BLENDED FINANCE BEST PRACTICE

CASE STUDIES AND LESSONS LEARNED

A publication of the Sustainable Markets Initiative INVESTOR LEADERSHIP NETWORK

A publication of the

Sustainable Markets Initiative

INVESTOR LEADERSHIP NETWORK

Supported by

GISD Global Investors for Sustainable Development Alliance

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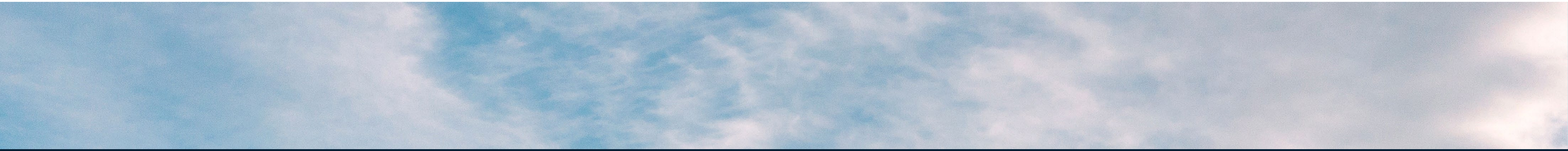
PRI Principles for Responsible Investment

UN-convened Net-Zero Asset Owner Alliance

GFANZ Glasgow Financial Alliance for Net Zero

Workstream on Mobilizing Capital to Emerging Markets & Developing Economies



FOREWORD

Foreword – Marc-André Blanchard

Blended finance is having its moment. It has been a long journey, and at the same time much more needs to be done.

Achieving the Sustainable Development Goals and the objectives of the Paris Agreement will require mobilizing new investments in the trillions of dollars annually in both advanced and emerging economies alike. This represents one of the greatest challenges of our time. But also the greatest economic opportunity of our generation. Solving this challenge and seizing this opportunity cannot and will not happen through a business-as-usual approach. It will require leveraging the power of new and innovative approaches to financing. This is the promise of blended finance – its ability to bring together a diverse set of stakeholders and sources of capital towards a common purpose. But its full potential has not yet been realized.

As Convergence's most recent edition of the State of Blended Finance illustrates, the total deal volume that blended finance has been able to mobilize stands at $213 billion. A significant number to be sure, but still very far short of what is required to achieve our collective sustainability and net-zero targets. There are many reasons for this state of under-delivery. And there now exists an entire library of documents highlighting many of the principal impediments, from a lack of catalytic capital to foreign exchange risk to an insufficiently robust pipeline of investable projects.

Another major obstacle has been the absence of a standardized blended finance playbook. Nearly every existent example of a blended finance instrument has been designed and built from scratch. In some respects, having to begin anew each time from a blank canvas has proven positive insofar as it has spurred the development of many creative solutions and approaches. But the required incubation period and development time has without question severely restrained the development of blended finance solutions at the scale required to meet the challenges they are designed to confront. Solving this problem is the motivation for this document.

The idea of creating a 'best practices in blended finance' playbook to help standardize the design of blended finance instruments and thereby significantly increase their replicability emerged simultaneously in the autumn of 2023 within the Sustainable Markets Initiative Blended Finance Task Force, the Bellagio Private Capital Mobilization Consortium established by the US Treasury Department and the Investor Leadership Network led by CDPQ, Natixis and Ninety One, and the Blended Finance Workstream of the alliance of Global Investors For Sustainable Development.

It was further encouraged through the important thought leadership on blended finance taking place in a number of other venues such as the Net Zero Asset Owner Alliance, the Glasgow Financial Alliance for Net Zero, the Institute of International Finance, and at the United Nations, World Bank Group, International Monetary Fund, OECD, G7, G20 and B20.

Marc-André Blanchard

Executive Vice-President and Head of CDPQ Global and Global Head of Sustainability, CDPQ

It is my sincere hope that the 13 case studies and 3 spotlights presented here, which represent the leading edge in blended finance practice, can serve as the templates for the next generation of blended finance funds and vehicles and, by extension, aid in unlocking blended finance's full potential. And, most importantly, that they can help to achieve the ultimate aim of financing our sustainability and net zero aspirations.

As a final reflection, this document may appear in many ways as technical in nature, created by finance professionals for other finance professionals. But behind the scaffolding of all the innovative financial engineering contained within the pages that follow lies a profound recognition of the need to think differently about how we approach global challenges and the fundamental importance of partnerships between actors spanning the public, private and philanthropic sectors, all of whom have their distinct role to play. And the bond that enables these partnerships to flourish is built upon a bedrock of trust.

I would urge any policy and decision-makers, elected officials and C-suite executives who may glance at the content that follows to view the case studies and lessons learned from this lens.

Before concluding, I would like to extend my personal thanks to Jean-François Gagnon and his team at EY-Parthenon. Without their commitment and professionalism, the realization of this project would not have been possible.

Foreword – Jennifer Jordan-Saifi

For emerging and developing markets, blended finance is a vital tool for achieving sustainable development and fulfilling Nationally Determined Contributions (NDCs) under the Paris Agreement. However, its effectiveness hinges on the alignment of industry, finance, and country roadmaps and the ability to develop a pipeline of investable projects. This is something the Sustainable Markets Initiative (SMI) has been championing and supporting, with governments and with the private sector, since it was established in 2020.

Governments often face significant fiscal constraints and heightened risks, such as climate vulnerability, political instability, debt and currency volatility, which deter private investors. They also often lack the technical knowledge and capacity to design genuinely investable projects which vary significantly from traditional development assistance and 'grant-based' proposals. As we work to build economic growth, it is critical that we build capacity rather than continue the cycle of donor dependency. Here the private sector, across industry and finance, has much to offer.

Blended finance can significantly scale up financing available for transition projects around the world by using concessional capital from public or philanthropic sources to de-risk and to bring projects to an investable level. This lowers barriers to investment in sectors like renewable energy, sustainable agriculture, and climate-resilient infrastructure—areas that are essential for both economic growth and climate adaptation.

Recognizing the need to move from billions to trillions, we know that the cost of transitioning to a sustainable future far exceeds available public resources, making private investment indispensable. Donor governments can play a key role by strategically deploying concessional finance to mitigate early-stage risks, such as regulatory hurdles, feasibility studies and/or technical uncertainties. Once these risks are addressed, private capital is more likely to flow into mature, commercially viable projects.

Partnerships are also critical. Development finance institutions (DFIs) and multilateral development banks (MDBs) are providing technical assistance, patient capital, data and risk mitigation tools, helping governments structure projects that meet international investment standards.

At the same time, we call on the private sector to be more involved in developing investment strategies and plans for NDCs so that they are designed to be investable from the start. Here the private sector needs to lean in and help provide the diverse expertise and capacity required to develop the project pipeline at pace so that private capital can flow more quickly and at ever increasing scale. Recognizing that deal size is also a factor, pooling projects across borders should be explored to reach the size of projects required for investors to take an interest in.

Jennifer Jordan-Saifi

Chief Executive Officer,
Sustainable Markets Initiative

As investors across the financial landscape increase their interest in supporting sustainability and transition aligned investments, they also need to be clearer about which markets and which industries they are willing to engage with. With the demand so high around the world, being able to match investors with available projects, with clear risk profiles, is critical to the rapid deployment of capital in real terms. With better match-making we can achieve faster transition, be it in our efforts to triple renewables by 2030, enhance electrification, improve infrastructure, reduce construction emissions, transform aviation and shipping systems or regenerate our land and food systems.

Blended finance offers a unique opportunity for systemic change. By aligning industry, finance, and NDCs, long-term strategies for sustainable growth and climate resilience can be created, ensuring that investments contribute not only to immediate financial goals but also to the structural transformation of economies. At the SMI we are proud to support this effort and are delighted to see many of our members sharing case studies to demonstrate what is possible so that others can help accelerate, replicate and scale blended finance globally. By working together, enhancing synergies and better leveraging our collective strengths, achieving a sustainable future for all is possible.

Foreword – Amy Hepburn

Institutional investors, as stewards of long-term capital with horizons that stretch across the needs of both present and future generations, play a pivotal role in allocating capital to protect global market stability while enhancing the well-being of their beneficiaries and the planet. These investors must balance the demands of meeting immediate obligations—often to a diverse group of retirees like teachers, nurses, and firefighters—while striving to invest in sustainable, long-term growth that aligns with a more stable and responsible future.

The Investor Leadership Network (ILN), comprised of some of the world's largest and most influential asset owners and managers, has been at the forefront of addressing these critical issues. Over the past several years, the ILN has focused on fostering the growth of blended finance vehicles across emerging markets and developed economies. These efforts have directed capital toward key projects in the energy transition and other sustainability priorities. Blended finance vehicles address investors' concerns by combining (1) public and development capital—through mechanisms like guarantees, concessional capital, and catalytic capital—(2) technical assistance to make priority projects more attractive to private investors, and (3) partnerships across sectors and institutions to build the trust required to explore new opportunities together.

We at ILN are proud to have played a crucial role in assembling the compilation of blended finance case studies and the insights they provide, now in your hands. These case studies showcase a wide variety of approaches used to enable institutional investors to mobilize private capital for sustainability-focused investments. By offering diverse examples, these case studies provide a roadmap for investors, governments, philanthropies, and other stakeholders to understand how such vehicles are structured. They offer practical, detailed insights while pointing the way forward for the future of blended finance.

Several key takeaways emerge from these case studies: essential enablers like risk-mitigation instruments and strong top-down sponsorship are critical to ensuring the swift execution of these investments. Additionally, there are important drivers of growth for blended finance, such as the standardization of vehicle structures and the removal of regulatory obstacles that hinder scalability. The role of blended finance ambassadors is also vital—they navigate the bureaucratic complexities of large institutions, helping to guide them toward new investment strategies at scale.

Ultimately, these case studies illuminate a path forward for investors in today's complex and often unpredictable world. They reaffirm the importance of staying committed to building a sustainable future that benefits both global populations and the planet itself. Future generations will likely regard the pioneering work of the institutions showcased here, including many ILN members, as not only innovative in creating new sources of long-term value but also as the right and responsible action to take for the greater good.

Amy Hepburn

Chief Executive Officer,
Investor Leadership Network

Now More than Ever: Increasing Momentum for Blended Finance

Green

BlackRock Says Blended Finance at 'Turning Point' as Deals Grow

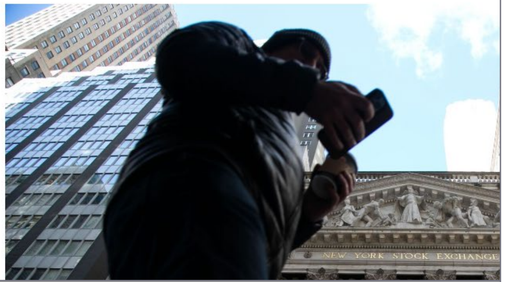
Green | ESG & Investing

Bankers Bet On New Fund Structures to Scale Blended Finance

Green | ESG & Investing

Wall Street Helps Build $15 Billion Pot of Blended Finance

- The amount represents the highest le
- Meeting Paris goals will rely on mix o



Trends

Is blended finance having its moment?

The structure, at the heart of funds by BlackRock and Brookfield, appears to be gaining momentum.

Bruno Alves - 4 July 2024

Share A- A+ 100%

Blended finance is not new, and its proponents have been both consistent and insistent in calling for its use to help unlock private capital at scale for emerging markets infrastructure.

Case in point: BlackRock chairman and chief executive Larry Fink, who in a speech last month to the G7 Summit, held in Italy, did not miss the chance to send a message to the world's multilateral banks and their government sponsors.

PRESS RELEASE

Global blended finance volumes reach 5-year high

Download this page

Toronto, 30 April 2024 —Today, the global network for blended finance, Convergence, released the 8th edition of the State of Blended Finance report.

Convergence's flagship report offers an updated analysis on blended finance in emerging markets and developing economies (EMDEs), covering sectors, vehicles, regions, and investor trends. The sectors explored in this report include agriculture, energy, financial services, health and education,

1. BlackRock Says Blended Finance at 'Turning Point' as Deals Grow - Bloomberg
2. Wall Street Helps Build $15 Billion Pot of Blended Finance - Bloomberg
3. Bankers Bet On New Fund Structures to Scale Blended Finance – Bloomberg
4. Is blended finance having its moment? (infrastructureinvestor.com)
5. Convergence launches the 2024 State of Blended Finance - Press Release - Convergence News | Convergence

A Word of Appreciation to the Participants of the Booklet

We would like to thank the organizations that have participated in the extensive series of interviews and discussions on blended finance. Their experiences, knowledges and inputs form the core of this booklet.

This booklet comprises 13 specific blended finance case studies which are presented in Section 4 of the booklet in alphabetical order. They are complemented by 3 spotlights which focus on particular topics pertaining to blended finance which are presented in Section 2 of the booklet in designated sub-sections.

Blended Finance Case Study / Spotlight	Interviewed Organization
Asia Climate Strategy	responsAbility
Bank of America: Select Blended Finance Transactions	Bank of America
Catalytic Transition Fund	Brookfield Asset Management
Climate Finance Partnership	Blackrock
Climate Innovation and Development Fund	Goldman Sachs
Emerging Africa Infrastructure Fund	Ninety One
Emerging Market Climate Action Fund	Allianz Global Investors
GAIA	Mitsubishi UFJ Financial Group (MUFG)
Mirova Gigaton Fund	Mirova
Pentagreen Capital	Pentagreen Capital (by HSBC & Temasek Holdings)
Réseau Express Métropolitain	Caisse de dépôt et placement du Québec (CDPQ) Infra
SDG Loan Fund	Allianz Global Investors
Vertelo	Macquarie Asset Management

Spotlights

Blue Dot Network Certification Framework	Blue Dot Network
Fast-Infra Label	Fast-Infra Group
Standard Chartered: Taking a programmatic approach to Blended Finance to unlock regulatory reform	Standard Chartered

EXECUTIVE SUMMARY

Executive Summary

Blended finance has been emerging as a powerful vehicle for closing the global sustainability financing gap but has yet to deliver on its full potential

- **Financing gap:** There exists a global annual gap of over $4 trillion USD for financing the UN Sustainable Development Goals and the objectives of the Paris Agreement.
- **Blended finance to date:** Blended finance has the potential to significantly contribute to the bridging of this financing gap. However, the total deal volume unlocked by blended finance over the past decade stands at just over $200 billion-- far short of what is required.
- **Barriers to achieving scale:** Many of the barriers impeding the deployment of blended finance instruments at the scale required, such as unfavorable risk-return nexus, scarcity of catalytic capital, an inadequate project pipeline, challenges associated with foreign exchange risk, and data limitations, have been previously identified and are subject to on-going discussion and analysis in a number of fora
- **Bridging the knowledge gap:** A complementary challenge comes about through the lack of a standardized playbook for blended finance, resulting in a lengthy development period for the creation of each new vehicle. Through detailed case studies of 13 leading examples of blended finance and 3 spotlights of related initiatives, this booklet seeks to help fill this knowledge gap.

Successful blended finance vehicles are generally supported by a set of key enablers

- **Foundational elements:** Alignment of the objectives and purpose of the vehicle amongst different stakeholders; reputation and credibility of the key participants such as the fund manager.
- **Risk mitigation:** Strategic use of catalytic capital and risk profile improving instruments (first loss capital, insurance, guarantees) to enhance the risk return nexus of the vehicle; leveraging local experience and knowledge to align with local government priorities; understand and manage key challenges that exist or may emerge; and develop a pipeline of impactful projects.
- **Timeliness:** Timeliness of design, development and ultimate deployment of blended finance vehicles can be achieved when they receive the support of the top-level leadership of their respective organizations; development time can be further accelerated by adhering to as simple a design as possible while maintaining required flexibility.

Blended finance can achieve much higher levels of capital mobilization through a number of key propellers that foster the ecosystem development

- **Standardization:** Developing a set of templates or archetypes, as well as standardized frameworks for financial returns and impact, could help reduce the incubation period and transaction costs which impede broader, and speedy, deployment of blended finance vehicles.
- **Understanding:** Better communicating the unique characteristics of blended finance vehicles within institutional investment institutions can support the integration of blended finance within existing asset class investment strategies as well as in overall portfolio management.
- **Market-wide accelerators:** The creation of consolidated pools of catalytic capital and guarantee mechanisms, along with on-going efforts towards encouraging the multilateral development banks and development finance institutions to prioritize private capital mobilization, could serve as powerful drivers. Such actions would reduce the time-to-market for new blended finance vehicles as well as encourage the entry of new participants into the blended finance market.
- **Regulatory and policy support:** Fostering an enabling and transparent regulatory and policy environment at the national level and addressing regulatory impediments at the international level could help catalyze far greater levels of investment by existing blended finance practitioners.

Champions of blended finance can serve as Global Ambassadors to disseminate best practices and promote the key propellers for its ecosystem development

- **Blended finance ambassadors:** Existing champions of blended finance, whether at the individual, institutional or industry-association level, can play an important role through the dissemination of best practices, provide powerful demonstration effects, and further advance the key propellers boosting the development of the blended finance ecosystem.

TABLE OF CONTENTS

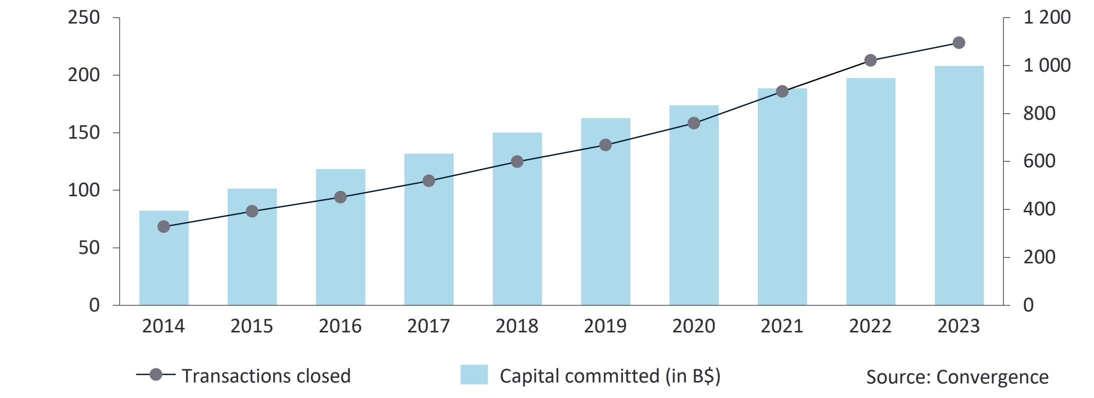
1 CONTEXT, APPROACH, PARTICIPANTS

1.1 The Evolution of Blended Finance

Blended finance activity has increased considerably since its market introduction over the past decade…

Growth of Annual Blended Finance Activities

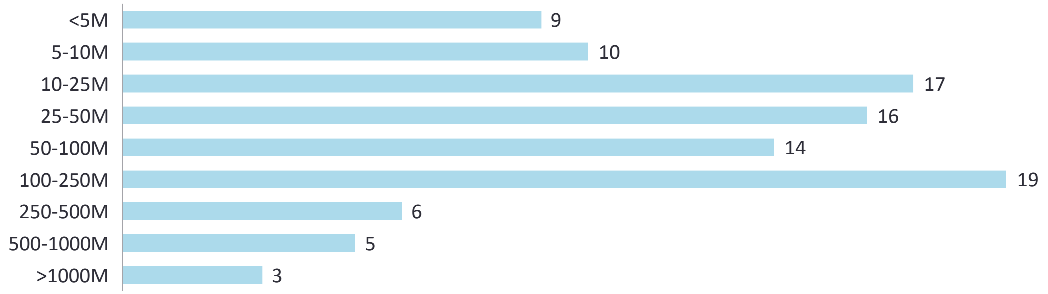
$208B in capital mobilized



Source: Convergence

Deal sizes

Average deal size is $68M, with transactions ranging from $110K to a maximum of $8B



Source: Convergence

… and this momentum has led to the creation of various initiatives supporting its further development

Many blended finance structures, including those analyzed in the case studies, have achieved success on a global scale. They reflect pioneering structural and financial innovation as well as significant adaptability and flexibility in implementation. They have resulted in invaluable additionality with regard to climate and sustainability investment.

CLIMATE INVESTOR 1

Climate Investor 1 is an $850M, multi-tiered blended finance fund dedicated to deploying capital in emerging markets within the renewables sector. Its success has led to the creation of Climate Investor 2 fund, while its investment manager, Climate Fund Managers, has been assigned to oversee the GAIA[1].

KIF DANISH CLIMATE INVESTMENT FUND

Danish Climate Fund (KIF) is a $220M blended finance fund initiated by the IFU[2] targeting capital deployment in developing countries within renewable energy. KIF leverages a preferential return structure to incentivize private capital participation.

During CoP-28 in Dubai, a number of new blended finance initiatives were launched, including:

ALTÉRRA

- ALTÉRRA, a new $30B investment fund dedicated to providing catalytic capital towards climate economy-related initiatives.

Allied Climate Partners
Allianz
GREEN CLIMATE FUND

- Commitment from Green Climate Fund, Allianz Global Investors, and Allied Climate Partners to provide $5B in catalytic capital for blended finance structures.

1. GAIA is a $1B blended finance fund. A case study on the fund is presented on Page 63.
2. Investment Fund for Developing Countries

1.2 Blended Finance as a Critical Tool for Closing the SDGs Financing Gap

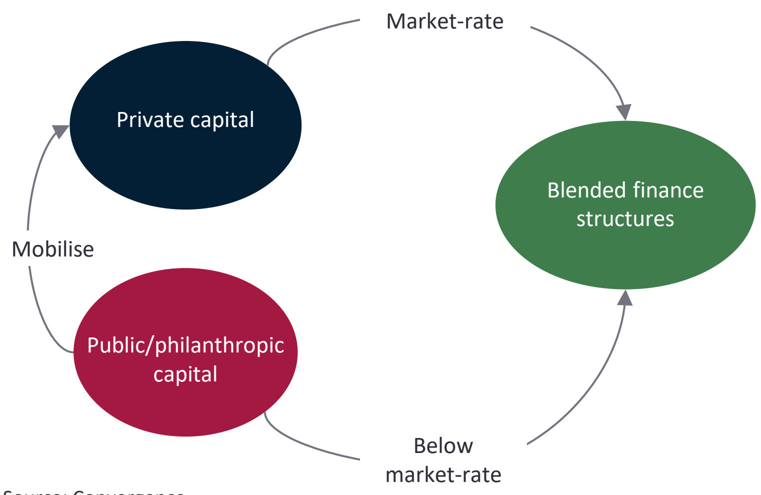
The current shortfall in funding necessary to achieve the Sustainable Development Goals (SDGs) is cause for significant concern. Recent estimates suggest that there exists an annual investment gap of ~$4T[1] to reach the targets set by the 2030 agenda and the Paris Agreement. This financing gap underscores the urgent need for action. It is widely recognized that private investors are critical for providing the capital needed to bridge this gap.

Investors are looking for opportunities that offer attractive returns and diversification, allowing them to fulfill their fiduciary responsibilities, whilst contributing to sustainability goals. There are, however, several obstacles that hinder the deployment of private capital towards these opportunities. One of the primary obstacles is the high level of perceived and actual risk relative to returns, often reflected in lower investment ratings of many potential projects that would otherwise meet these criteria. These risks associated with impactful investment opportunities in emerging and developing economies are significant deterrents that are difficult to ameliorate without adequate risk mitigators.

Blended finance has emerged as an effective mechanism to address such obstacles. By combining public as well as philanthropic capital, often offered at concessional terms, blended finance can help significantly mobilize private capital at scale. This inclusion of risk-tolerant capital allows private investors to achieve a requisite risk-return that is consistent with their fiduciary obligations.

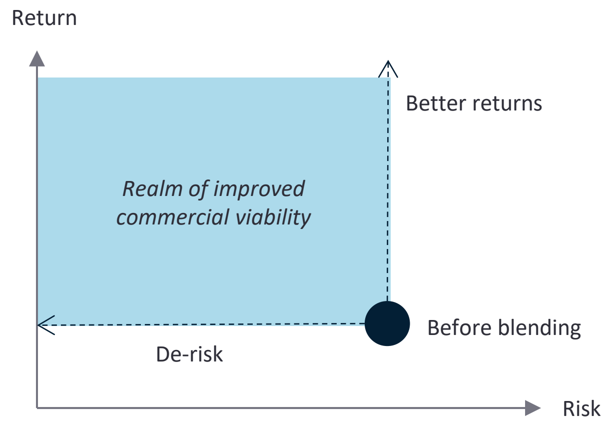
DEFINITION:
Blended finance is the strategic use of **public as well as philanthropic capital** for the **mobilization** of additional **external private commercial finance** for SDG-related investments.[2]

USING BLENDED FINANCE…



Source: Convergence

… TO IMPROVE COMMERCIAL VIABILITY



Blended finance is critical for mobilizing private capital at scale towards impactful investment opportunities.

1. SDG investment is growing, but too slowly: The investment gap is now $4 trillion, up from $2.5 in 2015 | UNCTAD
2. Convergence

1.3 Setting the Stage for this Blended Finance Booklet

One of the key objectives of this booklet is to showcase successful examples of blended finance vehicles that can serve as templates for accelerating the design and deployment of future instruments.

In advancing this objective, it seeks to harness the increasing momentum for blended finance and support a number of important global initiatives that, through enhanced dialogue with the private sector, seek to mobilize the necessary capital for achieving our global sustainability objectives.

Leveraging Global Thought Leadership – the SMI and ILN

The Sustainable Markets Initiative (SMI) was launched in 2020 to serve as the 'go-to' private sector organisation on sustainable transition. Its mandate is to build a coordinated global effort to enable the private sector to accelerate the achievement of global climate, biodiversity and Sustainable Development Goal targets.[1,2]

In 2023, the SMI Blended Finance Task Force was established with the overarching goal of facilitating the widespread implementation of blended finance mechanisms across the globe and enhancing their effectiveness and reach.

The Investor Leadership Network (ILN) was founded during Canada's 2018 presidency of the G7 to facilitate and accelerate collaboration by leading institutional investors to drive the transition to a sustainable and inclusive global economy. [3,4]

In furtherance of this objective, the ILN, led by CPDQ, Natixis and Ninety One, forged the Bellagio Private Capital Mobilization Consortium in 2023 in partnership with the United States Treasury and with support from The Rockefeller Foundation and the SMI, with the goal of increasing investment flows of institutional capital into emerging markets, including flows through blended finance vehicles.

Building on the Shoulders of Others

Development of this booklet has benefitted from the valuable insights and support of many actors active in the blended finance space.

The Global Investors for Sustainable Development (GISD) alliance was first convened by the United Nations Secretary-General in 2019 to deliver solutions that scale up private finance and investment to achieve the Sustainable Development Goals.

Since its inception, the GISD has sought to advance the mobilization of private finance for sustainability, including through the publication of 8 priority recommendations for development banks and the global development community. [5]

The UN-convened Net Zero Asset Owner Alliance (NZAOA) is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C.

Through its Transition Financing Track, the NZAOA has sought to advance the development of solutions and financing structures for catalyzing investment in the net-zero transition. [6,7]

In April, 2021 at CoP-26 the Glasgow Financial Alliance for Net Zero (GFANZ) was launched to expand the number of net zero-committed financial institutions and to establish a forum for addressing sector-wide challenges associated with the net-zero transition.

The Mobilizing Capital for Emerging Markets & Developing Economies working group of GFANZ strives to accelerate capital mobilization in support of net-zero transition in emerging markets and developing economies (EM&DEs) through private-sector leadership and public-private collaboration. [8]

This booklet has also been enriched from important discussions on blended finance over the last three years occurring in such fora as the B20, G20, and G7 as well as at the International Institute of Finance, the OECD, the World Bank Group, the International Monetary Fund, and the United Nations.

Finally, it also seeks to build upon the *Call to Action on Scaling Private Capital Mobilization* jointly published at CoP-28 by the SMI, ILN, GISD, NZAOA and GFANZ as well as by Africa Investor, Convergence, the Global Infrastructure Hub, the Institutional Investors Group on Climate Change, the Principles for Responsible Investment, the UN-Convened Net Zero Banking Alliance, and the United Nations Environment Programme Finance Initiative. [9]

Structure of the Blended Finance Booklet

Serving in a position of leadership in many of the initiatives dedicated to the mobilization of private capital at scale towards sustainability objectives, the Caisse de dépôt et placement du Québec (CDPQ) partnered with Ernst & Young (EY) to produce this Blended Finance Booklet, which is structured in 4 sections.

Section 1 provides context for the booklet, introduces blended finance and its key definitions, and gives a brief overview on the approach and participants. Section 2 identifies the key takeaways from the case studies. Section 3 presents the case studies and their defining characteristics. Section 4 summarizes the conclusions and proposes a high-level view of future blended finance developments. The appendix includes definitions on key terms used throughout the booklet.

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OBJECTIVES OF THE BOOKLET

Establish a Framework when Initiating Blended Finance Structures

- Provide a repository of leading practices in blended finance structures
- Identify areas of 'standardization' for a streamlined and reliable process

Accelerate Blended Finance

- Provide blended finance blueprints to reduce the time to market for blended finance funds
- Empower and motivate blended finance stakeholders to take action by providing a clear path to success

Foster Collaboration for Meaningful Change

- Advance the participation and engagement of the Multilateral Development Banks with private sector-oriented initiatives
- Interact with private-sector led initiatives such as the World Bank Private Investment Lab, the SMI, the ILN, the GISD, the NZAOA, the GFANZ and the B20 as well as in relevant intergovernmental fora such as the G20, G7, OECD and various UN processes

1.4 Selecting the Blended Finance Use Cases

Case studies were selected to demonstrate successes in blended finance and extract key lessons to be drawn from the factors that led to their success

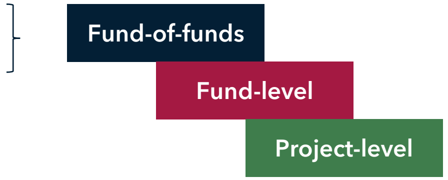
The case studies were selected based on the following criteria:

1. **Initiated by a well-established institution (or consortium of institutions)**

   These organizations have demonstrated their commitment to blended finance and its best practices. Their experiences and success factors are deemed to be crucial in laying the groundwork for future blended finance structure. The booklet, through these case studies, seeks to demonstrate how public and private actors can collaborate and create impact.

2. **Focus on funds**

   Although 'blending' can occur at multiple levels, funds (and fund-of-funds) are often considered the most impactful given their ability to deploy capital at scale and ease of replicability. As such, the booklet features case studies focusing on fund design as well as other relevant structures and transactions in relation to blended finance.



3. **High degree of innovation involved**

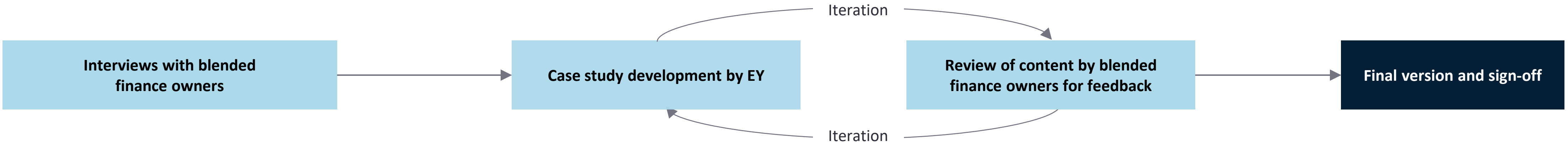
   The blended finance mechanisms selected exhibit creativity and innovation, be it through the chosen sectors, the involvement of investors, or the underlying structure. The purpose of this criteria is to share various ways in which blending has been implemented in order to accelerate its evolution and best enable capital deployment and impact delivery. Case studies were chosen to be as replicable and scalable as possible, across sectors, industries, and markets.

4. **Strong projected impact**

   Although the booklet will mostly describe important considerations relating to structuring a blended finance fund, the expected impact of each instrument will also be briefly explored as way to demonstrate the potential of blended finance and highlight the key success factors and process towards establishing an effective and impactful vehicle.

Process for each case study

The case studies in this booklet were prepared through a collaborative and iterative process with the various blended finance initiators. Such an approach ensured that the key elements of the case studies were included and the intent behind the structures well-illustrated. All the blended finance structures presented in the booklet received formal approval from the initiator of their respective vehicle. All case studies were authored and prepared by EY.



1 KEY TAKEAWAYS

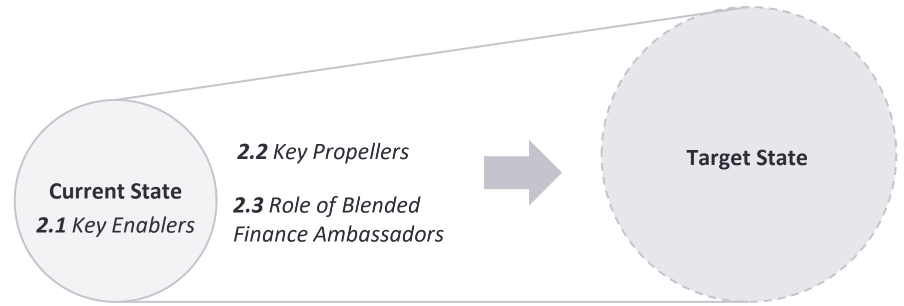
2. Introduction to the Key Takeaways

Each case study highlights a set of unique situations as well as certain commonalities with regards to the blended finance ecosystem. They demonstrate the challenges that actors overcome, the learnings they accrued, and the expertise they developed during their journey towards the deployment of meaningful solutions.

Forging an effective and impactful ecosystem requires market-wide consensus over the key imperatives and the required actions needed to accelerate blended finance activity. The key takeaways that emerged through the distillation of the case studies centre around three core topics:

- **Key Enablers:** Factors to be considered for the success of a blended finance vehicle
- **Key Propellers:** Factors to accelerate blended finance
- **Blended Finance Ambassadors:** Factors that can strengthen and broaden the blended finance ecosystem

Blended Finance: Expanding the Blended Finance Ecosystem



Ultimately, case studies can serve as important guides for the next generation of blended finance vehicles, highlighting potential templates to leverage, stakeholders to engage, and implications to consider. Their accumulated experiences are the driving forces for the calls for changes in the ecosystem to invigorate market-wide participation and bolster momentum for blended finance activity for unlocking the necessary capital at scale for achieving our sustainability goals.

SECTION 2.1 KEY BLENDED FINANCE ENABLERS

Section 2.1 highlights the key enablers unlocking success across the case studies. The enablers fall under three categories:

1. Foundations – Enablers underpinning the core of a blended finance vehicle
2. Risk Mitigation – Enablers improving the risk-return profile of a blended finance vehicle
3. Timeliness – Enablers accelerating the time-to-market of a blended finance vehicle

SECTION 2.2 ACCELERATING BLENDED FINANCE: KEY PROPELLERS

Section 2.2 explores the key propellers that will help accelerate the deployment of blended finance solutions and lead to a deepening and broadening of the blended finance market. Four propellers are identified:

1. Standardized Blended Finance Structures – Developing replicable templates and models
2. Blended Finance Understanding – Advancing awareness through dissemination and communication of information
3. Market-Wide Accelerators – Establishing substantial consolidated resource pools
4. Regulations and Policy Support – Supporting blended finance with an enabling regulatory environment

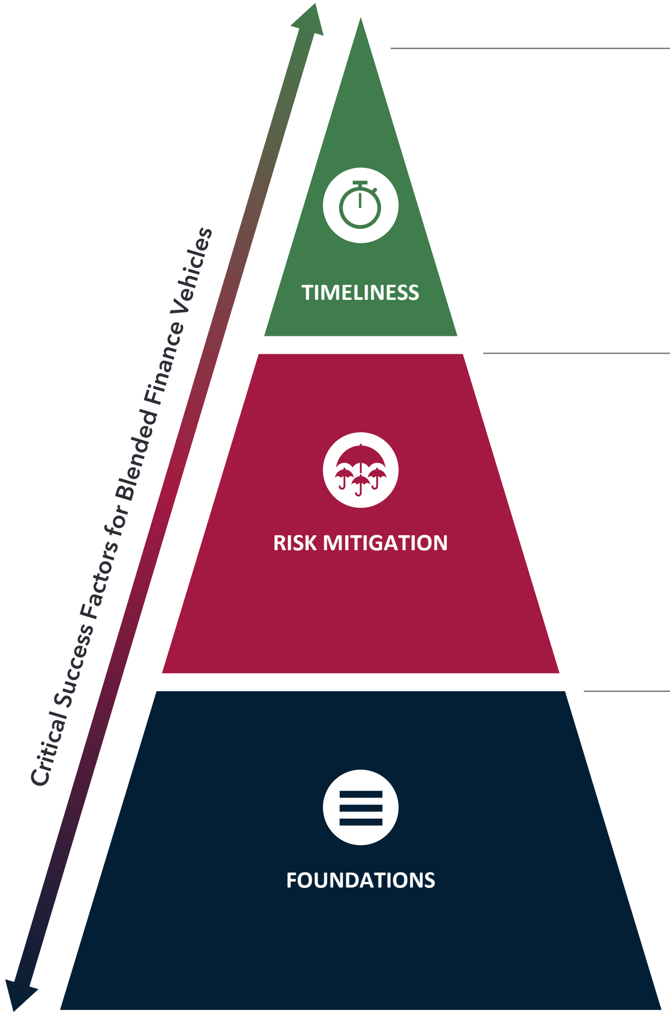
SECTION 2.3 ROLE OF BLENDED FINANCE AMBASSADORS

Section 2.3 identifies where and how market participants need to play a role across the key propellers to develop and strengthen the blended finance ecosystem. The ambassadors of blended finance are grouped under 4 types:

1. Industry Bodies – Such as the ILN, SMI, GFANZ, GISD, NZAOA, etc..
2. UN/MDBs/DFIs – United Nations, Multilateral Development Banks (MDBs), Development Finance Institutions (DFIs) and other public sector organizations
3. Investors/C-Suite Executives – Institutional investors, asset managers and other private sector participants
4. Regulators/Policy-Makers – Government and other related institutions

2.1 Key Blended Finance Enablers

Elements that support the success of a Blended Finance venture



ENABLERS

TOP-DOWN SPONSORSHIP

- Senior leadership buy-in early-on with continuous support
- Plays a critical role in accelerating the design and implementation and ultimate deployment of the vehicle

SIMPLE & FLEXIBLE VEHICLE DESIGN

- Simple but flexible vehicle design to expedite the alignment of all stakeholders
- Lowers vehicle development time and facilitates replicability potential

RISK-PROFILE ENHANCING INSTRUMENTS

- Use of risk management tools and catalytic capital to improve the risk return nexus and investment rating
- Supports crowding-in of commercial capital

LOCAL KNOWLEDGE & EXPERTISE

- Understanding of local landscapes and experience to bolster investor confidence in vehicle success
- Generating a robust pipeline of projects and an effective filtering process

ALIGNMENT IN OBJECTIVES

- Congruence in objectives and incentives across stakeholders
- Robust and credible impact framework

ROBUST & PROVEN TRACK RECORD

- Demonstration of credible track record by the vehicle participants
- Facilitates positioning the blended finance vehicle for success across its value chain

OBSERVATIONS

- These enablers are necessary for the success of a blended finance vehicle.
  - Their relative importance, however, will vary depending on the circumstances of the vehicle.
- The key enablers are not meant to be exhaustive.
  - Rather, they aim to highlight the essential enablers to consider when designing, developing and deploying a blended finance vehicle.
- The key enablers need to be complemented by other supportive instruments and policies.
  - Propellers, as well as Blended Finance Ambassadors, are important for fostering an enabling environment and developing a conducive ecosystem for enabling blended finance at scale.

2.1.1 Foundations

Alignment in Objectives and Robust & Proven Track Record

ALIGNMENT IN OBJECTIVES

The case studies featured in the booklet reveal that a prerequisite of a successful blended finance vehicle is the alignment of objectives amongst all participating stakeholders, preferably at onset but certainly in the early stages. One of the greatest hurdles in designing, launching, and scaling blended finance funds is the challenge of reconciling often divergent mandates between the public, private and philanthropic sectors. As the number of stakeholders participating in a blended finance vehicle increases, the complexities in managing expectations and designing structures that meet the requirements of all also grows. This can lead to a vehicle that is burdened by structural inefficiencies, bring inertia to the fundraising effort, and potentially complicate eventual capital deployment.

A clear alignment in the purpose of the vehicle is thus fundamental to creating and launching a meaningful blended finance model. This confluence of the objectives of all stakeholders involved allows actors to engage pragmatically and in a timely manner with the vehicle, leading to the development of more effective governance structures, operating models, and fundraising strategies.

The case studies show that funds with a strong impact framework supported by measurable targets can often be better positioned to convey their purpose to prospective investors. This enhances the vehicle's appeal and promotes greater alignment of objectives. A well-defined and strong impact framework is also important for attracting motivated investors who can become key advocates for the vehicle, potentially enabling more fruitful fundraising. The case studies also show that providers of catalytic capital and impact-seeking investors target investments that are supported by actionable and quantifiable metrics. Frameworks or processes that are transparent facilitate the tracking of progress. This in turn, stimulates mobilization of commercial capital providers who can bring scale and volume to the vehicle.

ROBUST & PROVEN TRACK RECORD

The case studies explored underscore the often pivotal role of a fund manager's track record in the success of a vehicle in the marketplace. The reputation and credibility of the fund manager matters, whose expertise is crucial throughout the entire lifespan of a vehicle, from designing a strategic fund structure at the outset to facilitating successful exits. The track record of the fund manager is frequently seen as an early indicator by prospective investors of the vehicle's proficiency in executing transactions, allocating capital efficiently, and delivering the expected social impact alongside financial returns. Importantly, fund managers with a proven track record are instrumental in fostering investor confidence, which in turn promotes repeat investments in subsequent ventures.

As the blended finance fund ecosystem continues to evolve, establishing a reputable track record can be accomplished through various methods. The case studies reveal that fund managers typically adopt one of three approaches to cultivate the necessary track record and instill confidence in the market.

High ← **Blended Finance Credibility** → *Low*

	1. LEVERAGE AN EXISTING TRACK RECORD	2. LEVERAGE A THIRD-PARTY TRACK RECORD	3. ESTABLISH A NEW TRACK RECORD
Description	▸ Experienced fund manager establishing a new vehicle by capitalizing on a past track record to garner traction and buy-in for the new initiative	▸ New entity launching a vehicle and bringing in an experienced and reputable external fund manager to institute effective investment management processes for the vehicle	▸ New entity launching a vehicle in phases through pilot structures to garner experience and expertise and build an early track record. A demonstration of early achievements can facilitate official fundraising
Advantage	▸ Enables an effective fundraising strategy that leverages past know-how; especially effective for mitigating concerns prevalent amongst many institutional investors	▸ Enables the vehicle to benefit from the track record by virtue of the fund manager's reputation as well as its past experiences and expertise	▸ Assists with early market testing, deal structuring, and capital deployment of investments to assess feasibility and success likelihoods
Requirement	▸ Fund manager must have the appropriate experiences and expertise within the sectors focused by the vehicle to navigate complexities and enable value-add	▸ Fund manager must have the necessary credentials to lead and manage the blended finance vehicle	▸ Catalytic seed money that is patient and risk-tolerant to allow for early market testing and support the fund in its nascent stages of development

2.1.2 Risk Mitigation

Risk-Profile Enhancing Instruments and Local Knowledge & Expertise

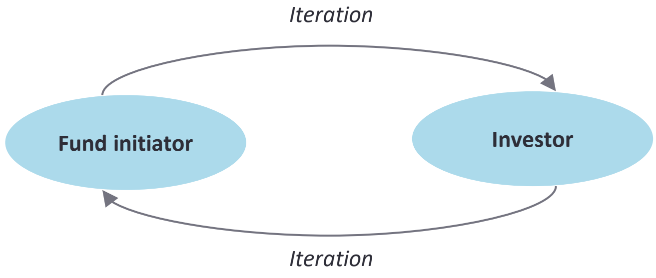
RISK-PROFILE ENHANCING INSTRUMENTS

The case studies showcased often demonstrate that an acceptable risk return nexus often involves the selection of appropriate risk mitigation instruments and the development of a meaningful risk management framework.

Understanding investor imperatives
Through meaningful and iterative discussions with investors…

Private investors have important fiduciary duties reflected by their level of risk tolerance and acceptable risk return nexus. Understanding these aspects is crucial to develop a strong risk management framework, starting with discussions with different participating investors.

This feedback-oriented approach enables the vehicle to identify the key investor needs and identify the risk instruments to be integrated that meet their expectations and ensure suitability.



To reconcile the disparate risk appetites and mandates of various contributors, including of the anchor investors, and ensure continued alignment, initiators of blended finance vehicles need to engage in transparent communication, ongoing dialogue, and flexibility.

… to identify required risk mitigation instruments…

The case studies identify 2 important elements for selecting effective risk instruments:

1. Choosing the appropriate risk mitigation instruments to engineer the desired risk profile of the vehicle.
2. Ensuring credibility of the risk mitigation instruments to catalyze private capital at a meaningful mobilization factor.

Considerations for commonly leveraged instruments:

First-loss capital	▸ A key risk mitigation instrument for vehicles targeting emerging and developing markets. ▸ Long-term contracts with first-loss capital is essential.
Insurance/ Guarantee	▸ Integrated within the structure often to support first-loss capital. ▸ Can be flexible and adapted to investor needs. ▸ The *Better Guarantees, Better Finance* report of the Blended Finance Task Force is an in-depth analysis of the use of guarantees in blended finance[1]
Credit Rating	▸ The above instruments can be applied to the senior tranche ▸ This can be a tipping factor in approving the *effective* credit rating. ▸ Still considered a novel approach given lack of standardization of underlying investments.

… and ensure optimal mobilization of capital ratio

CROWDING-IN

Crowding-in different sources of private capital requires the vehicle to have the following characteristics:

- Well-calculated and credible risk instruments that attract targeted investors all while bringing about significant volumes of capital.
- An attractive risk return structure that prioritizes senior investors and appropriately rewards stakeholders for the risk that is assumed within the capital stack.
- A potential for reinvestment that enables concessional capital to be recycled, promoting self-sustainability.

CROWDING-OUT

Balancing the use of concessional and catalytic capital against traditional capital can be challenging. However, it remains imperative to identify situations where crowding-out can occur:

- Overuse of concessional and catalytic capital beyond what is required by the risk return profile.
- Deploying concessional and catalytic capital in markets that are already sufficiently served by commercial players

Crowding-out private capital can create market distortions, lead to unfair competition, and/or send inappropriate signals to potential investors.

LOCAL KNOWLEDGE & EXPERTISE

Blended finance vehicles operated by teams who have deep, local knowledge and expertise can play a critical role in strengthen the risk management framework. An understanding of the specific characteristics of the geographies and markets that the vehicle targets enables the vehicle to identify high potential opportunities effectively, leverage an appropriate network of partners to align with local government priorities, and understand the key challenges that exist or may emerge. In turn, this expertise and experience allows for an appropriate tailoring of risk mitigation instruments. This can also help in developing the pipeline of impactful projects.

1. https://www.blendedfinance.earth/better-guarantees-better-finance .pdf

2.1.3 Timeliness

Top-Down Endorsement and Simple & Flexible Fund Design

TOP-DOWN ENDORSEMENT

The blended finance vehicles that receive top-leadership support are shown in the case studies to find an accelerated path to market through effectively influencing the direction and prioritization of these initiatives. When engaged, top management has the necessary credibility to support a faster fund launch, bringing in important stakeholders to participate and gathering the resources needed to strengthen the vehicle design. In short, continuous support starting at the vehicle's inception, can significantly bolster and expedite the vehicle's development and fundraising processes.

SIMPLE & FLEXIBLE FUND DESIGN

As illustrated by the case studies, the structuring process of a blended finance vehicle is typically guided by investor interests. The process is dynamic, adapting to emerging stakeholder needs as discussion progress and capital is raised. The market is beginning to coalesce around standard structures, often comprising a 3-layered capital stack that prioritizes simplicity while preserving flexibility.

Capital Stack

The high-level, 3-layered capital stack is increasingly observed on the market, albeit with slight variations on a case-by-case basis.

Tranche 1 Senior	The senior tranche is designed to target institutional investors who have traditionally higher returns expectations and lower risk tolerance. The senior tranche will often be reinforced by an effective risk rating, whether formal or by proxy, to improve buy-in from investors by inspiring confidence. The goal of the senior tranche is to offer stakeholders credible and robust risk-adjusted returns, while allowing them to benefit from diversification as well as the desired impact. The senior tranche may take shape in the form of equity or debt, depending on the fund mandate and scope.
Tranche 2 Mezzanine *(Not always necessary)*	If present, the mezzanine tranche is commonly designed to target DFIs, MDBs, and other providers of catalytic capital. Mostly guided by an impact mandate, these investors will generally seek moderate levels of return, be more risk-bearing, and provide longer-term patient capital. Some blended finance vehicles will not include the mezzanine tranche in their capital stack to maintain simplicity in the structure and expedite the fundraising process. The mezzanine tranche will also be determined by the level of protection required by senior investors.
Tranche 3 Junior	The junior tranche is designed to target philanthropic capital, including foundations and other institutions with concessional capital. These investors are heavily motivated by their impact agenda and are concerned primarily with capital preservation. It is often the case that junior investors play the first-loss role within the capital structure of a blended finance fund and generally represent between 10-20% of the fund's total size. The specific magnitude depends on the fund's investment thesis and senior investor risk appetites. It is pivotal to ensure that junior investment capital is credible and reliable to be effective in attracting and mobilizing senior tranche investors.

By adopting a simple but flexible and targeted structure, the blended finance vehicle benefits from multiple angles across its lifecycle. A straightforward structure allows initiators to clearly segment investor types by tranche-level, enabling the fund to better cater to different risk appetites, return potentials and other fund parameters. This approach heightens the ease of investor understanding during the fundraising process, better guides discussions and decision-making, and leaves space for flexibility with key partners as needed, at each tranche. As such, the vehicle can bring a degree of congruence despite varied stakeholder mandates, enabling fund managers to reach the targeted vehicle size.

2.2 Enhancing the Ecosystem of Blended Finance: Key Propellers

PROPELLERS	CURRENT STATE	CALL-TO-ACTION	TARGET STATE
1. Standardized Blended Finance Structures	• Most structures are engineered on a case-by-case basis to reflect willing participants and objectives • Lack of accepted reference templates inhibits the scaling-up of blended finance	• Developing standards regarding underlying fund structure characteristics • Developing standards relating to the impact and financial returns framework • Developing standards on the definition of sustainable projects	• Recognized fund archetypes characterized by key attributes that support a clear fund value proposition
2. Blended Finance Understanding	• Prevailing knowledge gaps within institutional investor community on the purpose, applications and characteristics of blended finance impedes widespread consideration and adoption	• Mainstreaming blended finance within the private sector • Engaging the sector-wide ecosystem	• Integration of blended finance within investors' portfolio, recognized as part of the broader private equity and private debt asset classes
3. Market-wide Accelerators	• Potential investors have difficulty finding and accessing sources of catalytic capital, guarantees and related instruments.	• Establishing a catalytic capital access platform • Establishing a consolidated guarantee network • Emphasizing MDBs/DFIs as essential catalysts	• Creation of established pools of resources with unburdensome requirements to expedite fund creation across the value chain
4. Continued Regulatory And Policy Support	• Restrictive regulations and policies constrain the adoption and deployment of blended finance vehicles	• Engaging the government for enabling regulations and policies • Fostering alignment within the general population on the necessity to leverage public capital to mobilize private capital	• Flexible and cooperative regulatory and policy climate to support blended finance transactions

2.2.1 Standardized Blended Finance Structures

Key Propellers

STANDARDIZED BLENDED FINANCE STRUCTURES

The case studies that follow demonstrate that although there is an emerging consensus with respect to certain core blended finance vehicle characteristics, such as the layered capital stack, the absence of market-recognized standards forces investors to start essentially from scratch each time a new blended finance structure is initiated. This significantly increases the costs, time required and uncertainty related to the development of new such vehicles and hinders their widespread replication.

Key areas identified that would benefit from market-recognized standardization include:

- Underlying fund structure characteristics, such as the appropriate use of various risk-mitigation instruments, and features related to either a blended finance equity or a blended finance debt vehicle
- Impact and financial return frameworks, supporting the alignment of objectives and incentives of the range of potential participants
- Standards or definitions of sustainable projects and methodologies relating to project or company selection criteria

Establishment of such market-recognized standards would not only accelerate the development period of new blended finance vehicles but also facilitate the engagement and fundraising process between vehicle initiators with potential investors.

Furthermore, market-recognized standardization would help advance a better understanding and familiarity of the particular attributes, risks and opportunities of blended finance vehicles, enabling investment institutions to more effectively integrate blended finance within their portfolios and increase the number of market participants and the quantum of funds that are mobilized.

Some movement towards market-recognized standardization is already underway as relevant stakeholders work to develop internal standards that utilize their own best practices which are often disseminated through various industry-associations. The following pages spotlight two ongoing initiatives that are helping to develop standards for sustainable infrastructure.

2.2.1 Standardized Blended Finance Structures (continued)

Spotlight: Blue Dot Network

Blue Dot Network

(BDN) is a voluntary certification framework that is designed to mobilize capital towards high impact opportunities in developing and emerging economies by:

- Providing a trusted signal that a project is aligned with internationally agreed standards.
- Assisting low- and middle-income economies in sending a clear message about project soundness and risk mitigation.
- Establishing global alignment over quality infrastructure standards, including on sustainability and climate, resilience, local development, fair competition, open procurement, and anti-corruption best practices within project development.

BDN was founded by the Governments of Australia, Japan, and the United States, and later joined by the United Kingdom, Spain, Switzerland, and Türkiye to form BDN's steering committee. A BDN Secretariat is housed at the OECD and supported by senior leaders from the private sector, civil society, and academia to ensure that the initiative captures essential inputs and provides an impactful tool for all relevant stakeholders.

Genesis of the BDN

- BDN's founders recognized that investors are more likely to support emerging-market projects that have been independently verified to meet international standards related to quality and sustainability. In addition, the varying frameworks and due diligence processes used by different parties within deal execution result in inefficiencies due to significant duplication. As such, the certification can support investors in making faster investment decisions by providing transparency over the intended impact to be delivered during and after the project development phase. To note that the BDN certification does not integrate underlying commercial, political, or other related financial risks.
- BDN aims to support project developers in accessing additional financing opportunities. Achieving an independent 'rating' on a given project enables the developer to better communicate the project's quality and adherence to international standards to investors, thereby increasing its attractiveness. Governments interested in public-private partnerships for priority infrastructure projects can incorporate BDN to signal their commitment to upholding international standards, including the G20 Quality Infrastructure Investment Principles (QII)

Source: BDN Documents

In its entirety, the framework is comprised of three foundational pieces:

1. A set of essential requirements that projects must satisfy. These requirements integrate existing international standards, such as QII. The requirements are publicly available at www.bluedot-network.org.
2. A scoring system to evaluate project quality across 10 themes that include but go beyond traditional ESG pillars.
3. An efficient and credible review process whereby project developers submit a self-assessment that will then be verified by an independent third party to ensure validity. The verification will be performed by recognized bodies, selected by the BDN Secretariat through a formal process.

Each submission is rated out of 3 'dots'

- **1 dot – 'Essential':** The project satisfies the essential requirements of international standards for quality infrastructure
- **2 dots – 'Superior':** The project exceeds the essential requirements
- **3 dots – 'Best In Class':** The project exceeds the essential requirements and incorporates innovative processes that seek to deliver a strong positive impact

Each certified project will undergo periodic monitoring to ensure that it remains in line with targets. The certification can be downgraded or removed should the project no longer satisfy the key criteria. The certification remains valid for a period of five years, with a possibility to renew thereafter. .

Current status

The BDN Secretariat informally assessed seven pilot projects to test the framework's robustness and user-friendliness. Formal certifications are expected to begin by the end of 2024. Project developers applying for a BDN certification will be required to pay a fee to the independent certifying body, though the cost is not expected to be material for typical infrastructure projects.

The BDN Steering Committee and Secretariat continue to conduct outreach to countries interested in supporting quality infrastructure to join the initiative and/or propose projects for certification. The initiative's backers intend for BDN certification to help support the establishment of infrastructure as an asset class. For example, the potential securitization of BDN certified projects could entice increased institutional investor participation and mobilize greater volumes of capital.

CERTIFICATION FRAMEWORK

There are 10 elements that define the BDN framework and express the core values of Quality Infrastructure, with each element underpinned by key themes and criteria spanning across the 3 dot categories.

10 Blue Dot Network Elements for Quality Infrastructure

1. Promote sustainable and inclusive economic growth and development
2. Promote market-driven and private sector led investment, supported by judicious use of public funds
3. Support sound public financial management, debt transparency, and project-level and country-level debt sustainability
4. Build projects that are resilient to climate change, disasters, and other risks, and aligned with the pathways towards 2050 net-zero emissions needed to keep global temperature change within 1.5 within reach
5. Ensure value-for-money over an asset's full life-cycle cost
6. Build local capacity with a focus on local skills transfer and local capital markets
7. Promote protections against corruption, while encouraging transparency procurement and consultation processes
8. Uphold international best practices of environmental and social safeguards, including respect for labour & human rights
9. Promote the non-discriminatory use of infrastructure services
10. Advance inclusion for women, people with disabilities, and underrepresented and marginalised groups

2.2.1 Standardized Blended Finance Structures (continued)

Spotlight: Fast Infra Group and the Sustainability Infrastructure (SI) Label

Fast Infra Group is a finance industry-led, private-public partnership comprised of a consortium of leading banks, institutional investors, DFIs/development banks, governments, and NGOs and others. It is spearheaded by the Government of France and seeks to develop sustainable infrastructure into a deep and liquid asset class to mobilize private investments into emerging and developing countries.

As part of this purpose, Fast-Infra is establishing a globally recognized **Sustainable Infrastructure (SI)** label. Leveraging the positive market impacts from the Green Bond label, the SI label aims to create a formal asset class for sustainable infrastructure.

The benefits from the SI label are three-fold:

1. Facilitate investment decisions and attract private and public capital for blended financing
2. Provide market reassurance and consistency
3. Help facilitate the due diligence, reporting, monitoring/measuring, and engagement processes.

The SI Label evaluates submissions across 4 dimensions (E,S,G, Adaption & Resiliency) as well as 14 criteria. To obtain the label approval, initiatives must satisfy the baseline benchmarks, which integrates the IFC Performance Standards as well as additional requirements from Fast-Infra Group, as well as achieve a Positive Contribution reflecting a best practice across 1 or more criteria. This framework ensures that projects are evaluated holistically and bring impact.

The SI Label builds on existing frameworks, taxonomies, and standards and is aligned to UNSDGs and QII Principles. To obtain the SI Label, projects will need to self-declare and follow through with independent reviews across different lifecycle stages to ensure continued compliance.

The SI Label is being overseen by an executive advisory board along with steering committees.

As of December 23rd, 2023, the SI Label has had 5 projects submit a self-assessment within the renewables and emerging markets and obtain the label.

SI Label Dimensions and Criteria

DIMENSION	CRITERIA
Environmental	Protection and Enhancement of Biodiversity & the Natural Environment
Environmental	Climate Chance Mitigation / GHG Emissions Reduction
Environmental	Promotion of the Efficient Use of Natural Resources/Waste Reduction & Transition to Circular Economy
Environmental	Embedding Pollution Prevention and Control
Climate Adaptation & Resilience	Evaluating Risks and Building Resilience and Adaptive Capacity at the Project and System Scales
Social	Promoting Gender & Ability Inclusivity
Social	Promoting Health & Safety
Social	Protection and Enhancement of Human & Labour Rights
Social	Land Acquisition & Resettlement Mitigation
Social	Promoting Stakeholder Engagement
Governance	Embedding Anticorruption Policies & Procedures
Governance	Embedding Transparency & Accountability Policies and Procedures
Governance	Embedding Government Policies for Project Fiscal Transparency & Procedures
Governance	Embedding Sustainability & Compliance Policies & Procedures

2.2.2 Blended Finance Understanding

Key Propellers

BLENDED FINANCE UNDERSTANDING

Blended finance vehicles have a number of distinguishing features and characteristics that can make them attractive to many institutional investors and can facilitate the attainment of such objectives as sustainable risk-adjusted returns, and portfolio diversification, while achieving positive impact, and facilitating entry into certain markets or sectors that may otherwise be difficult to access through more conventional investment approaches.

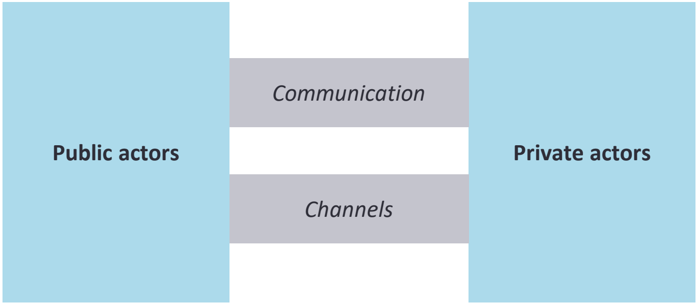
However, there is a significant issue relating to a lack of adequate familiarity with the attributes and characteristics of blended finance that has inhibited its wider growth and led to only a small fraction of its full potential being realized.

Advancing a better understanding of blended finance vehicles' unique features and characteristics through communication and dissemination of information, and as the market expands-- the development of a more robust track record, would help increase the entry of new participants and further increase its momentum.

The dissemination of such information within organizations would also be beneficial and encourage the integration and mainstreaming of blended finance both at the portfolio level and within investment strategies of existing asset classes.

Greater adoption of blended finance requires more than just the closing of the knowledge gap among potential investors, however. At its heart, successful blended finance practice involves extensive collaboration between the public, private and philanthropic sectors with each making its own unique contribution to the overall effort. This entails cultivating an environment of open communication, trust and credibility, and the exchange of ideas among the different stakeholders involved.

Such a process of on-going dialogue helps foster alignment and harmonization on the objectives to be achieved and the means to attain them. It also leads to a better understanding and reduces misperceptions of the contributions and roles that public, private and philanthropic actors can make.



2.2.3 Market-Wide Accelerators

Key Propellers

MARKET-WIDE ACCELERATORS

A number of processes common to the development of blended finance vehicles have been identified in the case studies that follow. Many of these processes share similar development-phase challenges stemming from the lack of market-wide integrated platforms that can provide the necessary tools and support for new blended finance structures, resulting in much longer time-to-market and inhibiting the creation and replication of such vehicles at scale.

Three specific market-wide accelerators have been identified that could serve as powerful drivers for scaling blended finance activity, supporting the entry of new actors into the field and boosting the momentum for blended finance

Catalytic Capital Access Platform

Description

- Institute large consolidated pools of catalytic capital seeded by national governments, MDBs, DFIs, foundations, philanthropies, and related actors.
- Ensure that the pools of capital have standardized, unburdensome, and transparent access requirements and are supported by a robust operating model.

Rationale

- Practitioners often struggle to find sources of catalytic capital, a critical component for blended finance to improving the risk/return profile of a given vehicle. And when sources are identified, the process for accessing the catalytic capital can be burdensome and complex. It is common for multiple sources of catalytic capital to be required for a single vehicle, further increasing the complexity of the design, governance and administration.

Result

- Faster time to market through a concentrated source of catalytic capital

Consolidated Guarantee Mechanisms

Description

- Streamline and merge specialized guarantor agencies to develop consolidated repositories of guarantee instruments, overseen by a governing body that actively serves as an intermediary connecting practitioners to the appropriate instrument for the underlying risks involved – the World Bank Guarantee Platform represents a positive step in this direction.
- Ensure regional and risk-specific expertise is present within the governance structure to enable a broad scope of possible and innovative guarantee instruments.

Rationale

- It is often difficult for practitioners to find the appropriate guarantee instruments for the particular risk profile of their respective vehicles. When instruments are available, they often lack the required scale and the process to access them is frequently time consuming and burdensome.

Result

- Greater ease and speed for obtaining appropriate guarantee instruments at the scale required

MDBs/DFIs as Essential Catalysts

Description

- Encourage ongoing efforts to have MDBs/DFIs make private capital mobilization a central objective of their operations, building on the recommendations contained within the *Call to Action to Heads of State, Policymakers and Multilateral Development Bank Officials on Scaling Private Capital Mobilization.*[1]

Rationale

- MDBs/DFIs, through their wealth of local knowledge, proven experience, on-the-ground presence and credibility, technical expertise and existing relationships with diverse stakeholders, can play a pivotal role in supporting the mobilization of private capital at scale towards sustainability objectives. To realize this potential, efforts at further strengthening their collaboration with the private sector are required.

Result

- MDBs/DFIS serve as major catalysts for mobilizing capital at scale towards investments advancing sustainability objectives

1. UN-Environment Programme (2023). Scaling Private Capital Mobilization. https://www.unepfi.org/wordpress/wp-content/uploads/2023/11/CTA_Scaling-Private-Capital-Mobilization_final.pdf

2.2.4 Continued Regulatory and Policy Support

Key Propellers

CONTINUED REGULATORY AND POLICY SUPPORT

An enabling and transparent regulatory and policy environment is essential for catalyzing greater investment through the deployment of blended finance solutions. At the national level, this requires the implementation of policies and initiatives conducive to channelling a greater flow of capital towards impactful sectors while ensuring that economic, environmental and social objectives are advanced in line with evolving government priorities.

It also requires the support from the country's population on the use of public finance to support blended finance activities. This entails strong communication and an understanding of blended finance as an effective and strategic use of public capital to mobilize far greater volumes of private capital towards agreed priorities rather than a subsidy to the private sector. In addition, it necessitates underscoring the collaborative nature of blended finance, which promotes a shift in disposition from a 'go-it-alone' attitude to a 'public and private sector working together' mindset.

At the international level, it involves addressing the regulatory impediments that inhibit or discourage the deployment of capital at scale towards sustainability objectives, particularly in emerging markets. The Fourth Conference on Financing for Development, taking place in the summer of 2025, provides an opportunity to build consensus on the regulatory and policy measures that can encourage such flows.

RELEVANT RESOURCE

Under the auspices of Brazil's 2024 G20 presidency, the B20 Task Force on Finance and Infrastructure published a Policy Paper with a suite of recommendations for regulatory capital and rating agency policy reform to help achieve consistent treatment of transactions across jurisdictions and to recognize the risk mitigating features of blended finance and other de-risking strategies. Its objective is to highlight the conditions necessary to substantially increase the mobilization of private sector capital flows for climate investments. This policy paper can be accessed here: https://b20brasil.org/documents.

B20 BRASIL 2024

SPOTLIGHT – STANDARD CHARTERED: TAKING A PROGRAMMATIC APPROACH TO BLENDED FINANCE TO UNLOCK REGULATORY REFORM

Standard Chartered is a leading international cross-border bank with a long-standing footprint across some of the world's most dynamic markets. This shapes its perspective on the role that blended finance and public-private collaboration can play in supporting a transition that is just and inclusive in regions such as Asia and Africa. Standard Chartered has been identified by the data platform Convergence as one of the top blended finance banks for several years.

Beyond day-to-day financing, Standard Chartered is leveraging its deep expertise and innovative mindset to contribute to ambitious groups and programmes that are developing solutions that mobilise private capital at scale in order to help close the sustainable development funding gap. This work has identified a number of barriers that must be solved at a system level in order to move blended finance on from a project-by-project approach, and enable private finance to invest with confidence in emerging markets and developing economies.

One example of how this is working in practice is the establishment of 'Country Platforms', such as the Just Energy Transition Partnerships (JETPs), that take a programmatic approach to blended finance. Country Platforms seek to leverage concessional finance and unlock the policy and regulatory reform required to enable private finance to invest at scale in support of national ambitions. They do this by creating a forum for key partners to discuss how different forms of concessional capital – including grants, loans, investments – can be matched against the most suitable projects, as well as how concessional finance can most efficiently leverage the private sector.

There are now four JETPs in South Africa, Indonesia, Vietnam and Senegal. South Africa was the first JETP launched in 2021 at COP26, with an initial sum of USD8.5bn in concessional finance from a consortium of governments and the ambition to mobilise a further USD90bn of private sector investment. The JETP aims to support the early retirement of coal plants and accelerate investment in renewable energy, whilst ensuring a 'just transition' for all.

Early on it was identified that - in order to ensure that concessional capital was channeled to where it was needed most, in areas that were unlikely to bankable - regulatory barriers would need to be addressed in order to direct private capital into certain sectors. In 2022, the South African government removed the licensing threshold for 'embedded generation'. This freed major power consumers in South Africa to invest in building out their own renewable generation capacity, helping drive private finance into the energy sector. This has begun to yield encouraging results; the South African government signed off 14.5GW[1] of new renewable energy projects in 2023, with a further 45GW of projects in the pipeline[2].

Standard Chartered is one of a number of GFANZ banks that are signatories to the Indonesia and Vietnam JETPs and have collectively pledged to match the concessional finance put forward by the International Partners Group at USD10 billion and USD7.75 billion respectively. It is working closely with partners to apply the lessons learned from its work to scale blended finance in order to help mobilise private sector capital at scale in support of JETP investment plans in these countries. This includes bringing all key stakeholders around the table to build trust; identifying any key barriers to finance and marking milestones along the road with key projects.

1. National Energy Crisis Committee releases six-month progress update on implementation of Energy Action Plan | South African Government (www.gov.za)
2. 2023 Eskom survey (also reported here) reporting a total of 66GW [14.5 signed off + 51.5 in pipeline] (RE_Survey_202304rev0_Pub.pdf (eskom.co.za)

2.3 Blended Finance Ambassadors

How champions can promote the development of the blended finance ecosystem

Propellers	Standardized Blended Finance Structures			Blended Finance Understanding		Market-Wide Accelerators			Regulations and Policy Support
Calls-To-Action	Fund structure	Impact-Financial Framework	Sustainable Project Definition	Private Sector Education	Sector-wide Engagement	Catalytic Capital	Guarantee Mechanisms	MDB/DFIs as essential catalysts	Flexible and supportive environment
Industry Bodies/ Practitioners	✓	✓	✓	✓	✓	✓	✓	✓	
UN/MDBs/ DFIs				✓	✓	✓	✓	✓	
Investors/ C-Suite Executives				✓	✓				
Regulator/ Policy-maker						✓	✓	✓	✓

Industry Bodies/ Practitioners

- Disseminate best practices of successful blended finance vehicles to facilitate the development of reference or standardized templates
- Highlight the positive impacts of blended finance

Industry Bodies/Practitioners

- Engage with institutional investors to advance the understanding of blended finance and its vast potential

UN/MDBs/DFIs

- Contribute to the evolution of blended finance practice and help maintain its focus on achieving sustainability impacts

Investors/C-Suite

- Engage in both external and internal advocacy to promote the mainstreaming of blended finance

Industry Bodies/Practitioners

- Promote the creation of market-wide accelerators and the development of their respective modalities
- Encourage ongoing efforts to have MDBs/DFIs prioritize private capital mobilization efforts

UN/MDBs/DFIs

- Provide technical expertise and other supports for the development of market-wide accelerators

Regulators / Policy Makers

- Support the development and mobilize resources for market-wide accelerators

Regulators / Policy Makers

- Advance policy/ incentives that channel capital towards sustainability investments
- Ensure appropriate use of public capital and alignment with priorities

3 CASE STUDIES

LIST OF CASE STUDIES

3.1 Asia Climate Strategy

3.1 Asia Climate Strategy

A. Introduction to the strategy

The Asia Climate Strategy (ACS) is an up to $500M debt structure managed by responsAbility Investments AG, an asset manager in the field of impact investments. ACS' investment strategy focuses on sectors with high CO2 reduction potential in Asia, including renewable energy, battery energy storage, electric mobility, energy efficiency and circular economy. The strategy leverages a blended finance structure to attract catalytic investors and mobilize private participants, with a first-loss mechanism as the main risk mitigation instrument to improve the investment grade of senior tranche investors.

Strategy mandate	Provide a mix of medium- and long-term financing, mostly senior-secured, to promote climate mitigation and GHG reduction investments, mainly focusing on companies offering energy solutions for the Commercial & Industrial sector, as well as energy efficiency, electric mobility, and other climate technologies.
Strategy inception	2023
Strategy target size	Target $500M
Strategy lifetime	10 years, with option to extend twice by one year (10+1+1)
Average ticket size	$10M - $35M
Key investors	Public capital providers such as DFIs; Institutional investors such as insurers, pension funds, and family offices
Capital structure	Blended finance strategy with a Junior tranche and a Senior Tranche
Portfolio assets	Senior secured loans, sub-debt, and mezzanine
Target regions	Mainly Asia-Pacific as well as South and South-East Asia
Target sectors	Renewable energy (e.g. projects for energy generation from solar, wind and biomass), energy efficiency (e.g. offering of intelligent, consumption-reducing heating, cooling or lighting systems) and electromobility, such as the production of electric vehicles, battery production and recycling, as well as charging infrastructure.
Target Sustainable Development Goals[1]	Industry, Innovation, and Infrastructure Responsible Consumption and Production Climate Action

1. While responsAbility support the UN SDGs, they are not associated with the UN and our strategies are not endorsed by them

Source: responsAbility Investment AG unless stated otherwise

B. Background

Building on the success of the three previous blended finance strategies, responsAbility launched the Asia Climate Strategy. ACS leveraged learnings from the inaugural strategy to develop a structure that meets the expectations and requirements of both institutional investors and potential investees within Asia. With extensive experience, track record, and networks in direct lending within the Asian renewable energy sector, responsAbility was strategically positioned to undertake a new strategy that would amplify impact and reach. In-depth exchanges and dialogue with key anchor investors ensured a purposeful structure for ACS, which successfully completed its inaugural fundraising round in the latter part of 2023.

Why Asia?

ResponsAbility made a deliberate choice to focus the strategy's activities within Asia for a multitude of reasons:

- First, the region remains the greatest global emitter, representing more than 50% of global CO2 emissions. The urgency to transition is of utmost importance to minimize exposure to negative consequences of climate change within the vulnerable region.
- Second, responsAbility's pre-established presence and on-the-ground connections within key Asian regions allow them to capitalize on their extensive network to build a robust pipeline of projects. This is a crucial characteristic that enables the team to identify the relevant investment opportunities in order to achieve the intended levels of impact.

Why use Blended Finance?

The use of blended finance for this strategy is driven by interrelated factors. The various real and perceived risks underpinning the strategy's targeted regions, including inherent risks such as credit or political uncertainties, impede on capital inflows. This is further exacerbated by the nations' sovereign rating and the nature of the strategy's underlying assets (i.e., energy-related projects), which would require further protection to satisfy the investment prerequisites of senior investors. As a result, blended finance becomes essential to align with investors' criteria for investment-grade opportunities.

3.1 Asia Climate Strategy

C. Structuring process

Illustration of the Strategy Structure

1 **Senior Tranche**
(85% of Targeted Strategy Size)

The targeted senior investors include insurers, pension funds, corporates, and family offices.

2 **First-Loss Junior Tranche**
(15%, growing up to ~25% of Targeted Strategy Size)

The targeted catalytic/junior investors include government entities such as DFIs. The first-loss junior tranche is designed to provide protection to senior investors up to 25% over the foreseen lifetime of ACS, by absorbing the strategy's potential losses.

*For illustration purposes only. responsAbility Investments AG as of June 30th, 2024

Process

The responsAbility team approached the strategy's structure as an evolving process, aiming to align investors' needs to the assets available. As such, ACS' structural characteristics encapsulate key elements that emerged as a result of various investor discussions:

A simple structure by design

- A simple capital structure was key. It is common to observe blended finance funds on the market with multitude of tranche levels or sub-funds to cater to different investor risk/return appetites and attract a wide range of participants. The team concluded that this approach would add complexity and extend the fundraising timeline due to the need for investors to grasp the layered rationale. Thus, responsAbility opted for a straightforward, 2-level capital structure featuring a senior and a junior tranche.

A meaningful first-loss tranche

- Given the scarcity of first-loss capital, considerations over its size and effective use were imperative. ResponsAbility aimed to ensure a calibration between offering an attractive investment proposition to senior investors and the optimal level of first-loss capital provided. Given that first-loss capital is committed to the strategy, as opposed to other forms of risk-mitigators which may only be enacted given certain conditions, ResponsAbility targeted first-loss equity as the primary factor to improve the risk/return profile for the senior tranche investor. Discussions with anchor investors were key to bringing insights on the appropriate levels of first-loss capital.

An indicative rating

- To further support the value proposition to senior tranche investors, the team pursued an indicative rating process. Based on the assets and protection provided, a proxy rating of ACS was determined, providing senior tranche participants with a clearer view on the indicative investment grade of the opportunity.

3.1 Asia Climate Strategy

D. Implementation

Governance Model

The investment committee of the strategy is composed entirely of responsAbility members, with daily operations and reporting & monitoring practices under the responsAbility team's management. Investors may be involved in decisions made by the ACS' advisory committee. Material progress of the strategy is shared with investors by the responsAbility team periodically.

To ensure that the strategy delivers upon promised value, responsAbility's performance fee is linked to the achievement of both financial and impact targets (portfolio CO2 reduction). This approach was designed to increase accountability of the strategy and tie the investment manager's incentives to those of the investors.

Key Features of the Investment Strategy

To deploy capital and identify high potential opportunities, the responsAbility team leverages their expansive local footprint within the various regions targeted by the strategy.

Key markets addressed by acs

Core Focus Segments			Opportunistic Segments
Renewable Energy	Electric Mobility	Energy Efficiency	Climate tech. in CO2 reduction

Portfolio assets

Within the segments targeted by the strategy, ACS will deploy capital to support opportunities in the form of senior secured loans (in majority) and mezzanine/sub-debt.

- Senior Secured Loans
- Mezzanine/Sub-debt

Fundraising Process

Private investors

During the initial fundraising phase, the responsAbility team primarily focused on the requirements of private investors. Several key factors were taken into consideration :

- **Strategy target size:** Large pension funds and insurers typically aim to commit a minimum of $100M, while also adhering to a 10-20% cap on any single fund investment; many in this group tend to avoid further due diligence if these fundamental criteria are not satisfied.
- **Understanding what drives traditional investors:** The fiduciary duty of large institutional investors vis-à-vis their clients obliges these stakeholders to maintain a long-term view of the risk/return profile. It was thus pivotal for responsAbility to ensure that the levels of risk-adjusted returns were palatable and achievable.

The team noted a growing trend among pension funds and insurers to evaluate investments through climate impact and ESG criteria, often influenced by their commitment to international objectives like the Net-Zero Asset Owner Alliance (NZAOA). These actors have requested a meaningful level of detail with regards to C02 impact calculations and ESG considerations.

As such, although financial targets remain the priority, the impact intention is taking gradual space amongst private investors, mostly in terms of a focus on CO2 emissions reduction.

Catalytic investors

To engage catalytic investors, responsAbility centered on the strategy's potential to generate impactful outcomes. Discussions with these stakeholders revealed that they sought not only alignment with impact goals, but meaningful levels of private investor mobilization into these markets and assets.

A climate impact assessment and monitoring framework was also put in place to ensure the strategy evaluates and measures impact progress appropriately and holistically. In that regard, to achieve real and credible CO2 emissions reductions, partnering with a leader in impact management is crucial. ResponsAbility not only has a proven track record but also precisely measures the impact investments on CO2 and other key performance indicators (KPIs). A key differentiator among asset managers is the presence of a Climate Advisory team. It is a global team of 8 local

technical experts (engineer background) with specific technical experience in climate mitigation technology advisory. They work hand-in-hand with investment teams pre and post investment.

Process and results

When responsAbility enacted on the fundraising approach, negotiations involved considerable deliberation and a thorough process as the team sought to tailor the tranche-level characteristics to investor needs. This began with satisfying the levels of protection required by senior stakeholders, then aligning to the interests of public participants.

Discussions with both private and public investors are still in holding, notably with USAID[1] and the U.S. Department of State, in collaboration with the U.S. Special Presidential Envoy for Climate, considering a non-repayable grant. The strategy received prestigious recognition at COP28, where the award was announced by John Kerry, former U.S. Special Presidential Envoy for Climate. On the private side, responsAbility is making significant progress with insurance companies and pension funds, especially in the Nordics and in Japan.

1. USAID and the US Department of State have committed $7.5M in the junior tranche, which is currently in legal due diligence phase. Source: responsAbility Investment AG unless stated otherwise

3.1 Asia Climate Strategy

E. Success Factors

1	**Open communication to tailor-design the strategy and inspire meaningful alignment:** The preliminary and ongoing discussions the responsAbility team had with investors were key in creating the strategy towards a relevant and purposeful design. Blended finance inherently entails bridging together distinct investment cultures across the public and private sectors. For ACS, responsAbility sought to ensure that the strategy would deliver on the risk and return levels expected by private investors all while meeting the impact, return and mobilisation agenda's of the public funders.
2	**Credible source of first loss:** A credible and relevant first-loss layer plays a pivotal role in attracting private investors and inspiring confidence. For ACS, the binding contracts with junior equity layer stakeholders were crucial to its value proposition to the private sector. Designing the first-loss layer with intent elevates the ability to mobilize institutional capital into the strategy and lies at the heart of blended finance.
3	**Influential strategy size:** A large-scale blended finance strategy is more effective in attracting capital from important institutional investors. The strategy size should be aligned to the targeted investors for an effective fundraising process, but also importantly needs to be deployable and achievable on the asset side. Combining these aspects is the key outcome for a successful strategy structure and launch. For ACS, the responsAbility team focused on targeting $500M to bring scale.
4	**Straight-forward structure:** A simple structure is key to attracting private institutional investors. These actors are more familiar with unstructured private debt funds within developed markets, which is the reason why responsAbility focuses on only including a junior and a senior tranche in ACS.

Outcomes

Sample pipeline transaction in the Renewable Energy sector:

Country	▸ Vietnam
Transaction details	▸ Funding: $7-10M ▸ Tenor: 7-9 years
Use of Funds	▸ Construction financing for Commercial and Industrial projects across Vietnam
Security	▸ Senior secured with security over project assets, bank accounts, share pledge, etc.
Business Model	▸ Developer of rooftop solar assets for commercial and industrial clients. The company provides solar assets and sells the electricity generated by them. ▸ Power offered is more affordable than grid electricity and comes from renewable sources.
CO2 Impact	▸ Given that distributed Renewable Energy (RE) projects contribute to 100% CO2 reduction compared to grid emission factor, the project is expected to bring high impact to Vietnam's RE sector.

Strategy-Level Climate Impact

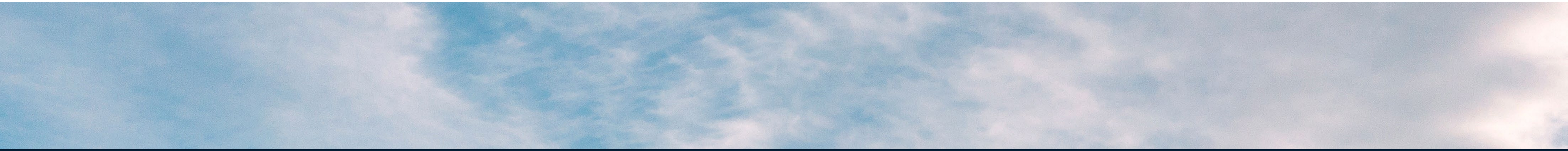
~16M tonnes of lifetime CO2 emssions reductions[1]

F. Conclusion

The fundraising journey of the Asia Climate Strategy so far underscores the significance of engaging with investors to guarantee that the strategy's structure is purposeful from the outset. This starts with understanding the expectations and needs of the private sector to ensure a baseline strategy structure that can meet their constraints, followed by the integration of public sector investor intents to align on the impact potential of the strategy. The size of a blended finance strategy can play a pivotal role in its success, particularly from a fundraising perspective: larger strategies attract a more varied profile of investors and lead to a more successful fundraising. Although larger strategies necessitate greater collaborative input, they have the potential to generate long-lasting impact through size and scale.

1. Calculated based on a $500M strategy.
Source: responsAbility Investment AG unless stated otherwise. For illustrative purpose only.

3.2 Bank of America: Select Blended Finance Transactions



3.2 Bank of America (BoA): The Gabonese Republic Debt-for-Nature Swap

A. Introduction to the transaction

On August 14, 2023, Bank of America successfully supported Gabon in the completion of a pioneering debt-for-nature swap (DFNS) valued at $500 million. BofA Securities acted as Sole Deal Manager for Gabon's bond tenders and Sole Underwriter and Initial Purchaser for the Blue Loan Revenue Notes. This strategic financial transaction aims to refinance a fraction of the nation's Eurobond debt through tender offers, at lower interest rates and longer maturity. This Blue Loan Agreement will allow Gabon to generate, directly and indirectly, $125M in targeted funding for marine conservation efforts, which will be overseen by The Nature Conservancy as the Conservation Administrator.

This marks a historic first for mainland Africa, with the transaction receiving an enhanced Aa2 rating from Moody's, thanks to political risk insurance provided by the US International Development Finance Corporation (DFC)—a rating significantly above Gabon's own Caa1/B credit rating.

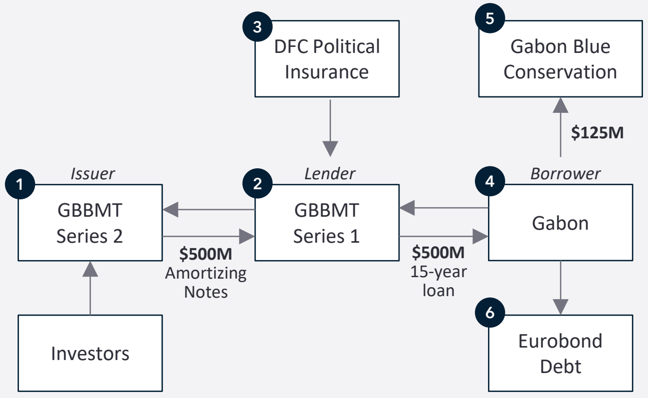
Issuer	Gabon Blue Bond Master Trust (GBBMT), Series 2
Lender	Gabon Blue Bond Master Trust (GBBMT), Series 1
Borrower	The Gabonese Republic (Gabon)
Political Risk Insurer	U.S. DFC
Conservation Administrator	Gabon Blue Conservation, LLC, an affiliate of The Nature Conservancy
Par	$500M
Final Maturity	August 1, 2038
Rating	Moody's: Aa2/Stable
Amortization	August 1, 2028 to August 1, 2038
Weighted Avg. Life	10 years
Coupon/Yield/Spread	6.097% / 6.097% / +200bps (10-yr UST)
Call Option	Make-Whole Call @ UST + 30bps
Target Sustainable Development Goals	Climate Action; Life Below Water

B. Additional details

What is a Debt-for-Nature Swap (DFNS)

A DFNS allow low- to middle-income economies to free up fiscal resources by restructuring outstanding debt in exchange for the government committing to use a portion of the savings to fund nature conservation efforts.

Gabon's Debt-for-Nature Swap (High-level)



1. GBBMT Series 2 issued Blue Loan Revenue Notes as a public capital markets transaction under Rule 144A / Reg S to enable participation from a broader set of investors, and BoA Securities was Sole Underwriter and Initial Purchaser.
2. GBBMT Series 1 used proceeds from loan issuer to fund a 15-year, $500M loan to Gabon.
3. DFC Political Insurance provides credit enhancement through an insurance contract, elevating the swap rating to Aa2 by Moody's. The insurance contract will provide political risk insurance of up to $500M and thereby lower the cost of debt for Gabon.
4. Gabon will use the proceeds from the loan for tender offers in order to refinance its existing Eurobond debt and leverages the savings and other payments detailed in the Blue Loan Agreement to channel funds into conservation.
5. Gabon Blue Conservation fund will receive savings and payments from the Gabonese government and fund marine conservation efforts valued at $125M. The Gabon Blue Conservation is overseen by The Nature Conservancy to ensure compliance with conservation milestones and activities.
6. 3 outstanding Eurobonds were purchased at a discount to par through tender offers, with BoA acting as Sole Deal Manager.

C. Key insights

1. **Tailored financing schemes to bring economic and sustainability advancements:** The use of a DFNS was a significant and influential strategy for Gabon, a country grappling with escalating debt and threats to its marine ecosystems. The impact delivered through debt forgiveness, the collaboration between private and public actors, alongside the political risk insurance highlights the various forms in which blended finance can take place. This success story shows untapped opportunities within the blended finance spectrum and paves way for the adoption of more innovative financial solutions. Despite structuration challenges and the necessity for optimal macroeconomic conditions, such approaches can engage diverse parties and enhance country-level capabilities.
2. **Alignment and transparency across actors:** DFNS' are complex given the various parties involved in transactions. It was thus pivotal for BofA to engage with experienced partners and contributors, such as The Nature Conservancy as well as DFC, to foster a conducive environment for investors to participate and bring them the assurance of a sound investment opportunity.

3.2 BoA: CRRH Africa Impact Affordable Housing Trust 2022 Guaranteed Notes

A. Introduction to the transaction

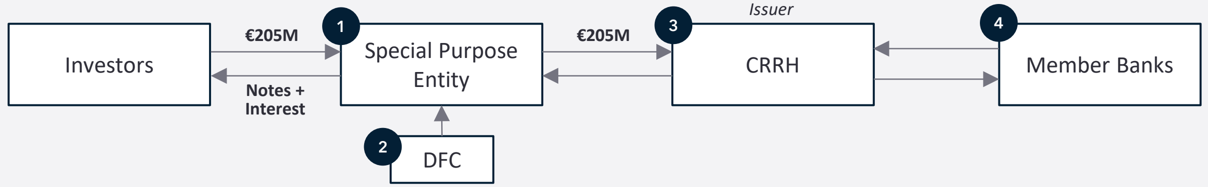
Bank of America was the sole structuring agent and lead placement agent on notes to fund a loan to the Caisse Régionale de Refinancement Hypothécaire (CRRH). CRRH is a financial institution that seeks to address the growing housing crisis in West Africa by making affordable housing more accessible through low-interest, long-term mortgages to low and middle-income individuals across Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. The proceeds from the transaction will be used to originate and refinance long-term mortgages to CRRH member banks, with the US International Development Finance Corporation (DFC) wrapping a full guarantee to the 17-year Notes, bringing the rating of the Notes to Aa1.

The transaction was structured by the New York-based Municipal Banking team and privately placed by the London based Euro Medium-Term Note desk within BofA. A U.S. Special purpose entity was set up to enable private placement with international investors.

Issuer	CRRH West Africa Impact Affordable Housing Trust
Issue	US DFC Guaranteed Notes
Proceeds	Long-term mortgages for low and middle-income housing
Rating	Moody's: Aa1
Size	Euro 205M
Offering Type	Private Placement
Security	Borrower loan payments from member banks
Enhancement	US DFC Guarantee
Yield / Spread	4.207% / +110bps (EURO Mid-Swaps)
Maturity	Sinking Fund Term Bond: January 1 2040
Target Sustainable Development Goals	1 NO POVERTY — No Poverty; 10 REDUCED INEQUALITIES — Reduced Inequalities

B. Additional details

Guaranteed Notes (high-level)



1. A Special Purpose Entity (SPE) through which BofA managed sale of notes to institutional investors, undertook one-on-one educational conversations to incite buy-in, and performed due diligence on FX risks, US tax implications, Borrower KYC/AML, Flow of funds, and ESG considerations. The SPE acts as an intermediary between CRRH and investors, creating a clear structure for the issuance of notes and minimizing risks for investors.
2. A DFC guarantee on principal, interest, and make whole enables the notes to be rated Aa1. These notes are the first capital markets application of DFC for a Euro-denominated security.
3. CRRH issues €205M taxable fixed rate Guaranteed Notes due in 17 years, with a 10-year weighted averaged life and uses proceeds to distribute capital to member banks in order to close the financing gap and support housing needs across West Africa.
4. Member banks support individuals through mortgage refinancing solutions at below market rates and favourable terms to bolster housing accessibility to a growing population.

C. Key insights

1. **Significance of DFC's credit enhancement:** DFC's principal and interest guarantee was paramount to improving the transaction's credit worthiness. At the Aa1 rating positions the Notes are strongly within the investment grade category, thereby enhancing their appeal to institutional investors. This allowed Bank of America to attract a broader and more substantial investor base to participate in the transaction and bolster CRRH's impactful housing initiatives. This tailor-made blended finance transaction, enabled through the risk mitigation provided by DFC, is designed to address specific challenges faced across West Africa and is pivotal in facilitating access to affordable housing within the region.
2. **Underlying robust risk management:** BofA's risk management framework is a crux to enabling the execution of the innovative financing scheme. The bank leverages its track record and experience, such as integrating its proven due diligence processes when evaluating the CRRH opportunity, to ensure a comprehensive consideration of underlying economics, risks, and implications. This brings confidence to stakeholders with regards to the soundness of the transaction and better positions the issuer to achieve intended impact by identifying the appropriate supporting measures.
3. **Engaging the investment ecosystem:** A key role played by BoA is the education of key stakeholders. Investors new to the field require additional knowledge and support in understanding the nuances behind innovative and bespoke blended finance transactions such as the CRRH Guaranteed Notes. This type of dialogue increases the transparency and accountability on stakeholder roles necessary for successful private placement raises.

3.2 BoA: Consorcio Energético Punta Cana – Macau, S.A. Green Loan

A. Introduction to the transaction

In pursuit of their shared goals for renewable energy advancement and achieving Net-Zero emissions, Bank of America and InterEnergy Group have partnered together to expedite the development of renewable energy initiatives in the Caribbean's Small Island Developing States (SIDS). InterEnergy, a leading organization in clean energy within the Caribbean, Central, and South America, will benefit from a green loan structured and arranged by Bank of America for its subsidiary, Consorcio Energético Punta Cana – Macau (CEPM), which is a leading electricity provider in the Dominican Republic. This transaction will support CEPM in the expansion of solar energy generation, electric charging facilities, and electrification of regions. The transaction was structured as a 3-year Green Loan under the InterAmerican Development Bank's (IDB) A/B Loan Program, optimizing capital sources available for energy projects in SIDS.

Loan Details	$40M Green A/B Term Loan
Term	3 years
Arranger and Agent	BofA as Sole Lead Arranger and Structuring Agent under the Inter-American Investment Corporation (IDB Invest)
Lender of Record	IDB Invest
B Lender	BofA
Borrower	CEPM
Outcomes	▸ The expansion and operation of 20.4MWac solar energy generation ▸ The construction of the first electric vehicle charging facility in the Caribbean ▸ The electrification of the remote area of Isla Saona in Bayahibe
Target Sustainable Development Goals	7 Affordable and Clean Energy; 11 Sustainable Cities and Communities; 13 Climate Action

B. Additional details

What is an A/B Loan?

A/B loans are used by MDBs / DFIs to mobilize co-investment from the commercial sector into emerging markets. Typically, A/B loans will involve an MDB/DFI as A-Lender (or Lender of Record), with the private sector participating as the B-Lender where they will benefit from the MDB/DFIs privileges and immunities, as well as any preferred creditor status.

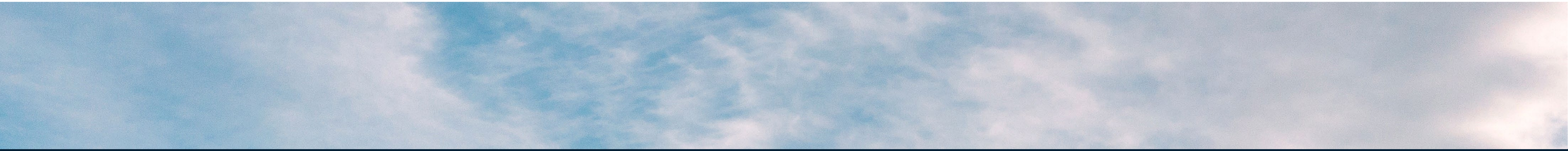
CEPM's Green A/B Term Loan

1. BofA, acting as Sole Lead Arranger and Structuring Agent, enters into a participation agreement with IDB Invest to provide the B Loan to CEPM. BofA will benefit from an improved credit rating on their loan portion through IDB Invest's preferred creditor status on the A/B Loan to CEPM. Project risk is shared between BofA and IDB Invest.
2. CEPM enters into a loan agreement with IDB Invest, with capital to be dedicated towards construction and operation of solar energy generation facilities, electric vehicle charging facilities, and electrification of populations.
3. InterAmerican Development Bank (IDB) Invest acts as a catalyst in the loan transaction being the lender of record thus allowing BofA to benefit from IDB Invest's preferred creditor status and enabling the bank to participate and complete the funding opportunity for CEPM. IDB is the lender of record and administers the loan.

C. Key insights

1. **Participation of IDB Invest to catalyze the scheme:** IDB Invest's role mobilized BofA's participation into the lending scheme. The MDB's various privileges and immunities with its member countries allow BofA to benefit from risk mitigators, such as the preferred creditor status, allowing for priority repayment in the case of loan default. This is significant as it gives the commercial player in the loan greater assurance and security when funding opportunities in emerging or frontier markets.
2. **Innovative and purposeful loan scheme to magnify impact:** The A/B structure is inherently a mobilizing tool. The financing scheme's dual structure palates to the expectations of BofA as a more commercial player all while offering a longer and more patient lending tenor to CEPM. Such an approach creates a strong enabling effect: collectively, A/B lending schemes allow commercial investors to engage in impact projects through a trusted and experienced partner all while offering borrowers more accommodating terms to foster their growth and operations.
3. **Longstanding alignment for continued empowerment:** Central to the Green A/B Loan transaction is the relationship between InterEnergy Group and BofA. Both parties' ambition to create enduring, sustainable value through impact initiatives harmonizes their purpose and guides the potential partnership paths forward. This alignment and common long-term view creates a conducive environment for fruitful discussions and collaborative engagement and ensures that impact is delivered where it was intended. A trusted relationship thus advances solutions and creates engagement across various key stakeholders.

3.3 Catalytic Transition Fund



3.3 Catalytic Transition Fund

A. Introduction to the fund

The Catalytic Transition Fund (CTF) is a targeted $5B fund focused on capital deployment within emerging and developing markets. The fund will concentrate its efforts along three key themes: clean energy, business transformation and sustainable solutions. Managed by Brookfield, CTF will benefit from up to $1 billion in catalytic capital from ALTÉRRA, which will help mobilize investments into the fund's targeted regions across South and Southeast Asia, South and Central America, Eastern Europe, and the Middle East.

Fund mandate	Mobilize and deploy climate finance towards chronically underfunded markets that are critical to achieving Net-Zero
Fund vintage	2024
Fund size	Target $5B
Fund term	8-10 years
Key investors	ALTÉRRA, Brookfield, and qualified institutional investors
Key instruments	Commercial capital, catalytic capital, and other risk mitigation mechanisms
Target regions	South and Southeast Asia, South and Central America, Eastern Europe, and the Middle East
Target sectors	Clean energy, business transformation and sustainable solutions
Target Sustainable Development Goals	The fund is anticipated to support various Sustainable Development Goals (SDGs), which may include (but are not restricted to): SDGs 6, 7, 9, 11, 12, 13

B. Background

Brookfield has long identified the potential of emerging markets. Through the capabilities amassed during the launch and operationalization of previous transition-focused funds, the asset manager recognized the opportunity to leverage existing know-how in order to direct funds into emerging markets. However, Brookfield lacked the right dedicated pool of capital to undertake and manage the associated risks in these markets.

Concurrently, COP28 saw the introduction of ALTÉRRA, an innovative $30B climate investment fund geared to drive substantial investments into pivotal projects on a global level. Established by the UAE, ALTÉRRA seeks to mobilize $250B globally by 2030 to create a fairer climate finance system[1]. $5 billion is earmarked for the Global South through ALTÉRRA Transformation, a distinct branch of ALTÉRRA.

Both Brookfield and ALTÉRRA were seeking the right partners that would enable each actor to fulfill their ambitions, leverage their respective strengths, and capitalize on the transition imperative.

As such, with the support from ALTÉRRA Transformation, Brookfield launched CTF — a $5B initiative dedicated to decarbonization efforts within emerging and developing markets. The alliance between Brookfield and ALTÉRRA marks a significant milestone in blended finance, not only through ALTÉRRA's significant $1B catalytic seed investment, but also by virtue of the targeted size of the fund

Why use Blended Finance?

The importance of blended finance comes from the underlying risk-return profile associated to the emerging markets targeted by the fund. CTF's ambition in terms of both size and scale will significantly shape the fundraising and deployment approach within the sector, and its projected impact will serve as a beacon to the potential and importance of key catalyzers such as ALTÉRRA within the transition economy.

1. Source: Alterra

3.3 Catalytic Transition Fund

C. Structuring process

Capital Structure (indicative)

1 Commercial Investors

2 ALTÉRRA

Improving the risk-return profile…

3 Other catalytic capital pools and risk-return enhancement instruments

1. Commercial investor tranche targets traditional, institutional investors. To align interest incentives, Brookfield will be committing at least 10% of CTF's allocated fund size into the senior tranche.
2. As catalytic, anchor investor, ALTÉRRA will earn modest risk-adjusted returns, up to a certain hurdle rate (capped returns), pari passu to the commercial investors.
3. It is anticipated that additional catalytic capital and credit enhancement provisions will be sourced from entities driven by a profound commitment to creating impact, including MDBs, DFIs, philanthropic groups, foundations, and family offices. The end capital structure of CTF may incorporate additional risk mitigation tools where appropriate and feasible, such as guarantees and a first-loss tranche.

For ALTERRA, CTF's capital structure will cap returns at a single-digit percentage. By sheer volume of catalytic capital, ALTÉRRA's $1B commitment will play a critical role in the CTF. ALTÉRRA also enables Brookfield to deploy capital within emerging markets at scale, where historically, these markets have been overlooked for climate transition investments.

Aligning with traditional infrastructure funds, the CTF targets an investment horizon ranging from 8 to 12 years, indicative of a long-term commitment to environmental sustainability and market transformation.

D. Implementation

Governance model

Brookfield's role as the General Partner (GP) enables CTF to a governance structure that is both nimble and robust. The management will delegate region-specific oversight to experienced leads, ensuring investments are rooted in local understanding and sector-specific expertise. The GP maintains full direction of the fund, holding their accountability on committed targets through periodic updates to investors. This leadership model facilitates the balance between flexibility and control necessary for the fund's success. ALTÉRRA has entrusted the fund performance to Brookfield, given their experience in active management within infrastructure investments at the global level, an expertise gathered through the asset manager's experiences with previous transition-focused infrastructure funds.

Key features of the operating model

Through the dual mandate of financial returns and measurable impact, CTF will utilize Brookfield's existing, proven processes, namely from a due diligence and an impact framework perspective.

- CTF will leverage Brookfield's established expertise and track record in sustainable infrastructure investment for its due diligence process. With region-specific leaders on the ground, CTF will benefit from Brookfield's proven processes of deal sourcing and deal structuring, which encapsulate the realities of emerging markets.
- At the heart of CTF's operating model is its impact framework. Aligned with the Operating Principles for Impact Management (OPIM) standards and decarbonization pathways from the Paris Agreement, the impact management framework stands as the cornerstone of the CTF through its holistic, non-exclusionary, and measurable approach to impact. CTF's impact strategy gathers the lessons learned from prior funds, enhancing the credibility and accountability of capital deployment.

Fundraising process

Leading financial institutions at the global-level have demonstrated preliminary interest in investing commercial capital into the fund. Brookfield is also pursuing additional catalytic capital partnerships.

3.3 Catalytic Transition Fund

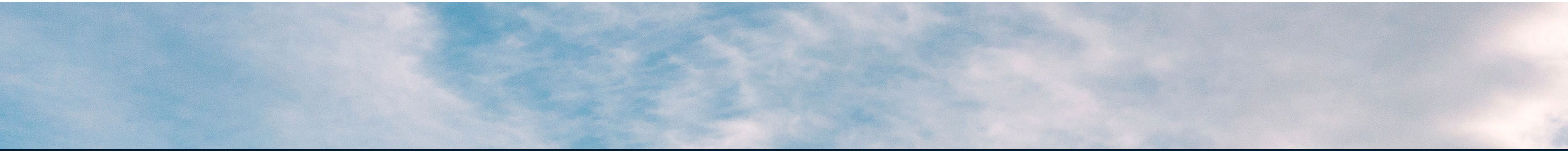
E. Key takeaways

1	**Open communication to tailor-design the strategy and inspire meaningful alignment:** The preliminary and ongoing discussions the responsAbility team had with investors were key in creating the strategy towards a relevant and purposeful design. Blended finance inherently entails bridging together distinct investment cultures across the public and private sectors. For ACS, responsAbility sought to ensure that the strategy would deliver on the risk and return levels expected by private investors all while meeting the impact, return and mobilisation agenda's of the public funders.
2	**Purposeful and well-rounded impact framework:** Brookfield's established and market-recognized impact framework is essential to the credibility of the fund. It serves as an enticing factor to investors, especially those who have limited experience within emerging markets, giving them the confidence that they are capturing both the financial benefits and impact targets of CTF.
3	**Nimble but purposeful capital attraction process:** CTF approached a flexible process in attracting capital from both public and private entities, undertaking dialogue and discussions to explore ways in which constrained capital can be freed to the fund, all while allowing Brookfield to retain operational autonomy at launch. This was important to ensure efficiency for the eventual capital deployment of CTF as it ensured that pools of capital committed to fund were aligned under a common purpose, thus avoiding the complexities of managing varying expectations and individual investor restraints.
4	**Education of investors to unlock capital flows:** As the world shifts and increasing focus is directed on climate pathways, an education component becomes a fundamental integration into discussions and negotiations with potential investors. In particular, some investors have expressed interest in CTF, but lack the knowledge and understanding in how participation could take shape. It becomes important for Brookfield and the CTF to embark in meaningful conversations to better enable investor participation.
5	**Engaging with MDBs, DFIs, IFIs, and country governments to foster a conducive environment for blended finance:** Beyond the CTF, Brookfield emphasizes the need for increased endeavours that seek to bolster blended finance at scale. These efforts link to the momentum needed from MDBs and other public actors to reform their agendas, in order to identify concrete ways in which their capital can be used to bolster initiatives such as CTF and target the appropriate pools of capital to enable this process.

F. Conclusion

The Catalytic Transition Fund and its ambitions go beyond the tangible sustainable potential for projects within emerging markets. Guided by a track record of impactful investments, it captures how vision, experience, and a targeted governance foster an enabling environment for sustainable investment and development. Through its alignment to global climate action pillars, the potential to mobilize significant institutional investors, and a proven impact framework, the CTF is poised to become the world's largest transition fund for EMDEs, driven by sheer scale and size. ALTÉRRA's commitment alongside Brookfield's management demonstrates a new era of mobilization for climate action, exemplifying the importance of stakeholder collaboration in the pursuit of greater global environmental stewardship.

3.4 Climate Innovation and Development Fund



3.4 Climate Innovation and Development Fund

A. Introduction to the fund

The Climate Innovation and Development Fund (CIDF) was structured as a blended finance facility and focused on catalyzing investment in low carbon technologies across South and Southeast Asia — particularly in India and Vietnam, given their enabling environment and urgent need for carbon emissions reductions to meet country-specific climate goals. The fund successfully allocated all its seed capital within a two-year period, helping to unlock ~$500M in private and public investments. It is currently overseeing the advancement of its investments in seven different projects. Throughout the capital deployment phase, CIDF targeted catalytic technologies that were nearing commercial viability, focusing, in many cases, on scalable business models and novel applications suited for emerging markets. Capital was provided to a mix of both greenfield projects as well as established enterprises looking to invest in low carbon initiatives. Although the fund focused on advancing low carbon solutions, the investments have also spurred ancillary social advancements across the targeted regions.

Fund mandate	The Fund's goal is two-fold: 1) increase the pace, scope and scale of innovative climate solutions in the targeted region and 2) help transition to a low carbon economy.
Fund vintage	2021
Fund size	$25M
Fund term	5 years
Average ticket size	$3.5M
Targets	A total financing leverage ratio of 1:20 (i.e., every $1 of Fund Financing deployed leverages $20 of additional private and/or public capital)
Key investors	Goldman Sachs, Bloomberg Philanthropies
Key instruments	Private, public and philanthropic capital
Target regions	South and South-East Asia, with a particular focus on India and Vietnam
Target sectors	Low-carbon technology, such as e-mobility, renewables, storage, aquaculture, carbon, and energy efficiency
Target Sustainable Development Goals[1]	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Industry, Innovation, and Infrastructure; 11 SUSTAINABLE CITIES AND COMMUNITIES — Sustainable Cities and Communities; 13 CLIMATE ACTION — Climate Action

1. Note: the Fund was not specifically aligned to any particular SDGs

All grant mobilization figures, additional capital contributions and projected CO2 or GHG emissions data for CIDF projects has been provided by ADB. Grant mobilization figures and additional capital contributions are rounded estimates as of the investments' financial close date

B. Background

The Climate Innovation Development Fund came to fruition through a meaningful partnership between top-level leadership and key figures of the corporate world: David Solomon, Chairman and CEO of Goldman Sachs, and Michael R. Bloomberg, Founder of Bloomberg LP and Bloomberg Philanthropies.

With the goal of not only bolstering the transition to a low carbon economy, but also helping to accelerate the scale of the energy transition, CIDF was launched in 2021 with support from the Asian Development Bank (ADB) as the fund manager. This grant-based fund distinguishes itself through the integration and strategic use of the diverse strengths of its various stakeholders :

- Bloomberg Philanthropies' profound insights into climate policy and history of philanthropic endeavors;
- Goldman Sachs' sustainable finance expertise, such as in blended and structured finance, including in emerging markets;
- ADB's deep-rooted knowledge of the specific challenges faced across Asia.

This synergy of expertise across different sectors, industries, and processes was a driving force for the fund's rapid initiation and capital deployment. By end of 2023, the fund had completely deployed capital across a series of blended finance investments.

How was Blended Finance integrated?

The fund focused on developing economies and projects on the brink of commercial readiness, but requiring additional capital to overcome the final financial hurdle. As such, CIDF positioned itself as a pivotal financial catalyst, deploying capital to engage the private sector on a project-level basis. By channeling targeted concessional capital to mitigate particular perceived risks, the fund enabled substantial and meaningful commercial investment from regional investors.

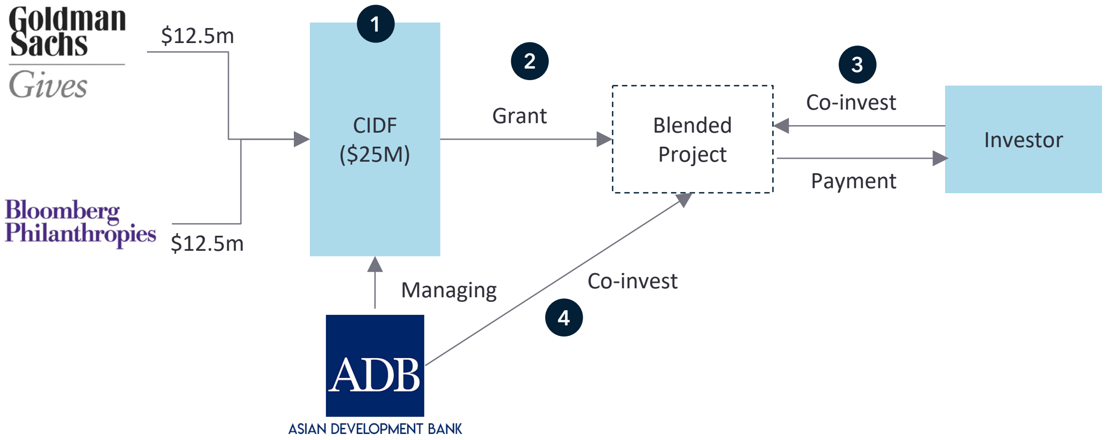
Importantly, CIDF was dedicated to validating its innovative model — a fund designed not only to deploy capital, but also to help scale up impact significantly and make a mark on the blended finance landscape. This led to CIDF winning one of the **Fast Company's 2023 World Changing Ideas Awards** and **Environmental Finance's 2023 Impact Initiative of the Year –Asia award**.

3.4 Climate Innovation and Development Fund

C. Structuring process

Flow of funds

CIDF leveraged seed capital from Goldman Sachs Gives and Bloomberg Philanthropies, to establish a $25M grant-based vehicle. CIDF deployed capital via various innovative forms, customised to address a financing gap or mitigate risk, in order to mobilise private capital through co-investment, and directed to help maximize development benefit.



1. CIDF was comprised of equal contributions amounting to $12.5 million from both Goldman Sachs Gives and Bloomberg Philanthropies. The capital provided by these two entities was concessional, with no anticipation of financial returns.
2. CIDF deployed grants through a variety of financing mechanisms, such as capital expenditure buy-down grants, performance or milestone-based grants, and liquidity reserves. The concessional capital de-risked projects and enabled commercially-driven investors to participate in these targeted projects, thereby enabling projects to receive financing from blended pools of capital.
3. The private and public sectors were involved in the co-financing of projects thanks to the grant capital provided by the fund. The mobilization ratios ranged from 8x to 44x CIDF’s provided grant capital on a per project basis.
4. ADB provided co-financing in all transactions as well, leveraging their own balance sheet, be it through direct investments or lending schemes. Accordingly, all transactions are compliant with ADB's Environmental and Social Safeguard policies.

All grant mobilization figures, additional capital contributions and projected CO2 or GHG emissions data for CIDF projects has been provided by ADB. Grant mobilization figures and additional capital contributions are rounded estimates as of the investments’ financial close date

D. Implementation

Governance model

ADB maintains deployment, governance and management of the fund. ADB was a deliberate partner who brought an expansive knowledge of regional realities, a network of investors, and an understanding of funding intricacies, greatly benefiting the partnership. To ensure alignment in intentions and targets, ADB was present in each transaction through co-financing on its own account and will provide ongoing monitoring once the project is operational.

Goldman Sachs and Bloomberg Philanthropies were present to assist with the financial decisions being taken by ADB as fund manager, for each bespoke transaction. On a yearly basis, ADB reports fund progress to the two organizations.

The governance model thus placed a strong emphasis on leveraging each partner’s strengths to achieve the fund's goals.

Key features of the operating model

One of the challenges in managing a fund like CIDF is prioritizing which opportunities to pursue, given limited capital and quick pace of deployment. As such, CIDF leveraged ADB's due diligence and credit process to narrow the field of investment opportunities for two main reasons:

- ADB’s strong presence and understanding of South and South-East Asian markets facilitated the development of a project pipeline. This accelerated the identification of investment opportunities that not only contributed to CIDF's goals but also resonated with the priorities of local governments.
- Beyond shaping the pipeline, ADB played a pivotal role in rallying a network of regionally-based investors who shared a commitment to making an environmental and societal impact. The economic advancements emerging from CIDF’s projects enabled collective engagement from aligned investors, which further strengthened the operating structure.

Together, Goldman Sachs, Bloomberg Philanthropies and ADB developed a rigorous and focused framework that prioritized catalytic investments that had a high potential for scale up of capital and replication for future investment. While Goldman Sachs and Bloomberg Philanthropies contributed valuable insights on the investment framework and key considerations for investment, ADB led the end-to-end investment cycle, from due diligence, to investment committee decisions, to fund documentation, and capital deployment.

CIDF was also selective with projects, mostly deploying capital towards opportunities that were at the critical ‘last mile’ stage of achieving commerciality, which allowed for a targeted and curated pool of projects.

Such an intentional investment approach enabled an expedited allocation of seed capital within 2 years from the inception of CIDF.

3.4 Climate Innovation and Development Fund

E. Key takeaways

1	**Senior leadership conviction to bring top-down momentum:** The direct involvement of and partnership between Goldman Sachs and Bloomberg Philanthropies leadership established the foundation for CIDF. The top-level commitment signalled a clear intention and commitment from both organizations, which enabled the rapid initiation of the fund and gathering of the $25M seed capital to spearhead deployment. CIDF sets a standard for how leadership can ignite transformative initiatives in sustainable development.
2	**Leverage meaningful collaboration between private and public sector players:** The synergistic relationship between Goldman Sachs, Bloomberg Philanthropies, and ADB provided a clear vision on the objectives and implementation pathway for the fund. Each stakeholder leveraged their strengths to benefit the fund with a plethora of resources to ensure its success and long-run sustainability. These alliances are pivotal in the context of blended finance as they bring about more comprehensive and holistic approaches to tackling climate change.
3	**Targeted project criteria:** CIDF was very focused on the project sectors and regions. This approach allowed for a strong project pipeline, comprised of opportunities with high relevance and contribution to the fund's objectives, enabling CIDF to deploy capital effectively at a speed beyond that typical of blended finance resources.
4	**Use of purposeful financing schemes:** CIDF's use of tailored financing schemes proved to be essential to a meaningful capital deployment. Not only did their grant schemes directly address the risks impeding on private sector participation, but also promoted a level of capacity building for the project itself. By attaching clear conditions to the capital disbursements, CIDF ensures a long-term sustainability and impact delivery of the initiative.
5	**Educate investors and establish proof of concept to encourage new participation:** The team found that clear communication and transparency about the anticipated outcomes were crucial in mobilizing funding. They also recognized the need to include an informative component in discussions to educate investors, particularly those new to blended finance, about the nature and significance of the investment's impact.

Sample Project Deployment

Vietnam: AC Energy – 88-Megawatt Wind Farm

CIDF's grant has mobilized ~31x of investment capital to support an 88-megawatt wind farm in South Central Vietnam. While the project featured bankable qualities, environmental and safeguard measures were a key consideration for stakeholders. The grant is designed to de-risk the wind farm's project finance through the provision of a revenue reserve facility, which disburses funds when operations are curtailed due to environmental and social safeguards — e.g. where operations are reduced to (1) lower the shadow flicker impact on residents in the project locality or (2) reduce mortality of birds migrating close to the turbines. At the time of signing, the project aimed to offset ~215,000 tons of carbon dioxide per year while meeting Vietnam's growing electricity demand.

Total Fund View

CIDF deployed $24.45M in grant capital, leading to the additional capital contribution from the private and public sectors of $506M, a 20x multiplier effect.

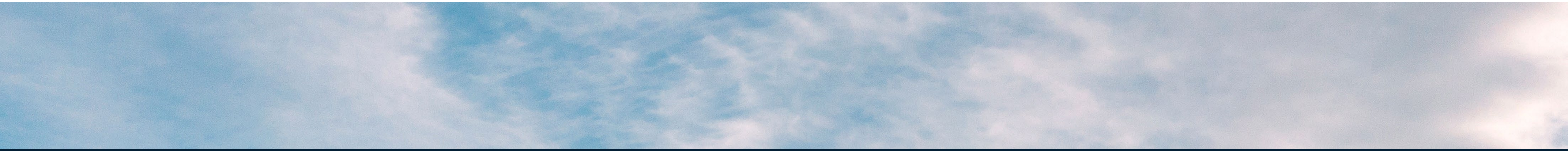
Source: Progress and Lessons from the Climate Innovation and Development Fund

F. Conclusion

The Climate Innovation and Development Fund demonstrates the power of collaboration in addressing climate change challenges. By combining the strengths of each stakeholder, such as policy knowledge, financial structuring, and regional understanding, CIDF converged on effective governance and operating models that supported targeted capital deployment. With top-down leadership momentum, clear project requirements, and a proof-of-concept component, CIDF demonstrates the importance of catalytic capital in mobilizing impressive amounts of private and public funds.

All grant mobilization figures, additional capital contributions and projected CO2 or GHG emissions data for CIDF projects has been provided by ADB. Grant mobilization figures and additional capital contributions are rounded estimates as of the investments' financial close date

3.5 Climate Finance Partnership



3.5 Climate Finance Partnership by BlackRock

A. Introduction to the fund

The Climate Finance Partnership (CFP) is a blended finance equity fund led by BlackRock, aiming to address the climate investment gap in emerging and developing markets. CFP targets climate infrastructure projects, such as green infrastructure, energy efficiency, and clean mobility solutions across Asia, Latin America, and Africa. CFP follows a blended finance structure to palliate to the needs of both foundations and donors as well as institutional investors while targeting the delivery of both financial and impact returns. With an original target of $500M in size, CFP raised $673M total at final closing in 2021.

Fund mandate	Invest in climate infrastructure projects within emerging and developing markets to enable impact and generate financial returns
Fund vintage	2021
Fund size	$673M
Fund term	12 years
Target regions	Southeast Asia-Pacific (APAC), Africa, and Latin America.
Target SDGs	6 Clean Water & Sanitization 7 Affordable and Clean Energy 8 Decent Work and Economic Growth 9 Industry, Innovation, and Infrastructure 11 Sustainable Cities and Communities 13 Climate Action

B. Background

CFP seeks to accelerate flow of capital into the renewable energy sector across emerging markets. The fund leverages a team of experienced global investment professionals to support the transition into a low-carbon economy and the enablement of renewable energy generation, storage, and transmission projects, all while generating financial returns.

Ultimately, CFP aims to:

- Catalyze the construction of new energy infrastructure.
- Support the success of CFP portfolio companies.
- Help close the funding gap hindering the addition of new renewable energy capacity to the grid in emerging markets.

Thus far, the fund has deployed capital in a variety of wind, utility-scale solar, and distributed solar projects.

Key Founding Catalytic Partners

CFP was enabled by 6 founding catalytic partners.

KFW

PROPARCO
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT

JBIC

TotalEnergies

QUADRIVIUM

Grantham Foundation
for the Protection of the Environment

3.5 Climate Finance Partnership by BlackRock

C. Operating model

Sustainability Pillars

CFP's sustainability approach is defined by 4 principles, which are applied across its portfolio of assets.

1

CFP Environmental & Social Management System (ESMS)

Developed with the support from the fund's founding catalytic partners, CFP's ESMS is a framework that guides how ESG policies are integrated throughout the investment lifecycle and within each portfolio company. The ESMS allowed CFP to:

- Integrate and central ESG risk management
- Increase ESG staff and resources
- Empower portfolio companies to assess their own risks

2

SFDR Article 9

CFP is categorized as an Article 9 fund, as outlined by the Sustainable Finance Disclosure Regulation (SFDR), given that *sustainable investment* is the fund's main objective and strategy. Although the regulation did not exist when CFP originally launched, the fund sought to integrate the disclosure practices once they were made public as part of CFP's commitment towards sustainability, transparency, and its fiduciary responsibilities.

3

ESG Integration

ESG considerations are integrated across the investment lifecycle of CFP:

1. Initial Screen	*2. Due Diligence*	*3. Approval*	*4. Management*	*5. Exit*
▸ Negative screening ▸ ESG risks evaluation ▸ Impact potential evaluation	▸ ESG due diligence ▸ Address IFC standard gaps	▸ ESG review by Investment Committee ▸ Binding ESG standards in documentation	▸ Assets to operate in line with ESG standards ▸ Correction actions when needed	▸ ESG risk mitigation and impact integrated in asset value proposition

4

Impact Measurement and Management

CFP evaluates both impact and financial returns potential for all investments. The fund manages and measures impact through the following factors:

- Aligning investment decisions to the key SDGs
- Measuring impact consistently on a comparable basis
- Integrating impact assessment

D. Success factor

Meaningful partnerships with catalytic players

As defined by its name, CFP's partnerships with founding catalytic stakeholders such as AfD, KfW, and JBIC were key to its success. Not only did these catalytic players bring in the necessary funding to begin mobilizing private capital, but they were also anchors that magnified the participation of other DFIs and related actors. As credible beacons of impact, these catalytic organizations brought a synergistic blend of expertise to BlackRock. This collaboration positions the fund strongly to drive transformation, through a purposeful governance framework that ensures the implementation of clear impact targets – supported by strong environmental and social standards – all while striving for financial excellence.

Sample investment made by the fund

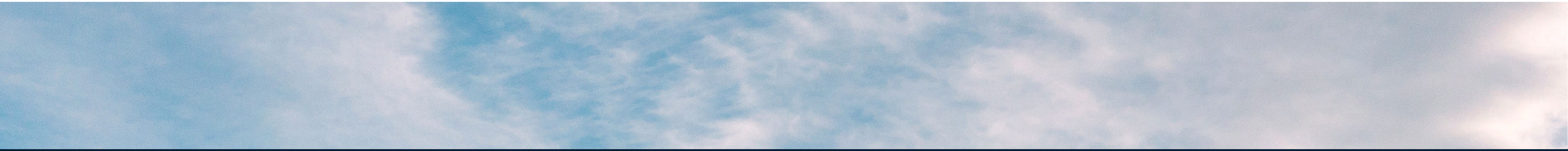
In early 2024, CFP made an investment in renewable energy developer Ditrolic Energy, headquartered in Malaysia to support the construction of commercial and industrial (C&I) and utility scale solar assets throughout emerging markets in Asia Pacific. The investment will enable:

- The development of a 1GW+ pipeline of solar projects across Malaysia, Bangladesh, Indonesia and the Philippines

E. Conclusion

The Climate Finance Partnership stands as a significant milestone in its own right. As one of the inaugural large-scale blended finance funds launched by a major player in the capital markets, CFP is a testament to the strategic positioning of BlackRock and the imperative for large financial institutions to play a role in the ecosystem. BlackRock carves out a path for other leading financial institutions to elevate their strategies and exerts necessary pressure on influential organizations to contribute meaningfully to this global challenge.

3.6 Emerging Africa Infrastructure Fund



3.6 Emerging Africa Infrastructure Fund

A. Introduction to the fund

Established over two decades ago, the Emerging Africa Infrastructure Fund (EAIF) is a private debt fund that provides long-term commercial debt across 9 key infrastructure sectors in Africa. The fund deploys flexible and patient capital to deliver inclusive and impactful infrastructure projects. EAIF originated from Private Infrastructure Development Group (PIDG) in an effort to mobilize capital towards closing the climate resiliency funding gap and leverages a blended finance capital structure engaging a multitude of investors, ranging from private institutions, to MDBs, and to sovereigns in order to scale intended impact. EAIF is managed by Ninety One, a reputable, recognized, and specialized fund manager within emerging markets.

Fund mandate	Deploy loans to commercially-sound projects within Africa to bolster the climate development environment and close the funding gap within key sectors
Fund vintage	2002
Fund size	$1.3B (Current size of active loan book)
Fund term	Open-ended
Average ticket size	$10M - $65M
Key investors	Allianz, Standard Bank, Department for International Development (Now Foreign, Commonwealth & Development Office), the Swiss State Secretariat for Economic Affairs (SECO), the Swedish International Development Cooperation Agency (SIDA), the Dutch Directorate-General for International Cooperation (DGIS), the Dutch Development Bank (FMO), the German Development Bank (KFW), The African Development Bank Group (AfDB)
Key instruments	Senior debt, First-loss equity
Target regions	Africa, the Levant, and since 2023: South & South-East Asia
Target sectors	Social infrastructure-housing, power, digital communications infrastructure, water/ sewage/ sanitation, manufacturing (inputs to infrastructure), gas transportation/distribution/storage, transportation, agriculture-supporting infrastructure, bulk storage & logistics facilities
Target Sustainable Development Goals	5 GENDER EQUALITY – Gender Equality; 7 AFFORDABLE AND CLEAN ENERGY – Affordable and Clean Energy; 13 CLIMATE ACTION – Climate Action; 17 PARTNERSHIPS FOR THE GOALS – Partnerships for the Goals

B. Background

The Emerging Africa Infrastructure Fund was created in 2002 by the Private Infrastructure Development Group (PIDG). Funded by governments (The Foreign, Commonwealth & Development Office [UK], Netherlands Ministry of Foreign Affairs, State Secretariat for Economic Affairs SECO [Switzerland], Australian Government Department of Foreign Affairs and Trade, Sweden Sverige, and Global Affairs Canada) and the IFC World Bank, PIDG seeks to accelerate climate action and sustainable development to create resiliency at a global scale. As part of this mission, PIDG created the Emerging Africa Infrastructure Fund in 2002.

Leveraging capital from anchor shareholders, which were the UK, Dutch, Swedish, and Swiss Governments and periodically raising debt capital from private investors such as Allianz, Standard Bank, and DFIs including AfBD, FMO, and KfW, the EAIF differentiates itself on the market through its open-ended nature, track record of 20 years, and its early use of blended finance. The combination of varied stakeholders enables EAIF to leverage long-term capital from the public sector along with the commercial drive of the private sector to deliver on both impact and financial returns.

In 2016, Ninety One was selected as an experienced and specialized fund manager for EAIF, given their deep roots in Africa and sustainability-focused nature. This background was significant to the success of EAIF on multiple levels as it enabled and continues to enable the fund to: (1) leverage Ninety One's existing networks to build a strong project pipeline; (2) utilize Ninety One's team of experts in undertaking deal analysis and structuring; (3) employ Ninety One's proven frameworks for monitoring and reporting. Ultimately, these advantages contributed to successive fundraising rounds for EAIF, allowing for the fund to reach size and scale, thereby bolstering its impact across the targeted sectors and geographies. The expanding quality track record is key to the fund's credibility as it continues to broaden its reach.

Why use Blended Finance?

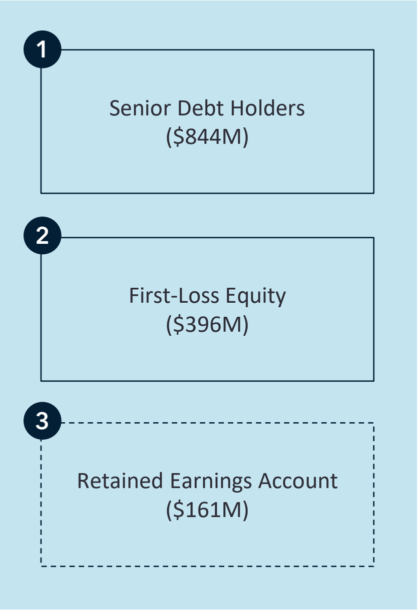
Risk mitigation capital is necessary given the geographic nature of projects in which the fund deploys capital. Despite investing in commercially-sound initiatives, the barriers investors see within Africa-based investments are challenging to overcome without the supporting patient equity to protect against potential losses. The need for blended finance is further amplified by the long-dated nature of infrastructure assets within the jurisdictions in which the fund operates.

3.6 Emerging Africa Infrastructure Fund

C. Structuring process

Capital Structure

Current view of investors



1. Funded by both private and public entities, senior debt holders are entitled to market-level returns throughout their respective capital commitment periods. Some investors may have bespoke deals, particularly DFIs, who may offer debt at catalytic and/or concessional terms.
2. Funded by PIDG member countries through the PIDG Trust, the first-loss equity tranche receives returns on sub-commercial terms. Fund overperformance is distributed back to the first-loss equity tranche to the extent that the capital committed by PIDG members is preserved.
3. Any fund overperformance that is not recycled into the first-loss equity is channeled into a retained earnings account to further enable EAIF to deploy capital towards high-impact projects.

1. Specifically, blind to the geographies targeted by EAIF.

Process

Ninety One denotes that there are two underlying uses for blended finance :

- Leverage blended finance to educate new investors about a particular set of investments that they might not be familiar with, in order to improve their understanding and comfort with the associated risks. The goal is to familiarize a cohort of investors with a new asset class, with the hope that they will eventually be able to invest without the need for risk mitigation capital.
- Leverage blended finance to address investments where the returns, relative to the risk, do not align with market expectations; these are often found in more pioneering markets or may involve innovative solutions, such as nature-based projects. For such investments, blended finance may need to be a continuous support. Herein lies an important question: what mobilization rate is required to successfully launch a deal?

In the case of EAIF, blended finance was integrated with the objective of exposing investors to new markets and assets. The challenge lied in ensuring that the catalytic tranche was significant enough to bring the confidence necessary for senior debt participation, all while avoiding the potential of crowding out capital. With this element in consideration, the EAIF fund structure integrates 2 key risk-mitigators.

1. Purposeful first-loss equity

The first-loss equity tranche of EAIF is in line with a senior secured infrastructure debt portfolio in these markets. Profits are retained within the fund, enabling EAIF to recycle the capital as:

- Additional contributions to first-loss protection or;
- Reinvestments back into fund objectives.

This characteristic is crucial as it helps minimize the use of first-loss equity and fosters a cycle of self-sustainability. Although EAIF has an ROE target throughout the cycle, capital preservation is the main objective. Over the course of the fund's lifetime, $160M in retained earnings have been recycled back into EAIF.

2. Credit rating

Securing an official credit rating for EAIF also played a key role in enhancing its appeal to senior investors. In fact, the underlying project ratings averaged from B/BB while EAIF received a Moody's A2 foreign currency long-term issuer rating with a stable outlook. This rating was attributed given the fund's:

1. Robust capital position and diversified lending portfolio
2. Reputable stakeholders from both its senior debt and first-loss equity tranches
3. Strong member commitment from the PIDG first-loss equity holders

Although the fund has had many repeat lenders over time, this rating led to a significant confidence boost amongst investors; in fact, during a debt raising in 2023, an existing investor attributed the fund's solid rating as one of the primary reasons for increasing their investment allocation into EAIF.

Beyond bringing a level of confidence to the senior debt holder, the credit rating also brings a level of comparability for the asset owner. Ninety One denotes that institutional investors of EAIF relied on Moody's rating to understand the payout probabilities and compare the opportunity against others. This enabled senior participants to understand how an investment such as EAIF would fit into their own respective portfolios.

However, despite the underlying capital structure integrating the various requirements of senior investors, the geographic hurdle was difficult to circumvent. Ninety One suggests that if EAIF were a blind pool fund[1], investor perception would have greatly differed and there would be a larger pool of interested capital available to leveraged. However, the geographic bias attached to investments in Africa being higher-risk persists, despite the fund only investing in commercially sound investments, such as wind farms or solar panels. This is attributed to perceived risk factors that are outside the fund's control and unrelated to its capital structure design, such as the political backdrop, interest rates, and currency fluctuations.

3.6 Emerging Africa Infrastructure Fund

D. Implementation

Key Features of the Operating and Governance Model

Eligible investments

The fund focuses on private infrastructure projects, including start-ups/greenfield projects and privatized companies, that have commercially sound business models. The fund has concentration limits of 25% per country, 10% per client, and 40% per sector (excluding energy), with loans maturity up to 20 years. EAIF's portfolio themes touch on the following 10 sectors:

1. **Social Infrastructure - Housing**
2. **Power**
3. **Digital Communications Infrastructure**
4. **Water, Sewage, and Sanitation**
5. **Manufacturing: Inputs to Infrastructure**
6. **Gas, Transportation, Distribution, & Storage**
7. **Transportation**
8. **Agriculture-supporting Infrastructure**
9. **Bulk Storage & Logistics Facilities**

Due diligence approach

EAIF is managed and overseen by the fund manager, Ninety One. First-loss equity PIDG members are involved in the screening of projects in relation to impact and ESG matters. The members may also be involved in credit committee evaluation for select transactions, where an opportunity lies outside EAIF's pre-determined investment policy. Ninety One reports to its investors through project fact sheets and case studies on an annual basis.

Step 1 – Initial screening: Project background, sponsor/off-credit standing, and ESG standards evaluated

Step 2 – Due Diligence: Due diligence/credit evaluation

Step 3 – Credit Committee Evaluation (Ninety One): Evaluates credit case and country political/economic risk

[Optional] Step 4 – Credit Committee Evaluation (PIDG): Evaluates challenging deals that require additional scrutiny

Additional Details on the Operating Model

- EAIF leverages partnerships with MDBs, DFIs, commercial banks and other project sponsors to develop a push and pull project pipeline. The fund seeks to be an active contributor and plays a variety of roles across transactions, ranging from the lead arranger to the participant within an IFC B loan[1].
- Ninety One denotes stark differences when it comes to investing within Africa; project transactions can often be highly structured, where required protection on the loan is significantly higher and covenants are stricter – particularly within risky jurisdictions. Furthermore, some projects require close cooperation with local governments, especially pertaining to electricity grid infrastructure, where parliamentary approval was needed.
- EAIF otherwise follows a Theory of Change, measured by key outcome metrics such as capital mobilization, visibility/sustainability, access to new or improve infrastructure, employment, economic impact, development impact, and demonstration effect (indirect capital mobilization).

Fundraising Process

Since inception in 2002, EAIF has closed 9 rounds of debt fundraising, from various capital providers ranging from DFIs, commercial lenders, and institutional investors, amounting to a total value greater than $1.68B.

As part of the latest fundraising round, Allianz Global Investors committed a further €75M and $50M to EAIF. Standard Bank provided a $75M multicurrency revolving credit facility with sustainability-linked features and a $25M sustainability-linked term debt facility. KfW committed a further €60M loan to EAIF. These additional commitments are enabling the fund to reach a target raise of $500M by 2025 as EAIF seeks to invest >$750M in infrastructure over the long-term years.

Crucial to these successive fundraising rounds has been PIDG's catalytic capital, acting as the foundational piece to attracting senior investor commitment. The fund plans on penetrating Asian markets in 2024 in order to magnify impact, and will collaborate with PIDG's guarantee arm GuarantCo, development arm InfraCo, and Technical Assistance to support this endeavour.

1. Refers to the A/B Loan structure offered by the International Finance Group (IFC)

3.6 Emerging Africa infrastructure Fund

E. Key lessons

1	**The asset manager as the cornerstone:** In the broader context of blended finance, Ninety One denotes that asset managers play a pivotal part in its continuous success. To unlock replicability, scalability, and standardization of blended finance, asset managers must: 1) achieve the targeted financial returns 2) deliver on meaningful mobilization ratios 3) demonstrate a strong track record 4) have clear impact objectives and attain them. These factors help ensure positive experiences for investors and promote returning investments, thereby enabling further development blended financing ecosystem and justifying the risk capital being integrated into these structures.
2	**Cooperation between the various capital providers:** When it comes to blended transactions, both private and public, commercial and catalytic players must bring their intended contributions to the table. For governments and DFI/MDBs, this means providing catalytic capital that is not overly limited by conditions and restrictions. For institutional investors and other returns-seeking stakeholders, this means bringing in the necessary volume of private capital, with risk-adjusted return expectations that are fair to both catalytic and commercial players. PIDG plays a foundational role to EAIF and facilitated the fund's launch by acting as the anchor catalytic capital provider.
3	**Nurturing the ecosystem:** The blended finance ecosystem is still maturing, and to bolster momentum, various gaps in the market must be addressed. For instance, there lies a dire need for a greater pool of catalytic funds that are patient and flexible, all while enabling the fund manager to deploy the capital within targeted sectors without crippling conditions. Governments and public entities must also learn to be open to policy evolutions to create an enabling environment for blended finance, both for investors and for investees. If MDBs and DFIs were offer more risk-mitigation instruments, such as guarantees, and increasingly act as anchors to blended finance transactions, it would further accelerate the scalability of blended finance and its impact.
4	**Bridging the knowledge gap:** As blended finance takes greater space in climate finance, the education factor becomes increasingly important. Ninety One denotes that advocacy remains essential to closing the knowledge gap, with the success of early blended finance funds pivotal to the broader blended finance case, especially as more players enter the field.

Outcomes

- Mobilized investments greater than $2B
- 23,991 permanent jobs created
- 36,156 short-term jobs created
- 96 completed projects
- Benefitting 154.1M people
- Private sector commitment greater than $16.5B

Sample Investment

EAIF closed a $27M loan to Kikagati Power Company Limited for the construction of a 14MW run-of-the-river hydro electricity generating station on the Kagera River between Uganda and Tanzania.

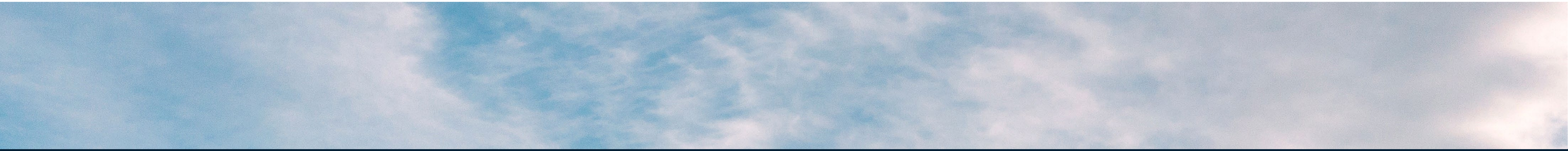
Country	▸ Tanzania and Uganda
Transaction details	▸ Funding: $27M ▸ Term: 16 years
Use of Funds	▸ Construction of an 8.5m-high dam of 300m in length, three turbines of 5.5MW each and associated earthworks, control, and plant rooms and allied infrastructure connecting the plan to switchyard ▸ 100% of the energy generated will be bought by the Uganda Electricity Transmission Company Limited, of which 50% will be sold to Tanzania
Impact	▸ Increased access to electricity for both Tanzania and Uganda ▸ 250 temporary jobs; 10 permanent jobs once operationalized

Source: EAIF

F. Conclusion

EAIF is a clear first-mover within the blended finance market. Since inception, both the fund and the fund manager, Ninety One, have been present across the evolution of the blended finance environment and have identified key pieces necessary to its success across the market's highs and lows. The fund's 20+ year track record and impact thus far is a beacon to the potential of blended structures in igniting the necessary change to transform climate development within emerging economies.

3.7 Emerging Market Climate Action Fund



3.7 Emerging Market Climate Action Fund

A. Introduction to the fund

The Emerging Market Climate Action Fund (EMCAF) is a blended finance, equity fund-of-funds created by a partnership between Allianz Global Investors (AllianzGI) and the European Investment Bank (EIB). EMCAF provides highly catalytic early-stage equity financing to greenfield climate mitigation and adaptation projects in emerging and developing markets by backing fund managers and project developers active in this area. The Fund will create a long-lasting tangible impact by building up real assets on the ground as well as fuelling private market ecosystems that will sustain a low carbon economy over the long-term, allowing the target countries to become energy independent and resilient.

Fund mandate	Provide equity capital to infrastructure and private equity climate funds, which will finance greenfield climate adaptation and mitigation projects as well as environmental projects in developing countries.
Fund vintage	2022
Fund size	Up to EUR500M
Fund term	17 years (+2 years optional extension)
Average ticket size	EUR20-40M
Key investors	Kreditanstalt für Wiederaufbau (KfW) on behalf of Germany's Ministry for Economic Affairs and Climate Action and Germany's Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection, Nordic Development Fund, European Investment Bank (EIB) on behalf of Luxembourg Ministry of the Environment, Climate and Sustainable Development, The United Kingdom Foreign, Commonwealth & Development Office (FCDO), Folksam Group, Allianz, and EIB.
Key instruments	Equity commitments
Target regions	Global mandate to invest in OECD DAC Countries
Target sectors	Renewable energy, energy efficiency, and opportunistic
Selected Target Sustainable Development Goals	Gender Equality; Affordable and Clean Energy; Climate Action; Partnerships for the Goals

B. Background

One of the predecessors of the Emerging Market Climate Action Fund (EMCAF) was AfricaGrow, a blended finance fund-of-funds established by Allianz in 2019 (alongside other predecessors, such as GEEREF, advised by the EIB Group – www.geeref.com).

AfricaGrow targets the growth of private equity (PE) and venture capital (VC) funds across Pan-Africa and select-countries, focused on Central and West Africa countries (Benin, Burkina Faso, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal, Togo and Tunisia). The fund-of-funds seeks to invigorate the start-up and SME ecosystem within key sectors of the region, including supporting technology-based innovations, to create positive social and economic benefits – such as improve financial wellbeing, increase quality of education, and promote job creation – within Africa. Beyond taking a catalytic position within investments made to investee PE/VC funds, the fund-of-funds also provides technical assistance to improve General Partner (GP) capabilities – such as advancing managerial skills and improving internal investment processes – and directly supports select investee funds' portfolio company development. This degree of ambition for market-creation is unprecedented and led to AfricaGrow raising more than EUR200M from both public and private institutions, including KfW DEG, Allianz, and the Germany Federal Ministry of Economic Cooperation and Development. The fund-of-funds invested today more than EUR130M in the African markets thus far. By end of 2022 Portfolio Companies of AfricaGrows target funds had over 20.000 employees.

This impact narrative and potential was a driving force for the Blended Finance Equity team to replicate the success of AfricaGrow. EMCAF was thus created towards the end of 2021, as a partnership between AllianzGI and EIB, to support the development of decarbonization innovation and adoption across Africa.

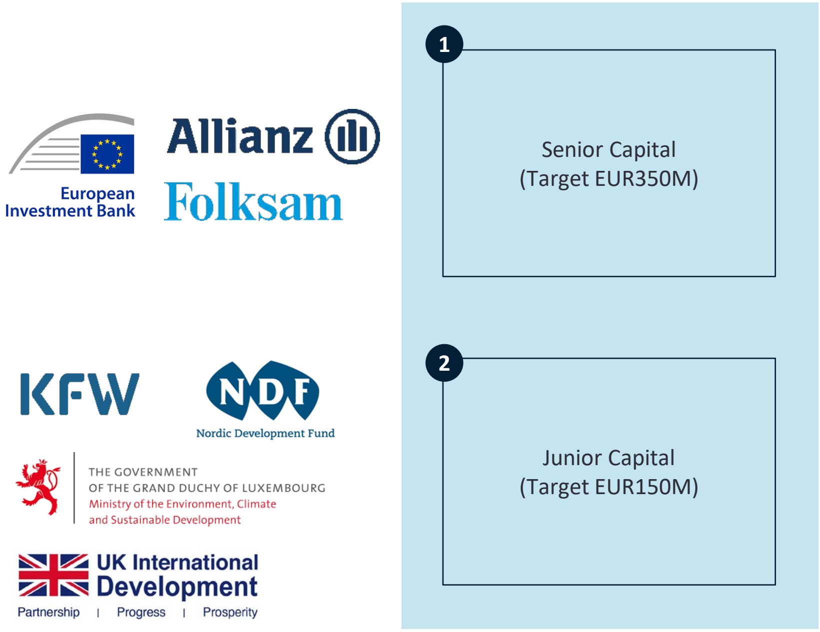
Why use Blended Finance?

EMCAF seeks to address the urgent requirement for catalytic capital to bridge the investment gap and tackle the market inefficiencies and negative impacts stemming from climate change. To fulfill this goal, EMCAF leverages blended finance within its own capital framework to mobilize private capital, a critical step in expanding the fund-of-funds' size to ensure that its capital allocations towards investee funds are meaningful. As such, collaborators such as KfW, NDF, FCDO, and the Luxembourg Ministry of Environment, Climate, and Sustainable Development play a vital role in drawing in deep-pocket private investors who significantly bolster the fund-of-funds' capacity and ambition of being a market-creating player within riskier and overlooked emerging markets.

3.7 Emerging Market Climate Action Fund

C. Structuring process

Capital Structure



1. Funded by institutional investors such as Allianz, EIB, and Folksam, the senior capital tranche targets market-level, risk-adjusted returns. Senior-level investors benefit from both first-loss protection provided by junior capital investors as well as priority returns.

2. Funded by development institutions such as NDF, KfW, FCDO and the Luxembourg Ministry of Environment, Climate, and Sustainable Development, the junior capital tranche consists of catalytic players that seek an alignment to their respective impact agendas.

Process

AllianzGI and EIB accounted for various considerations when designing the structure of EMCAF.

1. A private equity fund

EMCAF's purpose makes it an imperative for the fund-of-funds to deploy equity into its investments. Equity serves as a critical instrument that empowers scale and growth at the underlying portfolio company level, thereby providing the necessary resources for infrastructure projects, SMEs, and entrepreneurs who are actively shaping and transforming the climate innovation landscape in global emerging markets.

Equity is always the "first" capital and can be most catalytic and impactful.

2. Simple tranche structure

The underlying capital structure follows a 2-layered approach as a result of bespoke negotiations with key stakeholders, enabling a fund design that addresses needs and concerns emerging from discussions with anchor investors. A simple equity structure was also pivotal in making the fund-of-funds more accessible and palatable to investors, especially for first-time blended finance participants. This element was all the more important given the nuances associated to a private equity fund, which brings its own set of challenges and complexities given the nascent markets targeted by the fund.

3. Key risk mitigation mechanisms and strategies

The scarcity of data on blended finance equity funds was a significant issue that the AllianzGI and EIB teams deliberated over extensively. This meant that benchmarking funds using comparable performance metrics was more challenging, making it difficult for investors to position these opportunities within their portfolios. Furthermore, the teams were acutely aware that the sophisticated investors they aimed to attract were bound by fiduciary responsibilities and operated under stringent regulatory oversight.

Given these considerations, the influential role of catalytic investors cannot be overstated.

- The catalytic involvement of entities such as KfW, NDF, FCDO, and Luxembourg, was crucial in garnering the trust and capital needed for deep-pocket investors like Allianz and Folksam. By subscripting to the first loss tranche of the Fund, these catalytic investors, provide a foundation for the fund, enabling it to achieve its desired scale and fulfill the market-creating objective that EMCAF aims to accomplish.
- The fund employs a strategy to attract and safeguard senior investors through a preferential waterfall return structure. Waterfall returns are first returned to senior investors up to a cap, then distributed to junior investors. Any residual upside is distributed equally among investors.

These elements were crucial to remediating against the increased risk profile associated to the equity nature of EMCAF.

To mitigate against market volatility, the fund-of-funds follows a diversified investment approach. This approach spreads uncertainties across different geographic regions, ensuring that risks like currency devaluation do not have the potential to completely deplete the entire portfolio at one time.

Finally, the team's experience in the private equity markets within emerging and developing geographies enabled EMCAF to identify the right opportunities and play a catalytic role by participating in first-round fundraises.

3.7 Emerging Market Climate Action Fund

D. Implementation

Governance Model

AllianzGI acts as alternative investment fund manager for EMCAF and is accordingly in charge of all decision making holding the portfolio manager role and all investment committee seats. That decisions are done by a private actor was an integral part for the governance requested by EMCAFs private, large-scale investors,.

EIB acts as investment advisor to EMCAF being responsible for the market mapping, leading the due diligence and acting as expert consultant with regards to E&S assessments. EIB ensures that all investments are compliant with the EIB's social and environment standards and guidelines.

Key Features of the Operating Model

To ensure growth of the ecosystem, EMCAF uses the following key investment criteria when selecting potential investee funds:

TRACK RECORD

Strong technical and private equity transaction skills of the investment teams

GEOGRAPHIC FOCUS

A regional focus with established local presence and networks to generate deal flow

ESG STANDARDS

A strong technical commitment to the promotion of robust ESG standards

PIPELINE

A strong pipeline of attractive investment opportunities.

The fund-of-funds early success in capital deployment can be attributed to EMCAF’s preliminary pipeline development prior to official its launch. By identifying potential opportunities early on, EMCAF was able to expedite equity deployment and efficiently empower investee funds. This was important given that the African deals market was navigating through a difficult period with regards to fundraising, especially from private US and EU investors and challenges in closing fundraising rounds.

Fundraising Process

Allianz GI initiated the fundraising process by forming small coalitions to test initial investor interest, subsequently expanding to a larger group while incorporating insights and experiences from the initial cohort. There were key factors that strengthened the fundraising efforts:

- **Allianz GI’s & EIBs Reputation:** With years of experience in climate finance & blended finance the organizations’ reputations were crucial in initiating early conversations. The recognition they hold in the industry was invaluable in granting the team access to influential figures and the chance to thoroughly present the fund's details. This meant that communication attempts were not ignored, and it was easier to generate leads.
- **Consolidating Investors under a Common Vision:** The primary catalytic investors for EMCAF were governments. To bring these public entities together, a robust theory of change was necessary, one that captured the core objectives and missions of each government, and which was able to convince large private investors of the expected impact.

The team acknowledged that MDBs and DFIs were candid and strongly engaged during the determination of the fund's requirements, leading to productive discussions as these entities were often involved in co-investments in EMCAF investee funds.

3.7 Emerging Market Climate Action Fund

E. Success factors

1	**Existing track record:** AllianzGI's and EIBs existing depth of experience within climate finance was the underlying pillar of success of EMCAF. Their knowledge, presence, and network within the industry created pivotal opportunities for the team to speak to the right investors and rally these parties in participating under a common motive within EMCAF.
2	**Pre-existing blended finance template to leverage and build key learnings from:** With AfricaGrow, AllianzGI developed a comprehensive grasp of the nuances involved when investing in emerging markets, considering the viewpoints of both the funds receiving investments and the investors themselves. This prior insight into the requirements of the parties that EMCAF aims to serve minimized the need for a trial-and-error approach and accelerated the fundraising journey. This aspect is particularly critical when it comes to capital deployment via equities, which necessitates a distinct approach and a specific set of considerations – creating a longer fund structuration and capital raising process and extending time to market.
3	**Deep understanding of private equity:** AllianzGI and EIB's comprehensive understanding of the intricacies of structuring and managing a private equity fund was vital. This knowledge and experience allowed the team to understand the equity investor's mindset, and thereby identify the essential mechanisms needed for creating a strategic fund-of-funds equipped with the appropriate risk mitigators to draw in investment.
4	**Strong impact framework:** There is a high need for catalytic impact capital, especially in emerging markets and developing countries. AllianzGI and EIB developed a leading impact framework for EMCAF ensuring that investments comply with highest industry standards for sustainability and deliver strong output from an impact perspective. The combination of strong impact with attractive risk return patterns was a corner stone in the fundraising process.

Outcomes

EMCAF seeks to reduce over 20M tons of CO2 throughout the fund-of-funds' lifetime, assuming the target size EUR 500M.

Sample Investments

Fund	Amount	Investee Fund Focus
ARCH Cold Chain Solutions East Africa Fund	$15M	Greenfield development, construction and operation of temperature-controlled storage and distribution facilities in East Africa to reduce high rates of food spoilage due to lack of refrigeration. **EMCAF Themes:** ▸ Avoiding post-harvest food loss ▸ Emissions reduction from decreased post-harvest food loss and from use of renewable energy ▸ Improvements in food safety
Alcazar Energy Partners II (AEP II)	$25M	Greenfield development, construction and operation of renewable energy projects in the Middle East and North Africa, estimated to enable over 2GW of clean energy capacity. **EMCAF Themes:** ▸ Installation of clean energy capacity ▸ Emissions reduction from installation for clean energy capacity
Evolution III Fund	$20M	Greenfield and expansion opportunities in the utility-scale, decentralized C&I[1], and off-grid renewable energy space along with investments in resource efficiency-focused businesses. **EMCAF Themes:** ▸ Installation of clean energy capacity ▸ Emissions reduction from installation for clean energy capacity

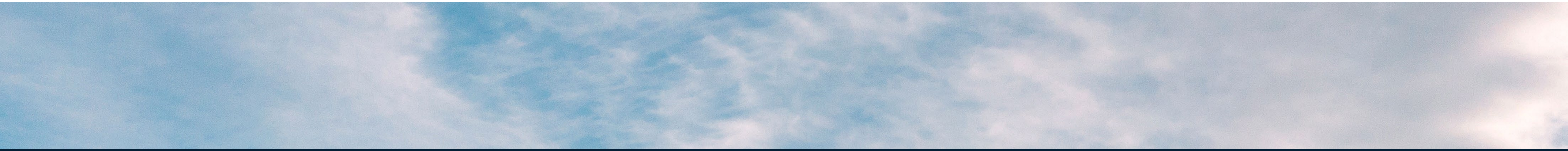
Source: EMCAF

F. Conclusion

As a fund-of-funds, EMCAF stands out for its potential to act as a significant market creator. AllianzGI's and EIB's cooperation for EMCAF is singular and brings together the experience and networks of a major private institutional investor and one of the biggest public climate investors worldwide. By investing in local and regional funds, EMCAF enhances the capabilities of PE and VC funds, aiming to empower GPs to successfully raise and close fundraising rounds independently of catalytic capital. EMCAF underscores the necessity of crafting a compelling narrative about equity investment within the realm of blended finance. This involves establishing more efficient pathways for engagement with private and public investors, governments, MDBs, and other stakeholders, bringing them together under a shared canopy and adhering to proper codes of conduct to foster trust. Distinguishing between the roles and outcomes of equity and debt is crucial and will require the creation of a strategic framework that directs the application of these financial instruments in emerging markets.

1. Commercial & Industrial

3.8 GAIA



3.8 GAIA

A. Introduction to the fund

GAIA is a USD 1.48 bn blended finance platform deploying private debt in up to 25 developing and emerging countries across Africa, Asia and Latin America. The platform aims to address risks associated with climate change through investments in mitigation and adaptation projects. The blended finance fund will be launched towards the end of 2024 and focus solely on the development of greenfield projects within climate-vulnerable emerging regions. GAIA intends to leverage an ecosystem of public and private partners to deploy capital towards selected high-impact opportunities.

Fund mandate	GAIA is an Article 9 fund that seeks to mobilize private capital at scale for high-impact climate projects in up to 25 emerging market (EM) countries, including Small Island Developing States (SIDS) and Least Developed Countries (LDCs), aiming to create a replicable blueprint for other investors to catalyze private sector finance and support EMs' transition to low-carbon, climate-resilient growth.
Fund vintage	2024
Target fund size	USD 1.48 bn
Fund term	30 years, 15-year investment period
Eligible borrowers	Sovereign-sponsored projects, sub/quasi-sovereigns, state owned enterprises
Key participants	MUFG, FinDev Canada (Founding Members / Cornerstone Investors), Climate Fund Managers (Investment Manager), Pollination (Climate Impact Advisor)
Key structural components	Senior Capital, Junior Capital, Reserve Account, Insurance/Guarantee, FX Hedging Facility, TA Facility
Target regions	Starting with 19 countries that have already signed a no-objection letter (NOL); 25% allocation for SIDS and LDCs
Target sectors	GAIA will target climate adaptation (a minimum of 70% of the aggregate fund capital) and mitigation (a maximum of 30% of the aggregate fund capital) projects. Adaptation investments will focus on food and water security, infrastructure and built environment, ecosystem resilience, and enabling information and communication technology. Mitigation investments will target energy generation and access, as well as low-emission transport.
Target Sustainable Development Goals	

1. Source: Adaptation Gap Report 2023 | UNEP - UN Environment Programme

B. Background

Climate change effects are clear, with increased sea levels, extreme weather, and variable rainfall. Over the past two decades, there has been an alarming rise in climate disasters, leading to floods, droughts, and heatwaves, with severe consequences for low-income economies. There is a pressing need to address these threats within Emerging and Developing Economies (EMDEs), who are disproportionally affected by climate change and most vulnerable to the consequences of the crisis. While the urgency for adaptation finance is more dire than ever, the funding gap to address these challenges within EMDEs continues to widen; estimates currently place the capital shortfall at a harrowing USD 194-366 bn per year[1]. Described in a United Nations Environment Programme (UNEP) 2023 report as 'underfinanced and underprepared', EMDEs are and will continue to be profoundly affected by the adverse effects cause by the lack of adaptation resources and capital.

GAIA thus emerged as a response to this growing disparity and aims to secure funding through public and private investments to meet these critical challenges.

GAIA seeks to deliver impact by heavily focusing on climate adaptation opportunities within emerging markets, as defined by the United Nations. By virtue of its targeted size, GAIA enables the attraction of large, commercial investors all while offering a compelling impact proposition to catalytic actors.

Importantly, beyond enabling tangible change across the investments made, GAIA seeks to shed light on the following areas within climate finance:

1) Defining the best approach for developing adaptation projects, traditionally perceived as public finance
2) Testing the limits of where and how public and private capital can be deployed, and the tools required to enable such mobilization
3) Designing a proven and valuable template for blended finance that encourages replicability

In its entirety, GAIA is meant to be a testing ground, an end-template, that enables the creation of a scalable model and empowers a paradigm shift on the potential of innovative collaboration between private & public sectors in support of climate-resilient pathways.

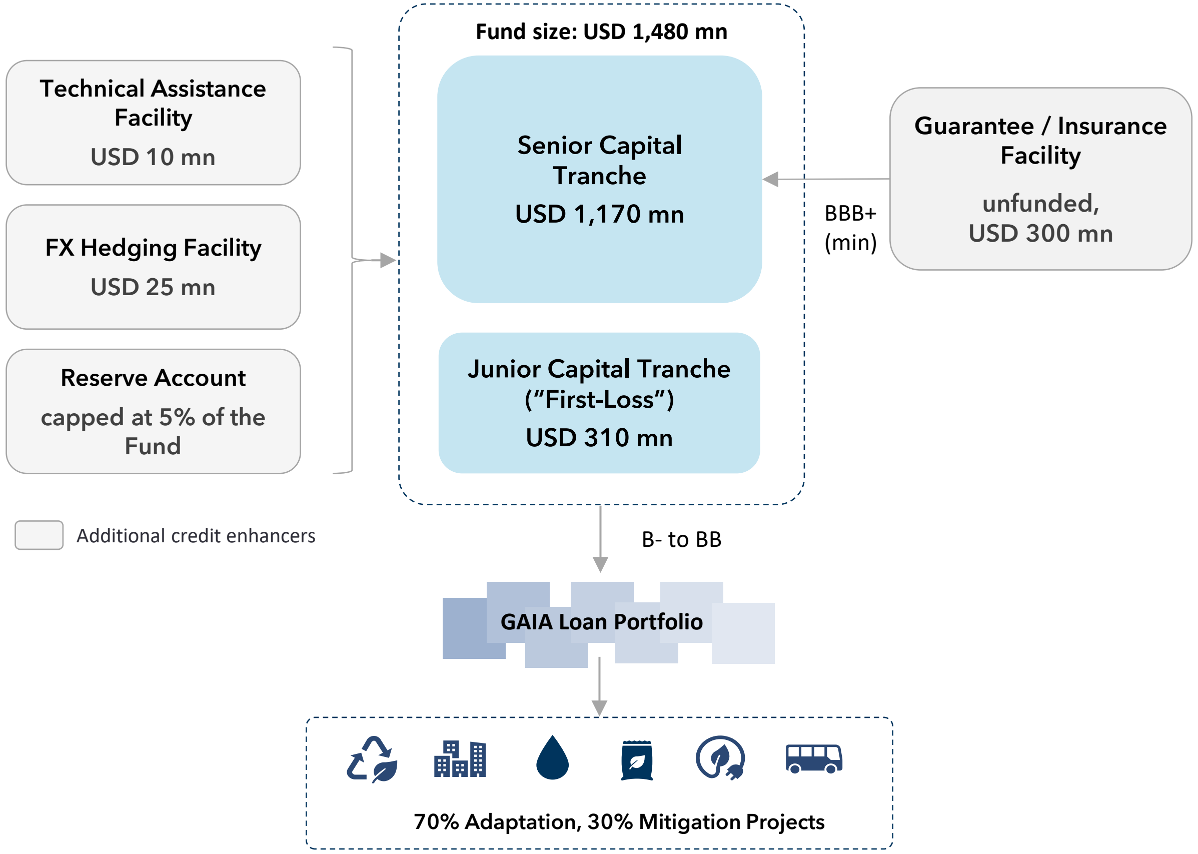
3.8 GAIA

C. Structuring process

The fund structure has been focused on building protective layers to cater the investment to private stakeholder appetites. Beyond a First-loss Junior Capital Tranche, GAIA's risk mitigators are enhanced by: (A) First-Loss Reserve Account (B) Guarantee/Insurance Facility and (C) Foreign Exchange Hedging Facility.

GAIA Architecture

Through innovative financial structuring, combined with its blended finance architecture, GAIA achieves capital protection at the senior level and enables the mobilization of private capital



GAIA Capital Structure

GAIA vision is to create an attractive investment vehicle with a risk profile aligned with private investors' requirements. This approach includes:

- **Blend of different capital sources** to match investors to risk-return profiles
- **A multitiered fund structure by** tiering capital with different risk profiles
- **Credit enhancement features and reserve account**

MUFG | FinDev Canada | GREEN CLIMATE FUND | Global Affairs Canada / Affaires mondiales Canada | mfx CURRENCY RISK SOLUTIONS

Tiered Capital Structure

- **Senior Capital Tranche**
  Dedicated to and funded by institutional investors that benefit from protection.
- **Junior Capital Tranche**
  First-loss facility, funded by impact and concessional fund providers.
- **Guarantee/Insurance Facility**
  Second-loss optional unfunded insurance/guarantee tranche. Provided directly to the senior investors and will cover losses up to a cap of USD 300 mn in excess of the total First-loss Junior Capital Tranche committed.

Reserve Account and Facilities

- **Technical Assistance Facility**
  Dedicated parallel facility to enhance origination efficiency by structuring viable projects and measuring their SDG impact.
- **FX Hedging Facility**
  Subsidises the hedging cost to support lending in local currency.
- **Reserve Account**
  Protection-top-up mechanism funded through the excess income produced by the platform, absorbs Senior interest and principal losses before Junior Capital Tranche.

3.8 GAIA

D. Opportunity overview

GAIA's ecosystem of partners collaborates to enhance the Fund's climate and financial objectives through robust pipeline generation, investment selection, and asset management practices

MUFG
ORIGINATING BANK AND LP

MUFG, Japan's largest bank, is a major player in blended finance, leading in ESG loans and bonds with over 578 transactions, representing 130+ GW of renewable generation capacity.

EMPLOYEES	GLOBAL OFFICES	AUM (USD)
150k+	50+	743 Bn

FinDev Canada
CO-FOUNDING DFI AND LP

Supporting the private sector in emerging markets focused on delivering climate action, women's economic empowerment, and market development outcomes through investments in agriculture, financial services, and sustainable infrastructure.

EMPLOYEES	CLIENTS IN PORTFOLIO	COMMITMENTS (USD)
100+	40	685 Mn

Climate Fund Managers
INVESTMENT MANAGER

Headquartered in The Netherlands, CFM is a leading climate-centric blended finance fund manager with a focus on emerging markets in Africa, Asia, and Latin America.

EMPLOYEES	GLOBAL OFFICES	AUM (USD)
120+	5	1.8 Bn

Pollination
CLIMATE IMPACT ADVISOR

As a specialist climate investment and advisory firm, Pollination will provide deep adaptation, agriculture, and food system knowledge to conduct climate and nature-related investment impact and risk analysis.

EMPLOYEES	GLOBAL OFFICES	COUNTRIES W/ PRESENCE
200+	8	13

3.8 GAIA

E. Success factors

1	**Integrity within senior leadership:** To empower blended finance and bolster its transition into more mainstream financing spheres, climate concerns must emerge as priorities from key leadership committees. Initiatives like GAIA typically fall under the ESG teams of organizations, often lacking the traction needed to be deployed at scale. However, for blended finance to truly mature, there needs to be increased conviction amongst investment management committees to direct capital flows towards non-traditional, climate financing. The impetus for GAIA was driven by an intrinsic motivation from the MUFG senior leadership, who recognized the importance and potential of the initiative, allowing the fund to kickstart design and eventual fundraising.
2	**Proactive participation from leading concessional figures:** The Green Climate Fund's participation as an anchor investor was pivotal to the early enablement of the fund. Not only did the GCF anchor the first round of funding for GAIA and provide the necessary first loss buffer required to attract the private sector, but GCF also brought in the credibility of climate additionality presence needed for further public sector traction. Notable organizations like the GCF play dual roles within blended finance structures such as GAIA – an imperative layer of first loss and a paramount landmark for sustainability potential.
3	**Governance structure that empowers investors:** GAIA's unique governance committees were pivotal to the fundraising process. Many investors seek a fundamental governance design that integrates stakeholder engagement, enabling oversight of the fund's operations and portfolio development. Giving investors a voice at the table where decisions are made attracts passionate public organizations that pursue true difference while enticing private players that look to fulfill their impact agenda and a defensible return through such exercise. GAIA achieves this by creating both a Climate and ESG Committee and a Credit Committee.
4	**Credible climate partners:** GAIA's chosen partners brought an important layer of credibility to the fund. Bringing in trusted partners with track records of consistent climate value creation was an important element in ensuring the operating model captured the necessary pieces to enact the promises made by GAIA.
5	**Adaptability and flexibility in structural design to cater to investor needs:** For many institutional investors, funds like GAIA are their first encounters with blended finance. It was thus pivotal for the GAIA team to adjust the structure of the fund to meet the expectations of the private sector. In this case, by increasing the layer of concessional buffering to de-risk the value proposition for senior investors and creating an investment committee purely comprised of private stakeholders. In the same light, concessional players also come in with bespoke considerations, creating a Climate and ESG Committee purely comprised of public investors creates ownership and dedication amongst these players.

Outcomes

1. Reduced GHG emissions from climate mitigation projects contributing to low-carbon growth.
2. Increased resilience of physical assets, eco-systems and populations to climate change impact.
3. Increased number of quality jobs contributing to sustainable and inclusive economic growth.
4. Enhanced capacity of project proponents to identify and manage E&S risks in climate projects.
5. Enhanced economic opportunity for women and improved capacity of project proponents to consider the unique needs of women in climate projects.
6. Enhanced capacity of project proponents to access and mobilize climate finance and to address real and perceived risks of climate finance projects.

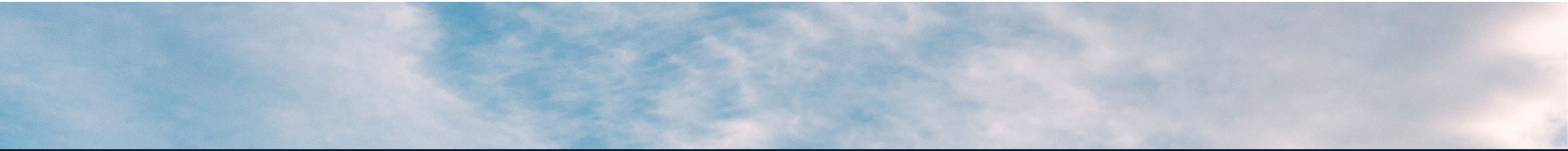
Expected Impact

- 30.6 mn tCO2e avoided/reduced
- 700 MW installed renewable energy capacity
- 35,975 GWh renewable energy generated
- 19.5M individuals to be positively affected
- 0.5 mn hectares of natural resources under improved low-emission and/or climate-resilient management practices

F. Conclusion

GAIA is anticipated to make a significant positive impact on the lives of 19.5 million people in emerging markets' most vulnerable regions. Yet, its ambitions extend beyond as GAIA aims to catalyze a fundamental shift in the way public and private sectors collaborate. It strives to foster a new level of confidence, partnership, and trust that can invigorate the climate finance ecosystem. As a pioneering endeavor, GAIA aspires to set a precedent, serving as a model for how to navigate the complexities of blended finance. It seeks to pave the way for future initiatives by providing a clear blueprint for success, equipping those at the forefront of blended finance with the necessary tools, resources, and stories to empower collaboration amongst the world's financiers.

3.9 Mirova Gigaton Fund



3.9 Mirova Gigaton Fund

A. Introduction to the fund

The Mirova Gigaton Fund (MGF) focuses on the scale up of clean energy transition and climate investments in underserved and emerging markets. Focusing on high impact, established and new clean energy and climate sectors, MGF deploys capital through pure debt and direct investments for a variety of structures in distributed solar while expanding into other climate segments including e-mobility, energy efficiency, and storage. The fund's capital structure is distinguished by a layered structure, leveraging public capital to increase private sector investment in sustainable development.

Fund mandate	Support and empower climate mitigation projects & companies within Sub-Saharan Africa and South-East Asia through private debt deployment.
Fund vintage	2023
Fund size	Target $500M
Fund term	15 years
Average ticket size	$10M
Targeted IRR	5.5% (junior shares)
Key investors	U.S. International Development Finance Corporation (DFC), European Investment Bank, Nordic Development Fund, Ceniarth
Key instruments	Super Senior Debt, Mezzanine Debt, First-Loss Junior Shares, Guarantee, and a potential Rating
Target regions	Sub-Saharan Africa (2/3 of investments), South-East Asia (1/3 of investments)
Target sectors	High-growth off-grid sectors, such as off-grid solar, mini-grids, C&I solar, Telco solarization, agri-solar
Target Sustainable Development Goals	With a sustainable investment objective, the strategy aims to impact peoples' lives by offsetting CO2 emissions (SDG 7, SDG 13), creating jobs (SDG 8), advancing gender equality (SDG 5) and improving energy access (SDG 7, SDG 8, SDG 5)

B. Background

Mirova stands at the forefront of debt-financing for distributed solar energy initiatives in Africa and other emerging markets. Over its 3 blended finance funds in emerging markets, Mirova has successfully deployed over $230M in loans, enhanced energy access for upwards of 10 million individuals and reduced annual CO2e emissions by 1,000,000 tonnes, all while drawing in a diverse pool of investors including Calvert Impact Capital, DFC, Bank of America, IKEA Foundation, and high net worth individuals.

To amplify climate impact and leverage accumulated expertise, Mirova is introducing the Gigaton Funds series. These funds are designed to achieve the ambitious goal of offsetting at least 1 gigaton of CO2 emissions through strategic investments. The series' inaugural fund is the Mirova Gigaton Fund (MGF), a scalable investment vehicle with a strong gender lens. The MGF is set to invest in a variety of sectors within the distributed energy and off-grid landscape, including commercial and industrial sectors, telecommunications, solar home systems, agricultural solar, mini-grids, and electric mobility. MGF will target both middle-income countries & low-income and least developed countries for transformative impact.

MGF aims to bridge the financing gap impacting the 745 million people living without electricity, who suffer from the reliance on dangerous kerosene lamps, frequent power outages that disrupt businesses, and the heightened challenged faced by women due to the scarcity of electricity. As such, MGF represents a pioneering effort tackle the intertwined challenges of: (1) climate change; (2) economic development; and (3) gender equality on a significant scale.

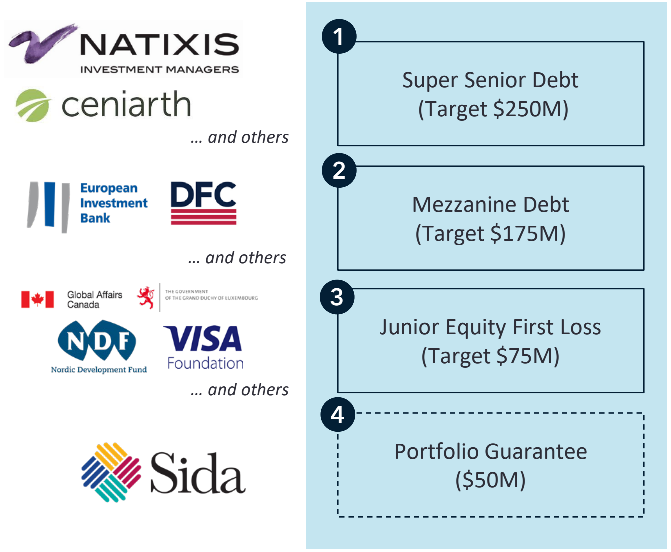
Why use Blended Finance?

The focus on emerging markets and some innovative sectors necessitated the incorporation of a focused catalytic component by Mirova for the fund. Private investor discussions revealed that to attract conventional investors to MGF, it was essential to enhance the fund's investment appeal by introducing a first-loss tranche to improve its creditworthiness. Such a measure would not have been needed if the fund's investments were solely directed towards developing nations.

3.9 Mirova Gigaton Fund

C. Structuring process

Capital Structure



1. The super senior debt tranche consists of 10-year notes to investors, with yearly interest rate repayments. This tranche targets institutional and traditional investors and will be the first set of stakeholders to receive payment for their capital commitment.
2. The mezzanine debt tranche consists of 15-year notes and are mostly comprised of DFIs, such as DFC who committed $100M and EIB who has committed $75M.
3. Funded by governments and foundations, the catalyst junior first loss tranche will represent 15% of the fund. Targeted yearly dividends will be distributed following all repayment of interests to senior and mezzanine debt holders. Repayment of commitment capital for junior equity holders will be at the end of the 15-year term through a bullet repayment.
4. The portfolio is also guaranteed by the Swedish International Development Cooperation Agency (SIDA), at $50M.

Process

Leveraging past experiences in structuring blended finance funds, the Mirova team considered key elements for the capital stack to optimize the risk return profile and align to expectations across various investor types

Capital stack

A first loss component was integrated to improve the investment risk profile and entice participation from traditional investors and Development Finance Institutions (DFIs). Through direct conversations, it was understood that:

- Traditional investors require a buffer of 50% protection against potential losses incurred by the fund
- DFIs look for a 10-15% loss absorption for this sector

These percentages were direct reflections of the underlying nature and risks of projects in which MGF will deploy capital to. The Fund's 'emerging country' target renders the fund high risk for most investors, and thus requires a significant first-loss absorption mechanism to improve the risk/return value. As such, MGF designed a junior equity first loss tranche representing 15% of total fund, in which investors commit with the expectation of capital preservation, and benefit from upside returns in the case of overperformance.

A portfolio guarantee is provided by the Swedish International Development Cooperation Agency (SIDA) pari passu to protect the junior tranche. In the past, Mirova had constructed guarantees into transactions on a deal-by-deal basis. However, there was concern that the deal-by-deal guarantee would be too complex. Importantly, investors did not perceive the deal-basis guarantee as real protection and favoured the portfolio guarantee as a more comprehensive risk mitigation option.

A credit rating on the super senior tranche will be assigned by a leading rating agency. This was deemed important to the attractiveness of the fund from a traditional stakeholder's point of view.

As such, with the aforementioned components, the Mirova Team designed the 3-layered structure of the MGF known today.

Returns structure considerations

Return rates
The Mirova team dedicated significant efforts to decide whether the fund should operate with variable or fixed interest rates. During their analysis, Mirova tested credit spread scenarios between the project lending rates (MGF assets) and the investor debt interest rates (MGF liabilities) to determine feasible levels of return. This exercise was difficult due to multiple factors of uncertainty such as credit risk and default rates, particularly in the nascent industries targeted by the MGF. Ultimately, MGF chose to fix the interest rates, on both asset and liability sides to simplify performance oversight.

While this decision was deemed most appropriate for the fund, setting interest rates at a level that can benefit both investors and borrowers alike is challenging. For instance, at the time of MGF's original conception in 2022, the interest rate markets were at an all-time, unprecedented low. Under those circumstances, the team had concluded that the cost of capital for the fund would be exactly 3.7%, and the returns were allocated accordingly to the three capital tranches. However, within 18 months, the interest rate environment took a turn; the fund found itself with a capacity to lend at 150bps higher than originally intended and could thus offer greater returns to private investors.

Even though fixing interest rates can create diverging effects between investors and borrowers during moments of significant market fluctuations, it was a crucial decision for managing the fund's performance.

Lock-in period
The team locked in the super senior tranche investors for 10 years rather than for the entire 15-year lifetime of the fund. When testing the market, private investors indicated a preference for investment terms not exceeding 10 years due to the notes' limited liquidity. Moreover, the 4% return rate was considered below the usual targeted returns sought by these stakeholders. Consequentially, the shorter lock-in period ensures that super senior debt holders are repaid in whole before the fund pays the first amortization of the mezzanine debt tranche, which begins after 13 years. This arrangement was designed to more effectively attract institutional investor involvement.

The fund otherwise follows a waterfall distribution, whereby super senior and mezzanine debt investors are entitled to their interest payment before junior equity holders receive their dividend compensation.

Capital commitment

As of June 2024, MGF is still fundraising to reach final close by end of 2025. Super senior debt has secured $25M from traditional investors, mezzanine has secured $210M, and junior equity has secured $50M. A super senior tranche rating is in the works.

3.9 Mirova Gigaton Fund

D. Implementation

Governance Model

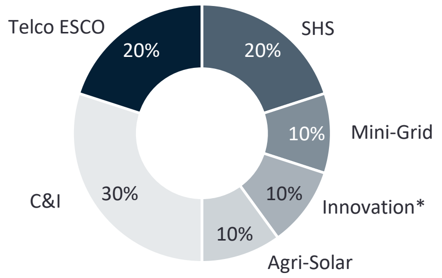
MGF is managed by Mirova, a subsidiary of Natixis Investment Managers. A specialized team, known as SunFunder at the time, was acquired by Mirova in 2022 in the bid to expand the organization's reach and abilities in structuring and deploying capital towards high impact opportunities, specifically within the clean energy industry in Africa and Asia.

The emerging markets team brings an experienced and diverse team of individuals from 16 different nationalities, 55% of whom are women and 45% of whom are of African descent, mainly based in Nairobi, with the remaining located in Paris and London. The locality networks and understanding strongly reinforces the team's existing track record and is key to MGF's portfolio management as the fund continues its fundraising process.

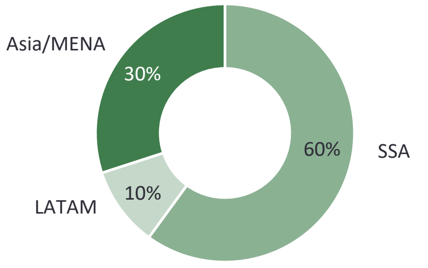
Key Features of the Investment Strategy

MGF will deploy $1.1bn over the course of its life in >100 transactions to over 50 borrowers in clean energy and climate investments across Africa, Asia & Latin America.

Portfolio target allocation



Portfolio target geographies



Other portfolio details

- Deployment only in direct, senior, secured loan
- Targets Small-Medium Enterprises (SMEs)

*Innovation includes e-mobility, storage and energy efficiency, in the form of e.g. cooling, greenhousing and clean cooking, and other emerging clean energy and climate finance opportunities.

Fundraising Process

The Mirova team understood that fundraising for the size of MGF would involve participation from multiple investors of various sizes, mandates, experiences, and backgrounds. As such, the team sought to diminish the complexities of managing diverging objectives and individual agreements by minimizing 'wishing list' expectations, particularly from catalytic capital providers; it was important for the Mirova team to have room and space to define where and how to deploy capital.

Despite this, the MGF stills caters to and accommodates specific, unique conditions set by investors. For example, the fund mandates that capital calls are contingent upon reaching a predetermined threshold of private capital mobilization. This was a requirement from one of the anchor, catalytic investors, which operates an impact monitoring system to avoid crowding out private investment by ensuring that capital calls are made gradually in tandem to the incremental increases in private capital commitments.

As of June 2024, the fund had amassed $280M in committed capital. The subsequent section will detail the principal investors who have contributed to the MGF and their motivations for investing in the fund.11

Key investors

Investor category	Key investors	Amount	Restrictions
Traditional, seed Investor	Natixis	$15M	• Seed investors; Natixis' involvement will be replaced by other private investors in the future
Catalytic Investor	DFC	$100M	• Cannot represent more than 30% of the fund
Catalytic Investor	Global Affairs Canada and Nordic Development Fund	$15-30M	• Requires MGF to have a strong Theory of Change, with quantifiable impact figures

3.9 Mirova Gigaton Fund

E. Success factors

1	**Strong track record of the team:** The Mirova team has a history of launching various, successful blended finance vehicles. Their expertise extends beyond the establishment and administration of blended finance funds, but touches their deep, specialized knowledge and profound understanding of the renewable energy sector. This expertise was instrumental in accelerating the development of the fund and securing early investor commitment.
2	**Development of a standardized offering:** Mirova sought to have a certain level of independence and control over the types of investments MGF would make. As such, the team designed a simple and easy to understand fund structure that would palate to a range of investor types, criteria and appetites. The 3-tranche model ensured that each layer had distinct, targeted investor profiles and avoid the complexities of developing bespoke contracts with each stakeholder. This approach was intended to reduce the likelihood of encountering issues with catalytic capital providers who might have diverging goals and mandates, which often lead to fundraising delays and later complications post launch.
3	**Clear alignment with investors:** Based on past experiences and through various conversations with key stakeholders, Mirova maintained continuous and deliberate dialogue with investors to ensure alignment with investor expectations both from a risk and return profile as well as from a term length perspective, at each tranche level. Such strategy proved to be a pivotal factor in appealing to prospective investors, particularly those from the private sector, who were looking for investments that that would deliver high impact with moderate returns.
4	**Tailoring the fund structure to the environment:** Given that MGF operates as a debt-based fund, it is inherently susceptible to fluctuations in macro-economic conditions. As such, beyond ensuring that the fund would be purposeful for investors, it was pivotal for MGF to consider key market variables and their evolution to ensure a well-integrated fund that optimizes returns, risks, and final impact delivery. The ability to remain agile in both strategic planning and fund structural details was essential to maintain MGF's appeal to stakeholders and to capture the economics for optimal fund performance..

Outcomes

The Fund will mobilize significant funding to support an expected 1,000 GWh of renewable energy generation through off-grid installations. The Fund's financing structure is designed to reduce risks to facilitate private capital mobilization for development. The projected impact against MGF's 3 targeted axes are as follows:

1. **Energy:** 10M will get access to energy for the first time
2. **Gender:** of the 10M first-time energy users, 50% will be women
3. **Economic Development:** 3.4M jobs supported by the fund's activities

Sample investment made by the fund

Solar Panda is a provider of home solar systems to rural communities in Africa without access to electricity. Through its 'loan-to-own' model, Solar Panda estimates that each household can save $300-$800 over four years, enabling families access to affordable clean energy all while eliminating the use of kerosene, a widely-used source of light within rural Africa that is both harmful and expensive.

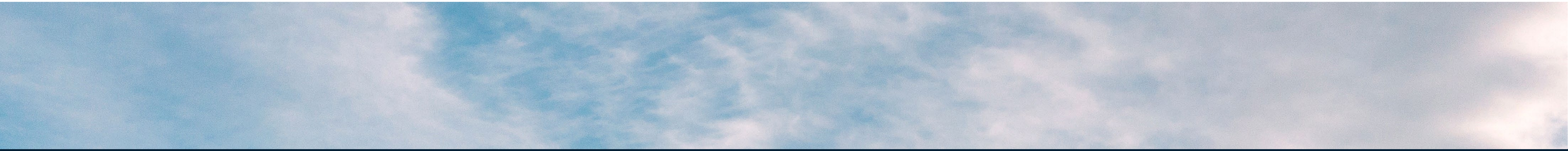
Mirova Gigaton Fund is involved in an important $19.5M debt facility arranged by Mirova and committed $4M as part of the transaction.

Source: Mirova

F. Conclusion

MGF is particular in its focus and purpose. Its 3-layered capital stack seeks to empower alignment across investments all while palliating to a range of stakeholder considerations and delivering on targeted returns. The fund is guided by a robust Theory of Change targeting impact across the dimensions of Energy Access, Gender, and Economic Development. Thus, MGF offers a compelling investment opportunity to both the public and private sectors, demonstrating the essential requirements for an effective mobilization of capital. The desire to innovate from both an impact and risk/return perspective led to MGF being awarded the Convergence Design Fund Grant, valued at $240K. This grant has supported support the Mirova team's efforts to secure a credit rating for the fund's senior tranche as well as integrate the necessary components from a gender perspective into its impact framework. This milestone represents a crucial stride in forging a path for future funds aiming to replicate MGF's ambitions.

3.10 Pentagreen Capital



3.10 Pentagreen Capital

A. Introduction to the structure

Pentagreen Capital is a debt financing platform dedicated to accelerating the development of sustainable infrastructure in Asia, with an initial focus on Southeast Asia. The vehicle seeks to catalyse financing for marginally bankable initiatives, opportunities typically overlooked by traditional players as they fall outside the accepted risk appetite levels. As part of its ambition, the structure will target clean infrastructure projects to help advance climate change mitigation and adaptation efforts. Headquartered in Singapore, and with a seed capital of $150M provided by shareholders HSBC and Temasek, Pentagreen Capital aims to deploy blended finance at scale through over $1B of loans within 5 years to unlock and crowd in commercial capital for marginally bankable projects.

PENTAGREEN *by* HSBC TEMASEK

B. Background

The challenges faced by Asian climate-related infrastructure projects have long been recognized by the market. The key issue presents itself two-fold:

1. An intrinsic bankability problem within projects due to inherent business, technological, or commercial risks.
2. A lack of bankable projects financed by leading institutions due to emerging market risks.

Players have attempted to address the issue by creating project development funds targeted specifically at supporting projects' bankability journey and bringing them to market. However, a clear observation emerged: despite provision of project development assistance, the underlying opportunity is still unable to meet the level of economies accepted on commercial terms. It is from this context that Pentagreen Capital was born, a vehicle jointly established by HSBC and Temasek and supported by Clifford Capital Holdings and Asian Development Bank (ADB). Now in its scale-up phase, Pentagreen Capital will be a focused, project financing platform dedicated to accelerating the development of sustainable infrastructure in Asia, focused on marginally bankable initiatives.

Why use Blended Finance?

It was clear at onset why the vehicle would require a blended component. By definition, marginally bankable projects have a risk and return disconnect from what traditional players seek. Thus, as Pentagreen Capital continues to advance, a capital stack comprised of both commercial and concessional investors will be developed.

Pentagreen Capital's Structure

Unlike the common blended finance models on the market, Pentagreen Capital was launched under a partnership structure between HSBC & Temasek Holdings. This approach enables the vehicle to conduct initial market testing before scaling up.

HSBC & Temasek Holdings as Initiators and Shareholders of Pentagreen Capital

HSBC and Temasek had a number of motives that drove the establishment of Pentagreen Capital.

- **HSBC:** The purpose for HSBC's participation in the creation of the Pentagreen Capital vehicle is two-fold. First, there exists an alignment between the endeavor and key impact metrics targeted by the financial institution. Second, HSBC seeks a market creation effect through Pentagreen Capital; by supporting the bankability journey of projects, a new market of clients emerge. This vehicle can hence incubate the next generation of regional developers and accelerate their entrance into the mainstream banking market.
- **Temasek Holdings:** Enabling regional growth and advancement leads to an overall uplift and sophistication of the market, allowing for emerging opportunities in the infrastructure ecosystem as a by-product.

Effectively, Temasek and HSBC act as catalyzers for accessibility to bankable projects. By taking on the role of first movers, these actors carve out a path that subsequent financiers can follow, thereby enhancing market creation effects and promoting financial inclusion in underserved regions.

3.10 Pentagreen Capital

C. Structuring process

Structuring Pentagreen Capital under a Joint Venture for Market Testing

The approach to designing and structuring Pentagreen Capital is both innovative and distinctive. When HSBC and Temasek collaborated to initiate Pentagreen Capital, they were faced with fundamental questions about the market:

- First, is there a sufficient number of marginally bankable projects in Asia to warrant capital investment?
- Second, what is the strategy for deal execution once a project opportunity is found?

To clarify these uncertainties, it was thus determined that Pentagreen Capital would follow a 2-phase approach:

- Begin by operating under a Joint Venture Structure, with the aim of conducting market trials.
- After this market testing period, leverage a blended finance model to enable large-scale capital investment.
  - By strengthening the investment thesis through an initial market testing phase, Pentagreen Capital can bring forth a more attractive opportunity to eventual investors. This can draw in significant volumes of capital and allow the vehicle to reach its intended impact targets.

Joint Venture Structure

Pentagreen Capital was officially announced in 2022 as a joint venture, with HSBC and Temasek as sole shareholders to commit a combined a total of $150M in seed capital to enable the vehicle to pursue its market sounding exercises. ADB and Clifford Capital Holdings were key strategic partners throughout the process, supporting through their knowledge on local markets and established investment processes.

As Pentagreen Capital began deploying seed capital, initiating loan originations, and structuring deals throughout this first phase, the team came to a few realizations:

- Marginally bankable opportunities are abundant within the market. The team can, without a doubt, build a strong pipeline that would lead to sufficient volume in deal flow for tangible impact.
- The greater hurdle lies in deal structuring. Given that individual deals are bespoke, structuring project financing becomes resource intensive and costly from an operating cost perspective. Given that commercial participants that traditionally execute on the deals do not engage in structuring for marginally bankable projects, Pentagreen Capital was putting considerable efforts as lead arranger to entice private institutions' participation thereafter. This led the team in concluding that it will be pivotal to determine the level of deployment velocity required to support the economics of as the platform scales and identify the resources for optimized deal execution.

Despite these challenges, the conviction from both shareholders remained strong throughout this period that Pentagreen Capital would make a substantial difference.

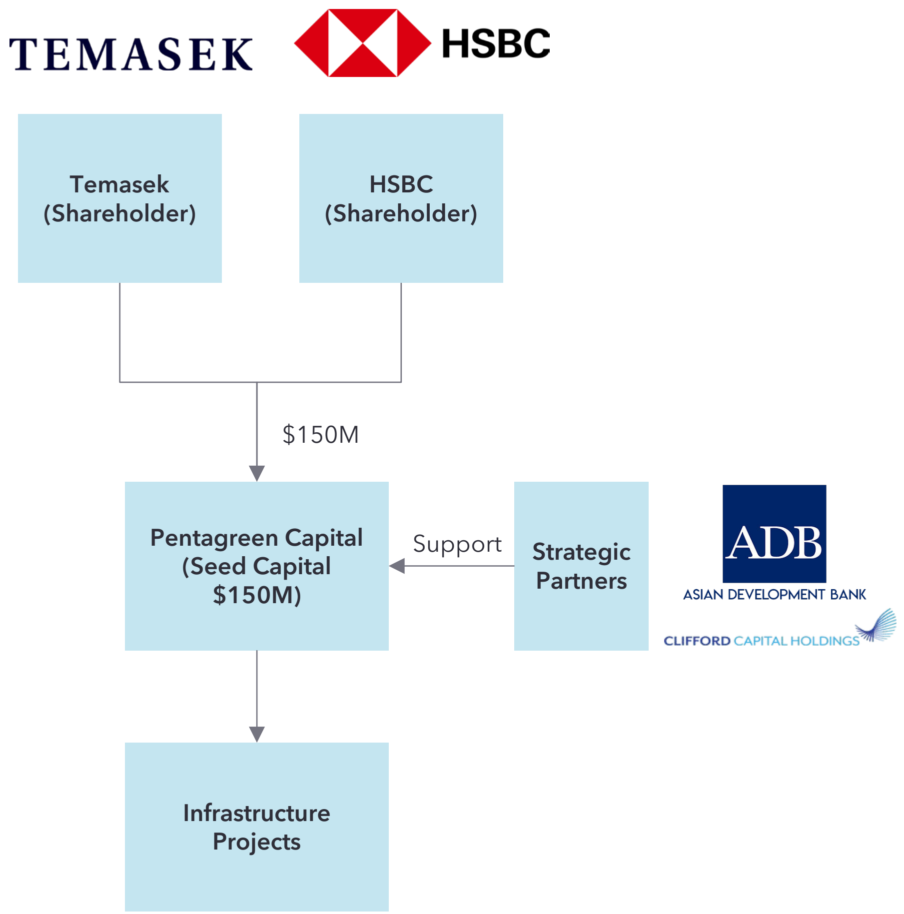
Blended Finance Model

A year and a half later, the vehicle is now exploring scale-up through a blended finance model.

Pentagreen Capital denotes that the lack of standardization across the blended finance realm creates hurdles to the scale-up stage. Given differing intentions across investor types and bespoke factors underpinning a blended model, such as the use of catalytic vs non-catalytic capital and the integration of risk instruments, ensuring alignment between stakeholders' objectives is critical.

Joint Venture Structure

Simplified view



3.10 Pentagreen Capital

E. Key takeaways

1	**Build conviction and track record:** In the creation of an initial joint venture structure, Pentagreen Capital is able to amass an understanding of the market, identify the challenges in capital deployment, and begin building an initial pipeline for the eventual scale-up through a blended finance model. This market sounding exercise not only validates their early assumptions about the structure's potential, but also builds a preliminary track record. Investors, particularly within the blended finance realm, often do not invest in 'first-time' structures. A proven history of success is a key requirement and essential to scaling up capital. Pentagreen Capital remediates to this criteria by leveraging the successful deal structuring and deployments made as a joint venture to bring momentum and credibility.
2	**Power of initial catalytic capital:** The catalytic capital provided by HSBC and Temasek was a true enabler to Pentagreen Capital. Beyond allowing the vehicle to take-off, pursue market testing, and form a baseline track record, the two financial institutions are special anchors to the potential of Pentagreen Capital. As more commercial return driven players, HSBC and Temasek serve to create significant buy-in from other private institutions and bring in the conviction that Pentagreen Capital can deliver on the promised targets.
3	**Alignment on standardized approaches:** The Pentagreen Capital process highlights the uncertainties that blended finance initiators undergo throughout the fundraising and scale-up stages. The lack of key standards within the blended finance realm means that stakeholders must go through lengthy discussions and negotiations to cross the capital raising phase. Such circumstances stunt the volume and momentum for fund flow and impact the investment process. Complexities must be reduced to allow for improved efficiency across the process, and key stakeholders must align on basic structural characteristics & approaches to better enable go-to-market.

Sample Project Deployment

Under its joint venture structure, Pentagreen Capital has deployed capital towards a set of opportunities within climate infrastructure across South-East Asia.

Pentagreen Capital and Citicore Renewables, a Philippines-based integrated renewable energy platform, signed on a financing agreement for 6 solar projects in the Philippines. The funding provided will bridge the gap for a 490-megawatt initial portfolio of renewable energy assets, with a potential to finance the expansion of the portfolio to over 1 gigawatt.

As exclusive Mandated Lead Arranger in its first project financing, Pentagreen's $30M commitment comes with a greenshoe option to increase the committed amount to US$100 million to fund additional greenfield solar projects and the expansion of the portfolio to over 1 gigawatt.

Source: Pentagreen Capital

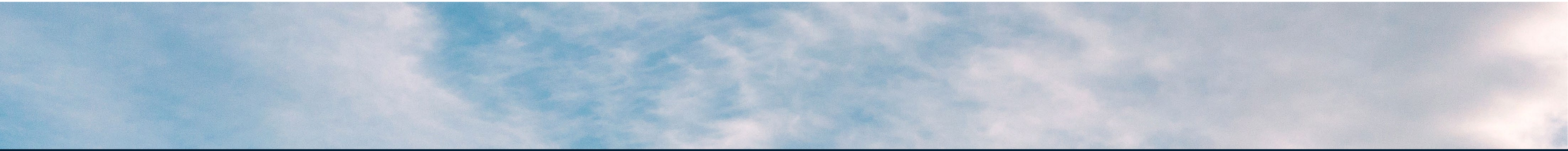
F. Conclusion

Pentagreen Capital is a novel initiative that seeks to close the existing funding gap in marginally bankable projects within Asia. The vehicle distinguishes itself on the market by leveraging seed capital from reputable, commercial institutions to conduct market testing exercises. In doing so, Pentagreen Capital builds a reliable track record, bringing conviction for both the team and investors alike on the opportunity set targeted by the vehicle and facilitating the ensuing scale-up stage.

The challenges emerging from Pentagreen Capital's development process are not unique; rather, these observations point to the imperative of the blended finance ecosystem to set key standards around the structuring process to better support initiators across the various stages, enable broad investor participation, and empower bankability of initiatives across markets.
Ultimately, Pentagreen Capital strives to accomplish key outcomes:

- Unlock the flow of capital for meaningful and impactful deployment;
- Create differentiated additionality within marginally bankable markets that are overlooked by MDBs and DFIs;
- Incite market interest towards emerging, climate-related deals to promote capital inflow at scale.

3.11 Réseau Express Métropolitain



3.11 Réseau Express Métropolitain

A. Introduction to the project

The Réseau Express Métropolitain (REM) is a 67-km, light rail, high-frequency public transit network with 26 stations located in Montreal, Canada connecting key districts, namely the South Shore, downtown Montreal, Montréal-Pierre Elliott Trudeau International Airport (YUL), the North Shore and the West Island. Initiated by the Government of Québec and developed by CDPQ Infra, the REM was financed by a bespoke, blended capital structure through contributions from both public and semi-private players.

Project Goal	Propose and execute on a solution that would connect key districts of the Greater Montreal Area together, integrating the most advanced transportation infrastructure with optimized processes to deliver an impactful public transport system, promote public transit use to Montrealers and surrounding areas, and position the city on a global level for its innovative, urban transit ecosystem.
Project Start	Construction for the REM began in 2018.
Project End	South Shore link was inaugurated in July 2023. The REM targets full completion in 2027 (YUL airport station to be completed by 2027).
Key investors	CDPQ Infra, Government of Québec (government), Canada Infrastructure Bank (CIB), Hydro-Québec, Autorité Régionale de Transport Métropolitain (ARTM)
Key instruments	Equity, preferred equity, senior secured loan, commercial funding agreements and public contributions
Region	Greater Montreal Area (GMA), Québec, Canada
Sector	Transportation; Large-Scale Infrastructure

B. Background

In 2015, the Government of Québec announced a large-scale infrastructure project that would transform the public transit system in Montreal. For years, there had been talks of expanding the transportation ecosystem of the city by creating links to : (1) the Montréal-Pierre-Elliot Trudeau International Airport and (2) the Island of Montreal's South Shore. From its first ideation to its current expended form, leveraging a traditional Public-Private Partnership (PPP) model was challenging given the scale of the project, the targeted rapid delivery timeline, and the numerous interfaces with third parties. To successfully navigate these challenges, the Government of Québec entrusted the delivery of the project to CDPQ Infra, an infra-specialized subsidiary of CDPQ.

Why use Blended Finance?

The potential of the REM was clear; however, there were concerns that the underlying risks, scale, and economics of the project would not align against risk and return levels expected by CDPQ, both as an institutional investor with fiduciary responsibilities and as the most significant contributor to the REM. Hence, it was pivotal to optimize the cost of capital by leveraging a blended capital pool, which included junior, minority equity investment from the government, a senior secured loan with the CIB, a commercial agreement with Hydro-Québec, and contributions from the ARTM, to mobilize CDPQ's position.

Role of CDPQ Infra and CDPQ

CDPQ Infra held a unique role within the REM. CDPQ Infra is responsible for proposing solutions to mobility needs identified by the government, and after government validation of the proposal, to undertake public consultation and communication, project planning, development, financing, constructing and operating the project. Effectively, by participating in the development of the REM as both principal contractor and an institutional investor, CDPQ Infra bridges the gap between:

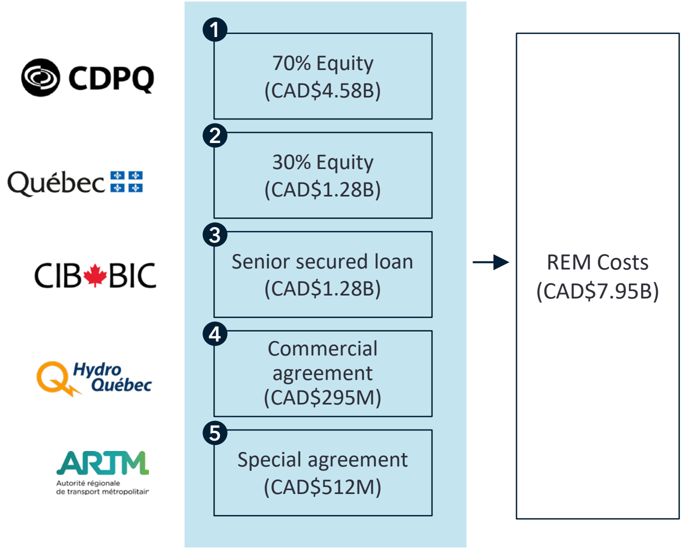
- Governments and public authorities;
- Investors and lenders; and
- Engineering and construction firms, by providing a turnkey approach to project development and funding, and by aligning long term interests with public authorities.

CDPQ Infra's unprecedented approach is enabled by CDPQ's dual mandate; since inception, the pension fund has sought to not only deliver optimal risk-adjusted returns to its pension holders, but also contribute to Quebec's long-term growth. These guiding principles were foundational to the development of the REM and its eventual delivery of true, economic value to communities of the GMA.

3.11 Réseau Express Métropolitain

C. Structuring process

Capital Structure



1. Funded by CDPQ Infra, the 70% equity stake comprises of a target annual return on equity of 8-9% over the project's investment horizon.
2. Funded by the Government of Québec, the 30% equity stake comprises of a target annual return on equity of 3.7% over the project's investment horizon.
3. Funded by the CIB, the senior debt tranche will take the form of a 15-year senior secure loan, at a rate starting 1% and escalating to 3% over the term of the loan.
4. Funded by Hydro-Québec, the commercial agreement capital will cover the fixed equipment costs needed to electrify the REM.
5. Funded by the ARTM, the special agreement represents payment accounting for the uplift in tax revenues municipalities are expected to generate as a result of the REM's presence.

Process

The capital structure of the REM's project cost underwent multiple iterations to ensure that key stakeholder needs and expectations were well-captured. A methodical approach of identifying, integrating, and testing various risk and return acceptance levels respective to each stakeholder, under different scenarios, was taken. However, there were two key considerations that CDPQ Infra factored in as fundamentals to the financing structure:

- It remained imperative for CDPQ Infra to generate a priority return and retain preferred, majority, voting shares of the REM. The purpose came on two fronts:
  - For one, CDPQ Infra would be fully bearing the end-to-end development and operational risks involved in the development of the REM. It was thus necessary for the division to capture majority equity, be compensated through market aligned returns, and to have governance rights that reflected this economic position.
  - Second, the team sought to focus on purposeful and effective decision-making. An endeavour of this scale meant that coordination across various suppliers, municipalities, and investors, was essential. The ability to make decisions from a pure technical perspective was deemed crucial, leading to the structuring of full voting rights within the equity owned by CDPQ Infra.
- In order to support the financing of, and maintain a long-term participation in the project, the Government of Québec participated as a shareholder. However, to reflect the role and responsibilities and risk allocation between the parties in the development of the project, it was agreed that the Government would have minority, non-voting equity. It was also important for the equity investment to have a 'neutralizing' effect on the government's balance sheet[1]. As such, the resulting targeted returns for the Government in the REM would be equivalent to the average borrowing costs of the Government of Québec's debt.

The preferred waterfall structure was a fundamental aspect of the deal's framework. This strategy not only compensates CDPQ Infra for their risk-bearing position, but also ensures alignment between CDPQ Infra and the Government of Quebec, facilitating the mobilization of capital from each entity. Effectively, the waterfall structure of the REM is as follows:

- CDPQ Infra receives priority returns up to target rate of 8%;
- The Government of Québec receives subsequent returns up to target rate of 3.7%;
- Remaining upsides are then shared between CDPQ and the Government of Québec according to their equity ownership in the REM.

Other stakeholders within the structure had a case-by-case participation in the capital stack.

- At the time of structuration of the REM, the Canada Infrastructure Bank (CIB) had just been founded, and the REM was the first project supported by the CIB. The federal corporation participated in the project by deploying senior secured debt below market terms. The contribution would phase out after 15 years to avoid crowding out the private sector, and CDPQ Infra designed the debt tranche with this consideration in mind. CIB's catalytic position in the structure was driven by their mandate of playing an enabling role in the development of sustainable infrastructure across Canada and was a pivotal piece in rallying the various players together within the project.
- Hydro Québec and ARTM support would not come in the direct form of equity and debt participation, but rather through various, singular agreements.
  - In line with their goals of electrification across the province of Québec, Hydro-Québec supported the development of the REM by investing in fixed equipment costs, eventually benefiting from electricity purchase.
  - ARTM's contribution to the REM's construction represents the value capture of new real estate developments generated by the infrastructure within a certain perimeter. It was made possible by the legislative amendment to Bill 66, which is Québec's Infrastructure Acceleration Bill.

There were underlying risk factors, including uncertain ridership numbers that would determine the REM's financial returns and potential labour disputes, to the project. As such, the catalyzing stakeholders were essential as both de-riskers and mobilizers of the capital necessary to completing the fundraising. Although each actor had tailored stakes and conditions, this bespoke approach allowed innovative agreements to take place, bolstered the REM's momentum across various key Québec players, and ultimately commenced the REM's construction.

1. Comparable to the cost of debt

3.11 Réseau Express Métropolitain

D. Implementation

Governance Model

CDPQ Infra implemented a simple and straightforward governance model that aligned accountabilities and incentives for the development of the REM. The team was the principal investor and also responsible for the planning, development and execution of the project. By holding main decision oversight of the REM, it enabled an agile and clear structure definition amongst stakeholders and reduced complexity in process management. Such governance approach ensured that the CDPQ Infra team could properly leverage their technical expertise across the end-to-end development of the transit project and adapt flexibly to the different challenges during the delivery.

The interest alignment component across investors was supported by CDPQ's inherent, semi-public mandate of providing long-term value to Québec pension plan holders. Unlike most private infrastructure developers, the organization is not only tied to the returns generated from the success in the constructions phase, but rather the entire lifecycle of the infrastructure and its end benefits to the Québec economy. This creates incentive to deploy capital towards high potential opportunities, oversee the successful construction, and ensure sustainable delivery of benefits – which is what enabled a true harmonization of interests between the various stakeholders throughout the development of the REM. In fact, through this approach, the REM will be the Government of Québec's first profit-generating, public transit project. Such outcome speaks volume to the potential and value creation made possible by empowering public-private collaboration.

Below shows the CDPQ Infra model and how it compares to traditional methods of financing and executing on large-scale infrastructure projects; it becomes clear that CDPQ Infra's unique value proposition comes in the form of bridging the gap between project development expertise and project financing experience to create a highly effective 'whole greater than the sum of its parts'.

	Public	PPP	CDPQ Infra
Conception	Government	Government	CDPQ Infra / Government
Planning & financing	Government New public debt	Private consortium	CDPQ Infra / Partners
Consultation & communication	Government	Government	CDPQ Infra
Development & execution	Government	Government	CDPQ Infra
Operation	Government	Private consortium	CDPQ Infra / Partners
Controlling shareholder	Government	Private consortium	CDPQ Infra
Assets on balance sheet	Government	Government	CDPQ Infra
Ownership of asset	Government	Private consortium → Government	CDPQ Infra / Partners

Government · Private consortium · CDPQ Infra · Partners

Source: CDPQ Infra

Operating Model

Pre-execution

The execution of the REM was enabled through two consortia of external contractors:

(1) First, players involved in the infrastructure, engineering, procurement, and construction of the REM, coined 'Groupe NouvLR'. Organizations such as SNC-Lavalin (now AtkinsRealis), Pomerleau Inc, and Lemay were actors in this consortium.

(2) Second, players in the Provision of rolling stock and systems and operation and maintenance (RSSOM) contract, coined 'Groupe des Partenaires pour la Mobilité des Montréalais (PMM)'. Alstom Transport Canada Inc. and SNC-Lavalin (now AtkinsRealis) were actors in this consortium.

These partners were selected through a formal international tendering process to generate interest from industry leaders across the world and foster competitive bid dynamics, in accordance with global best practices for transparency.

During execution

The development of the transit system ran into some key challenges, notably the COVID-19 pandemic and its accompanying repercussions on the supply chain and procurement and availability of workers, the impact on global supply chains resulting from the war in Ukraine, as well as the discovery of dynamite in the Mont-Royal tunnel, a legacy dating back to the 1920's.

In light of these obstacles, the CDPQ Infra team was able to quickly remediate and find the necessary solutions through a streamlined decision-making process, enabled by a clear governance model and the holding of majority voting rights within the capital structure. In more traditional, large-scale infra-related financing, where investors have varying levels of voting rights, coming to a formal decision on how to overcome the emerging challenges would have required many discussions amongst key stakeholders, with the resulting implications being long-winded delays, inconclusive discussions, and overbudget complications.

CDPQ Infra's understanding of challenges 'on the ground' allowed agility, adaptability and sense of innovation to be an intrinsic part of the operating model.

3.11 Réseau Express Métropolitain

E. Success factors

1	**Intrinsic project momentum enabled by senior leadership** The driving force behind the REM was catalyzed by CDPQ's senior leadership. For a few years, executive management had begun putting increasing importance on more alternative and non-liquid assets, such as infrastructure investing. This came from an embedded understanding that innovative, infra-related initiatives would ignite transformative change to the Quebec population and on a global-level, thus bringing about benefits that would go beyond financial returns. Such top-down endorsement fostered an enabling environment for CDPQ Infra's creation, infused a true sense of purpose to the REM, and allowed the REM to thrive and meet its ambitious goals.
2	**Empower through interest alignment** CDPQ Infra's role, which lies at the intersection of public and private interests, galvanized a coalescence of varied stakeholders. The collective impact motive did more than rally financial contributions from key players such the Government, CIB, Hydro-Québec, and ARTM; it also connected municipalities, neighbourhoods, and communities together in the pursuit of the REM's vision. This enabled CDPQ Infra to leverage the necessary capital, resources, and buy-in at onset from project initiation to completion, all while upholding CDPQ's fiduciary duties to their clients.
3	**Independent and flexible governance model with clear roles and responsibilities** CDPQ Infra's agile and flexible governance model was key to the execution of the REM. Despite the unforeseen challenges that emerged throughout the construction phase, the oversight CDPQ Infra had over the REM ensured that decisions were made promptly by the appropriate resources, preventing additional delays and ensuring timely contingency plans.
4	**Regulatory support to accelerate infrastructure projects** Governments and public-facing authorities were pivotal to enable this impact initiative. Following CDPQ Infra team's proposal to the Government of Québec, an amendment to Bill 66 on land value recapture was tabled. This regulatory action was instrumental in allowing the participation of ARTM in the financing structure of the REM, thereby providing an additional and essential source of capital for the project.
5	**Reliable track record to bring in trusted relationships** CDPQ Infra's track record and brand name within the sector and public authorities fuelled the necessary trust in the success of the project. The subsidiary's familiarity with the infrastructure ecosystem created a value-add edge for the team and instilled a confidence-based relationship with the stakeholders of the REM.

Outcomes[2]

ECONOMIC

1. $2 billion in wages paid in Québec
2. Over $4 billion in local content, representing 65% of the project's value
3. Over 1,000 permanent jobs
   - 34,000 direct and indirect jobs created over construction period

ENVIRONMENTAL

1. 2.5M fewer tons of GHGs over 25 years of operation

TRANSPORTATION

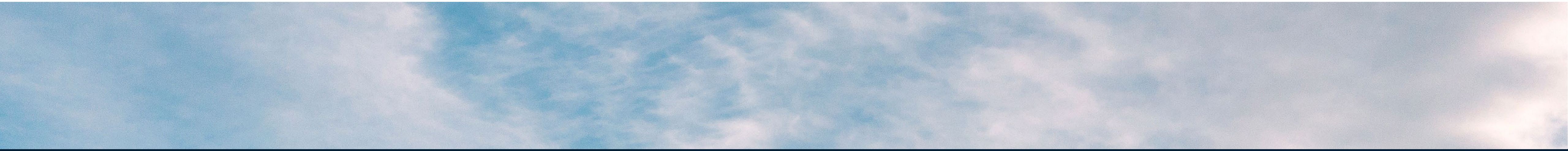
1. More than 200 train cars at commissioning[3]
2. Theoretical capacity: 600 passengers per unit
3. Initial frequency : 3 min 30 seconds

2. Based on 2018 estimates
3. Target once the REM is fully operationalized

F. Conclusion

The REM case study highlights the strategic application of blended finance at the project-level, underscoring the essential conditions to the enablement of such financing approach within developed economies. At the heart of the REM is CDPQ Infra's innovative model; a dual mandate driven by both impact delivery and fiduciary responsibilities, bridging the gaps between stakeholders and empowering the development of highly relevant infrastructure projects. The success of the REM illustrates the model's potential for scale in future iterations, emphasizes the power of public and private collaborations, and demonstrates the importance of leadership integrity for effective capital mobilization. Ultimately, the timing of REM is significant for Montréal as the city seeks to uplift its transit ecosystem and bolster its urban evolution.

3.12 SDG Loan Fund



3.12 SDG Loan Fund

A. Introduction to the fund

The SDG Loan Fund (SLF) is a $1.111B private debt fund managed by Allianz Global Investors (Allianz GI). SLF focuses on deploying capital towards United Nations designated Sustainable Development Goals (SDGs), with a target on SDG 8 (Decent work and economic growth), SDG 10 (Reduced inequalities), and SDG 13 (Climate action). The fund co-invests in loans originated by the Dutch Entrepreneurial Development Bank (FMO) in frontier and emerging markets in Africa, Asia, Eastern Europe, and Latin America and leverages FMO's catalytic capital. Acting as both a capital mobilizer and portfolio manager, FMO provides the fund with priority access to their loan pipeline. SLF's Junior First Loss capital funded by FMO along with the John D. and Catherine T. MacArthur Foundation's partial guarantee were crucial in enabling the fund to successfully mobilize $1B in capital from institutional investors.

Fund mandate	Increase institutional investor exposure to SDG-aligned investment opportunities, while delivering appropriate risk-adjusted returns.
Fund vintage	2023
Fund size	$1.111B
Fund term	25 years (with Class A projected investment average life of 7-8 years)
Key investors	Allianz, FMO, and others
Key instruments	Senior equity, Junior first-loss equity, Guarantee
Target regions	80 frontier and emerging markets in Africa, Asia, Eastern Europe and Latin America
Target sectors	Agribusiness, Food & Water, Energy, and Financial Institutions
Target Sustainable Development Goals	8 DECENT WORK AND ECONOMIC GROWTH – Decent Work and Economic Growth; 10 REDUCED INEQUALITIES – Reduced inequalities; 13 CLIMATE ACTION – Climate Action

1. International Finance Corporation
2. The Swedish International Development Cooperation Agency
3. Catalytic : Commercial
4. Project detail - SDG Loan Fund S.C.A SICAV-SIF - FMO

B. Background

Overview

The Allianz Global Investors team made their first entrance in blended financial structures in 2017, through the Managed Co-Lending Portfolio Program (MCPP). In partnership with the IFC[1] and leveraging a SIDA guarantee, the creation of the MCPP was an important milestone for the Allianz GI team within the blended finance realm for a multitude of reasons: it enabled an understanding of the critical pieces of a successful blended finance fund, such as the underlying risk mitigation instruments, the operational requirements, and the process of pipeline development. Most importantly, the MCPP's success, coupled with months of internal stakeholder education on blended finance, gave way for strong support from both the investment and asset management divisions at Allianz on the business case behind blended finance. This paved the way to creating a subsequent structure with the SLF.

The Allianz Global Investors team connected with the FMO IM's MD and proposed the idea for a blended finance fund, in which FMO agreed to act as an origination partner and a catalytic investor.

As such, with the experience from MCPP, a willing catalytic investor, and strong top-management endorsement from both the main investor and the portfolio manager, the idea of the SDG Loan Fund was born. At the same time, the MacArthur Foundation had launched a global impact investment initiative, the Catalytic Capital Consortium (C3). Out of a field of 100+ opportunities, the Foundation committed to support SLF and 10 other funds. Across diverse geographies, impact goals and markets, the C3 portfolio demonstrates the power of catalytic capital to unlock impact and additional investment that would not otherwise be possible.

Why use Blended Finance?

There exists an urgent need to address the SDGs in developing countries. The total annual funding gap of $3.9T has increased by 56 percent following the COVID-19 outbreak[4]. The SDG Loan Fund, as part of its mission, targets the financing of high-impact loans within frontier markets, where the associated risks exceed the risk appetite for institutional investors. As such, by leveraging the first loss provision of the FMO and the MacArthur Foundation guarantee, the SDG Loan Fund enables the participation of institutional investors and achieves a pivotal mobilization of 1:9[3], thereby demonstrating a successful example of blended finance.

3.12 SDG Loan Fund

C. Structuring process

Capital Structure

Allianz *and other…*

FMO Entrepreneurial Development Bank

MacArthur Foundation

1. Class A Shares: Senior Investors ($1.0B)
2. Class B Shares: First-loss Investor ($111M)
3. First-loss guarantee for Class B Shares (up to $25M)

1. Funded by institutional investors, including Allianz SE, Class A shares represent 90% of the committed capital to the fund. Senior investors are entitled to first principal repayments until shares are fully redeemed.
2. Funded entirely by FMO, junior Class B shares represent 10% of committed capital to the fund. FMO is entitled to principal repayments only after Class A shares are repaid in full. Junior Class B shares represent a first-loss buffer to improve the risk return profile of the opportunity for private investors.
3. Committed by the MacArthur Foundation (AAA rated), the guarantee is designed to provide a first-loss protection to Junior Class B shares for a value up to $25M.

Note: Full view of the structure on the following page

Process

The capital structure of SLF is composed of three distinct elements, each reflecting the collaborative efforts and insights gathered from team deliberations and stakeholder engagement:

1. A simple, 2 layers fund

Mobilizing capital towards riskier markets is difficult but may be enabled by blending capital and integrating various risk mitigating factors. Allianz, as both an investor and an asset manager, deeply grasped this concept and denotes that blended finance becomes an important tool for institutional investors to remain true to their fiduciary duty while participating in impact-oriented initiatives through the catalytic cushion provided by risk-mitigation instruments.

As part this process, it becomes crucial for blended finance practitioners to avoid structures that are too complex or impede on transparency to promote stakeholder participation.

The Allianz team was thus deliberate in their effort to keep the fund's structure simple and easy to understand; it comprises of Class A Shares, targeting commercial return-driven investors, and Class B Shares, targeting catalytic investors, which would end up being funded by FMO alone, with the support of the MacArthur Foundation guarantee.

2. Clear roles to manage the risk profile

FMO's participation within SLF is central to the fund, as the organization is both the provider of the first loss capital and the fund's loan originator. To ensure continued alignment of interest, between SLF and FMO, it will retain a minimum of $10M direct exposure to each loan on its balance sheet. Meanwhile FMO's allocation policy prioritizes private capital allocation; if private sector appetite exist, e.g. from SLF, the loan must be offered for partial mobilization.

Amongst global MDBs and DFIs, FMO stands out through its dedicated investment management arm, FMO Investment Management (FMO IM). For over a decade, this subsidiary has been building a track record, with an investment philosophy that focuses on generating both impact and financial returns. FMO brings their expertise, capabilities, pipeline, and direct access to the market to the table. By providing SLF with priority access to opportunities from the FMO's balance sheet, the FMO IM acts as a key catalyzer from a portfolio management perspective. Based on name and reputation, investors have the comfort of knowing that FMO–sourced opportunities have undergone the full stringent FMO investment process and fit for investor review by the FMO IM team. This loan funnelling mechanism was also pivotal for Allianz from a reputational risk perspective as it mitigated impact of reputational damage in case of negative consequences arising from individual loan circumstances.

3. A flexible guarantee

Beyond the regulatory hurdles associated to structuring a blended finance fund, SLF faced additional scrutiny due to the nature of its various participants. For instance, given that the portfolio management was delegated to FMO, the fund had to undergo German regulatory approval. In addition, given the partnership with the FMO, which is subject to banking regulations, SLF had to seek approval from the Central bank of Netherlands.

MacArthur Foundation's unfunded $25M guarantee helped to overcome the challenges of navigating multiple regulatory jurisdictions. This vital support for SLF was provided in the form of a Program Related Investment (PRI), pursuant to special provisions in the U.S. Internal Revenue Code that apply to private foundations. According to these rules, MacArthur's primary purpose in providing the guarantee must be accomplishment of a legally recognized charitable purpose. PRIs may generate financial return but not on terms that would and attract an ordinary investor without a philanthropic goal. MacArthur has used PRIs to further its mission for 40 years, committing more than $800M to date, including several guarantees for blended finance vehicles. With MacArthur's a triple-A rating, the guarantee was a pivotal piece that closed the structure of SLF.

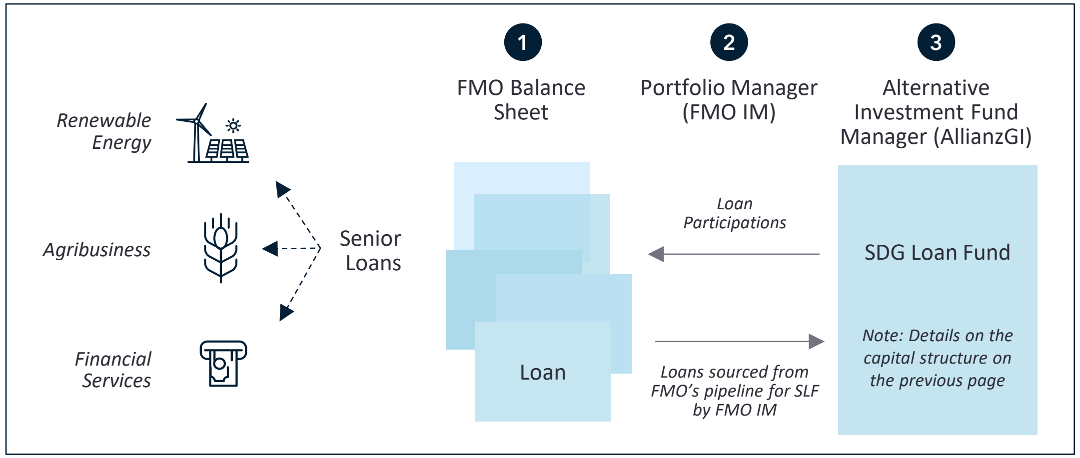
An external independent rating for the Class A Shares was considered but not implemented given the risk mitigation instruments integrated in the fund structure (first loss equity and guarantee). However, the Allianz GI team has observed that the independent rating may have expedited the fundraising process both from a timeliness perspective and AuM gathering perspective, opening doors to more investors for greater volume in the Class A Shares.

3.12 SDG Loan Fund

D. Implementation

Key Features of the Governance and Operating Model

1. FMO sources opportunities within the targeted regions and sectors through their network to build a deal pipeline. Potential investment opportunities undergo FMO's due diligence process and are subject to the bank's designated impact framework. FMO then finances approved organisations or projects through senior loans and acts as Lender of Record.
2. The SLF selectively participates in loans originating from FMO's sourcing capabilities, which qualify also for FMO's own balance sheet. FMO IM acts as SLF's portfolio manager and identifies the eligible loans for the fund. All funds managed by FMO IM have priority access to loans sourced by FMO. For each loan that is approved by SLF's investment committee, FMO retains the higher of $10M or 20% of loan value – a vital component to the alignment interests for the FMO, as both catalytic investor and portfolio manager. As such, SLF participates pari passu in a portion of the loans sourced by FMO. This frees up capital for FMO to deploy across even more loans.
3. AllianzGI oversees the portfolio manager activities and leads SLF's investment committee. All eligible loans within the FMO's balance sheet undergo an independent review by the investment committee to determine alignment to the fund's mission and targets, before the fund commits to loan participation. Throughout the lifetime of the fund, SDG Loan Fund targets participation in 100-120 loans originated from the FMO.



Source: Convergence

Fundraising Process

When it came to establishing the structure, there were critical conversations over how the partnership between Allianz GI and FMO IM would operate and the responsibilities that would be undertaken by each party. In the end, it was agreed that Allianz GI, would be the fund manager, focusing on the fundraising efforts with FMO IM managing the portfolio and pipeline development. Having clear accountabilities through delineation and definition of each party's roles was pivotal in accelerating the efforts towards launching the fund; enabling a fruitful process as each party leveraged their particular skillset to optimize efficiencies.

FMO and MacArthur Foundation as the catalyzers of the private capital were pivotal for the capital raising phase. Allianz GI indicates that funds would spend months, if not years just fundraising for first loss; beyond ensuring that the right people were present at the negotiation table, it is challenging to align all catalytic capital providers under a common impact agenda. The higher the number of investors participating, the greater the complexity, which creates restrictions that reduce the investible universe. By fulfilling the first loss through one funded investor (FMO) and a guarantor (MacArthur), SLF was able to expedite this stage of the fundraising process, allowing for proper time to be spent on ironing the details of the impact intentions.

A similar mindset was followed when approaching institutional investors; SLF had identified a targeted institutional client group to focus the team's efforts for greatest results.

Key actors

Investor category	Key investor	Amount	Intent for investing	Key conditions
Anchor Senior Investor	Allianz SE	N/A - Confidential	• Financial returns potential and impact	• Regulatory requirements as an insurer
Catalytic Investor	FMO	$111M	• Impact and financial returns potential	• Regulatory requirements as a bank
Catalytic Guarantee Provider	MacArthur Foundation	$25M	• Impact	• Investment must fulfil the requirement of a charitable purpose

3.12 SDG Loan Fund

E. Success factors

1	**Partnerships to inspire trust amongst key stakeholders:** The SDG Loan Fund was made possible by the trust and relationships between the various participants of the fund. The process of capital raising for a blended finance fund requires the fund manager to demonstrate a clear track record and proven capabilities required to deliver upon promised targets. By bringing in FMO and FMO IM (with their track record), Allianz GI successfully cements the soundness of the SDG Loan Fund. This track record, combined with the first loss and a granular portfolio enables Allianz GI to get potential participants comfortable with the risk return profile (away from an individual country and credit risks) and brings out the focus on the rational and impact story behind the fund and its investments.
2	**A meaningful, catalytic actor in the fund:** Despite lying at the heart of blended finance, the process of identifying and capital raising from the right catalytic parties is arduous. With differing mandates, targets, and objectives, these actors can often bring complexities to the underlying fund structure and focus. FMO's support as sole funded catalytic investor was pivotal as it not only enabled the SDG Loan Fund to bypass the process of gathering multiple different impact-seeking investors under a common agenda, but also fast-tracked the process of reaching institutional investors given that a significant first-loss capital was already committed to the fund. Nevertheless, FMO's commitment would have not been possible but for the $25M guarantee from the MacArthur foundation.
3	**Understanding of the regulatory environment:** Involving various regulated entities implicates a longer time to market for the fund. Approval processes must pass through different regulators and authorities, during which unforeseen obstacles may arise. Partnering with a flexible capital provider such as the MacArthur Foundation was paramount to solving one such issue encountered along the way.

Outcomes

The fund seeks to participate in ~100 high-impact loans from FMO's balance sheet. SLF estimates that their investments support the creation of close to 60,000 jobs and help avoid approximately 450,000 tCO2 eq of greenhouse gases every year. To date, the SLF has purchased $135M of loan participations.

Sample loans from FMO's Portfolio

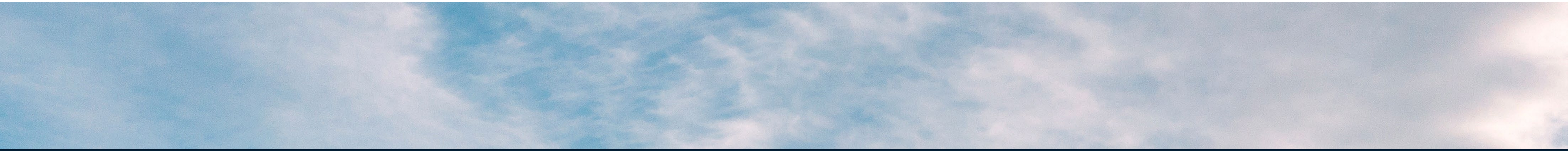
Sector	Region	FMO Loan Overview
Agribusiness	Latin America and the Caribbean	▸ **Client:** Agrofértil ▸ **Purpose:** To finance the company's structural working capital needs and increase their capacity to provide pre-harvest financing to farmers in Paraguay.
Financial Institutions	Africa	▸ **Client:** Ecobank Transnational Incorporated (Ecobank) ▸ **Purpose:** To support Ecobank's delivery of funding to African SMEs.
Renewable Energy	Asia	▸ **Client:** Gharo Solar (Pvt.) Limited ▸ **Purpose:** To support the construction and operation of a 50MW PV solar project in Pakistan.

Source: Convergence

F. Conclusion

The SDG Loan Fund is an important step towards achieving scale in the blended finance realm. The targeted $1.111B size was largely enabled by a significant partnership with the FMO and FMO IM, along with the critical guarantee from MacArthur Foundation, which enabled the MDB to act as both first-loss provider and portfolio manager. This dual role is unique to SLF and highlights the importance of MDB involvement within blended finance structures to bolster their credibility and go-to market. With each party managing their specific roles and responsibilities, Allianz GI can focus efforts on fundraising and addressing the requirements of the regulatory environment, knowing that FMO IM has the necessary resources to build a strong project pipeline and deal structure for the fund. Ultimately, the SDG Loan Fund's unique structure enables the support of high potential projects and unlocks the capital needed to address the SDG funding gap.

3.13 Vertelo



3.13 Vertelo

A. Introduction to the fund

Macquarie Asset Management (Macquarie) has developed a new blended finance platform (Vertelo) with the Green Climate Fund (GCF), which seeks to accelerate the adoption of electric vehicles (EVs) across India, with the aim of helping to reduce the country's CO2 emissions and improve urban air quality. Vertelo has introduced unique leasing and financing solutions to reduce the high upfront capital expenditure associated with EVs, tackle impediments around EV charging infrastructure and manage uncertainty around commercial EV performance and the associated residual value risks.

Working across the e-mobility ecosystem, Vertelo intends to contribute to an enabling environment for EV growth, leading to increased penetration of EVs and new market participants, including the growth of financing solutions and domestic manufacturing, and contributing to decreasing air pollution in urban environments. With a 10-year implementation period, the platform is expected to deliver a potential lifetime reduction of ~9.5 MtCO2e of greenhouse gas emissions.

The GCF has approved a commitment for up to $200M of junior equity which is designed to crowd in private sector capital with a risk mitigating buffer to commercial investors. Macquarie aims to raise a further $205M from institutional investors to capitalize the platform, and over time, the platform hopes to mobilize a total of ~$1.5B of capital (including debt finance). For more information about Vertelo visit: **Green Climate Fund | Macquarie Group**

Fund mandate	Accelerate decarbonisation of the Indian economy by providing sustainable and electrified road transport, through various financing structures to enable faster adoption of electric vehicles, supported by investments in associated infrastructure within the country.
Fund vintage	2024
Fund size	Target $1.5B
Fund term	10 years
Key investors	Green Climate Fund, and others
Key instruments	First-Loss Equity, Senior Equity, Senior Debt
Target regions	India
Target sectors	Low-Emissions transport, largely electric buses, shared 4W fleet, heavy and medium commercial vehicles, and electric charging infrastructure
Target Sustainable Development Goals	13 CLIMATE ACTION Climate Action; 3 GOOD HEALTH AND WELL-BEING Good Health and Well-Being; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE Industry, Innovation and Infrastructure; 11 SUSTAINABLE CITIES AND COMMUNITIES Sustainable Cities and Communities; 8 DECENT WORK AND ECONOMIC GROWTH Decent Work and Economic Growth; 17 PARTNERSHIPS FOR THE GOALS Partnerships for the Goals

1. Memorandum of Understanding

B. Background

Overview

Macquarie has been operating in India since 1999. Since their entry into the geography, Macquarie has observed the rising climate urgency and the critical need for action to counter the consequences of climate change. Three observations underpin the state of India's climate position:

1. India is one of the largest importers of conventional energy in form of coal and crude oil.
2. India is one of the greatest polluters of the world, hosting a significant number of the most polluted cities globally.
3. India lacks energy security and infrastructure to support country-wide climate transition efforts.

Vertelo was designed to help address these challenges faced by India. Supporting the Government of India's priority on transportation as part of their pledge to achieve Net-Zero by 2070, Vertelo seeks to provide an integrated solution that accelerates a scalable e-mobility solution.

Vertelo will own the vehicles it leases and finances to its customers and play a contributing role in developing the required infrastructure to enable mass- adoption of EVs to scale the industry. Vertelo was launched in April 2024 and within four months, it has entered into long-term lease agreements with three major operators in India across electric buses and 4W fleet with deployment across the cities of Delhi, Mumbai and Bengaluru. It has also entered into long term purchase MoUs with leading bus OEMs Tata Motors, JBM and Eka energy; as well as car OEMs for large scale deployment over the next five years.

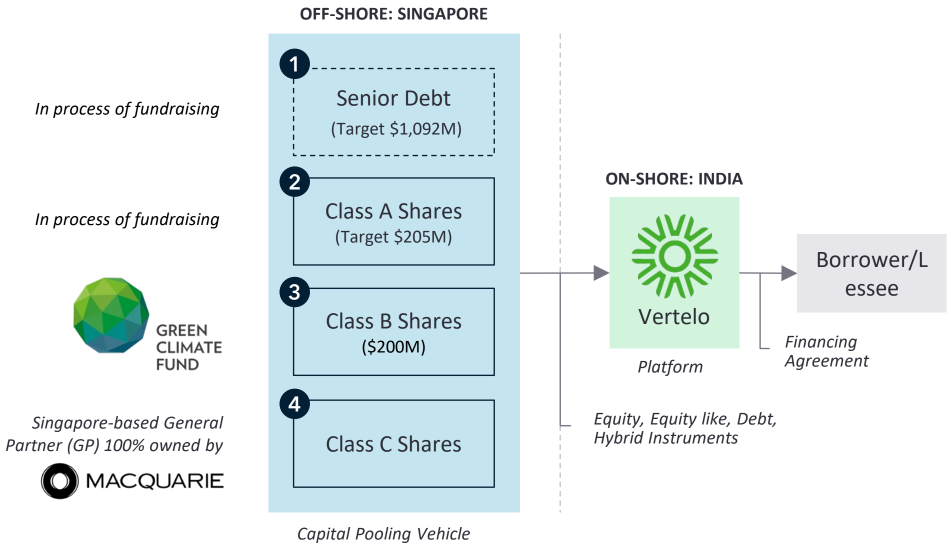
Why use Blended Finance?

India's EV industry has had limited investment and is presently underdeveloped. Consumers have been reticent to adopt new modes of transport due to factors such as the high upfront cost, uncertain technology and range anxiety. Low consumer uptake, a lack of capital inflows and investment in an emerging economy contributed to investors' high risk-adjusted returns expectations. The GCF capital has been truly catalytic in enabling Vertelo to rapidly surpass the typical early stages of venture capital fundraising, which are costly and protracted, to hire a leading CEO and management team, complete its first transactions and sign MoUs[1] with local OEMs. First loss catalytic capital from the GCF is essential to provide the necessary risk mitigation for commercial investment.

3.13 Vertelo

C. Structuring process

Simplified view of the flow of funds



1. The senior debt tranche will be prospectively integrated into the structure depending on market conditions, commercial considerations, and ease of compliance. The tranche will target Domestic and International Banks and Non-Banking Financial Companies (NBFCs) and will be either USD and/or INR denominated. The purpose of senior debt is to mobilize greater capital into the enterprise and support future business expansion.
2. The Class A Shares target commercial investors that would not invest into the platform without the first-loss component given the perceived risks of the investment.
3. Funded by the Green Climate Fund, the Class B Shares target concessional returns. The tranche provides the protection required to mobilize senior Class A equity investors into the platform.
4. Funded by the Singapore GP, the Class C Shares target typical fees for managing the investment. The tranche is designed for the purposes of receiving carried interest distributions from the LP.

Process

At a high-level, Vertelo is supported by an off-shore, capital pooling vehicle domiciled in Singapore. The vehicle consists of:

- Senior Debt Investors: Various domestic and international banks as well as NBFCs
- Class A Shares: Commercial investors (limited partner)
- Class B Shares: Green Climate Fund (limited partner)
- Class C Shares: Macquarie Asset Management (general partner)

The choice of domiciling in Singapore comes from the structural benefits and credibility associated to the jurisdiction, thereby facilitating Vertelo's capital raising process from a broader pool of investors.

The structure of the pooling vehicle is otherwise characterized by key features.

1. Limited partnership structure

The limited partnership (LP) structure of the vehicle was a request from GCF. As past GCF investments were made under an LP/GP structure, the catalytic provider was most familiar and comfortable to participate through this investment structure.

2. Significant first-loss equity

Concessional capital is typically provided in two categories: (i) risk absorbing capital, or first loss equity which de-risks the investment by serving as a buffer to absorb a broad range of unspecified risks ahead of commercial equity, or (ii) return enhancing capital which offers below market concessional terms such as extended debt tenure, capped return equity or long-term debt at below market interest rates.

Return enhancing capital improves the return profile of the investor, but does not affect the risk exposure that is frequently the major impediment preventing investors from investing in new asset classes, geographies and/or sectors.

The significant first loss equity provided by the GCF will act to crowd in commercial capital investors by absorbing the broad range of unspecified downside risks ahead of the senior equity being impacted.

Macquarie is an early-mover in supporting the EV industry in India, which Macquarie hopes will provide market confidence for other market participants and institutional investors.

Successful deployment of this project is hoped to accelerate mainstream investment market acceptance of the Indian EV investment industry in India to be as a stable asset class.

3. Investment in a single asset

Macquarie's typical fund structure is a platform with a series of different assets within an asset class (such as infrastructure). As this is a first-time project with the GCF in a new asset class, Macquarie's view was that a single asset fund would be an appropriate structure.

3.13 Vertelo

D. Implementation

Governance Model

To deploy the intended credit and financing instruments to e- mobility-related opportunities in India, the platform is registered as a Non-Banking Financial Company (NBFC). This registration, regulated by the Reserve Bank of India, allows the platform to engage in the business of loans and advances, acquisition of shares, stocks, bonds, and more.

The Platform is governed by a wholly owned Macquarie company based in Singapore, which will oversee the performance and deployment of the innovative financing structures, approve financing opportunities, lead capital sourcing and management solutions, and support the EV ecosystem growth through investments. The Platform aims to fulfill its fiduciary duties to its LPs all while bolstering India's e-mobility industry.

Fundraising Process

Cataytic Capital

The process of partnering with GCF is multi-staged. Macquarie first obtained formal accreditation as an entity with the organization over ~24 months. Following this Macquarie began discussions with the GCF on potential opportunities working through several approval processes and Board meetings. The Funding Proposal for Vertelo is detailed in a publicly available proposal on the GCF website which outlines the background, platform functionalities, financing information and a risk management framework.

This process broadened the team's understanding of public sector collaboration and catalytic capital. Vertelo is one of the largest private sector projects implemented by the GCF.

Commercial Capital

As of July 2024, MAM is in the process of fundraising for commercial capital commitment into Vertelo.

1. Banks and NBFCs
2. Impact funds, infrastructure or sector agnostic private equity funds, pension and sovereign wealth funds

Key Features of the Operating Model

The platform follows a 6-step investment process across its lifecycle::

A **Opportunity Sourcing** The platform's project pipeline will be mainly built through three avenues:

- Management Team Network
- Macquarie Relationships
- Strategic Partnerships

B **Opportunity Screening** The Platform's screening process involves preliminary analysis of the opportunity against the **Financing Selection Criteria of the Platform**, such as**:**

- Financing thesis and alignment to the Platform's purpose;
- Credit worthiness, operational capacity, and ESG performance;
- Management capabilities, business model, high-level overview of expected terms;
- Initial assessment of GHG emissions reduction, ESG, and other risks.

C **Due Diligence** The Platform's due diligence (DD) reviews will be conducted by the GP (with potential for future delegation to management), with support from specialist experts and advisors. Although not all transactions will undergo the same DD process, the **Key Risk Considerations** will typically include:

- Borrower DD
- Financial Modelling
- Financial DD
- Technical DD
- Legal DD
- Insurance DD
- Commercial/Market DD

D **Financing Decision and Execution** A financing document containing the results from the Due Diligence will be prepared within the Platform and submitted to the Board of Directors as per the delegation of authority. Term sheet negotiations will follow for transactions that are approved, with the support from legal advisors.

E **Ongoing Monitoring and Management** All loans will be monitored proactively throughout their lifetime, leveraging a structured framework developed by Macquarie to protect against any emerging risks. The monitoring and management framework consists of typical checks such as performance of financial/impact measures of the loan, quarterly review meetings, material changes to the borrower's business or credit quality, and others. In particular, the Platform will have a 'Watchlist' component to the framework to triage loans that may come under stress. This allows the Platform to have early engagement with the loan/borrower and enact the appropriate actions to maintain loan quality.

F **Realization and Exit** Exits from the investment can take various shapes, such as (1) Partial or Full Platform trade sale to Strategies Investors[1] or Financial Investors[2] or (2) initial Public Offering.

3.13 Vertelo

E. Success factors

1	**Significant anchor catalytic investor:** The GCF plays an essential role in the fund. The willingness of the GCF to deploy its equity on a first loss basis is critical to building the confidence needed to crowd in other investors and convince commercial partners to switch to EVs in exchange for reduced technology risk exposure. In addition, the GCF has been willing to provide a first disbursement before the platform crowds in other investors, acting much in the way of a seed investor, which has been critical to rapidly build the management team and establish the platform commercially through a first wave of leasing agreements, before larger investors are brought in. Importantly, GCF's presence stands as a testament to the credibility of the platform by virtue of their due diligence process, governance framework, and association to the United Nations Framework Convention on Climate Change (UNFCCC).
2	**Trusted partnership between the private and public sectors:** During the GCF approval process Macquarie further enhanced its understanding of the practical application of blended finance, the associated impact targets, risk management frameworks, and stakeholder roles through the lens of the public sector. The process of working together throughout the fundraising proposal brought forth a level of collaboration and strengthened the relationship between GCF and Macquarie. Fostering candid discussion between both public and private actors can enhance the realization of their full capabilities, and thereby make way for more innovative solutions that seek to fulfill the ultimate ambition of supporting climate adaptation and resilience endeavors.
3	**Awareness of and access to significant pools of resources:** In general, Macquarie notes that the concessional finance ecosystem is, generally, fragmented and not well suited to large scale, replicable projects. Entities like the GCF are pivotal to the success of blended finance models. The sub-scale concessional finance ecosystem and nascent understanding of blended finance by private capital could potentially hinder the realization of opportunities at the pace required to combat climate change. Overall market education and investment into experienced structuring teams could further support the success of blended finance models.

Outcomes

Vertelo plans to mobilize $1.5B in the Indian e-mobility ecosystem over 10 years with the aim to achieve a potential lifetime reduction of ~9.5 MtCO2e of greenhouse gas emissions.

In conjunction, the platform also seeks to support India's ambitious electric vehicles target and aligns well with the Indian Government's vision for mobility revolving around the 7 Cs - Common, Connected, Convenient, Congestion- free, Charged, Clean, and Cutting-edge.

Vertelo aims to have a positive social impact for its local communities by seeking to improve the safety and security for women who travel in these vehicles, as well as creating employment opportunities for women in the urban transportation sector.

Source: Vertelo

F. Conclusion

Vertelo targets a specific challenge faced by India as part of the country's Net-Zero transition journey: electrification of essential transportation. By providing leasing and financing solutions to businesses and consumers and supporting infrastructure development, Vertelo closes the persisting gap preventing the broader adoption of EVs across India. This platform is enabled by a significant catalytic contribution by the GCF, which mitigates the risk profile of a new technology in an emerging economy through a first-loss equity tranche designed to protect the senior equity of commercial investors. The period taken to obtain common understanding between private and concessional capital in this project underscores the need for genuine collaboration between the private and public sectors and demonstrates the need for a stronger nexus between these entities to foster more innovation. Enhancing communication, capability and awareness can significantly promote the scale of blended finance and ultimately support projects in unlocking their full potential. For more information about Vertelo visit: Green Climate Fund | Macquarie Group

Note: This case study has not been prepared by the Macquarie Group.

4 CONCLUSION

4. Conclusion

This exploration of blended finance through the lens of the case studies presented in this booklet has shed light on the transformative potential of strategic collaboration in the pursuit of sustainable development. The insights gleaned from a diverse set of blended finance structures from across the globe underscore the importance of innovative financial mechanisms for achieving our climate and sustainability objectives. As we reflect on the rich experiences presented, it becomes evident that blended finance is not a solitary journey but a collective endeavor that thrives on open dialogue and concerted, coordinated effort as well as continuous communication and open dialogue.

A culture of knowledge sharing and capacity building is essential for ensuring that lessons learned are disseminated widely and best practices become the norm. Collaboration between the public, private and philanthropic sectors must be deepened, guided by a shared vision that promotes collective action. Financial structures must continue to evolve in order to adapt to the unique risks, opportunities and rewards of sustainable investing. Transparency and accountability must be the cornerstone of every blended finance initiative, building trust and credibility with all stakeholders.

The success stories described and lessons learned can help lead the way towards a more resilient and inclusive financial landscape, where the confluence of public, private and philanthropic capital can unlock unprecedented opportunities for growth and impact. The stories shared are not just narratives of financial ventures; their successes are a call to action, to shape the future of finance for the greater good. The path ahead requires shared responsibility and collective action, where each stakeholder has a unique contribution to make in nurturing an ecosystem that is not only financially rewarding but also socially inclusive and environmentally sound. Only then can we unlock the vast pools of dormant capital and direct them towards the urgent challenges of our time.

4. Afterword: A Path Forward for Blended Finance

Blended finance has been emerging as a pivotal tool in mobilizing private capital for sustainable development, demonstrated through the case studies outlined in this report. Each example underscores the potential of blending public and private resources to achieve impactful outcomes in areas ranging from infrastructure to healthcare and renewable energy.

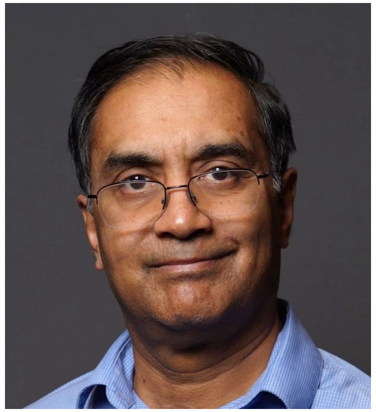
Blended finance, however, has not yet mobilized the resources envisaged and it is important to make efforts to enhance its scale and impact on sustainable development. Looking forward, the upcoming United Nations Fourth International Conference on Financing for Development (FfD4), scheduled to take place in Seville, Spain, in 2025, offers an important opportunity for advancing these efforts. This conference will be an opportunity to address the pressing challenge of scaling private capital for sustainable development. The conference will provide a platform for stakeholders to engage in meaningful dialogue on reforming the international financial architecture and accelerating progress toward the Sustainable Development Goals (SDGs).

The FfD4 conference represents a critical juncture for the global community to reassess and enhance the effectiveness of blended finance strategies. As we prepare for this landmark event, the work of the Global Investors for Sustainable Development (GISD) Alliance will be particularly salient.

GISD's ongoing efforts to shape and promote blended finance mechanisms are geared towards identifying the most promising proposals to be presented to the FfD4 conference. These will build on the **recommendations produced by GISD** for MDBs and DFIs to scale private capital mobilization, as well as the **joint Call to Action** to heads of states, policymakers and multilateral development bank (MDB) officials put forth by leading private sector coalitions, including the GISD Alliance, the Glasgow Financial Alliance for Net Zero (GFANZ), Sustainable Markets Initiative (SMI), and the Investor Leadership Network (ILN) among others.

This conference will be an unparalleled opportunity to build on the momentum of blended finance initiatives, foster international cooperation, and drive forward the agenda for sustainable development.

In closing, the journey towards achieving the SDGs is a collaborative endeavor that requires bold action, innovation, and unwavering commitment. The experiences and lessons captured in this report provide a solid foundation for advancing blended finance and, with the guidance of forthcoming international discussions, we can aspire to create a more equitable and sustainable world.



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United Nations Depart of Economic and Social Affairs

APPENDIX

Risk Management Instruments

Blended finance vehicles rely on various risk-mitigating instruments that serve to improve their risk-return nexus and their commercial appeal. Different types of risk instruments are used for specific purposes and a careful assessment is needed to ensure that the appropriate measures are selected and used to effectively address different types of risks.

RISK-MITIGATION INSTRUMENTS	PURPOSE
Catalytic and/or concessional capital	Commonly used in the capital stack in the form of subordinated equity or debt, catalytic and/or concessional capital is the foundation of blended finance vehicles. It seeks to address the underlying business risks of development projects.
Technical assistance (TA)	TA serves to reduce operational risks and is typically observed as a by-product of capital deployment. TA can take many forms, such as mentorship or resource provision, and is crucial to ensuring that projects retain independence and self-sustainability after the exit of the blended finance structure. TA facilities may be funded through catalytic capital.
Guarantees	Guarantees can play a powerful role in risk mitigation. They can be provided by international as well as national public sector institutions, government-related credit agencies, philanthropies, and others. They support the viability and attractiveness of the blended finance structure by improving the credit worthiness of the capital stack to stimulate private capital mobilization. These instruments can also be leveraged on a project-level basis, following capital deployment from the blended finance structure.
Insurance	Insurance is an important potential risk-mitigation instrument provided by insurers or other related organizations in order to transfer inherent risks related to the investment opportunity and enhance its creditworthiness to mobilize investor participation.
Currency hedging	Currency hedging tools are employed when blended finance arrangements channel funds into developing and emerging markets that are subject to volatile currency movements or seek to offer optionality to borrowers in the currency employed. Investors value these instruments for reducing cross-border risk, broadening the appeal of blended finance frameworks.

Investor Types

Blended finance frameworks are a testament to the power of aligning public and private sector investors. The diverse participants each have unique risk/return requirements, impact goals, and objectives. Aligning the interests of these stakeholders is essential to the design of a blended finance vehicles that meets the expectations of various investors and encourages their continued involvement in blended finance endeavors. Recognizing the perspectives and potential contributions of these investors lays the foundations for successful blended finance structures.

INVESTORS	DESCRIPTION
Anchor investor	Anchor investors are often the first participants within a blended finance structure. These investors are often government organizations, development banks, or a philanthropic investor seeking to generate impact according to their priorities and/or mission. They serve to create buy-in and credibility in the fund to encourage subsequent private sector participation. Some anchor investors are willing to provide capital at catalytic terms.
Catalytic investor	Catalytic investors are providers of risk-tolerant, patient, and flexible capital. Most commonly guided by their impact ambitions, these stakeholders play a key role in de-risking the blended finance structure to improve acceptability on commercial terms. Catalytic investors nonetheless generally still expect financial returns from their investments, which may be below, at or above market-terms. The latter two often tied to project performance.
Concessional investor	Concessional investors provide capital that is risk-tolerant, patient, and adaptable, aiming for minimal market returns or simply capital preservation. Concessional funding is frequently likened to grants that may be repayable or non-repayable, and is often sourced from foundations or philanthropic organizations. These investors are motivated by impact and prioritize clear congruence with their impact objectives.
Traditional investor	Traditional investors, such as institutional investors or other-related investors, are primarily focused on generating market-level returns with a potential for outperformance. These investors are also increasingly keen on impact. They tend to be risk-averse and have a fiduciary duty to their clients. They hold the largest volume of capital, and are generally the last category of stakeholders to participate in the capital stack of a blended finance structure given the nature of their objectives and activities.

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