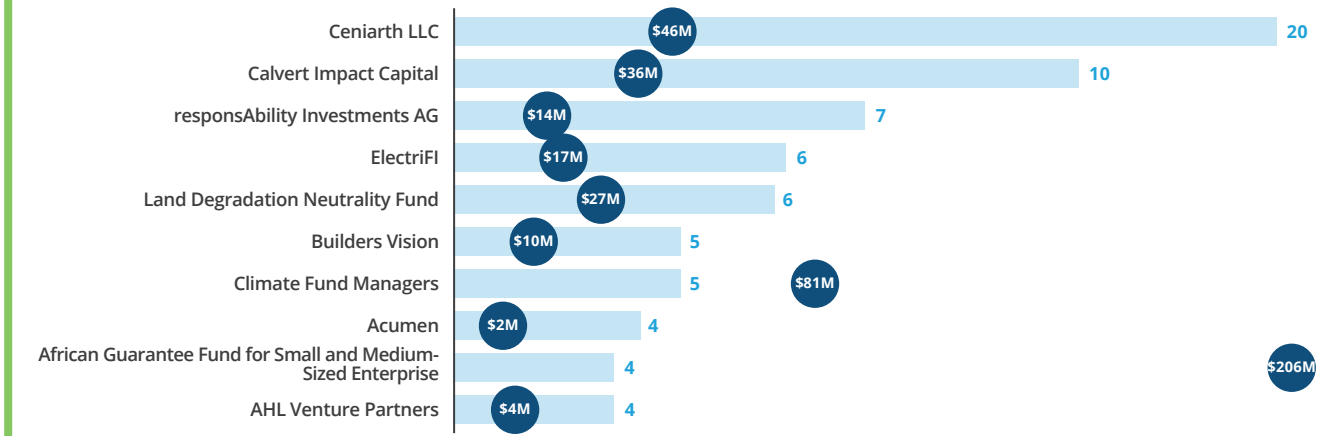
IMPACT INVESTORS

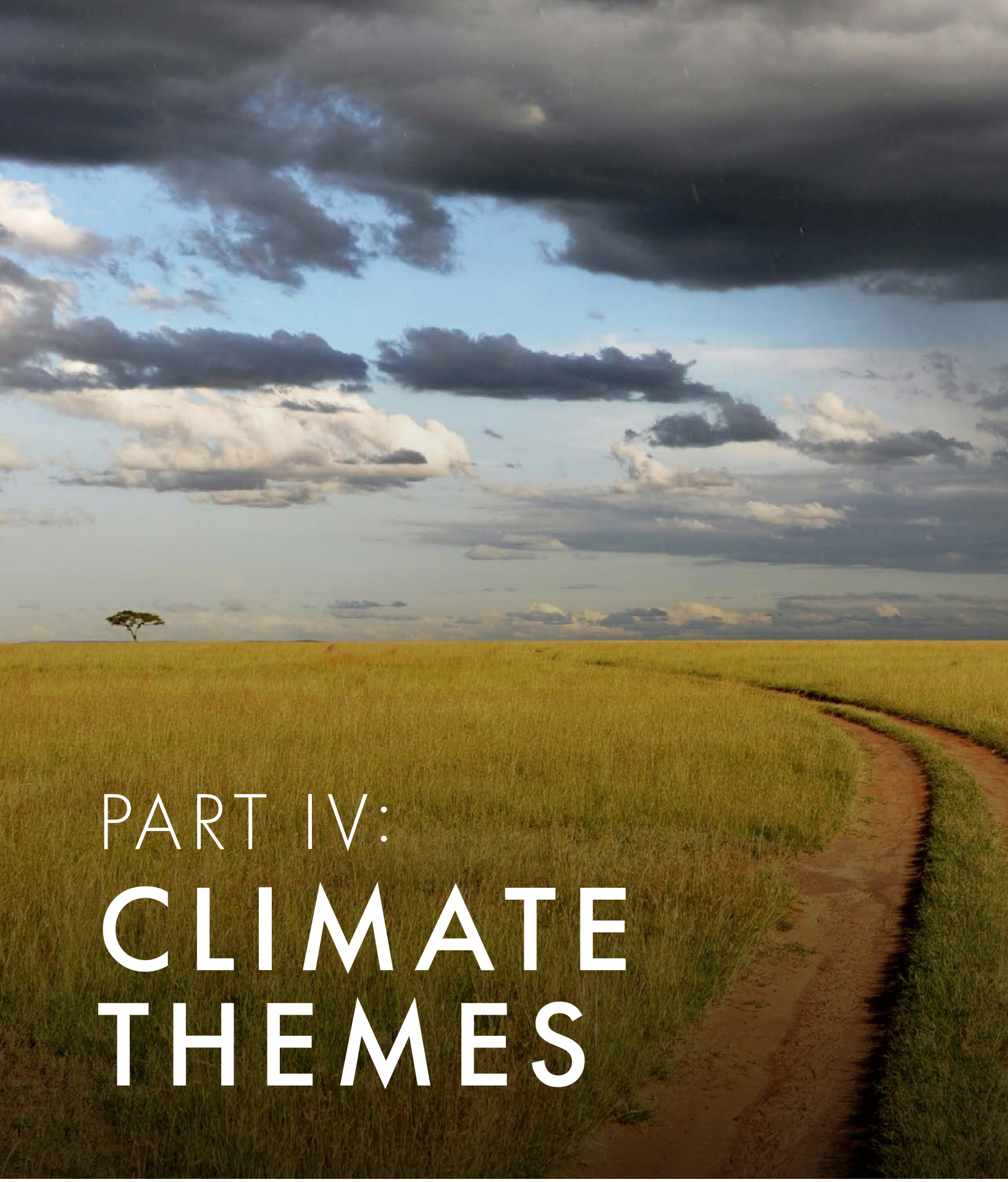
Since 2018, impact investors have contributed a total of $700 million to climate blended finance transactions, primarily through senior equity (51%) and senior debt (36%) positions. Ceniarth LLC and the Land Degradation Fund stand out for their strong focus on adaptation and cross-cutting measures, dedicating 75% and 100% of their investments, respectively, to these areas. Impact investors have shown a preference for climate funds, allocating 39% of their investments to this blended vehicle type between 2018 and 2023. The average transaction size in which impact investors participate is $52 million, smaller than the climate blended finance market median of $65 million over the past six years.

Impact investors typically manage blended climate funds (e.g., Climate Fund Managers and Conexsus). In 2023, Conexsus collaborated with Grupo Gaia, Belterra, Vale Fund, and the Good Energies Foundation to create the Green Agribusiness Receivables Certificate (CRA Verde). CRAs are

innovative fixed-income, asset-backed securities traded in Brazilian capital markets, supported by receivables from agribusiness revenues such as crop sales. The Green CRA features four tiers with varying risk and return profiles. Conexsus, utilizing grant capital from Fundo Vale and the Good Energies Foundation, invested in the mezzanine tier. Grupo Gaia contributed $780,000 in Senior 2 quotas, and Banco Santander invested $2 million in Senior 1 quotas. The proceeds will provide working capital to 22 community-led businesses in the cocoa, banana, and cassava value chains, benefiting approximately 4,500 producers who lack access to traditional credit lines.

Figure 30: Most frequent impact investors in climate blended finance deals by number of commitments and aggregate investment size (including guarantees/risk insurance), 2018-2023



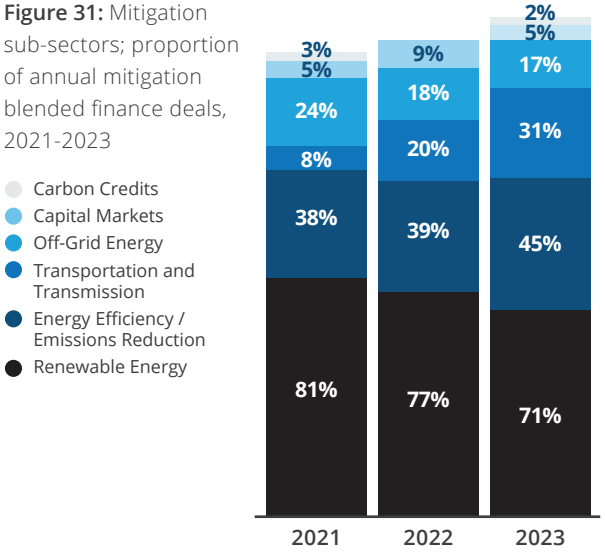


PART IV: CLIMATE THEMES

PART IV:
CLIMATE THEMES

CLIMATE MITIGATION

Figure 31: Mitigation sub-sectors; proportion of annual mitigation blended finance deals, 2021-2023

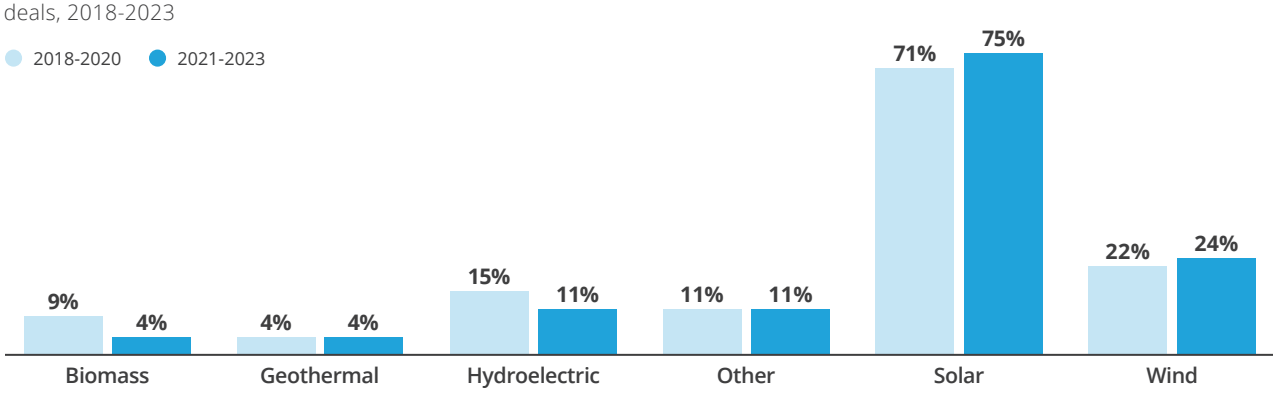


Convergence has captured 132 blended finance transactions targeting climate mitigation for 2021 to 2023, with a total value of $26 billion and a median transaction size of approximately $86 million. Most climate mitigation transactions during this period featured concessional debt and equity (75%), followed by guarantees (25%). Projects were the most common vehicles for climate mitigation (55%). The focus on projects for climate mitigation is driven largely by renewable energy asset development, which accounted for 71% of mitigation blended finance transactions in 2023, followed by energy efficiency projects at 45%.

Between 2018 and 2023, total financing volumes for renewable energy asset development reached $32.1 billion. By comparison, off-grid energy projects received $4.2 billion in financing over the same period. Between 2021 and 2023, solar energy dominated the renewable energy sector in both the number of projects and total financing, accounting for 75% of all renewable energy deals and aggregate financing of $9 billion. In terms of financing volumes, hydroelectric power generation saw a steep decline, from $7.5 billion in 2018 to 2020, to $3 billion in 2021 to 2023.

While wind power plants comprised 24% of renewable energy deals from 2021 to 2023, they represented 45% of total financing for renewable energy assets at approximately $7.5 billion and 15% more than the total financing recorded between 2018 to 2020. In comparison to solar, which had a median transaction size of around $68 million over the past three years, wind farms have registered larger transaction sizes, with a median of $195 million during the same period. First, many solar projects in the region are off-grid or small-scale (about 33% between 2021 and 2023) and require less investment compared to on-grid projects. Second, wind technology involves higher upfront costs in comparison to solar. It must be noted that capital costs for both onshore and offshore wind

Figure 32: Breakdown of renewable energy technologies financed through blended finance; proportion of all renewable energy deals, 2018-2023



have decreased in recent years. As highlighted by the OECD, broader risks—such as those related to seasonal variability—are now better understood and managed, and these risks are expected to decline further as storage technology improves. These factors have led to a more favourable perception of risk, lowering the cost of capital and increasing the availability of commercial finance. As a result, projects in these sectors are likely to achieve a higher degree of mobilization and leverage compared to more nascent technologies.

Notably, Mitsubishi Corporation, along with other project sponsors, secured $692 million in financing for the 600 MW Monsoon cross-border wind power project in Lao PDR, which is estimated to cost approximately $990 million. It will be the first wind power project in Lao PDR, the largest in Southeast Asia, and the first cross-border wind power project in Asia. The ADB led the debt facility, providing a $100 million A-Loan from its own account, and administered a $30 million concessional loan on behalf of the Canadian Climate Fund for the Private Sector in Asia (I & II), mobilizing approximately $450 million via a B-Loan and parallel loans from private sector investors, including Siam Commercial Bank and Sumitomo Mitsui.

Since 2018, approximately 40% of mitigation focused blended finance transactions have targeted Sub-Saharan Africa, followed by 19% in Latin America and the Caribbean, and 14% in South Asia. However, the top eight countries by aggregate renewable energy transaction volume are evenly distributed across different regions. Consistent with last year's report, Colombia still leads with a total financing volume of $5.5 billion. In contrast, Ghana, the only Sub-Saharan African country in the top eight, received total financing of $600 million over the past three years.

A notable addition to this list is Uzbekistan. Convergence reported the country's first renewable energy blended finance transaction in 2020, valued at $200 million. By comparison, in 2023 alone, Convergence reported six transactions with a total value of $2 billion. These projects were executed under the IFC's Scaling Solar Program, which aims to develop a public-private partnership (PPP) model for a single deal and then replicate it across the country. In 2023, four solar plants were confirmed, with a combined capacity of over 1100 MW and valued at approximately $1.7 billion through blended finance transactions. This includes the $400 million Sherabad Solar Project, a 457 MW utility-scale solar PV project. This project received a design stage grant from the Scaling Solar program. EBRD issued an approximately $70 million A-loan from its own account and a $6 million B-loan from FMO. ADB also issued a $55 million loan from its own account, including a B-loan of approximately $13 million. Other investors included EIB, AIIB and the ILX Fund.

Standardized models will be crucial to scaling private sector capital in EMDEs. According to the Network for Greening the Financial System (NGFS), it is important to establish a pipeline of viable projects and scalable frameworks with higher degrees of standardization to attract investment and bridge the information

Figure 33: Aggregate renewable energy transactions volume by country (top 8), 2018-2023

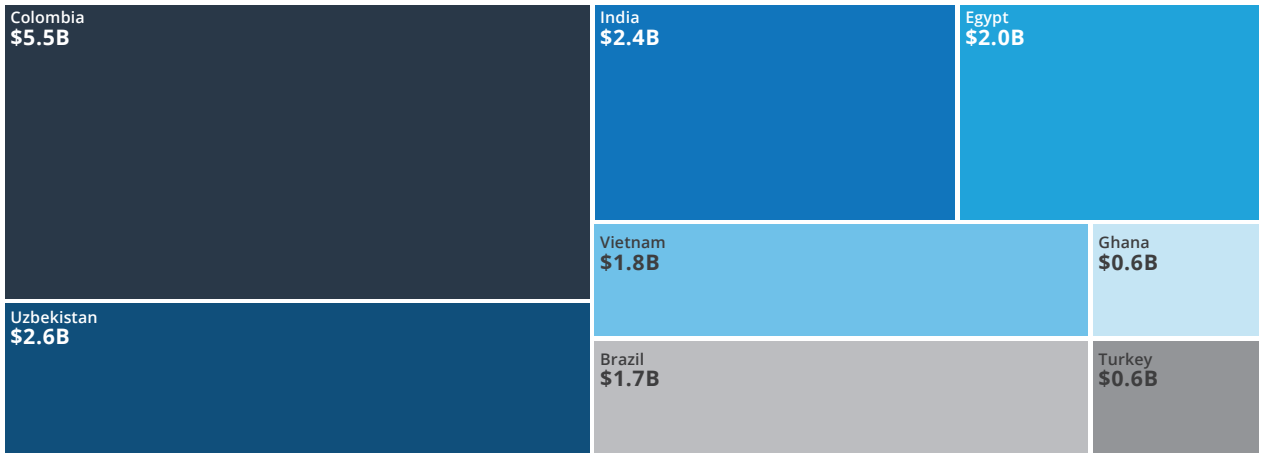


Figure 34: Proportion of commitments to mitigation blended finance transactions by investor type, 2021-2023

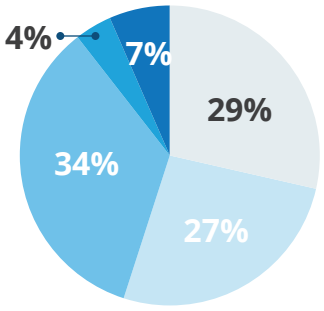
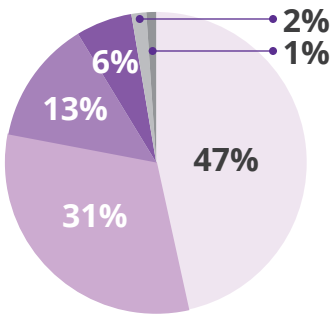


Figure 35: Breakdown of financial instrument types to mitigation blended finance deals; proportion of all investments, 2021-2023



gap between investors and project developers. Additionally, standardization can encourage the growth of secondary markets for climate-related blended finance instruments, enhancing liquidity and lowering transaction costs. This will be particularly important for renewable energy asset development to de-risk projects and lower tariffs to improve access to affordable clean energy.

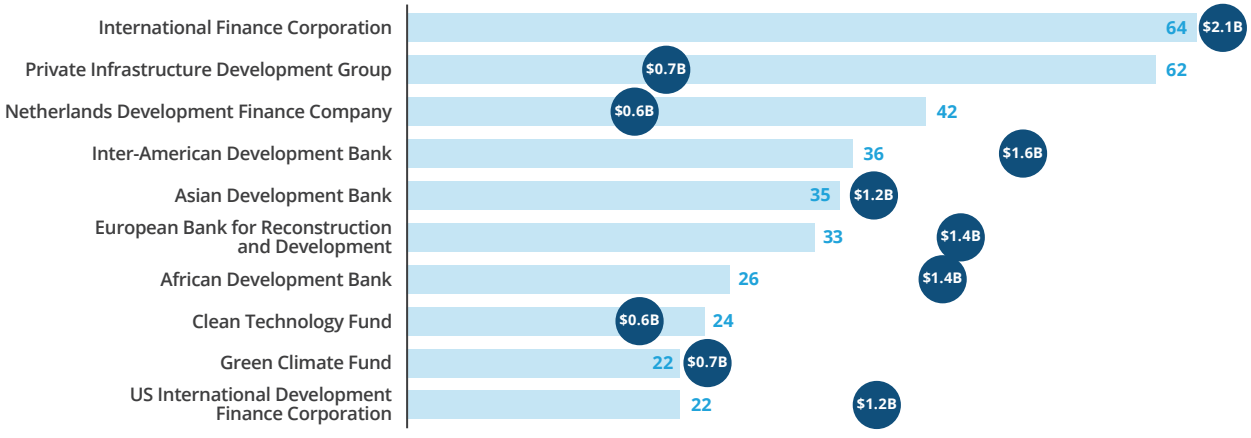
Mitigation Blended Finance Investors

All investor classes allocate the bulk of their investments to mitigation blended finance transactions. DFIs/MDBs accounted for the majority of investments in climate mitigation deals (34%) in the past three years, followed by commercial investors at 29%. In terms of financing volumes, DFIs/MDBs have provided approximately $9.6 billion towards mitigation deals, in contrast to $4.5 billion from commercial investors. Within the commercial investor class, corporates and financial institutions continue to provide the lion's share of investment to mitigation transactions, accounting for $870 million and $1.3 billion in cumulative financing volumes for 2021 to 2023 respectively.

In line with last year's report, mitigation blended finance continues to be financed through debt: 47% of investments into mitigation transactions versus 31% through equity financing, owing to the use of project and corporate finance structures. Interestingly, debt financing jumped from 47% to 51% from 2022 to 2023 respectively while the level of equity financing fell from 31% to 26% between the two years.

As stated above, DFIs/MDBs are the most frequent investors in mitigation interventions. IFC is the most active investor with 37 financial commitments over the past three years, totalling $1.2 billion. PIDG, JICA, and the GCF stand out as the top development agencies/ multi-donor funds.

Figure 36: Most frequent investors in mitigation blended finance transactions by number of investments and aggregate investment size (including guarantees / risk insurance), 2018-2023



COUNTRY SPOTLIGHT: CAMBODIA

Highlighting the Spillover Effects of Blended Finance

The funding gap to achieve the SDGs in EMDEs stands at $4.2 trillion annually. This report, along with Convergence's broader work, looks at private capital mobilization within transactions toward the SDGs. A critical knock-on effect of blended finance transactions is to lay a path for transactions that will no longer require subsidized risk mitigation or risk transfer instruments for the efficient allocation of capital.

This country spotlight explores Cambodia's ongoing transition to a fully commercialized solar market. It highlights how two solar projects, utilizing blended finance mechanisms and mobilizing $70 million, set a benchmark for the sector. The developments in the nascent sector ultimately helped attract over $1 billion in additional investments through power purchase agreements (PPAs), demonstrating the spillover effect of blended finance in developing the solar market.

Until 2016, Cambodia's solar PV market was non-existent. Moreover, electricity generation and transmission costs were high and the absence of supportive policies like feed-in tariffs hindered renewable energy development. In 2016, ADB, together with Singapore-based Sunseap Asset Co. Ltd, financed the construction and operation of a 10 MW solar plant, Cambodia's first utility-scale solar project. ADB provided a senior loan of approximately $4 million, supplemented by a $4 million concessional loan from the Canadian Climate Fund for the Private Sector in Asia (CFPS). ADB's leadership in structuring the financing package sent a clear signal to the Cambodian government, investors, and international financiers: private sector-led infrastructure investments could be conducted competitively, and with sound financial backing.

Building on this experience, in 2019, ADB led the financing for Southeast Asia's first large-scale solar park—the $40 million 100 MW Prime Road National Solar Park Project—by providing an A-loan of around $5 million from its own account and a concessional B-loan of around $3 million through the Canadian Climate Fund for the Private Sector in Asia II (CFPS II). The concessional financing reduced capital costs, enabling the project sponsors to submit a competitive PPA tariff bid and secure a record-low rate of $0.039/kWh—approximately one-third of Cambodia's previous energy costs.

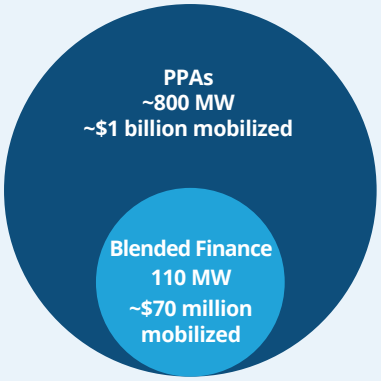
By leveraging blended finance for the two solar plants and attracting key investors like ADB, the burgeoning Cambodian solar market tapped into the country's underutilized renewable energy potential and established a benchmark for the sector. In 2022, the International Renewable Energy Agency (IRENA) reported an 11-fold increase in Cambodia's solar energy capacity. From just one 10 MW plant in 2016, Cambodia had seven solar plants by 2022, with a combined capacity of 305 MW connected to the national grid.

While international financiers played a critical role in jump-starting Cambodia's solar energy market, the Cambodian government has since taken the lead in recent years to attract local and regional investors. In 2022, the government released its $9.3 billion Power Development Masterplan (2022 to 2040) to address rising electricity demand. The government set ambitious targets to reduce coal reliance from 41% in 2024 to 21.4% while increasing the share of solar energy from approximately 6% to 29.8% by 2040.

In fact, the government has approved at least four new projects in recent years, including a 150 MW solar project in Pursat province owned by Chinese-Cambodian firm Snetec Company Limited. Local investor participation is crucial for nurturing nascent markets, and more than 60% of Cambodia's solar projects have involved local investors as key partners. Regional investors, particularly those from upper-middle-income countries willing to take on

more risk, have also played a vital role. Chinese project sponsors have partnered with Cambodian counterparts in approximately 50% of the projects, while Thailand's Prime Road Group sponsored the 100 MW National Solar Park.

The two solar projects that employed blended finance mechanisms totaled approximately $70 million and generated 110 MW of energy. By 2023, the total value of installed, planned, or approved solar power plants exceeded $1 billion, with a combined capacity of around 800 MW. As the CIF pointed out following the completion of Phase 1 of the National Solar Park: one of the key objectives of development finance must be to create a self-sustaining trajectory, serving as a gateway to further investment in nascent markets in EMDEs. This underscores that blended finance can not only be used in scaling climate finance but also for fostering the maturation of emerging markets to a point where concessional finance is no longer needed.



CLIMATE ADAPTATION

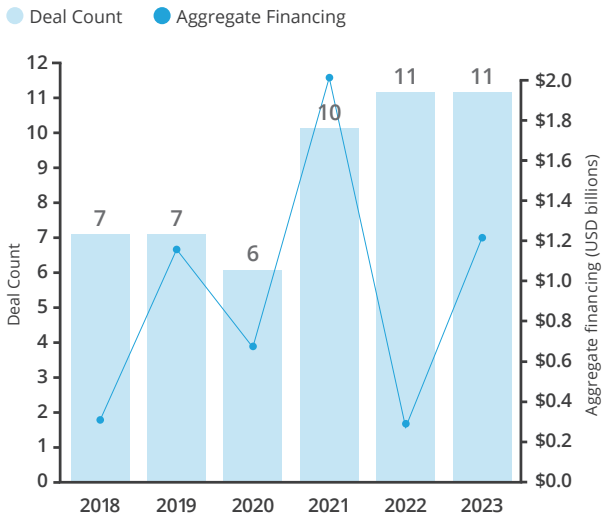
Convergence has recorded 32 adaptation blended finance transactions between 2021 and 2023, with a total value of $3.5 billion and a median transaction size of $32.5 million.

It is well known that despite the accelerating impacts of climate change globally, climate adaptation continues to be underfunded. As previously mentioned, according to the UNEP Adaptation Gap Report 2023, the financing gap in developing countries this decade is estimated to be $215 billion per year. The total amount of financing required, however, is difficult to accurately estimate given the many uncertainties surrounding the impacts of climate change and the reporting gaps at a country level. For example, as of October 2022, 144 out of 160 countries had submitted new or updated Nationally Determined Contributions (NDCs), including 139 developing countries, that contain an adaptation component, however, only 62 have outlined the associated adaptation financing needs.

Compounding the difficulties associated with estimating financing gaps in climate adaptation is low accuracy in data and monitoring, poor modeling techniques, and weak technical capacity in many countries. There are also differing opinions on future risks, the objectives of adaptation, and the variation in geographies and sectors. Taken together, the true picture of adaptation financing requirements is unclear, although it is likely that current forecasts vastly underestimate future needs.

There is, however, growing interest in financing adaptation initiatives; CPI found that climate adaptation and resilience financing reached an all-time high of $63 billion from 2021 to 2022. While interest in the climate blended finance market is similarly growing, it remains relatively low: only 14.1% of climate deals since 2018, totalling $5.7 billion, have been solely focused on adaptation. By deal count, blended adaptation

Figure 37: Blended climate adaptation deal count and aggregate financing, 2018-2023



commitments have been mostly consistent for the past three years. However, financing dropped significantly to only $0.3 billion in 2022 from $2 billion in 2021, and then partially recovered to $1.2 billion in 2023. In 2022, deal sizes were smaller, with six of the deals being under $2 million. Most of the 2022 transactions were also through direct financing in companies (four transactions) or projects (five). On the other hand, 2021 and 2023 saw several big transactions, including the Climate Investor Two fund ($820 million) in 2021 and the Ecuador Debt-for-Nature Swap ($656 million) in 2023. Given the low number of adaptation blended deals annually, large transactions such as these can drastically influence financing trends.

Most climate adaptation transactions use concessional debt and equity within their structure (81% from 2021 to 2023). This type of concessional financing can be crucial to de-risking a transaction enough to prove a demonstration effect and can reduce excess complexity in the financing structure. For example, the Yield Lab LatAm Opportunity Fund is a venture capital fund providing early-stage equity to agrifood tech companies across Latin America and the Caribbean. The fund received second-close commitments from public and private sector investors, while IDB Lab provided early-stage concessional equity to anchor and prove the concept of the fund. IDB Lab's investment helped secure commercial capital from the Bimbo Group, the Latam Impact Fund, and SQM, a diversified health and nutrition company based in Chile.

TA is also frequently used in blended adaptation transactions (26% of transactions from 2021 to 2023) and can help bridge capacity gaps and improve project design, thereby reducing investor concerns associated with operational sustainability. It can also support deal sponsors and local stakeholders in conducting vulnerability assessments and designing resilient technologies that are geographic and sector-specific.

Overall, adaptation blended finance deals tend to be smaller than mitigation transactions for several reasons, such as the need for localized solutions for adaptation, which are often highly contextual and tailored to the unique environmental, social, and economic conditions of a geographical location. This limits the scalability of projects, potentially causing them to be smaller and more fragmented in comparison with mitigation solutions.

There may also be challenges associated with the revenue-generating capacity for adaptation benefits. Mitigation transactions often have direct revenue streams, such as through the sale of renewable energy or cost savings from energy efficiency. Adaptation transactions, however, are more focused on reducing vulnerability to climate impacts and increasing resiliency, which often do not have an obvious or immediate revenue stream.

Adaptation Blended Finance Investors

Due to the aforementioned challenges, among others, the overall adaptation market often struggles to attract private sector investment—in the global climate adaptation market, only 1.6% of financing comes from the private sector. Blended finance, however, is demonstrably mobilizing higher levels of financing from the private sector, with 33% of blended adaptation financing from 2021 to 2023 coming from private sources. Given the enormous funding gap, it will be essential to mobilize even greater amounts of private sector investment for future adaptation needs. As previously discussed in Figure 23, blended finance transactions are already helping to attract higher levels of private investor deal activity. The public sector, however, continues to provide the bulk of financing in blended deals, with 54% coming from public investors in 2018 to 2020 and 64% in 2021 to 2023. The relative increase of public funding was influenced by a few large investment commitments from public investors such as US DFC, which provided non-concessional insurance commitments for the Blue Bond for Conservation—Belize in 2021 and for the Ecuador Debt-for-Nature Swap in 2023.

Overall, USAID was the top adaptation investor by number of investment commitments, while US DFC was the top provider of capital. Most of USAID's commitments were provided as smaller grants through its WATIH program, while US DFC provided the large aforementioned insurance commitments. US DFC is part of the Build Back Better World (B3W) initiative, which includes mobilizing private sector capital in climate change adaptation in developing nations. Its strategy focuses on three pillars, including:

1. Trailblazing adaptation initiatives through prioritizing sectors including agriculture, forestry, and water management to strengthen food and water security;
2. Building a cutting-edge climate portfolio through a commitment to having a net zero investment portfolio by 2040; and
3. Mobilizing climate capital through supporting innovative financial mechanisms such as blended finance.

Figure 38: Blended climate adaptation investor type by aggregate financing, 2018-2023

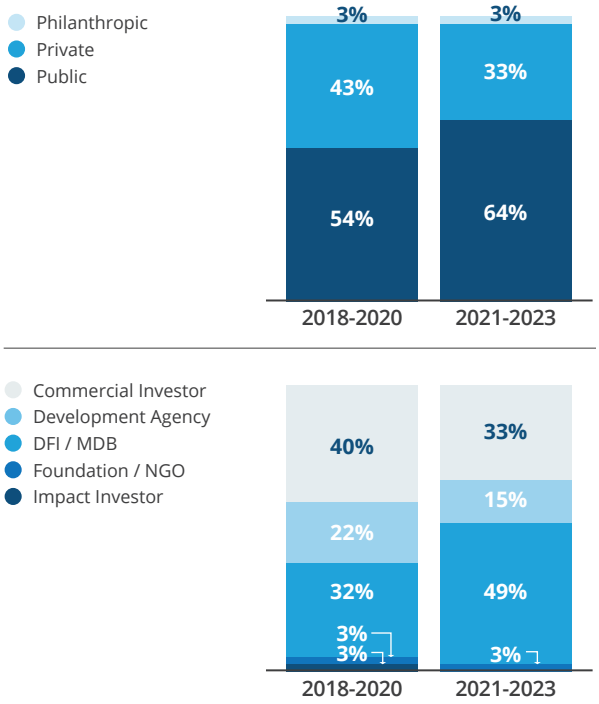
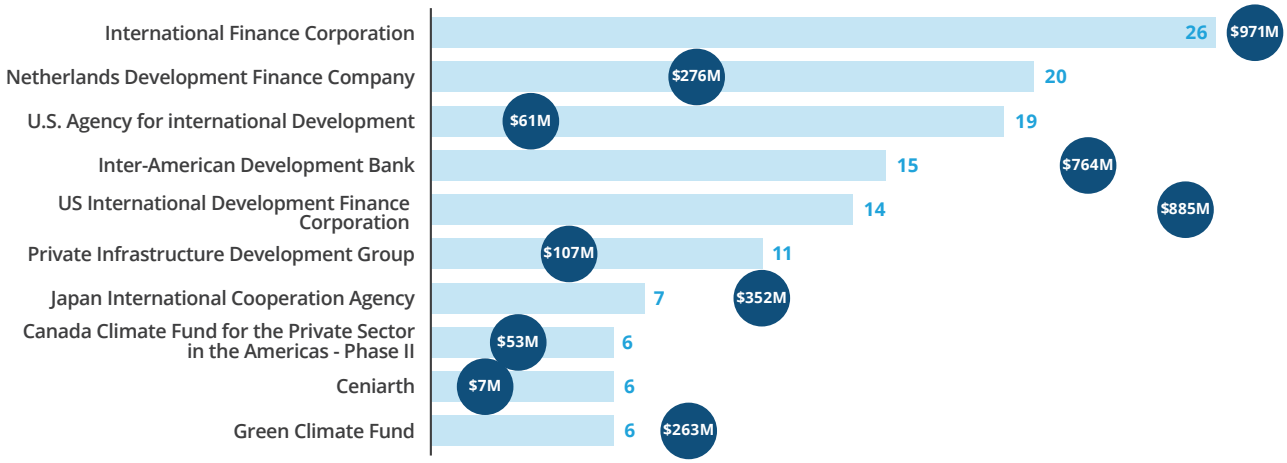


Figure 39: Top investors by deal count in blended adaptation transactions, 2018-2023



NATURE-BASED SOLUTIONS

Figure 40: Blended adaptation transactions in top 5 sub-sectors by deal count and aggregate financing, 2018-2023

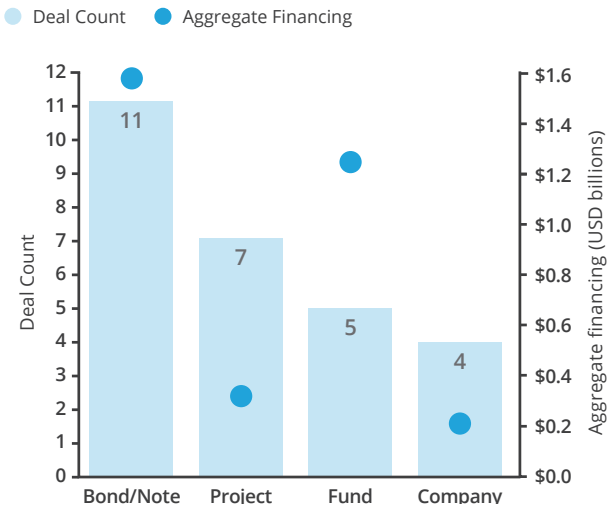
Nature-based solutions (NbS) harness the power of nature to boost natural ecosystems, biodiversity, and human well-being to address major societal issues, including climate change. Convergence determines NbS alignment if the transaction explicitly derives an economic benefit directly from nature. This can include a fund that invests in projects that focus on restoring ecosystems, reforestation transactions that derive revenue from land use improvements (for example through carbon credits), or sustainable agriculture that makes biodiversity conservation an integral part of its strategy.

As a sub-sector, NbS accounts for the largest share of pure blended adaptation transactions by aggregate financing from 2018 to 2023 (11 transactions totaling $2.1 billion).

Overall from 2018 to 2023, NbS is a focus of 27 climate transactions within Convergence's database, totalling $3.2 billion. 41% of these are bonds (11 deals), which also mobilize the greatest sum of financing to NbS ($1.5 billion). Meanwhile, projects and companies tend to attract smaller amounts of capital. Vehicles such as bonds and funds can help overcome some of the scalability issues associated with NbS. Like other adaptation transactions, given their localized context, NbS face challenges with narrowly defined ecosystems, individual community needs, and unique political dynamics. Funds, as aggregators, allow larger investors to support a variety of NbS by providing diversification benefits and bigger ticket sizes. Meanwhile, bonds have been integral to tackling challenges associated with wide-scale natural habitat threats, especially in ocean conservation. Three of the NbS deals were blue bonds, all of which made the protection of marine and coastal habitats and wildlife core to their structure.

While NbS often have an adaptation focus, they may also contain elements of mitigation, such as reforestation leading to higher levels of CO2 absorption from the atmosphere. Of the 27 NbS transactions, 15 or 56% also had mitigation impacts. In fact, NbS have the potential to mitigate up to 10 gigatons of CO2 annually, corresponding to

Figure 41: Blended NbS transactions vehicle type by deal count and aggregate finance, 2018-2023



approximately 27% of current global annual emissions, but they remain chronically underfunded. One study found that as of 2019, only $20.8 billion in private investment is estimated to have flowed into NbS and conservation initiatives. It is therefore critical to encourage further investment into NbS not only to advance biodiversity, conservation, and climate-resilient efforts, but also to support wider mitigation efforts to meet the goals within the Paris Agreement.

Blended finance can be especially additional for NbS transactions, given their higher perceived risk First, NbS face the inherent challenge that revenue directly depends on nature's timelines; a transaction in reforestation will be limited by the time it takes for a tree to grow. These timelines often exceed private sector investor appetites and increase risk concerns, given that NbS are sensitive to other natural disruptions such as droughts, large storms, or pests.

Moreover, NbS currently lack standardized outcome measurements, meaning it can be unclear to investors what the impact of their support will be. NbS investments also often produce a mix of co-benefits that can be difficult to monitor and quantify as revenue, and impacts can be in the form of public goods, which cannot be captured as a revenue stream.

Blended finance can help address some of these challenges. For example, concessional debt can provide flexible terms and absorb a level of risk that no other investor is willing to take on to move deals to market more efficiently. Concessional guarantees can help de-risk transactions that are susceptible to natural disasters and unforeseen environmental changes, and design funding grants can help establish robust methods of monitoring and evaluation to provide clear impact reports for investors.

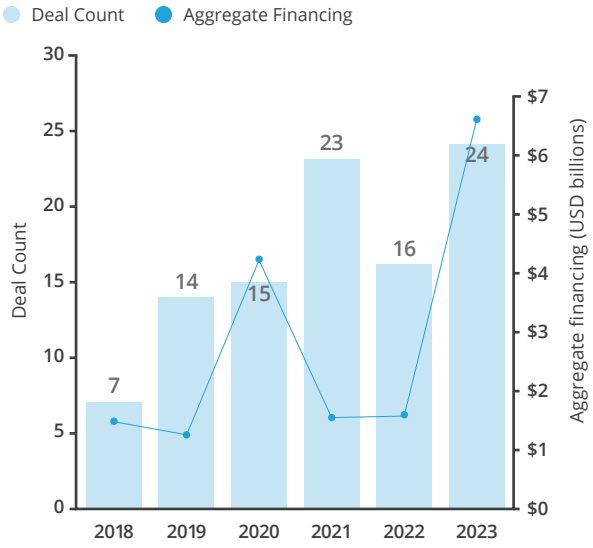
A growing area of interest within NbS is the carbon market. The carbon market can refer both to the compliance carbon market (CCM), and the voluntary carbon market (VCM). The former is regulated by mandatory carbon market regimes, while the latter is decentralized and allows private actors to voluntarily buy and sell carbon credits. Carbon credits can be generated not only through NbS activities such as afforestation or reforestation, but also through technological advancements such as carbon capture. High-quality carbon credits can help offset CO2 emissions, protect and restore nature, and ensure communities both benefit from and are active participants in the projects.

The VCM, however, currently faces several challenges that may make investors hesitant. For one, the decentralized nature of the VCM means there are issues associated with credibility and integrity. There is no mandatory objective oversight framework that ensures carbon credits represent real, additional, or permanent carbon emissions. While independent organizations have attempted to provide voluntary certification, the array and variety of these organizations means comparing quality and impact can lead to confusion among investors. In worst-case scenarios, the VCM can be seen to support greenwashing efforts, allowing organizations to claim emissions offsets without actually creating environmental benefits.

While there are limitations associated with blended finance, especially on the regulatory side, concessional and catalytic capital can play a large role within the VCM by de-risking the market, improving the integrity of the credits, and mobilizing larger amounts of private finance into the sector. Concessional guarantees, for example, can help boost investor confidence by reducing real or perceived risks while lowering investor costs. Meanwhile, first-loss instruments can help protect senior investors, improving their risk-return ratio by providing a safety net at the bottom of the capital stack. This can bring carbon credits in line with the fiduciary mandates of commercial investors. Lastly, grant funding through either design investments or TA can help support carbon credits that create meaningful, transparent, and measurable impacts.

CLIMATE CROSS-CUTTING TRANSACTIONS

Figure 42: Blended climate cross-cutting deal count and aggregate financing, 2018-2023



One way to increase financing flows towards adaptation initiatives is through transactions with co-benefits, or those that contain both climate adaptation and mitigation components. Convergence has captured 63 cross-cutting blended finance transactions between 2021 and 2023, with a total value of $10 billion and median transaction size of approximately $60 million. The two financing peaks in 2020 and 2023 can be explained largely by deals that are over $1 billion; in 2020, PUMA II, an expansion project for a pulp and paper manufacturing company in Brazil, accounted for $2.1 billion, while the three aforementioned "whale" deals in 2023 (i.e. Águas do Rio - Bloco 1 and 4, and the SDG Loan Fund) were all cross-cutting transactions.

These transactions contain elements that may be more familiar and are seen as less risky to traditional investors than pure adaptation transactions; a project may use renewable energy such as solar power (a mature market) to power agriculture irrigation systems that build resilience in farmers against changing weather patterns. The combination of adaptation and mitigation also offers private sector investors the opportunity to make potentially shorter-term, tangible returns through mitigation elements, while building climate resilience through adaptive measures. In turn, this can lead to longer-term security and risk reduction. For example with carbon credits, the mitigation portion of the transaction (i.e. the credits from future CO2 absorption) can be sold in the short term, while tree growth can create long-term benefits such as reduced erosion and cleaner watersheds.

Moreover, cross-cutting efforts can lead to overall lower transaction costs and help balance the goals of climate change under limited resources, an urgent issue for regions with high emission levels and vulnerability. For example, urban design could both

incorporate adaptive techniques of climate-safe siting while building in energy-conserving and mitigating characteristics and low transportation requirements. The Urban Resilience Fund (TURF) aims to support projects that undertake exactly this strategy. The fund invests in urban mobility, energy transition, smart city solution infrastructure, and waste management systems and contains a first-loss equity tranche funded by donors, including the Luxembourg EIB Climate Finance Platform. This allowed senior investors, including DFIs and private investors, to finance the fund. In addition, the fund contains a TA facility that received design-stage support from the Rockefeller Foundation and the PIDG TA facility.

Overall, the growing maturity of the mitigation market may provide opportunities for blended finance to shift into transactions that bring in elements of adaptation and contribute to mainstreaming climate resilience within investment strategies.

Cross-Cutting Blended Finance Investors

Like adaptation deals, public investors play a large role in financing cross-cutting transactions. The proportion of investments made by private actors grew significantly from 2021 to 2023, largely due to the commercial investments in Águas do Rio transactions. The project comprises one of the largest investments in the Brazilian water and sanitation sector. Águas do Rio 1 benefits about 3 million people through expanded access to drinking water supply, sewage collection and treatment services, while Águas do Rio 4 will bring the total impact to about 7 million people. Both projects benefited from grants from the United Kingdom Sustainable Infrastructure Program (UK SIP), delivered by IDB Invest, guarantees from PROPARCO, and debt provided by various commercial banks and private investors.

Most of the top investors within cross-cutting transactions are DFIs/MDBs, with IFC having the highest commitments by both count and total financing. IFC has created a network of climate facilities through national bilateral agreements. With focuses on several key sectors: clean energy, green buildings, climate-smart agribusiness, smart cities, and green finance.

Figure 43: Blended cross-cutting investor type by aggregate financing, 2018-2023

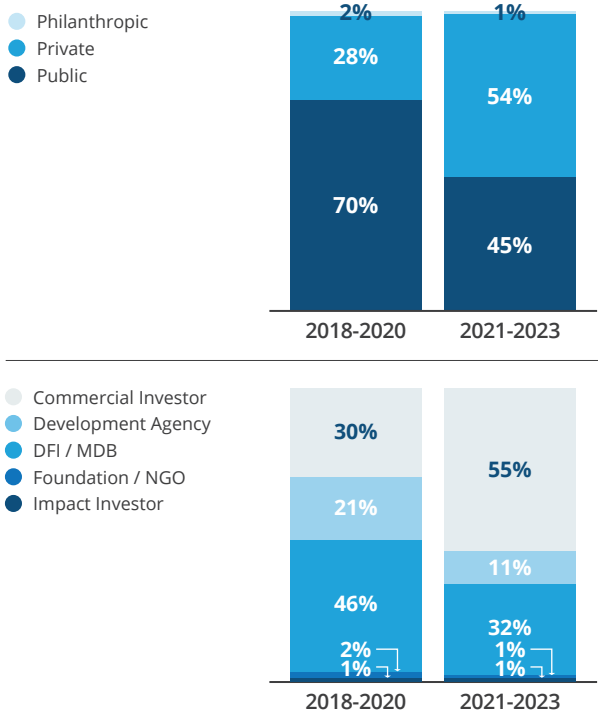
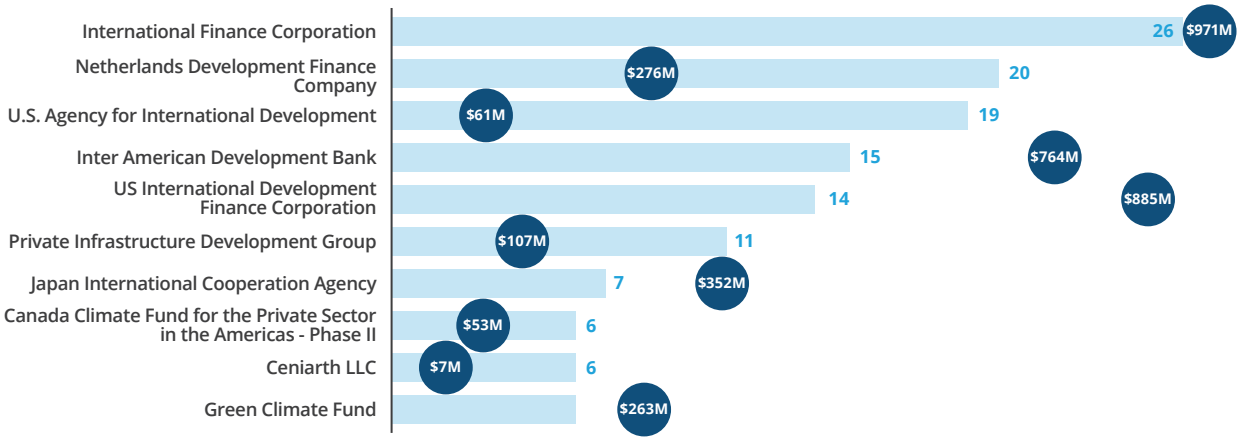
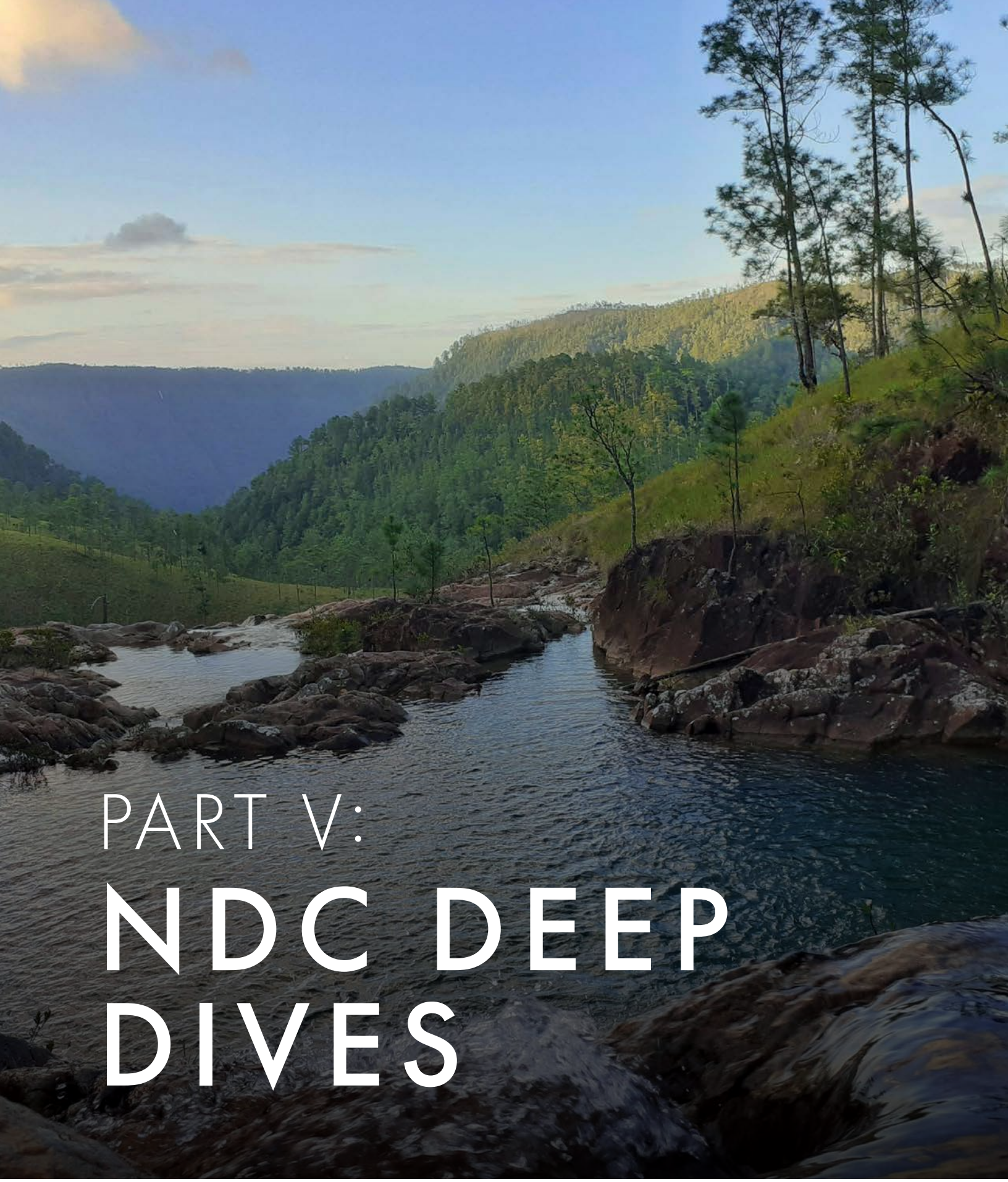


Figure 44: Top investors by deal count in blended cross-cutting transactions, 2018-2023





PART V: NDC DEEP DIVES

PART V:
NDC DEEP DIVES

THE ROLE OF BLENDED FINANCE IN NDC IMPLEMENTATION

With the Paris Agreement requesting that countries submit each new round of NDCs every five years from 2020 onwards, early 2025 will see countries communicate their new NDCs with 2030 and 2035 targets, and thus represents a critical juncture in the fight against climate change. NDCs are climate action plans to cut carbon emissions and adapt to climate impacts, and can serve as helpful indications to investors of countries' long-term climate ambitions. However, questions over the current state of NDC implementation abound. Although NDCs must be ambitious and investible to be effective, variation in the quality and detail of different countries' NDCs is high, with information on how policymakers might implement them in practice often lacking. The updated NDCs therefore represent an opportunity for governments to provide more substantive and granular information on the policy platforms behind their climate targets and the technological and sectoral opportunities that might attract and leverage private investors.

In this year's report, Convergence will briefly explore some of the current issues faced by countries in the implementation of their NDCs, before turning to indicative case studies investigating how blended finance has been integrated within NDC implementation in Indonesia, Rwanda, and Belize. Finally, we then present several recommendations setting out how blended finance can help support EMDE governments in implementing their NDCs going forward.

NDC IMPLEMENTATION: INTEGRATING THE PUBLIC AND PRIVATE SECTORS

Country-led roadmaps on how NDC targets can be invested in and achieved within specific timeframes, with the support of policy levers, climate investment planning, and mobilization frameworks, are important to ensure the alignment of public and private finance with countries' climate-development objectives. To support these efforts, the GCF and the NDC Partnership have developed the Climate Investment Planning and Mobilization Framework. The scope of the framework ranges from governance and capacity building to optimize "upstream" stages of investment planning, to the identification of sectoral priorities and assessment of projects and investment opportunities that may attract private capital, to bilateral negotiations, structuring and financing of projects as part of "downstream" stages. As noted by Guly Sabahi, Senior Advisor, Climate Finance, and Joaquim Leite, Head of Climate Finance, at the NDC Partnership Support Unit, the complexity of the climate finance landscape, the need for coordinated action across government levels, partners, and the private sector, and the importance of a programmatic approach anchored on a strong climate-development rationale, were the key factors behind the creation of the framework:

> *"We need processes ensuring that NDC-aligned projects and investment opportunities are identified and prioritized based on a broader programmatic and transformational agenda rooted in the country's vision for economic and sustainable development and backed by a strong climate-development rationale, with continued support of both public and private sectors. This approach increases the chances of advancing these investments and ensuring continuity throughout the country's political cycles."*

By using the framework, countries seeking support for NDC-aligned projects and investment opportunities can have a full and integrated picture of both their upstream and downstream processes, and a common language for partners and the private sector to use when supporting countries on NDC implementation, Sabahi and Leite add. Ensuring that NDC targets are economically and financially credible within a country context and that ministries of planning, economy, and finance are integrated within the planning process is also key; identifying specific sectors as high priority can be an important signal to the private sector of respective policy support, which is particularly important for large-scale innovative investments. Since private sector engagement in NDC processes is relatively new, support from TA facilities and early engagement with investors and businesses can help governments:

1. identify sectoral priorities, policy levers, and financing strategies focused on the mobilization of private capital at scale;
2. determine more efficiently the potential commercial viability of projects and investment opportunities (e.g. on a programmatic or sectoral level); and
3. identify those projects and opportunities most eligible for blended finance to ensure additionality.

The exchange of data among countries, businesses, investors, and partners on climate transition plans would help interlink and align the private sector's investment plans with the countries' climate and development priorities, and would allow the countries to better leverage the agility and resources of the private sector, Sabahi and Leite add:

> *"If a country wants to achieve 50% renewable energy in 10 years, it is important to have clarity on how it can get there. For instance, by enacting sectoral transition roadmaps, policy levers, and financing strategies to mobilize private capital. Additionally, institutional arrangements and capacity are important to align stakeholders and foster collective action to support countries' efforts to identify, prioritize, develop, and finance NDC-aligned projects and investment opportunities."*

While country-level public-private platforms can be resource-intensive and potentially not feasible in every EMDE, they can be used as a mechanism for breaking out the different categories of investments, sectors, and projects that are ultimately financeable by the private sector, building time-bound investment pathways and identifying the specific policy-level, system-planning, and financial risk barriers to investing in those areas. They can thereby signal to governments what needs to happen to attract private investment and affect real investment decisions, one respondent notes:

> *"The alternative is either you do it so far upstream that it's an impossible conversation for financial institutions to participate in because it's just entirely theoretical, or it's at the point where you're talking about individual projects that are fairly advanced, which then it's hard to relate back to the actual NDC."*

Even with the creation of investment-planning toolkits or public-private platforms, financial support or expert advice to help EMDE governments implement their recommendations remains limited, which is particularly challenging given that knowledge about climate sectors that are often nascent and constantly evolving can be limited in government circles, one respondent notes:

> *"It's a really difficult thing for any government to do, particularly those that are resource constrained and lower income. Advanced economies must support them in this as a key element of their broader climate finance support."*

Increasing support for the World Bank Group's country climate and development reports (CCDRs), which help countries prioritize the most impactful actions to reduce emissions while delivering on broader development goals by detailing concrete costs, challenges, benefits, and opportunities, might be helpful here, as would aligning siloed teams within MDBs, one respondent notes:

> *"MDBs are split between those supporting governments in designing long-term low emission development strategies for the CCDRs, and those deploying financing. A country's CCDR might suggest a particular sector can be privately financed, while MDBs' lending teams might still look to finance a project in the sector, even if they're competing against the private sector."*

RWANDA

OVERVIEW

Rwanda, a small, landlocked country in Central Africa, is characterized by its diverse natural landscapes. Despite being classified as a low-income country, Rwanda ranks 38 internationally for ease of doing business (2019) and has one of Africa's fastest-growing economies. Like many developing countries, Rwanda confronts the dual challenge of addressing the impacts of climate change while simultaneously implementing measures to steer away from a carbon-intensive development pathway. The country is highly vulnerable to climate impacts, as reflected in its ND-GAIN score of 0.569 (2022). It has already suffered severe droughts and floods due to climate change, which have hit the poorest communities the hardest. For instance, the World Bank notes that these climate-related events have disrupted agricultural production, driving food prices up by 65% in early 2023, worsening poverty and food insecurity.

Rwanda has emerged as a leader in climate action, not only within the developing world but also on the international stage. Although Rwanda contributes minimally to global GHG emissions, emissions are expected to rise with economic expansion and growing energy demand. To address these challenges, the Government of Rwanda (GoR) launched its Green Growth and Climate Resilient Strategy (GGCRS) in 2011, committing to low-carbon development and enhanced climate resilience. Its leadership has also emphasized the need for shared responsibility in combating climate change and has actively called for increased international climate finance to support global efforts. In November 2015, Rwanda submitted its intended NDCs (INDCs) in line with international requirements. Following the adoption of the Paris Agreement, these INDCs evolved into NDCs, becoming obligatory for both developed and developing nations. In May 2020, Rwanda updated its NDCs, presenting them to the UN Framework Convention on Climate Change (UNFCCC) with more defined goals. The updated NDCs included an unconditional commitment to reduce emissions by 16% and an additional 22% reduction by 2030, dependent on international support.

Rwanda has aligned these targets with its national policies and strategies, including Vision 2050 and the National Strategy for Transformation (NST). This integration ensures that climate action is embedded in national development plans and aligns with the SDGs, promoting both sustainable growth and climate resilience. As such, the country has been commended for its ability to effectively translate climate goals and strategies into concrete actions and policy implementations.

> *"Rwanda's climate policies are not only well thought out but also capable of driving transformative change on the ground. The government dedicates significant time and effort to crafting effective policies, and we must strongly commend them for that."*
> *— Dr. Somorin, AfDB*

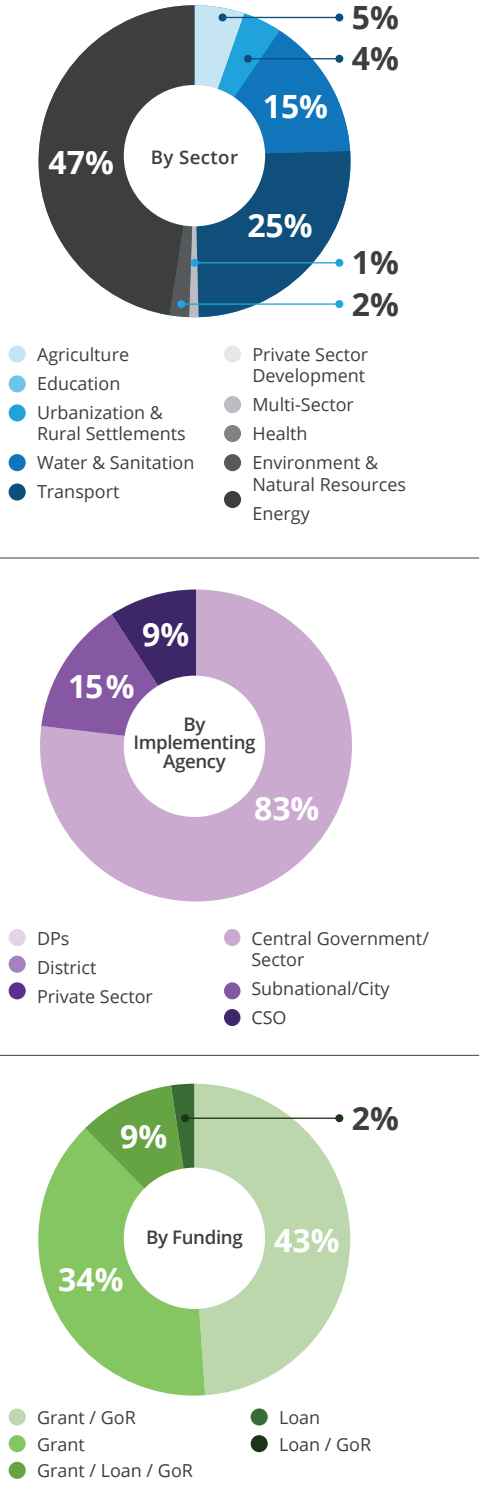
FINANCING THE NDCS

The total cost of implementing Rwanda's NDCs is approximately $11 billion, which represents 7% of the country's gross domestic product (GDP) annually until 2030. The funding requirements for mitigation and adaptation measures in Rwanda are estimated at $5.7 billion and $5.4 billion, respectively. The government has developed a robust pipeline of over 550 projects, valued at approximately $4.5 billion, to support NDC implementation. Notably, the majority of these projects are concentrated in the energy (47%) and transportation (25%) sectors, both of which are closely linked to climate mitigation. In contrast, agriculture and water and sanitation—responsible for nearly three-quarters of total emissions in the country and primarily related to climate adaptation—account for only 5% and 15% of the total project value, respectively. All these projects fall within the initial phase of the implementation period (2020 to 2025). Currently, no projects have been identified for the subsequent period (2025 to 2030), leading to an estimated financing gap of approximately $6.5 billion.

Financing for the 550+ projects mentioned above has primarily come from the public sector, with central and local governments acting as the implementing agencies for 83% and 15% of the projects, respectively. Furthermore, grants and public budget resources account for 89% of total financing, highlighting a lack of public-private partnerships to support the NDC implementation strategy. This heavy reliance on public capital, unfortunately, limits the number of projects that can be undertaken, as it restricts the overall capacity and scope of investment.

> *"Given the small size of the domestic market in Rwanda, businesses looking to scale need to expand regionally. Significant efforts towards regional integration within the East African Community (EAC) and beyond are necessary. Even with the initiatives undertaken by the government, most Rwandan SMEs, and especially those pioneering in climate action, lack capacities and resources to tap into these markets."*
>
> *— Julia Balanowski, GIZ Rwanda*

Figure 45: Contributors for climate investments in Rwanda by sector and implementing agency composition of climate investment according to the instruments, source: Rwanda NDC Implementation Framework 2021



It is widely recognized that closing the gap will require greater private-sector involvement. There are several barriers to scaling private climate finance in Rwanda.

1. **The domestic private sector market is relatively small** compared to other countries in the region. Micro-, small- and medium-sized enterprises (MSMEs) in Rwanda account for 98% of all businesses and contribute 33% to the GDP. Although the financial sector is progressing toward climate finance, the corporate sector remains a critical missing link given the challenges MSMEs face in scaling.
2. **MSMEs face significant challenges in acquiring the technical expertise** needed for growth and scaling, particularly for climate targets. In fact, only 30% of MSMEs in Rwanda have been in operation for more than three years. While TA programs are widely available, entrepreneurs often participate in multiple training programs with varying methodologies and certifications, leading to a lack of standardization and potential gaps in oversight.
3. **Access to financing for MSMEs remains limited.** The high average lending interest rate of approximately 17% is unaffordable for many small businesses. Rwanda also has one of the highest collateral requirements in Sub-Saharan Africa, with few innovative financing instruments beyond short-term loans. Consequently, over 90% of investments by small businesses are financed through limited internal resources rather than formal financial institutions.

"It's important to understand the dichotomy in the sources of finance. So far, funding has been predominantly from the public sector, placing the burden on public fiscal policy and resources. Over the next six years, the focus needs to shift towards private sector-driven finance. This, to me, is at the core of the issue and underscores the critical importance of the blended finance conversation."
— Dr. Somorin, AfDB

Blended finance will be crucial in addressing the funding needs associated with the country's conditional contributions in particular as well as addressing the challenges the corporate sector faces in the country. Convergence has identified 18 climate blended finance transactions in its HDD targeting Rwanda since 2015; 78% of the transactions focus on mitigation measures while only 12% target adaptation and cross-cutting measures, reflecting broader trends in the blended finance market.

Rwanda's Ireme Invest, the country's green private investment facility, is an example of how the government is using blending instruments to mobilize private sector capital. It has a credit facility that offers credit guarantees and concessional loans to increase the bankability of projects. The Facility is expected to issue sustainability-linked bonds (SLBs) and green bonds to attract private investment in the future. The Facility has received funding from key MDBs and DFIs such as two EUR 20 million loans from the EIB and the AFD. Private sector investors have financed approximately EUR 130 million in equity. The Facility was set up by the Rwanda Green Fund (formerly known as FONERWA) and the Development Bank of Rwanda.

Recognized as one of the most successful national climate funds, the Rwanda Green Fund is responsible for mobilizing resources for NDC-related initiatives. Initially capitalized by the governments of the UK, Rwanda, and Germany, the Fund now sources its budget from both public and private domestic and international sources. It offers 'innovation grants' (also referred to as design-stage grants in this report) of up to $300,000 to private sector companies for research and development, proof-of-concept, and demonstration projects, requiring a 25% match from the company. Additionally, the Fund provides a line of credit at an interest rate of 11.45%, significantly below the market rate, which necessitates a 30% funding match from private sector companies. Recently, the Rwanda Green Fund collaborated with the Rwanda Development Bank (BRD), the AfDB, and other DFIs, MDBs, and multi-donor funds to create the Rwanda Green Investment Facility (RGIF), modeled on the "green bank" concept. This facility will provide both reimbursable and non-reimbursable grants to enhance the bankability of projects, ultimately enabling them to secure financing on commercial terms. Furthermore, RGIF's credit facility will offer subordinated concessional loans to projects that have commercial co-financers in a senior position.

THE WAY FORWARD

As the government prepares its project pipeline for the 2025–2030 period, its primary role will be to foster an enabling environment that can attract and catalyze private capital flows, alleviating the current strain on public finances. The government has begun the implementation of the Green Taxonomy framework, introduced at COP 28 in 2023, which will serve as a cornerstone for the country's green transition. The Capital Market Authority (CMA), Rwanda Stock Exchange (RSE), and the Private Sector Federation (PSF) are key members of the Taxonomy Steering Committee, driving this initiative forward. Additionally, an Industry Working Group, consisting of prominent financial and industrial institutions, has been consulted to assess the taxonomy's relevance and effectiveness within the Rwandan context. In the medium term, the government plans to introduce green guarantees and subsidies to support activities aligned with the framework, alongside other policy measures. In the long term, guidelines for issuing green bonds and other green debt instruments will be established to further attract private investment.

> *"Going forward, we need to embrace and deepen a new approach to policy development. Any new policies should be co-created with the private sector and other key stakeholders, rather than being created for them because it ensures that the perspectives and practical insights of those implementing the policies are considered from the outset."*
> *— Dr. Olufunso Somorin, AfDB*

To scale up investments in climate adaptation from both the public and private sectors, a more diverse range of financial instruments is essential. Currently, 90% of adaptation funding relies primarily on loans and grants, while mitigation projects benefit from a wider array of financial tools. It is vital to explore innovative instruments such as green bonds, results-based financing, and adaptation benefit mechanisms (ABM) to help mobilize private capital. ABM, introduced by the AfDB, reduces investment risks by enabling payments for the delivery of adaptation benefits. Through ABM, development partners, consumers, funds, and philanthropists can enter into purchase agreements for Certified Adaptation Benefits, which project developers can then use as collateral to secure private sector debt, equity, and in-kind contributions. It's important to recognize that the challenge of insufficient adaptation funding is not unique to Rwanda. By building a pipeline of climate-resilient development projects, the government can establish a framework and methodology that incorporates adaptation into every project—including those focused on climate mitigation—to ensure cross-cutting benefits. This approach will help ensure that adaptation co-benefits are achieved alongside mitigation efforts.

BELIZE

OVERVIEW

Belize is known for its rich biodiversity and abundance of natural resources, with approximately 59% of the country remaining under natural vegetation and 39% of the terrestrial area made of protected forests. The country is also home to the largest coral reef systems in the Western Hemisphere, which extend across nearly the entire coastline and act as a defense against storm surges and hurricanes. As a small island developing state (SIDS), Belize is particularly vulnerable to the impacts of climate change. With low-lying coastal regions, its reliance on fishing and agriculture, and its dependence upon natural ecosystems to drive its high levels of tourism, the increased frequency of intense storms, droughts, and flooding, along with changing sea acidity and temperature, is expected to have serious consequences for its inhabitants and the country's economy.

Given its small size and low population, Belize's ability to contribute to global mitigation targets is limited, but its need to adapt is critical. Despite its relatively low levels of emissions, Belize is committed to developing and implementing a strategy that is aligned with achieving net zero global emissions by 2050. In 2021, the government submitted an updated NDC that targets avoiding cumulative emissions across all sectors of 5,647 kiloton CO2 equivalent (KtCO2e) between 2021 and 2030. Currently, the abundance of natural forests within the country means that accounting for the agriculture, forestry, and other land use sectors, the entirety of Belize is a sink of GHG emissions.

Nonetheless, within the NDC, the government has identified areas to reduce emissions through conserving tropical forest and mangrove cover, implementing reforestation efforts, practicing sustainable agroforestry, increasing renewable energy capacity, and improving land management practices. Most of these efforts are conditional commitments, reliant upon external financial support and TA to meet. Meanwhile, adaptation efforts are largely unconditional commitments, with targets including increasing the resilience of coastal communities and habitats, increasing the adaptive capacity of the agriculture and tourism sectors, and implementing enhanced early warning systems for droughts and extreme weather events, among others.

FINANCING THE NDCS

In total, the proposed mitigation targets and actions outlined in the NDC are estimated to cost nearly $1.39 billion, from 2021 to 2030, and the funding gap is approximately $1.24 billion. The largest gap is within the renewable energy sector at $459 million. Overall, the mitigation gap could be reduced to $607 million if recoverable costs in the energy and waste sectors are considered, such as cost savings for improved efficiency or funds obtained through carbon credits or other financial incentives. Regarding the proposed adaptation initiatives, the cost is estimated at $318 million within this same period, with a financing gap of $146 million. Agriculture has the highest remaining funding requirements at $72 million, which will require investments in climate smart agriculture (CSA).

Belize must rely on international investors and donors to ensure it can meet its emissions contributions and increase its carbon sinks. Sidney Jules, Manager of the Islands Energy Program at the Rocky Mountain Institute (RMI), suggests that many SIDS, Belize included, lack necessary capital and have limited fiscal capacity. Public financing and those from local institutions are not adequate to meet the demands of the NDC contributions. From 2015 to 2019, only 3% of climate financing in Belize was from private investments and 9% was from the Belize government, while 20% was from bilateral donors and 39% was from MDBs. Jules confirms that in many larger transactions, SIDS must depend on grants or concessional loans from multilateral agencies. He also suggests that low capacity and high

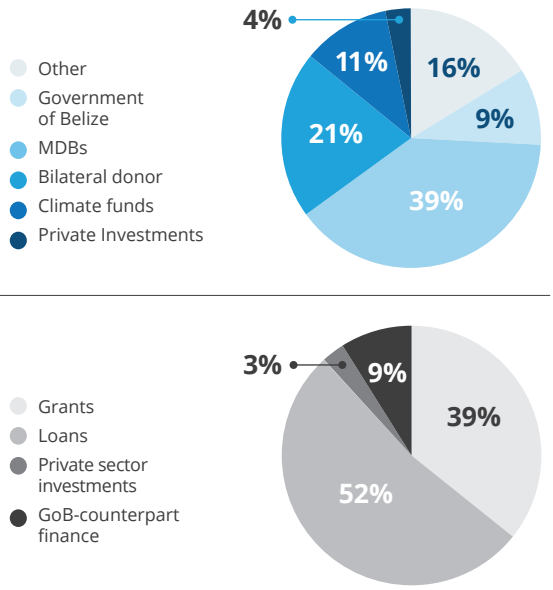
application requirements for many of these loans can act as a deterrent to successfully attracting capital. Representatives from the Ministry of Economic Development, however, see the value of increasing efforts to attract private investors:

> *"Private investments will allow us to meet the NDCs in 2030 and beyond. The Government is committed to creating policies, regulations, and incentives for these private investors."*
> *— Ministry of Economic Development, Government of Belize*

While blended finance can be used to mobilize private investment at scale to help close some of these funding gaps, its use is nascent in Belize, with only three blended transactions captured in Convergence's database related to climate goals since 2016, when the first NDC was published:

- **Sustainable Ocean Fund (SOF)**: The SOF was launched with $92 million in 2016 to provide private debt investments in sustainable fisheries, supply chain improvement and marine conservation. The fund will invest in 10-20 sustainable businesses throughout Latin America, Asia, and Africa to improve biodiversity, livelihoods, and value of the landed catch, along with initiatives in sustainable aquaculture, ecotourism, and related environmental markets. USAID, via the Development Credit Authority, provided a 50% first-loss guarantee, which crowded-in DFIs, family offices, and other institutional investors. The Environmental Defense Fund (EDF) and Conservation International (CI) also provided technical and scientific assistance earmarked grants to the fund.
- **Forestry and Climate Change Fund (FCCF)**: The $20 million FCCF was launched in 2017 as a private equity fund focused on investing in businesses working to restore natural capital in secondary and degraded forests in Central America and the Caribbean. FCCF's creation was aided by IfD's TA programme (TAP), which also provided pipeline support. FCCF is a multi-tiered fund, comprised of senior shares and subordinated concessional shares. The concessional shares provide first-loss coverage to senior shareholders and seek capital preservation, with effectively 0% yield. They are held entirely by the Government of Luxembourg. Senior shares are held by various investor types including institutional investors and commercial banks.
- **Blue Bond for Conservation – Belize**: The Belize blue bond is part of The Nature Conservancy's (TNC) Blue Bonds for Conservation program, an initiative designed to help developing countries protect their marine resources by supporting them in buying back and restructuring sovereign debt. Launched in 2021 and totaling $364 million, proceeds from the blue bond enabled Belize to repurchase its outstanding Eurobond debt at a discount. Savings from the restructuring will be earmarked for coastal conservation activities. In 2016, Convergence awarded TNC and NatureVest (the conservation investing unit of TNC) a proof-of-concept grant. TNC issued the blue bond, with Credit Suisse acting as sole structurer and arranger, and then provided the Government of Belize with the proceeds through a blue loan to be used to retire the outstanding Eurobond debt. US DFC provided $610 million in political risk insurance to credit enhance the debt product.

Figure 46: Contributors for climate investments in Belize (top) and composition of climate investment according to the instruments (bottom) (2015–2019), source: Government of Belize, 2019[16]



16 Total does not add to 100% due to rounding.

THE WAY FORWARD

Despite being a nascent market, blended finance can help Belize address barriers to accessing climate finance that make implementing its NDC goals challenging. Several of these challenges were mentioned throughout the interviews, namely those surrounding project scalability, government fiscal constraints, a lack of bankable projects, and poor coordination among stakeholders and implementers.

The first challenge relates to project scalability; representatives from the Ministry of Economic Development in Belize suggest that smaller project sizes hinder investment opportunities within the country. Given Belize's minimal contributions to carbon emissions globally, relative to some of their South American neighbors such as Brazil, it can be difficult to provide adequate ticket sizes and large enough impacts needed for international investors to fund climate-related transactions. Even if the country were to implement 100% renewable energy, they suggest it still would not meet the threshold of call for proposals for some funding initiatives.

For example, a recent project submitted to the NAMA Facility focused on forwarding e-mobility goals throughout Belize through the purchase of electric buses. E-mobility projects are especially prioritized by the government, since a high proportion of Belize's national budget is allocated to importing large amounts of fuel. The growth and innovation of e-mobility would allow Belize to redirect financing fuel imports to other priority areas. The project, however, was ultimately deemed too small an investment for the fund.

> *"The issue for island states is that they are so small, that when it comes to trying to develop projects or initiatives that are viable or encouraging to developers on an international scale, there's just not enough interest in them."*
>
> *— Sidney Jules, RMI*

Given the size of the Belize economy, vehicles that focus on aggregation are important to attracting private financing at scale. The three previously described blended finance transactions in Belize are all highly scalable (i.e. funds and bonds). Organizations such as RMI are working to create a scaled approach by aggregating smaller projects, which makes it easier to procure financing and cost-effective bids. Jules provided an example that RMI is helping to facilitate, whereby a SIDS government is aggregating smaller solar PV projects into a single procurement project to benefit from cost savings and scale similar to utility-scale solar projects. While this may not allow Belize to overcome constraints of larger multilateral funders, strategies such as this could help to attract international impact investors.

Government fiscal constraints also reduce Belize's ability to access global investment opportunities. With its small economy and low domestic capacity, it can be difficult for Belize to commit to the co-financing requirements of some climate funds. Moreover, for mitigation transactions, it can be difficult to secure loans at a concessional enough rate to implement projects, whereas often, adaptation must rely heavily on grant funding. Highly concessional loans from institutions such as the GCF can allow the Government to have enough fiscal space to finance climate transactions. Government representatives noted that the private sector needs support, often through government guarantees. To address this, MDBs could provide grants and blend with their own financing to reduce interest rates, which would get buy-in from the Government of Belize to support private investors.

A further challenge is a lack of bankable projects and revenue streams, especially for adaptation initiatives and NbS. TNC provided an example of mangrove restoration. Mangroves can be essential to protecting the coastline from erosion and reducing the impacts of major storms, however, it can be difficult to create revenue from just conservation efforts. One recommendation provided by TNC was to create cross-sectoral linkages, such as linking sustainable agriculture or conservation and carbon markets to generate revenue streams that can support the bankability of projects. There are also opportunities to support adaptation efforts through linking conservation transactions to eco-tourism, something the Government of Belize is already doing through its National Sustainable Tourism Master Plan. Through these linkages, it may be possible to create bankable projects that attract private investors.

TNC further raised the concern that projects incorporating NbS for adaptation deliver outcomes that are public goods or positive externalities, and thus it is challenging to assign an economic value. Moreover, the specifics of NbS projects are not always well understood by private investors which may lead to an increase in the perception of risk. Blended finance capital structures and providers of concessional capital can help encourage private capital to enter these deals overall by mitigating risk and making the risk-return-impact profile of projects more attractive to commercial investors.

The final challenges addressed were related to the coordination and capacity of various stakeholders working towards the implementation of the NDCs. Several times, the lack of coordination was mentioned as impacting the success of implementing projects related to the NDCs. The Ministry of Economic Development within the Government of Belize further suggested that sometimes, this is due to a lack of capacity within various ministries. While the government is interested in supporting project preparation facilities within different sectors that could help tackle mitigation and adaptation-related challenges, oftentimes, they lack either the technical expertise or the operational capacity to provide such services. In this case, donor-funded TA could be essential to building staff capacity and helping set up a project preparation facility, which is urgently needed to develop concept notes into full funding proposals.

INDONESIA

OVERVIEW

Indonesia is particularly vulnerable to the effects of climate change; the country is the fourth largest emitter of GHGs, and already grapples with extreme weather events, massive deforestation, and food insecurity, while still being highly reliant on fossil fuels and coal. Indonesia published its NDC in 2016, with updates in 2021 and 2022. The country's Enhanced 2022 NDC increased the emission reduction target to 31% by 2030 in a business-as-usual scenario compared to 29% in the first NDC, and to 43% with international support compared to 42%. The Indonesian Just Energy Transition Partnership (JETP) sets out even more ambitious conditional targets for power sector decarbonization to meet a 34% renewable energy mix by 2030 and net zero emissions by 2050.

The Government of Indonesia has enacted several policy initiatives to align with its NDC commitments. The government has integrated the climate transition into the National Medium-Term Development Plan and Long-Term Strategy for Low Carbon and Climate Resilience 2050 to give a long-term horizon to its GHG reduction goals. Additionally, the Indonesian Financial Services Authority (OJK) introduced an "Indonesian Taxonomy for Sustainable Finance" (TKBI) in 2022, with updates in 2024, which aims to provide guidance to the financial sector on sustainable investments. While this taxonomy has surfaced controversy over its classification of certain sectors such as palm oil production and mining critical minerals, as well as its adherence to international standards, the taxonomy has also provided positive signals to the private sector.

Yet, Indonesia has not made an explicit net zero commitment. According to the Climate Action Tracker's assessment, Indonesia's NDC commitments are considered to be "critically insufficient", indicating that Indonesia's climate policies and commitments are not consistent with the Paris Agreement's 1.5 degrees temperature limit.

To achieve Indonesia's NDCs priorities, achieving climate mitigation targets in two sectors will be critical:

1. energy, and
2. forestry

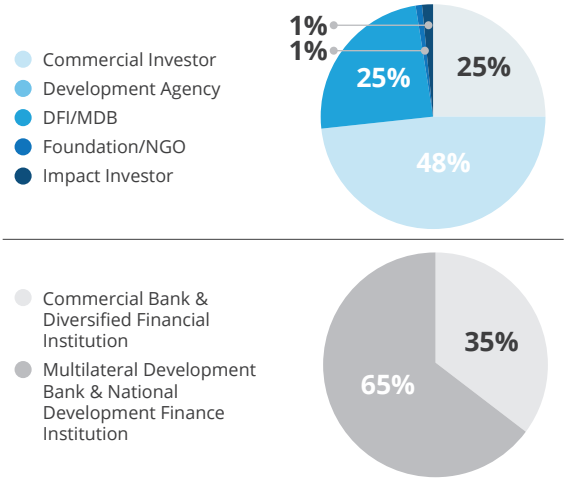
Together, these sectors account for 97% of the country's total national commitment. Most critical to Indonesia's net zero targets will be the effective phase-out of coal assets. Indonesia is the third largest producer of coal in the world, after India and China.

FINANCING THE NDCS

According to Indonesia's Third Biennial Update Report (BUR), under the UNFCCC, an estimated annual investment of $28.5 billion is required to reach the country's 2030 climate targets. According to CPI, Indonesia's state budget can only cover 34% of its investment needs, leaving a significant financing gap. Other sources report that the costs to decarbonize the economy could be upwards of 20% of the country's GDP.

According to CPI, while overall climate financing in Indonesia is split equally between public and private commercial institutions (including MDBs and DFIs, and commercial banks), only 3% of total investments from private sector financial institutions are in climate-

Figure 47: Climate blended finance investment in Indonesia according to investor type



aligned investments. The low participation of the private sector in climate finance to date reveals the large but untapped potential for commercial investors to play in financing green initiatives. Moreover, only a small percentage of climate investments are provided by local private investors, with local financial institutions still investing more in domestic fossil fuel industries than in climate-related projects.

Relative to the overall climate finance landscape in Indonesia, Convergence's blended finance data demonstrates an outsized role of the public sector in climate blended finance investments (73% of investments). This has been particularly due to the role of development agencies and multilateral donor funds, who represent almost half of all investments (48%) into climate blended finance deals in the country. Relative to overall climate financing trends, commercial banks have been less active in climate blended finance deals than MDBs and DFIs (65% vs. 45%).

Moreover, the limited participation of local commercial institutions in Indonesia can be attributed to a few factors:

- Unlike global financial institutions, local financial institutions have not made net zero pledges.
- Most blended finance initiatives and large-scale financing initiatives, such as the Indonesian JETP, are aimed at attracting international sources of finance.
- Institutional constraints, including overlapping jurisdictions between multiple ministries, and bureaucratic inefficiencies between national and local governments coupled with inconsistent regulations have hindered investment into climate sectors. As one example, land tenure issues have impacted investment in forestry and land use.

Historically, commercial financing in Indonesia has focused on the agroforestry and land use sector, specifically within sustainable palm oil production. A few reasons explain this: i) commercial financial institutions are more familiar with land use projects, and ii) the classification of sustainable palm oil under the country's Green Taxonomy by Indonesia's Financial Services Authority (OJK) enabled private investors to classify traditional investment as climate-friendly.

While the taxonomy has been beneficial in providing guidance to the financial sector on green investments, there is a need for more sustainable practices for palm oil production.

Meanwhile, the country's ability to decarbonize its power sector will be fundamental to the achievement of the country's NDC goals. To achieve the country's decarbonization targets, Indonesia will have to both;

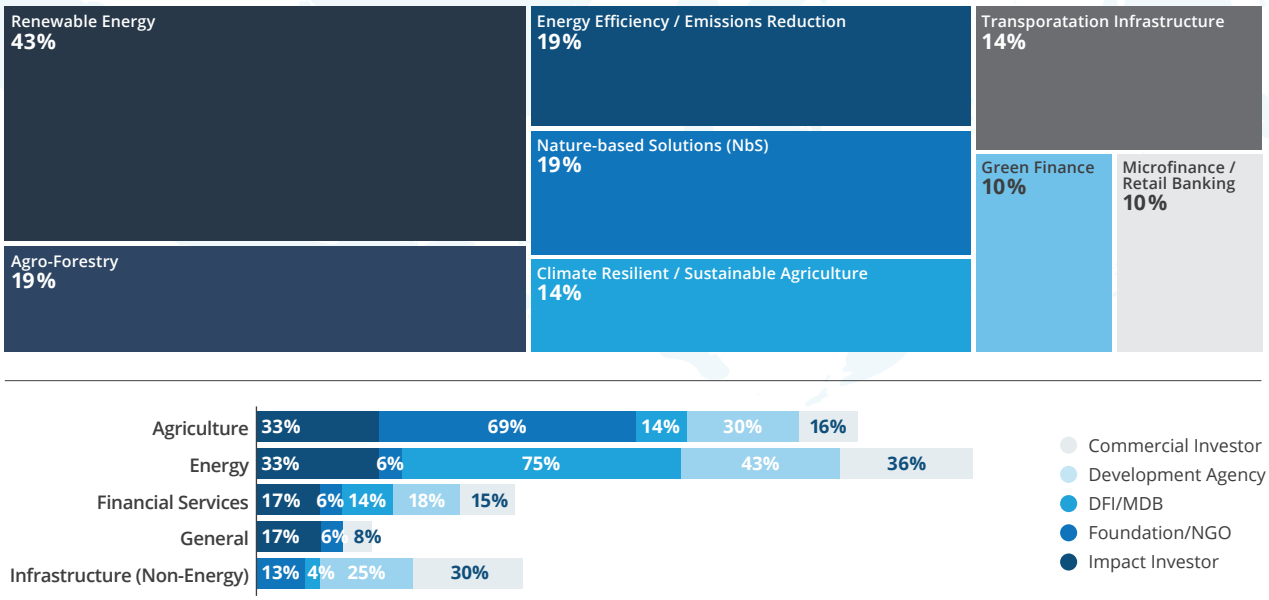
1. increase investment into renewables, but more importantly,
2. decommission and transition its fossil fuel productions to cleaner sources.

To this end, Convergence finds that blended finance initiatives have been used primarily to increase commercial appetite for renewables in Indonesia. Consider that 43% of blended finance transactions are within renewable energy, followed by a distant second concentration within agroforestry (19%).

While international investors have demonstrated traction to invest in Indonesia's energy transition, with its JETP pulling in funds from global sources, renewable energy still has a high perceived risk in Indonesia despite high appetite from investors. This stems in large part from historic challenges in the procurement process for renewable energy in the country. In particular, representatives shared that the tendering process often takes years before the government is willing to approve projects, undermining investor confidence. Other policy barriers to renewable energy development include the domestic market obligation (DMO), which distorts the comparative cost of coal versus renewable energy. Through the DMO, the Indonesian government requires coal mining companies to supply part of their coal production to the domestic market, which is largely coal-fired power plants. The DMO caps the price that coal suppliers can charge, reducing the cost of coal for the government-owned electricity distribution company PLN. These subsidies have heavily distorted relative technological costs, effectively locking out renewable energy projects in Indonesia. The economics of renewable energy in Indonesia demonstrate less of a need for blended finance to subsidize renewables, and more so a reduction in subsidies for coal-fired power.

As shared by one representative, there is a great opportunity for more investment by international

Figure 48: Blended finance investments in Indonesia according to sector and investor type



investors into variable renewables in Indonesia, such as solar and wind, given its familiarity and acceptable levels of technology risk. While some solar plants with bankable power purchase agreements (PPAs) have been established in Indonesia, variable renewables are a small component of the government's upcoming renewable investments, which heavily focuses on dispatchable renewables like geothermal energy or hydropower. Meanwhile, concessional finance can assist with the high exploration risk associated with geothermals, and the complexity risk associated with hydropower projects.

ADB's Energy Transition Mechanism (ETM) program, which includes a pilot ETM project in Indonesia, is one example of how blended finance could be used to support these initiatives. ETMs use private and public capital to refinance investments in coal-fired power, shortening PPAs and retiring coal plants up to a decade earlier than planned. Concessional capital has multiple applications within ETMs. Critically, concessional capital allows for a coal plant to be closed down sooner than planned by keeping its shareholders whole; this is essential given that it can be unlawful for owners in Indonesia to take a haircut on the asset if not economically sound. Concessional financing is also needed in the form of feasibility grants and technical assistance, given the complexity of these pilot projects. Moreover, concessional capital may further be required to reduce the cost of replacement energy while maintaining the same base load in the interim or to assist with system upgrades to finance variable renewables. Concessional financing should only be used temporarily in this way since ultimately the issue is policy-related rather than finance-related, and private capital does have the appetite to invest in renewable energy sources for electrical grids. Additionally, a clear classification as transition finance is also needed to ensure private finance doesn't incur the reputational risk of investing in emissions.

More broadly, Indonesia has played a leadership role in facilitating blended finance structures. Indonesia regularly features in Convergence's league tables as a top destination for blended finance, registering sixth in this year's report. Moreover, Indonesia has established government vehicles like PTSMI, SDG Indonesia One, and the Global Blended Finance Alliance (established by The Tri Hita Karana Blended Finance Forum). Looking forward, other platforms like the Indonesia Infrastructure Guarantee Fund could play more of a pivotal role in deploying guarantees and concessional financing if they were better supported by international funds, particularly for sectors where real or perceived risks are holding back the full dissemination of private capital to support emerging technologies around electric vehicles and energy storage.

THE WAY FORWARD

To effectively match investment needs with opportunities that align with Indonesia's NDCs, more explicit and detailed financing assessments are needed. As shared by Tiza Mafira, Director of CPI's Indonesia office, Indonesia's JETP targets have been ambitious, detailed, and transparent. However, it still needs to exhibit project-level details and be acknowledged within Indonesia's NDC targets and broader energy pathways, to provide comfort for would-be investors. Financing availability is further complicated by challenges when navigating and accessing international financing facilities aligned with Indonesia's NDCs, which often have different requirements based on the funders. As shared by Mafira,

> *"To catalyze private finance, minimizing transaction costs, increasing transparency, and making it easier for projects to match with finances is key. Indonesia's JETP is creating a platform where projects are listed transparently, such that their status is listed and investors can indicate their interest directly. The idea is to quicken the matching of different funder requirements to different project requirements."*

Governments looking to phase out fossil fuels like Indonesia will have to create an asset-by-asset overview of which assets can potentially close or transition, to clarify what type of support is needed and where it's most needed. Clarifying the coal assets whose transition requires private sector or concessional support will be a key component of a more integrated climate policy planning framework in Indonesia, as would more regular updates to its energy planning documents, like the National Electricity Master Plan (RUKN) or PLN's Electricity Supply Business Plan (RUPTL). This would help ensure that real projects on the ground can be implemented in a timely fashion.

Moreover, the importance of mobilizing greater sources of domestic commercial financing from the Indonesian financial sector, including financial institutions and institutional investors, should not be overlooked. There lies a huge opportunity to close the climate investment gap by attracting local sources; consider the fact that Indonesia's state budget is only able to cover 34% of its climate investment needs, coupled with evidence that only 3% of investments from local commercial financial institutions are climate-aligned. Domestic capital mobilization is particularly applicable to Indonesia's NDC strategy given the sheer size of its economy; Indonesia is the only G20 country in Southeast Asia. Blended finance facilities should focus on addressing the barriers facing local investors when financing green opportunities.

More broadly, more clarity is needed over where financing is required versus other policy changes. Indonesia's large overcapacity has deterred the government's incentive to invest in renewables despite their stated ambitions, creating a policy challenge rather than a financial one.

Here, refining Indonesia's legal and regulatory framework to create an environment for private sector investment is also important. Its green taxonomy is a good first step, but ensuring the consistency of regulations at the national and sub-national level is also key, as is including climate resilience as a criterion when infrastructure projects are being developed.

Ultimately, Indonesia's ability to meet its ambitious NDC targets will bear significance on the globe's climate agenda. Increasing international finance including through blended finance initiatives, coupled with effective and more coordinated policy actions, will be crucial in helping ease the burden felt by Indonesia and reduce global emissions.

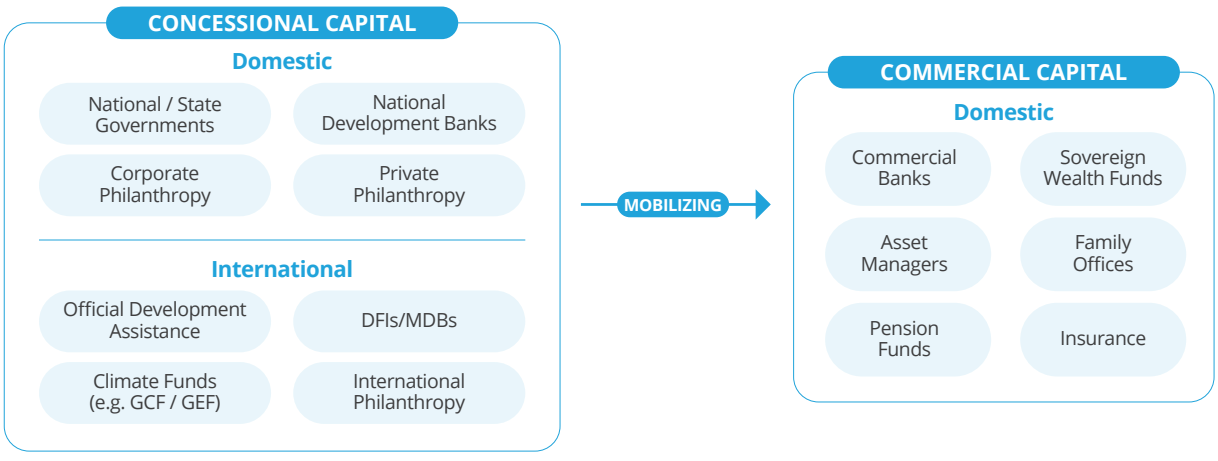
RECOMMENDATIONS

What can EMDE governments do to better integrate the private sector within the implementation of their NDCs going forward? And what role can blended finance play here, particularly in the creation of enabling environments that mobilize private capital into climate transactions more effectively?

Addressing the climate and SDG financing gap in EMDEs will depend on a range of factors, from increasing the supply of catalytic funding to help mitigate the risks preventing investors from investing in EMDEs at scale, to coordinating stronger de-risking integration among DFIs/MDBs, donor governments, philanthropic institutions, and private investors. Empowering domestic financial intermediaries and capital markets will also play a critical role.

Convergence has previously written about the untapped domestic resources present in EMDEs that aren't currently flowing at scale to climate and SDG projects. Local investors have the ability to invest in local currency and can therefore provide more flexible and sustainable financing solutions. However, local investors' potential commitment to domestic SDG projects has been constrained by regulatory limits, their unfamiliarity with alternative asset classes and how to assess and mitigate risk, low levels of capitalization, and (for pension funds) a fiduciary responsibility to preserve capital, leaving local capital markets in many EMDEs less robust. Mobilizing domestic sources of commercial capital into climate transactions will ultimately depend on both domestic donors (e.g., national/state governments and national development banks) and international donors (e,g, the OECD DAC, international philanthropy, and climate funds like the GCF) deploying concessional resources in a manner that is more interconnected and more explicitly focused on private sector mobilization. This would spur local financial ecosystems to elevate resources and innovation, increasing the supply of local bank and microfinance institution financing to projects, and crowding-in new actors to develop and structure more projects to meet the demand for finance. It will also depend on domestic policymakers and regulators working to create an effective enabling environment for blended finance, such as by establishing multi-stakeholder platforms that can encourage dialogue and share learnings between the public, private, and regulatory communities. The Joint Committee on Climate Change (JC3), for example, is a regulator-industry platform established in 2019 that is working collaboratively to build climate resilience within the Malaysian financial sector.

Figure 49: Mobilizing Local Sources of Capital for SDG Financing. Note: DFIs/MDBs deploy both concessional and commercial capital.



A five-point agenda at a country level could support creating an enabling environment for blended finance and make private finance flow in areas where it's currently not going:

1. **Focus on advancing country-level ecosystems on blended finance:** Fragmentation in financial flows can be addressed through stronger partnerships and coordination among different financial actors. Collaboration platforms creating spaces for discussions among stakeholders with rapid low-cost intermediation can support a pipeline of bankable/investable projects at a country level.
2. **Build capacity for local financial institutions and stakeholders:** Providing training with the aim of building the capacity of local public, private, and philanthropic stakeholders can further advance the momentum of blended finance transactions at a country level in the medium to long term.
3. **Create an enabling environment for blended finance:** Regulatory sandboxes and policy reforms can help to promote innovation, test new concepts, and make private finance flow in areas where market failures currently exist.
4. **Mobilize domestic concessional capital:** Most concessional funding comes from international donors. There is an opportunity to engage local philanthropies and corporate foundations to participate in blended finance, with catalytic public finance aligning with NDC priorities.
5. **Boost data transparency and impact evidence:** Access to credible data and transparency on climate investments will attract more investors, enabling better risk assessment and informed decision-making.

What might such an agenda look like when it comes to helping EMDE governments implement their NDCs more effectively going forward?

Firstly, donors should deploy TA to support EMDE governments in the creation of comprehensive, time-bound investment roadmaps. Such roadmaps would detail the climate sectors where private sector investment will be supported and incentivized by the government. This buttresses a point Convergence has previously made; that TA can help create an enabling environment for climate investments by assisting governments in formulating climate-friendly policies and regulatory frameworks, with TA partners potentially collaborating with governments to design tax incentives for clean energy projects. Here, the critical point is for resource-constrained EMDE governments to be supported by TA partners in building and publishing credible investment roadmaps to align their upstream NDC priorities with downstream investable opportunities for the private sector. Indeed, interactive tools like the NDC Partnership and UNFCCC's NDC 3.0 Navigator have been developed to help EMDEs identify and explore nationally relevant approaches to raising the ambition of their NDCs while addressing key implementation and financing needs to strengthen their 2025 submissions. Similarly, initiatives like GCF's Readiness and Preparatory Support Programme have been established to help fund country-driven initiatives to strengthen their institutional capacities, governance mechanisms, and planning and programming frameworks, thereby helping countries achieve their long-term climate agendas.

Secondly, TA support from donors must also assist EMDE governments in reviewing and reforming their domestic policy landscapes. This would help to address any policy disincentives to investing in projects in particular NDC-aligned sectors. Scalable private investment in NDC-aligned sectors will only flow when policy incentives supporting fossil fuel technologies are addressed and reformed.

Thirdly, donors and international financial institutions that are more experienced in climate finance can support the mobilization of local private sector institutions into domestic NDC projects by partnering with them within transactions. The knowledge exchange and reassurance provided by more experienced international investors investing alongside local capital within NDC-oriented transactions can serve to demystify climate blended finance and thereby catalyze local investors in greater numbers. Local investors' knowledge of the local investment landscape, meanwhile, can also provide confidence to international investors and reduce their risk perceptions.

PART VI:
CONCLUSIONS & RECOMMENDATIONS

PART VI: CONCLUSIONS & RECOMMENDATIONS

This report presents a critical analysis of the evolving landscape of climate blended finance and underscores the indispensable role of blended finance in mobilizing private capital for climate action in emerging markets and developing economies. Despite ongoing macroeconomic pressures and region-specific climate vulnerabilities, the climate blended finance market displayed remarkable resilience, driven by a significant uptick in private sector involvement. This growth reflects the increasing utility of blended finance as a strategic mechanism for mobilizing private capital in addressing the climate crisis and advancing global sustainable development goals.

Although financing levels reached a record annual total, the gap between available capital and the needs of emerging markets and developing regions remains substantial. Blended finance is a crucial instrument for unlocking further private capital flows, yet a more coordinated and collaborative approach between public and private entities is essential to bridge this shortfall. The findings in this report are designed to provide a comprehensive analysis of these challenges, offering critical insights for practitioners, policymakers, and financial institutions aiming to utilize blended finance to drive climate action and meet the ambitious targets set by the NDCs.

To capitalize on the market's momentum and address the most pressing gaps in climate blended finance, the following five recommendations outline strategic, actionable steps to strengthen the role of blended finance in catalyzing climate investments, particularly in vulnerable regions and sectors.

1 Increase Focus on Cross-Cutting Climate Initiatives:

The substantial increase in financing volume for cross-cutting deals underscores the growing recognition of the interconnected nature of climate challenges and the need for holistic solutions. The persistent underfunding of adaptation efforts can partly be addressed by prioritizing blended finance structures that integrate mitigation and adaptation components. This approach also tackles the difficulty of attracting private investment to pure adaptation projects due to less clear revenue streams while simultaneously enhancing the climate resilience of mitigation projects, especially in vulnerable EMDEs.

To further facilitate the integration of mitigation and adaptation efforts, practitioners should prioritize multi-sector projects that utilize concessional finance to support adaptation within broader mitigation frameworks. For example, green infrastructure projects that combine renewable energy generation with climate-resilient urban planning, dedicated funding for cross-cutting solutions, and the provision of technical assistance to de-risk adaptation-heavy projects could each enable the development of more comprehensive and impactful projects. This would enhance their appeal to a broader spectrum of investors and improve overall climate resilience in target regions.

2 Expand the Use of Concessional Guarantees and Risk Insurance:

The 100% increase in the dollar value of concessional guarantees from 2022 to 2023 demonstrates the growing recognition of these instruments' effectiveness in de-risking investments. Expanding their deployment, particularly in high-risk sectors and geographies, addresses the persistently high perception of risk in developing economies, which often exceeds actual risk levels. Concessional guarantees and risk insurance serve as efficient mechanisms to bridge the gap between private investors' limited risk appetite in specific climate sectors or regions and the actual investment opportunities available. These instruments also offer a capital-efficient means of de-risking investments, which is particularly crucial given the finite pool of concessional capital.

To further expand the use of concessional guarantees, practitioners should strategically collaborate with providers, including philanthropic organizations, DFIs, and MDBs, who can work with private insurers to develop products that combine insurance to provide more comprehensive risk coverage.

3 Enhance Support for Climate Blended Finance in Low-Income Countries:

With low-income countries accounting for less than a quarter of climate blended finance transactions, there is a clear need for targeted interventions to ensure these vulnerable nations are included in finance efforts. Low-income countries face unique challenges, including higher risk profiles, limited institutional capacity, and less developed financial markets. Despite these obstacles, they also offer opportunities for high-impact interventions, where even relatively modest investments can yield significant results.

Developing tailored blended finance solutions for low-income countries is essential to fostering a more equitable distribution of climate finance. Practitioners should focus on creating capacity building programs that actively engage local governments and institutions in structuring blended finance transactions, ensuring that the solutions are aligned with the unique contexts of these countries. This could involve designing risk mitigation tools specific to these markets, providing technical assistance to strengthen local capacity, and developing investment vehicles that balance the risk-return profiles of projects in these countries with the needs of investors.

4 Develop Innovative Financing Mechanisms for Nature-Based Solutions:

Nature-based solutions (NbS) represent a key sub-sector within adaptation finance. However, financing these projects presents unique challenges that require innovative approaches. The multiple benefits of NbS, many of which are public goods, are often difficult to monetize through traditional financing structures. Additionally, there is a mismatch between the long-term nature of NbS projects and the typical investment horizons favoured by private investors. To overcome these challenges, practitioners should focus on developing blended finance structures that align with the long-term value of NbS projects. This could involve creating mechanisms to monetize ecosystem services, designing patient capital structures that correspond with the long-term nature of NbS benefits, and developing innovative risk-sharing arrangements to attract private investors.

5 Strengthen the Role of Local Financial Institutions:

The limited participation of local financial institutions in climate blended finance represents a significant missed opportunity. Local financial institutions possess critical insights into their domestic markets and a nuanced understanding of local risk landscapes, positioning them as valuable partners in the effort to scale climate finance in emerging markets and developing economies. By engaging these institutions more actively, practitioners can foster the development of domestic capital markets, reducing the dependence on international finance, and enhancing the resilience of climate finance flows at the local level.

Moreover, local currency financing, facilitated by domestic institutions, offers a means of mitigating foreign exchange risks—a key barrier for many climate-related projects in these regions. Strengthening the role of local financial institutions in climate blended finance would also support long-term capacity building. By working closely with local banks and financial intermediaries, practitioners can ensure that climate blended finance solutions are tailored to local contexts, thus improving the sustainability and impact of projects. This local engagement can create a more robust pipeline of investable projects, aligning them with the specific needs and conditions of the domestic market.

CONVERGENCE
BLENDING GLOBAL FINANCE

CONVERGENCE is the global network for blended finance. We exist to increase private investment in emerging markets and developing economies to advance the UN Sustainable Development Goals and Paris Agreement.

BLENDED FINANCE uses catalytic capital from public or philanthropic sources to scale up private sector investment in emerging markets to realize the SDGs.

Our **GLOBAL MEMBERSHIP** includes public, private, and philanthropic investors as well as sponsors of transactions and funds. We offer this community a curated, online platform to connect with each other on blended finance transactions in progress, as well as exclusive access to original market intelligence and knowledge products such as case studies, reports, trainings, and webinars. To accelerate advances in the field, Convergence also provides grants for the design of vehicles that could attract private capital to global development at scale.