

Private Investment Mobilisation

Summary Report from the Masterclass on Private Investment Mobilisation,
delivered at the LSFI Summit 2024.

October 2024





Executive Summary

This document is the summary report of the Masterclass on Private Investment Mobilisation, delivered on October 18, 2024, at the LSFI Summit.

Private Investment Mobilisation is a strategic imperative for scaling sustainable finance, especially in developing markets. With the global push to meet the Sustainable Development Goals (SDGs) and the climate commitments under the Paris Agreement, the urgency to unlock private capital has never been greater. This summary report presents the role of blended finance to mobilise private capital, its key benefits and different structures. It also includes case studies of successful private investment mobilisation, and strategies to overcome the barriers faced by private investors in high-risk environments.

Disclaimer

The practical insights shared in this report aim to provide a roadmap for financial professionals into private investment mobilisation strategies and, in particular, into blended finance. However, this report is not intended to be comprehensive or be used as financial or business advice by the reader.

The report has been produced by the LSFI for information purposes only.



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1. Private investment mobilisation through blended finance

Blended finance is a crucial, though generally underutilised, mechanism for mobilising private capital in pursuit of the Sustainable Development Goals (SDGs). Blended finance has the potential to mobilise substantial private sector funding needed to close the SDG financing gap, particularly when combined with technical assistance, policy reforms, and market development efforts. As per the OECD's definition¹, blended finance refers to the strategic use of development finance to attract commercial capital towards sustainable development in developing countries. At the heart of blended finance is the ability to align different types of capital—public, private, and philanthropic—to achieve both social and financial outcomes. Public and philanthropic capital takes on the role of "de-risking" investments, making them more attractive to private investors. This mechanism allows commercial investors, who might otherwise shy away from risky markets, to participate in high-impact projects with a reduced level of risk.

1.1. Key characteristics of Blended Finance:

- **Focus on the SDGs:** The transaction must contribute to the SDGs, although not every investor needs to share that objective. Private investors might participate simply for financial returns.
- **Positive financial returns:** Blended finance structures aim to deliver financial returns, although expectations may vary from concessional returns to market rates, depending on the role of the investor.
- **Catalytic role of public or philanthropic capital:** Development Finance Institutions, Donor or Public sector are critical in improving the risk/return profile, enabling the mobilisation of private capital into higher-risk markets.

The potential of blended finance to fill the SDG funding gap is vast. However, it still remains underutilised due to structural and market barriers that deter private-sector engagement.

Did you know...?

Concessional finance refers to below-market-rate funding provided by major financial institutions, such as development banks and multilateral funds, to support development in low- and middle-income countries. It encompasses a variety of financial instruments aimed at accelerating progress toward climate and development goals, rather than representing a single mechanism or type of financial support.

1.2. The added value of Blended Finance:

In addition to its role in mobilising capital for SDG-related projects, blended finance offers numerous benefits to investors, regions, and projects. These include:

- **Catalytic effect:** Small public or donor contributions can unlock large-scale private investment.
- **Higher impact from donor contributions:** Public funds can achieve far-reaching impact when they are structured to attract private capital.

¹ https://www.oecd-ilibrary.org/development/making-blended-finance-work-for-the-sustainable-development-goals/blended-finance-definitions-and-concepts_9789264288768-7-en



- **Engagement of private capital:** It helps channel private capital into projects that they would traditionally avoid due to high risks.
- **Market-based returns:** Investors can achieve risk-adjusted returns, aligning with their business and fiduciary goals.
- **Long-term impact:** Blended finance structures focus on projects that deliver sustained social, environmental, and economic outcomes.
- **Risk mitigation:** Public and philanthropic funds help provide layers of protection to private investors.
- **Innovation:** Blended finance structures allow for more creative and flexible approaches to investing in high-risk regions and sectors, which traditional investors often overlook.

Learn more:

Blended finance, as a structuring approach, can foster long-term solutions by enabling multi sector partnerships that enhance the resilience, resourcefulness, and entrepreneurial potential of vulnerable communities and individuals. A notable example is Nasira, a risk-sharing facility managed by the Dutch Development Bank (FMO) and the European Union Commission. Nasira helps local financial institutions expand lending to underserved groups, including women, youth, and migrant business owners. By entering into revolving guarantee agreements and covering up to 95% of the default risk on entire loan portfolios, Nasira reduces the risk for domestic banks, thereby bridging the financing gap for underserved markets and stimulating economic activity through support for local entrepreneurs.

2. Models and instruments

The various instruments and structures employed in blended finance were discussed during the masterclass². These tools help de-risk investments and encourage private sector participation in high-risk, high-impact projects:

- **Concessional debt or equity:** Public or philanthropic investors take on subordinate positions in the capital structure, assuming more risk than private co-investors. This encourages private participation by reducing their exposure to potential losses.
- **Guarantees or risk insurance:** These are risk-reduction tools that protect investors against capital losses. For example, credit or political risk insurance provides coverage against specific risks that would otherwise deter private investors.
- **Design/Preparation funding:** Grant funding supports the initial design and preparation costs of projects, helping to make them more bankable for investors.
- **Technical Assistance funds:** These funds supplement the capacity of investees, ensuring that the projects have the necessary operational and technical capabilities to succeed.

Four core models were highlighted during the session to showcase how blended finance can effectively mobilise private capital:

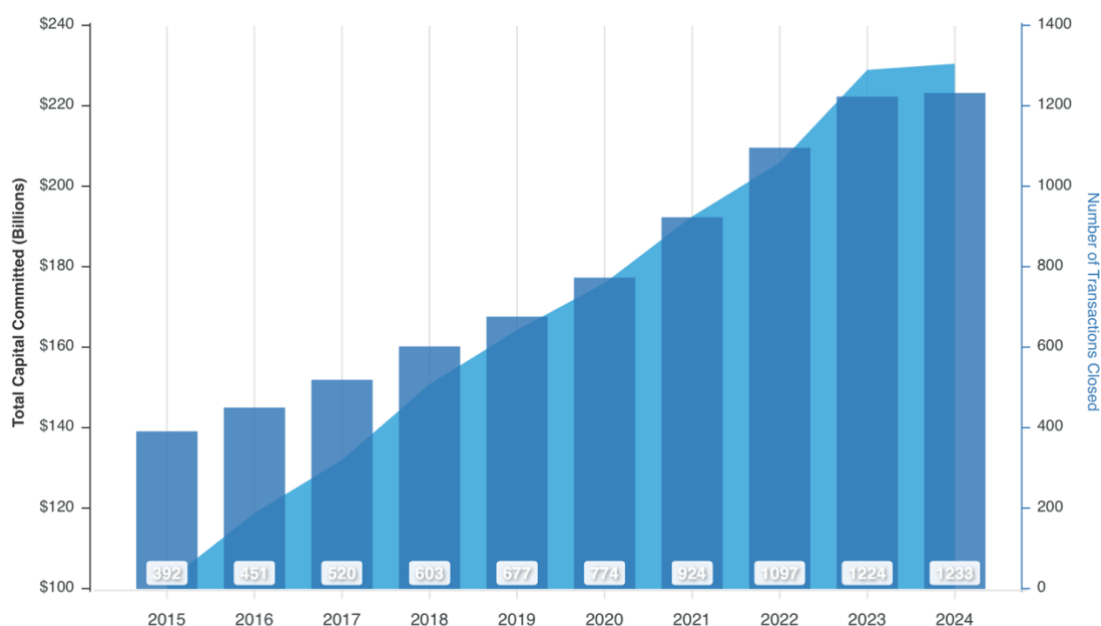
² <https://www.convergence.finance/blended-finance>



- **Debt Mobilisation at portfolio level:** Public sector capital is placed in subordinate positions to reduce risk for private debt investors. This approach has been successful in pooling investments to manage country-specific risks.
- **Equity Mobilisation at portfolio level:** Public investments are ranked in junior positions, allowing private equity investors to benefit from an enhanced Internal Rate of Return (IRR).
- **Aggregation vehicles:** These structures aggregate multiple investments into larger portfolios, which diversifies risk across multiple projects and countries.
- **Project-Level debt and equity mobilisation:** Guarantees are used to reduce expected losses, thereby improving the project's risk profile and making it more attractive to private investors.

2.1. Blended Finance in Figures

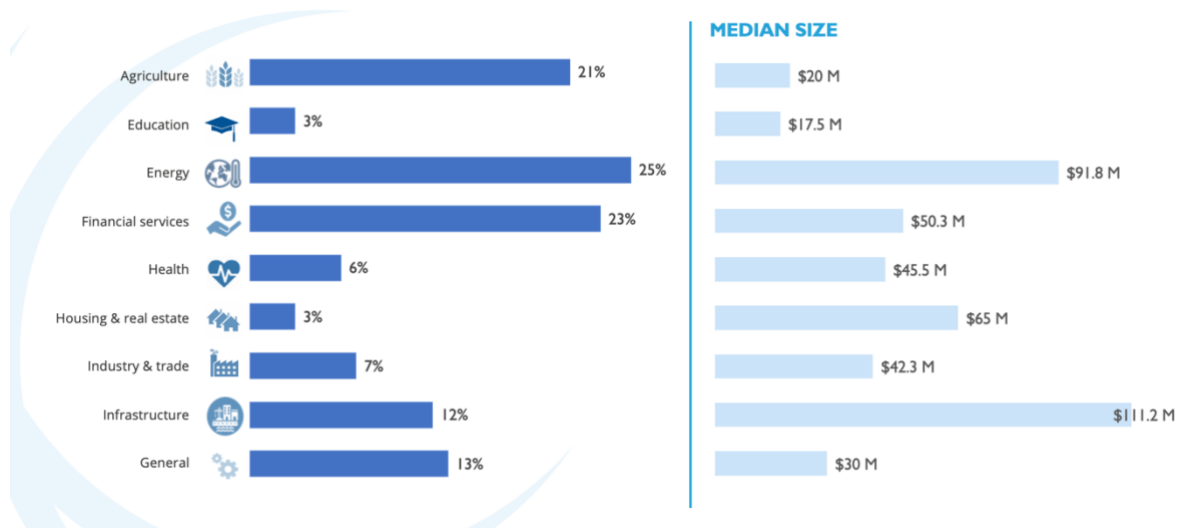
GROWTH OF ANNUAL BLENDED FINANCE ACTIVITIES



Source: Convergence

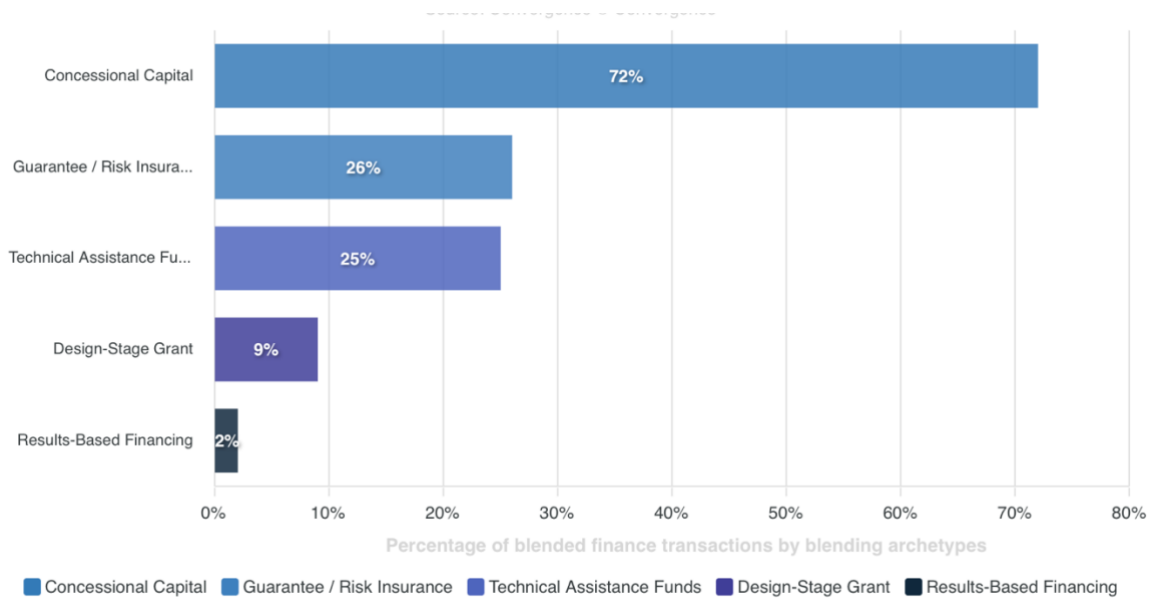


BLENDED FINANCE OVERALL MARKET TRENDS Sectors with revenues dominate



Source: Convergence

BLENDED ARCHETYPE FREQUENCY



Source: Convergence



3. Case Studies: Mobilising Private Capital

Throughout the masterclass, several case studies were presented to highlight successful private investment mobilisation practices:

3.1. [Emerging Market Climate Action Fund \(EMCAF\)](#)

This innovative Fund of Funds was launched by Allianz Global Investors and the European Investment Bank (EIB). EMCAF provides early-stage equity financing for climate mitigation and adaptation projects in developing markets. By incorporating concessional capital at the fund level, EMCAF catalyses private investment into greenfield projects, supporting the long-term development of low-carbon, resilient economies

3.2. [Cardano Development – AGR13 Fund](#)

Cardano Development's AGR13 Fund is advancing sustainable agriculture and forest conservation by mobilizing financial resources for projects that enhance rural livelihoods and protect natural forests. The fund provides local currency guarantees and technical assistance to financial institutions, encouraging investments in initiatives that promote sustainable farming practices, forest conservation, and rural development. With a goal to mobilize over USD \$1 billion in capital by 2032, AGR13 focuses on driving impactful projects that safeguard natural forests and improve the well-being of rural communities.

3.3. [Green Bond Technical Assistance Program \(GB-TAP\)](#)

The Green Bond Technical Assistance Program (GB-TAP), launched in 2018 by the International Finance Corporation (IFC), was designed with the mission of creating a robust market for green bonds in developing countries. By providing technical assistance to financial institutions, GB-TAP aims to enhance the issuance of green bonds in emerging markets, thus enabling capital flows toward climate-related projects. GB-TAP offers a platform for bridging the gap between investors from developed markets and issuers in emerging markets. It facilitates knowledge-sharing by bringing together leading market players to exchange global best practices, ensuring that the green bonds issued are of high quality and aligned with international standards. The program was co-launched by the Luxembourg Ministry of Finance, which also serves as a key donor, along with Switzerland and Sweden. GB-TAP supports a wide array of activities aimed at building a sustainable green bond market in developing countries, offering a valuable opportunity for investors to align their portfolios with climate goals while supporting financial institutions in emerging markets.

3.4. [Seedworks Initiative](#)

Under the SAGF II fund, the Seedworks Initiative provides hybrid seeds to Indian farmers, improving yields and incomes. A 2024 impact assessment of Seedworks revealed that 80% of the farmers surveyed experienced improved crop quality and resilience. By supporting smallholder farmers, Seedworks is making a tangible impact on food security, highlighting how blended finance can contribute to rural development and SDG goals.

3.5. [The Luxembourg-EIB Climate Finance Platform \(LCFP\)](#)

The Luxembourg-EIB Climate Finance Platform (LCFP) has played a critical role in mobilising private investments aimed at combating climate change. The LCFP has been a key driver in channelling private capital towards climate action through equity investments in climate-focused funds. To date, the platform has invested in six funds, leveraging a total of €18.2 billion in project investments. These funds focus on a broad spectrum of climate actions, ranging from mitigation to adaptation, with a notable emphasis on projects in developing countries.



4. Challenges in Mobilising Private Capital

Despite the potential of blended finance to mobilise private capital for sustainable development, several key challenges remain:

- **High country risk:** The perceived risk of investing in developing countries is a significant deterrent for private investors. Countries with low credit ratings, particularly those rated B- or lower, are seen as too risky, with default rates up to 12 times higher than more stable markets.
- **Limited use of risk mitigation instruments:** Although tools like guarantees and first-loss capital can mitigate risks, they are currently underutilised. Only around 3% of multilateral development banks (MDBs) and development finance institutions' (DFIs) commitments focus on de-risking investments, which limits private sector participation.
- **Project viability:** Many projects in developing markets do not meet the stringent fiduciary and regulatory requirements of private investors. Projects must offer risk-adjusted returns that are competitive with traditional investments, making it difficult to attract private capital.
- **Siloed mobilisation efforts:** Mobilisation efforts remain fragmented, with few collaborative initiatives that pool resources and share risk across regions or sectors. This lack of coordination hinders the scale of investment needed to meet SDGs financing targets.



Annexe

Speakers

We would like to express our gratitude to the masterclass speakers for their insights and for sharing their in-depth expertise in this matter with the masterclass audience:

Chris Clubb, Managing Director, Convergence

Chris Clubb is the Managing Director at Convergence, where he focuses on mobilising investment in developing countries through blended finance. With over 30 years of experience, Chris has financed projects worth more than \$30 billion across 80 countries, ranging from large infrastructure to financial inclusion programs. He specialises in Sustainable Development Goals (SDG) investing and leads Convergence's engagement with the OECD and European organizations. A recognised expert in blended finance, Chris regularly speaks at international finance conferences.

Guillaume Bonnel, CEO, SDG Impact Finance Initiative (SIFI)

Guillaume Bonnel is the CEO of the SDG Impact Finance Initiative, based in Switzerland. The organisation, established in 2021, aims to mobilize CHF 1 billion in private investment to support the Sustainable Development Goals (SDGs). Guillaume has extensive experience in sustainable and impact investing, having led teams at Credit Suisse and Lombard Odier, and audited microfinance institutions. His career includes missions in developing countries and a humanitarian role with Médecins Sans Frontières in Cameroon.

Martin Ewald, Managing Director and Lead Portfolio Manager, Allianz Global Investors Ltd

Martin Ewald is Managing Director at Allianz Global Investors, where he leads Private Equity Impact Investment. Based in London, Martin has dedicated the last 15 years to mobilising private capital for impact markets, expanding the investable universe for institutional investors. He focuses on equity impact investments in emerging markets and structuring innovative investment vehicles.

Pierre Oberle, Sustainable Finance and Financial Centre Development Advisor, Ministry of Finance, Luxembourg

Pierre Oberlé is a Sustainable Finance and Financial Centre Development Advisor at the Ministry of Finance, Luxembourg. Previously, Pierre worked at ALFI as a Senior Business Development Manager. He also has a master in International Business from the University of Caen, a Master in Economics from the University of Strasbourg, and an MBA from the University of St Thomas, Minneapolis, in the USA.



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