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Sustainable Investing Research Initiative

Developing and Scaling up the Global Marketplace for Blended Finance:

Inaugural SIRI Blended Finance Conference

Columbia University
September 25, 2024

SUMMARY OF KEY INSIGHTS OF THE CONFERENCE

The mitigation of climate change, biodiversity loss, poverty, and other grand societal challenges has historically been primarily financed through public funding and private philanthropic giving. Yet, a large financing gap remains, especially in the Global South, to finance innovative solutions in climate tech, renewable energy, nature-based solutions, social inclusion, and others.

For some context: Globally there is a gap of over $4-5T of development financing (UN 2023). Although this gap comprises just about 3% of $140T of Global Assets Under Management (AUM) and about 4% of Global GDP, it is difficult to crowd this capital into the markets and countries that are most in need of it. Additionally, if Official Development Assistance (ODA) is used as a surrogate for capital available to crowd in this investment through blended finance, it only covers about 4% of the need at $224B in 2023 (OECD 2023).

Hence, the questions are: What are the key challenges of the high-risk countries and markets? What are the key issues within Blended Finance to address? And, how can we all work together and crowd in more private capital to finance innovative solutions, especially in the Global South, to solve this massive challenge in service of future generations?

To better understand the challenges and opportunities in mobilizing more private capital investments and the potential role of academia, the Sustainable Investing Research Initiative (SIRI) brought together a carefully curated set of key leaders in the public and private sectors, policymakers, and academia, including ministers of finance, corporate leaders, leading investment managers and asset owners, United Nations (UN), World Bank Group (WBG), Development Finance Institutions (DFIs), multi-lateral development banks (MDBs), philanthropies, family offices, rating agencies, and others.

Participants of the Inaugural SIRI Blended Finance Conference highlighted several needs that must be addressed. Since the conference was under Chatham House rules, we have prepared this high-level summary of some of the key insights shared by the participants.

SUMMARY OF KEY INSIGHTS FROM EXISTING EFFORTS AND NEXT STEPS NEEDED

Opening Panel

The opening panel focused on the key challenges of high-risk countries and markets, the potential of blended finance in addressing these challenges, and the key issues within Blended Finance. The panelists shared the following insights:

1) Blended Finance helps fund new technologies that are perceived to be too risky for pure private capital investments. Blending helps subsidize and derisk private capital investments and hereby helps close the gap between what foreign investors need in terms of risk-adjusted returns, and what companies in emerging markets can afford to pay. Yet, simply using blended finance (including, e.g., the widespread use of co-financing ratios) is not enough. Critical for using limited public funding for blended finance is that it is used efficiently and serves as catalyst. For doing so, it is important to i) identify the minimum degree of concessionality needed to unlock commercial capital, ii) ensure that the project and company have a path to commercial viability without needing ongoing subsidies, and iii) ensure that the project be additional in terms of positive impact on sustainable (economic, environmental, and social) development. The idea is to use blended finance strategically to support demonstration projects, catalyze new markets, crowd in private capital, and demonstrate the viability of certain types of investments rather than just subsidizing individual projects indefinitely. Furthermore, to speed up the mobilization of private capital, it is important to create replicable financing structures. [For more information on how to efficiently use public funding and a conceptual framework, see "Blended Finance" (Flammer, Giroux, and Heal, NBER 2025).]

2) Need for more data and greater transparency. Greater transparency with regard to investor-relevant data (including impact, financial return, and risk) would help private capital investors (including foundations, family offices, impact investors, asset managers, institutional investors, and others) conduct proper risk-return-impact analysis to more efficiently allocate their capital. Relatedly, publishing the degree of concessionality for each blended finance project would help avoid over-subsidizing projects and distorting markets. (Currently, only the IFC publishes its subsidy levels.) In short, more data and greater transparency are seen as crucial in advancing and scaling up the global marketplace for blended finance. In this regard, the development of a comprehensive blended finance platform would help advance these efforts.

3) Need for more research and case studies to better understand the various risk-mitigation mechanisms and instruments that can effectively mobilize private capital, and to better understand perceived and actual risks of blended finance deals, etc.

4) Need for effective cross-sector partnerships and collaborations. DFIs, MDBs, and other institutions (e.g., UNCDF) can provide important financial solutions to high-risk countries, including loans, grants, and guarantees. Importantly, they can step in and provide additional support (especially during distress periods) and help link investments to the broader ecosystem. Yet, effective cross-sector partnerships and collaboration across different stakeholders are essential for the broader development of the finance ecosystem and sustainable development. This includes:

    - More effective communication and dialogue. This requires speaking the same language and understanding each other's cultures.
    - Improving the alignment of structures and processes between MDBs/DFIs and the private capital investors to mobilize more capital.
    - Connecting and bringing the private sector (both the financial sector and real economy) more into the conversation and jointly develop solutions as the private sector is a key part of the equation.

5) Need to decrease complexity and transaction costs. Various factors contribute to high transaction costs, including:
    - Project approval. The lack of predictability in project approval for financing can be a major challenge and increase costs and time spent. To improve the predictability in project approval, there is a need to foster a more standardized, unified methodology for infrastructure projects.

- Time needed. The time needed in bringing together private investors, public partners, and NGOs is long and costly. Enhanced dialogue, effective communication, standardization of deal structures, etc. would help decrease the time needed for blended finance deals. Furthermore, the launch of a blended finance platform that combines concessional capital (e.g., credit guarantees, grants, etc.), commercial capital, and project management (e.g., technical assistance to farmers) could facilitate the matchmaking process.
- Small but scalable projects. Smaller and micro-enterprises (e.g., in the agricultural sector) play a crucial role in many economies, especially in the Global South. They need to be brought in and funded, and adequate financing mechanisms need to be developed. Yet, the small ticket size of transactions is challenging. They need to be scaled up to attract larger private capital investors.
- Currency risk. Exchange rate risk represents a significant challenge in project financing, particularly in emerging markets.

6) <u>Need for equity financing</u>. In addition to the need for more debt financing, more equity financing is needed. Concessional equity is generally more precious and impactful than concessional debt.

7) <u>Need for government policy reform</u>. Blended finance is not a replacement for the government reforms needed to create a conducive business environment. Alongside blended finance, it is important to continue working with governments to enact the necessary legislative/regulatory reforms.

The ensuing discussions delved deeper into these key challenges and offered potential suggestions on how to address them. These very rich discussions are summarized in the following pages.

Investors' Expectations and Risks

Fund's structure – Creating alignment of objectives amongst all participating stakeholders with a clear definition of "problem to be solved". Impact first approach to investments? Returns waterfall split between tranches?

Different investors have different impact goals, risk-return expectations, and legal restrictions. For example, while DFIs and MDBs could invest at concessional rates and provide junior tranches, private capital investors may not be able to do so. Data suggests that only about 20-25% of capital is currently catalytic, and only a fraction of the needed capital has been raised so far. The process of raising concessional capital can be arduous, assembling the capital stacks complex, and it is unclear whether the financial models are scalable. There is a need for streamlined processes and standardized frameworks to serve as blueprint for raising concessional funds and the needed capital.

Simplicity and greater transparency are perceived to be key in structuring financing and aligning stakeholder objectives. A key question is how to efficiently allocate risks. In other words, it is essential to understand the risk that each type of investor can take to invest, their risk-return expectations, and what impact concessional capital aims to achieve. Greater transparency would also help in i) developing benchmarks to facilitate the structuring of the deals, assembling the capital stacks, and speeding up the process, as well as in ii) creating replicable models for blended finance. Academic researchers could assist in conducting such research.

Challenging the notion that the public sector's role is solely to absorb losses, conference participants suggested a more active and dynamic role in risk-sharing. They suggested that both the public and private sectors should share the benefits and burdens of risk-taking in blended finance. Since public money is taking on the most risk, it should also benefit from profit-sharing mechanisms to ensure financial sustainability. Participants highlighted the importance of a "bidirectional partnership" where both sectors contribute and benefit in different ways. This approach could also help avoid the scenario where public funds are depleted annually, and instead allow for growth in available capital without needing constant replenishment. In this regard, it would be worth considering how to leverage public money in a way that enhances returns while still supporting development goals.

The MDBs, their shareholders, and credit ratings – perceptions of the reform agenda and how can the MDBs, their shareholders, and rating agencies play a critical role in facilitating the flow of private capital?

The world is perilously close to a climate tipping point as many participants in the COP 29 meetings underscored. climate change poses an existential risk that surpasses any financial risk, Urgent action is needed. The $80+ trillion required to be invested in Emerging Markets will not materialize voluntarily. In contrast to governments or non-financial actors, The World Bank Group (WBG) is in a unique position to serve as dedicated financial catalyst as it has a truly global footprint and the multiple skill sets and capabilities needed, including:

- Financial expertise and the ability to catalyze private investors in a variety of ways
- Extensive mitigation and climate change adaptation expertise
- Ability to play multiple public & private roles simultaneously
- Independent convening capability
- Well-established financial relationships with the sovereign as well as private sector investors and providers, the IMF, recipient nations, and other multilateral and regional development and investment institutions.

Participants discussed that the survival and resilience of countries in the face of climate change take priority over a potential risk of credit rating downgrade. Accordingly, the WBG could leverage its position to mobilize private capital and promote sustainable development. It is expected that over time (7-12 years) this may lead to the WBG's and other development institutions' debt ratings gradually dropping from AAA down closer to the A range. Yet, the extent of the additional capital support that may be needed may be less than expected as the aim of increasing the WBG's risk taking is to serve as a catalyst for crowding in private sector capital to close the financing gaps.

The WBG—and MDBs more generally—are told by their major shareholders that upholding the AAA rating is sacrosanct. As such, the fiduciaries of MDBs play a critical role in enabling MDBs to unlock private capital and close the financing gap to effectively address the climate crisis.

High-risk countries are exposed to significant country-level risks (such as exchange rate volatility, political instability, etc.). MDBs can play a crucial role in mitigating these risks, attracting cofinancing, and encouraging private sector participation. Building partnerships and tailoring approaches to the specific needs of different countries is essential.

The lack of transparency and reliable investor-relevant data (about the financial return, risk, and sustainability impact) further hinders accurate risk-return-impact assessment, effective decision-making, and investment. Participants stressed the need for improved data, transparency, and standardized impact measurement frameworks to facilitate assessment and private sector investments (in climate finance and other areas).

Governments could facilitate investments (by the public and private sectors) by providing clear policy direction and regulatory frameworks, as well as by launching country-led platforms (such as the Just Energy Transition Partnership (JETP) platform) that provide a self-defined pathway to drive forward sustainable development. These platforms should prioritize local ownership and address specific needs and challenges faced by the country.

Assessing and Mitigating Risks

Ratings agencies and how can their assessment of credit risks in blended finance deals be improved?

The following insights were offered about the role of credit rating agencies and their assessment of credit risks in blended finance deals:

- To address the topic of climate transition and the low-income country financing gap, rating agencies (i.e., those participating at the SIRI Blended Finance conference) have a dedicated internal working group that includes experts from across teams.
- Credit ratings are independent opinions of creditworthiness. Their analysis follows their publicly available criteria and is based on specific credit factors for each rated entity in application of the methodology.
    - Sovereign ratings are not "ceilings" for corporates, government-related entities, banks, regional and local governments, projects, or securitizations within that country. However, the impact of sovereign and country risk is considered as part of the rating process for non-sovereign entities. A non-sovereign entity or securitization may be rated above the sovereign foreign currency rating depending on its operating and financial characteristics, stress-tested for a sovereign default scenario.
    - The data used in determining sovereign ratings is not bespoke, but rather data generated by a country during its usual operations. Annual default and transition studies suggest that their sovereign ratings are effective at measuring relative credit risk over time.
    - Callable capital is considered to be "extraordinary support"; it is not considered to be a big factor for a 'AAA' rating.

    - Partial guarantees can also be taken into account, although very few transactions involving partial guarantees have effectively been presented to the rating agency for a credit rating to date.
- Rating agencies are subject to comprehensive regulatory oversight in over 20 countries. Each regulator oversees compliance with their respective credit rating agency regulations. These regulations govern the processes for how rating agencies develop and apply their methodologies and criteria and require that they apply them consistently across all sovereign ratings. These criteria are subject to rigorous independent validation processes.
- To inform and calibrate credit ratings, the following would be helpful:
    - More data and improved datasets, particularly as they relate to i) historical defaults and ii) recovery levels for comparable sovereigns, corporates, and projects, would help inform and calibrate credit ratings across economic cycles and periods of domestic stress. Relevant new datasets are systematically reviewed to help refine recovery assumptions and other metrics. This helps inform the markets on the current credit risks, how they are captured in the ratings, and how credit enhancement may help address them. However, having access to additional data may not ultimately lead to a significant change in a credit rating.
    - Note that the recently enhanced disclosure of recovery data from the GEMs Risk Database is a welcome step, although more detail would enhance its usefulness. The data in the report are insufficient to allow for the in-depth analysis that forms part of the credit rating process. Future iterations will hopefully include additional granularity.
- Rating agencies are not legally allowed to give direct advice on the best financial structures or approaches. However, they host educational workshops and training for interested parties. Also, participating rating agencies welcome participation in working groups and getting looped in early in the process of blended finance deals.
- Participants highlighted the important role academia can play:
    - Importance of case studies to serve as an educational tool (to students and practitioners) to illustrate how different structures would be rated. This would also help decrease the time needed for blended finance deals.
    - Importance of research to analyze questions around investors' risk perceptions and actual risks of blended finance deals, as well as whether/how rating agencies' methodologies and data evolve over time. The insights of such study could potentially help shift the perception of risk in investment opportunities and inform the overall financial ecosystem.

How can blended finance be supported with an enabling financial regulatory and political environment locally and globally? How to mitigate/manage foreign currency risks?

To attract private investment for blended finance projects, financial regulations and policies that impact these projects need to be examined and potentially revised. This review should happen at both the local and global levels.

Financial systems need to be greened and aligned with the Paris Agreement to align all financial flows with the global climate objectives. The current global financial regulations are currently not consistent with these global climate objectives. In particular, a number of requirements that are meant to safeguard financial stability in the short run are potentially preventing our ability to address climate change, to invest enough, and to invest where investments are needed the most (e.g., regulations in Europe require higher capital reserves for investments in EMDEs infrastructure compared to investments in European markets). In short, the financial systems need to be aligned with the climate goals, and discussions around climate and development financing need to be better integrated going forward.

Participants also indicated that reforms are necessary at the WBG and MDBs (including expanded access to guarantees, improved guarantee structure, etc.) to mitigate risk and mobilize private capital more effectively to meet the scale of the challenge. [For a deeper discussion on this topic, see the earlier section on "*The MDBs, their shareholders, and credit ratings – perceptions of the reform agenda and how can the MDBs, their shareholders, and rating agencies play a critical role in facilitating the flow of private capital?*" *(pp. 6-7).]*

Several other factors contribute to worsening the appeal of private capital investments in EMDEs, including legal, political, and currency risks such as breach of contract (e.g., non-payment by governments), expropriation by the government, currency conversion and transfer restrictions, political instability, etc. These risks are prevalent in many countries, and investors often overestimate these risks by commingling them. Yet, some of these risks can be mitigated by MDBs and DFIs through derisking mechanisms.

To mitigate some of these risks and mobilize private capital investments, various derisking tools can be used in blended finance deals to effectively de-risk private capital investments. In particular, in their "Blended Finance" paper, Flammer, Giroux, and Heal show that blended finance deal structures include a higher degree of concessionality and a higher reliance on risk management provisions (such as cross-currency swaps, first loss guarantees, risk-sharing facilities, and interest rate buy-downs) for projects located in countries with higher country-level risks (such as political risk, currency risk, or a lack of transparency).

Participants further highlighted the need to rethink how we invest in EMDEs regions, i.e. there is a need to shift away from a mentality of "resource extraction from EMDEs" towards "adding value to EMDEs" to improve their resilience and contribute to a Just Transition. To uplift economies, thresholds could be established for investments dedicated to supporting industries that produce goods and services in their home countries. Frameworks such as the OECD's Trade in Value-Added (TiVA) can help assess and monitor this impact.

Blended finance also requires focusing on scale and speed. The G20 set a goal to mobilize $10 of private capital for every $1 of development finance, but in reality, the results fell short. This reveals a "private capital mobilization market failure" – a failure to mobilize private capital at scale (and speed) for climate and SDG goals. If private capital mobilization is the goal, greater communication and partnership with the private sector is needed. For example:

- Governments need to adjust their legal and regulatory frameworks to enable and incorporate private sector involvement at the scale needed. For example:
  - DFIs that are set up to take risks that the private sector avoids should be treated differently from commercial banks. Applying the same capital requirements makes little sense for institutions that are designed to take on higher risks.
  - Public capital should be structured in a way that allows assets to be held for 7 to 15 years, even when facing currency fluctuations and political changes. This structure would provide a cushion for private investors, allowing them to stay invested without needing to sell off assets when investments are underperforming. Public capital would absorb some of the risk, enabling private capital to come in more confidently.
  - Policies (like the Inflation Reduction Act) are needed to help promote private sector mobilization instead of relying solely on public sector-led development. Such policies to attract investments are especially important in countries that show a "deep-seated hostility" towards the private sector.
  - Public financial institutions, central banks, and ministries of finance have an opportunity to collaborate on raising capital while staying aligned with their public mandates.
- MDBs and DFIs need to play a different role than commercial banks. They should take on more risk and invest more in the junior tranches (as opposed to senior tranches). This will help MDBs and DFIs to serve as catalysts and crowd in, instead of crowd out, private capital.
- Local banks (particularly private ones) are underrepresented in large-scale projects despite their understanding of local markets and their advantage in not facing the same

currency issues as international banks. The challenge is that these banks often lack experience in managing large projects, making education and standardization necessary to increase their involvement in financing initiatives.

- Participants pointed out that a few steps are being undertaken to better enable private sector investment. While not sufficient, these are positive steps in the right direction. For example:
    - MDBs can secure partner capital to allow lending in local currency and for longer maturities, which reduces foreign exchange risk and makes private sector investments more viable.
    - Systematic initiatives are being launched that help develop local capital markets and strengthen regulatory regimes.
- Institutional investors, like pension funds and insurers, know how to price risk and are willing to invest long-term in high-growth markets. However, private sector investments are driven by risk appetite and fiduciary responsibility to optimize risk-adjusted returns, not developmental or impact goals. Key factors for increasing capital flows to EMDEs at the scale and speed needed are risk management, track record, and relationships:
    - A few years ago, the differential between emerging markets and US rates of return was much higher, making investments in emerging markets more attractive. With US rates now at 6% and emerging markets still around 10%, the 4% advantage is less compelling, leading private investors to choose regions with lower country-level risk (e.g., currency and political risks). The private sector has ample capital to deploy but evaluates risk carefully. Risk needs to be adequately managed. Blended finance can help address currency and credit risks. Yet blended finance is not a panacea—its success requires effective collaboration, which remains a significant challenge.
    - Another key factor is the importance of track record and relationships. Project finance, particularly for infrastructure, is complex and challenging. These projects take a long time to prepare and often span 15 to 25 years, with limited liquidity. Countries and investment managers with strong track records attract more capital. Managers with established client relationships can mobilize capital for emerging markets more effectively. In contrast, local managers or funds (especially first-time funds) struggle to attract large institutional investors who provide the volume of capital needed for substantial growth.

Target Setting, Financial and Impact Additionality

Determining impact target and measurement. How to improve ex-ante impact assessment to match realized impact? A focus on carbon credits.

Urgent need to accelerate climate (and other) action. Efforts to prevent climate change are a quarter-century behind. To make progress, participants highlighted the following critical factors:

- There is a need to focus efforts on initiatives that can create the greatest impact (urgently), instead of aiming for perfection, i.e. don't let perfection be the enemy of the good.
- Government-led "Climate Transition Impact Frameworks (CTIFs)" can serve as valuable planning tools. Yet, proper price mechanisms are missing. Meaningful climate progress is difficult without the right incentives for companies and investors.
- Financing projects can be complex, especially in emerging markets. The use of carbon credits is helpful. However, participants highlighted the need for improved verification processes and more accurate carbon credit pricing.
- To foster a functional global carbon market (including emerging economies), it is suggested that carbon credit frameworks need to be adapted, ex-post evaluations set up, and the system refined over time.
- While companies may disclose their offset strategies, there are often gaps in the metrics used. There is a need for greater (standardized) transparency of corporate environmental impact (across scopes 1, 2, and 3).
- To avoid greenwashing and make progress in actually addressing system-level challenges such as climate change and biodiversity loss, considering the investments' "impact additionality" is critical.
- An open question is who bears the cost of carbon credits – governments, MDBs, DFIs, corporations, private investors, or philanthropies?
- The use of AI and satellite imagery can help in making progress in assessing realized impact.

[For a related discussion on the measurement of success and impact, see the following section *"How can MDBs and DFIs go beyond the private co-financing ratio?"* (on pp. 13-15). Also, note, the need for improved measurement, disclosure and reporting is a focus area of SIRI. To learn more, visit: https://siri.sipa.columbia.edu/content/pathways-consensus.]

How can MDBs and DFIs go beyond the private co-financing ratio?

The use of co-financing ratios is widespread among MDBs and DFIs. Yet, as the conference participants pointed out, focusing on the amount of private capital leveraged is not sufficient for several reasons:

- Co-financing ratios are input- as opposed to output-oriented.
- Co-financing ratios are time-bound, they do not account for the timing of capital flows and the potential for recycling capital to support future projects, nor do they reflect the dynamic nature of catalytic capital. Ideally, a virtuous cycle is created where money returns to investors and can be reinvested. The current co-financing ratio overlooks risks and the leverage that can be created, as well as the fact that it may not necessarily involve giving money away but rather lending it temporarily.
- There is confusion around the definition of co-financing in terms of what is being compared and how to calculate it—whether it is public versus private capital, commercial versus concessional capital, or a mix. For example:
  - Based on Convergence data, the current leverage ratio is 1:4—meaning $1 of concessional money mobilizes $4 of commercial capital. However, three of those $4 come from DFIs or MDBs, not the private sector. This suggests that, while mobilization is happening, it is not fully reaching the private sector to the extent needed to crowd in the billions and trillions necessary to close the financing gap.
  - Co-financing ratios do not account for whether grants or concessional capital is provided, nor do they account for the type of concessional capital (concessional equity versus concessional debt). Yet, the impact of concessional capital varies depending on where it sits in the capital stack. Concessional equity is generally more impactful than concessional debt.

  In sum, when discussing co-financing, it is important to clarify what is being compared in order to know how to interpret the ratio.

Co-financing ratios need refinement. The following practical fixes are suggested to improve the way leverage ratios are calculated (though they are not perfect):

- The denominator needs adjustment. Grants should not be treated the same as concessional loans when calculating leverage ratios because they are fundamentally different. There are existing formulas to calculate grant equivalency—while not perfect, they allow for a more comparable internal measure of the donor's cost or the subsidy provided to the private capital market.

- Even though MDBs are often said to mobilize just $0.3 for every $1, in reality, that capital is leveraged five times over due to the structure of their transactions, particularly when issuing debt for lower-rated projects. Co-financing ratios could better reflect this aspect.
- Not all assets are the same. In finance, risk-weighted assets are used to account for differences in risk (e.g., a single-A rated asset is not equivalent to a double-B rated asset). Similarly, when looking at leverage ratios in development finance, there should be an adjustment for risk to create a more accurate comparison. Adjusting leverage ratios for risk and other factors would provide a more meaningful and balanced calculation. Co-financing ratios would ideally also be adjusted for impact. This would provide a more comprehensive picture of the effectiveness of blended finance in achieving development goals. Yet, adjusting for impact might be more difficult. At the very least, risk should be factored into the ratio calculations for different regions or projects.

While there is sympathy for the idea of not focusing too heavily on leverage ratios, there is the practical reality to consider: Institutions with limited capital, especially public funds, need a way to compare projects and decide which to pursue or not. Even though leverage ratios may not measure the most important aspects, they can provide a necessary (but not sufficient) benchmark for comparison.

Moving beyond co-financing ratios. Ideally, given that public funding is limited, it should be used efficiently, i.e. MDBs and DFIs should i) identify the minimum degree of concessionality needed to unlock commercial capital, ii) ensure that the project and company have a path to commercial viability without needing ongoing subsidies, and iii) ensure that the project be additional in terms of positive long-term impact on sustainable (economic, environmental, and social) development. [For more information on how to efficiently use public funding and a conceptual framework, see "Blended Finance" (Flammer, Giroux, and Heal, NBER 2025).]

It is important to assess the performance of blended finance deals after the transaction, as opposed to assessing the transaction itself. The goal is to support and demonstrate the viability of investments, crowd in private capital, and catalyze new markets. Also, to assess the effectiveness of blended finance interventions in advancing sustainable (economic, environmental, and social) development, it is important to develop more comprehensive, meaningful, and standardized metrics (that go beyond co-financing ratios). This may include (quantitative and qualitative) metrics related to sustainable development, innovative financial structures that can bring more investors on board, risk absorption, cost reduction, market creation and growth, etc. A balance needs to be struck between sustainable impact and commercial viability of investments, balancing the financial risk and return with the expected development outcomes.

Conference participants identified several issues and provided suggestions on how MDBs and DFIs can move beyond maximizing co-financing ratios:

- Many grant providers do not fully understand finance, while fund managers often seek grant money without considering the broader development goals. The right approach should be to identify the problem being addressed—whether healthcare, infrastructure, or energy—and then design a financial structure that solves that problem. Flexibility in structuring the funds (rather than sticking to rigid ratios like 1:5 or 1:2) is essential, and professional judgment should play a significant role in allocating funds.
- The current approach to blended finance often prioritizes the needs of DFIs and MDBs over those of the private sector. This can lead to mismatched incentives, limited private sector engagement, and a reliance on leverage ratios as the primary metric of success as opposed to metrics that better reflect private sector priorities (such as risk-adjusted returns, impact, and project-specific requirements). The private sector needs to be engaged earlier and more actively in the structuring process (as, e.g., Gaia Fund did) to ensure their risk-return profile (and risk-bearing capacity), preferences, and requirements are better understood and integrated into the process.
- To be able to unlock the private capital needed to close the financing gap and achieve sustainable development, MDBs and their fiduciaries need to change their mentality away from a purely commercial mindset focused on financial returns and the upholding of the AAA rating towards a focus on sustainable development impact. [For a deeper discussion on the role of fiduciaries, see the section "*The MDBs, their shareholders, and credit ratings – perceptions of the reform agenda and how can the MDBs, their shareholders, and rating agencies play a critical role in facilitating the flow of private capital?*" *(on pp. 6-7)]*

Also, while innovation is important, scaling requires consistency. Rather than constantly searching for the next big idea, participants perceive it to be essential to repeat transactions, build a track record, and generate the data that mainstream investors want. Consistency, not just innovation, is key to bringing in larger, more general investors and crowd in the trillions of private capital needed ("boring is beautiful"). Relatedly, the proliferation of different standards and approaches (in areas like carbon finance) might be counterproductive. Consolidation and standardization are needed to avoid fragmentation and instead create a more efficient and effective market. [For a deeper discussion, see the section "*How can institutional asset owners/managers be attracted to increase their engagements in blended finance and investments in the Global South? How to better train institutional investors teams?*" *(on pp. 24-25).]*

Concessionality & Catalytic Capital

Additionality, capital efficiency, and degree of concessionality – What are the barriers toward a shared formula for concessionality assessment?

Defining and structuring blended finance deals are complex and challenging, particularly with respect to concessionality and additionality. In particular, there is a lack of consensus on how to assess concessionality (and additionality) in blended finance structures. This complicates the replicability and verifiability of blended finance deals. Participants raised the following critical points that would facilitate the structuring of blended finance deals and advance the mobilization of capital:

- It is difficult to identify the minimum degree of concessionality needed as market participants have different risk appetite and little incentive to disclose their true "hurdle rate" (i.e., the minimum return-risk ratio needed for them to invest). Hence, there is a risk for concessional capital providers to over-subsidize.
    - Academic research could help develop benchmarks to improve transparency, allowing for more structured and transparent conversations about risk and return, and hereby help advance the field.
    - Relatedly, creating a database of financial transactions with and without concessionality could help better assess and compare different financing structures.
- Different methodologies exist to assess the minimum degree of concessionality (e.g., OECD Concessionality Framework), which is hindering progress.
    - An open question is whether concessionality should be measured from the perspective of the provider or the recipient—whose cost of capital should be used? The cost of capital varies greatly between public and private investors. The challenge is to assess the opportunity cost of the recipient receiving the resources.
    - Also, it is unclear how to determine the market price in absence of a market. (If there was a market, the concessional capital provided would not be additional.) The current method of pricing concessionality—using market comparables and liquidity premiums—may not be the best approach for mobilizing the scale of capital needed.

How can MDBs & DFIs provide more catalytic capital: shareholders structure, credit ratings, country exclusion or capital ratios, guarantees, etc. How can development finance be better bridged with foundations, family offices, and impact investors?

Keys for MDBs and DFIs to attract more catalytic capital from foundations (and other investors) include relationship building, finding common ground among key players, avoiding duplication, and amplifying each other's work. The following strategies were mentioned to leverage internal resources:

- Utilizing in-house trust funds, funded by donor countries and earmarked for specific countries and sectors. These funds are used to attract additional donor funding by offering matching funds. This gives donors confidence that the institution has "skin in the game," and that their grant or technical assistance funding is amplified through co-financing.
- Aligning the pipeline of projects with donor priorities to sharpen the investments already being discussed and amplify each other's work.
- Policy-based lending (in case of sovereign lending) can help governments review and reform policies to enable more private sector investments.
- MDBs and DFIs can leverage donor-funded research and pilot projects to scale up successful initiatives. For example, a partnership with a foundation can provide grant support for projects (e.g., sanitation projects), where pilots become the foundation for larger investment loans. These pilots attract donor interest and increase collaboration between the public and private sectors.
- Building partnerships with philanthropies is vital to unlock more catalytic capital for impactful projects—especially as official development assistance (ODA) becomes constrained due to geopolitical and other challenges—but the obstacle lies in understanding the needs and motivations of donors while aligning them with development goals. Familiarity with philanthropies—understanding their decision-making processes, time frames, drivers and needs—helps ease collaboration.
    - Countries vary greatly in their needs for philanthropic capital. For example, in lower-income countries, philanthropies often provide disaster relief, and they aim to enhance community development and resilience. Specifically, philanthropic support may be given to humanitarian relief, water and food security, agricultural sector development, economic empowerment of the local community through education and entrepreneurship, capacity building in the financial sector, etc. Given this variety, significant effort goes into identifying donors whose interests align with the specific challenges of each region.

- Many philanthropies, particularly those accustomed to grant-making, tend to focus on smaller-scale investments (such as $100,000 grants), which can be costly in terms of dollar-per-impact ratios. The goal is to bring multiple philanthropies together to create broader, portfolio-based impacts, addressing several countries or issues simultaneously. A notable trend in philanthropy is the rise of collective philanthropy, where multiple philanthropic organizations pool their resources for greater impact. While philanthropic capital is growing, there is increasing scrutiny on the cost of giving—specifically, how impact is measured, the administrative costs involved, and the level of involvement required from donors. Effective and efficient philanthropy requires collaboration, understanding, and the right balance between tailoring philanthropic support and managing the administrative workload and costs that come with it.

- A challenge and opportunity lie in establishing a common understanding of impact and the use of standardized metrics. Showing cost-effectiveness and demonstrating impact is becoming increasingly important in philanthropic activities. Relatedly, the use of standardized impact measurements would enhance efficiency and collaboration in philanthropy and development. [For a deeper discussion on impact measurement, see the earlier section on "*Determining impact target and measurement. How to improve ex-ante impact assessment to match realized impact? A focus on carbon credits*." (p. 12). Also, note that the need for improved measurement, disclosure, and reporting is a key focus area of SIRI. To learn more, visit: https://siri.sipa.columbia.edu/content/pathways-consensus.]

To scale up the financing of impactful projects, MDBs and DFIs also need to be better bridged with family offices and impact investors. A significant opportunity exists in Asia where the wealth management sector has grown rapidly. Moreover, understanding the local business environment and local policy is crucial when working on impactful projects, which is why partnering with family offices (particularly in Asia and other regions in the Global South) is beneficial. Family offices bring more than just capital to the table. They leverage their extensive networks, resources, and expertise to support and de-risk projects. They have deep social capital and strong relationships with local governments, which allows them to balance local wisdom with broader project goals. This connection helps scale projects while ensuring they align with local regulations and policies.

- Family offices are diverse, each with unique investment preferences, risk appetite, and strategic goals. And each type of family office requires a distinct approach.
    - Visionary Entrepreneur Family Offices: Focused on high-growth, transformational investments in sectors like technology.

    - Traditional Business Owner Family Offices: Conservative, prioritizing low-risk, stable returns.
    - Embedded Family Offices: Investing in sectors that align with their core businesses.
    - Professionalized Family Offices: Larger, sophisticated operations that balance wealth preservation with growth.
- Two of the key motivations for these families are:
    - Their desire to protect their legacy—they are deeply committed to ensuring that their investments and actions contribute positively to their local communities and the world.
    - Their desire for personal growth and learning. Family offices often host retreats, giving the younger generation opportunities to learn from their elders and connect with nature. These spiritual and experiential learning opportunities are designed to foster a deeper understanding of impact and legacy, helping the next generation carry forward the family's mission.

- Family offices tend to take a holistic approach to managing their wealth, balancing financial goals with the impact they want to leave as part of their family legacy. Typically, they divide their assets into three parts:
    - the family office, which generates cash flow for education and family expenses;
    - philanthropic foundations; and
    - wealth embedded in their business enterprises. Within their businesses, they often establish industrial funds to identify impactful opportunities for growth. For example, companies listed on the stock exchange may be required to file ESG reports, which influences trillions of dollars in market capitalization, demonstrating how businesses can align with environmental and social goals.

- Families assess both the financial risks and the quantitative and qualitative contributions of their investments, particularly when it comes to impact. To support this, they often undertake systems-mapping, which helps to identify challenges and high-leverage points within complex issues. This method allows for consensus-building on diverse and complicated topics, and helps identify where these initiatives can have the greatest impact. This allows family offices to bring together the necessary resources, including talent, technology, and market access, to create significant impact and lasting impact. Furthermore, technology can play a vital role in making these processes more efficient by enhancing transparency and connecting resources across industries and regions. For example, a technology platform can enable the monitoring of projects worldwide, allowing investors to easily identify opportunities in different sectors. Such platform may also allow for real-time connections, where investors can assess profiles, monitor deals, and directly engage with stakeholders, enabling informed decision-making and potential leadership in investments.

- Many family offices are hesitant to engage in blended finance because of a lack of awareness, transparency, and understanding about how these investments work. The structure of such deals is often complex, opaque, and difficult to understand, e.g., how different financial mechanisms (like debt, equity, and potentially tax incentives or donations) are combined, the risk-return profile of such investments, and their impact potential. Due to the lack of transparency and control in traditional blended finance structures, family offices are often reluctant to participate. They prefer direct investments where they have greater influence and understanding. Given that the founder typically takes on the most risk and leads the project by bringing in resources, connections, and technology to build partnerships, there is a need for simpler, more transparent structures as well as better education and awareness to attract family office capital. This would allow them to better understand the project's impact and align their investments with their philanthropic goals.

- Furthermore, we are seeing a significant generational shift in leadership. Much of the wealth will be transferred to the next generation in the upcoming years. This younger generation is more socially conscious and focused on making an impact—not just generating financial returns. They value transparency, accountability, measurable social and environmental outcomes, and greater engagement. Engaging this emerging generation is critical, and will become even more critical in the years to come. To do so, MDBs and DFIs must go beyond traditional outreach.
    - Education and awareness play and important role. Especially given their unfamiliarity with blended finance and the complexity of blended finance deal structures, it is important that the next generation of family office leaders be educated about blended finance to unlock their private capital.
    - Platforms and dialogues need to resonate with their values, fostering trust and long-term collaboration.

- Generative AI presents a potential opportunity to enhance partnerships between family offices and MDBs and DFIs by breaking down barriers and facilitating collaborations. Specifically, it has the potential to:

    - Provide tailored insights: AI can rapidly analyze data to give family offices personalized strategies that balance financial returns with impact.

- Simplify complex processes: AI can streamline investment structures like blended finance, making it easier for family offices to participate.
- Enable real-time collaboration: AI-driven platforms offer instant updates, predictive analysis, and transparent reporting.
- Automate impact tracking: AI could potentially provide real-time insights into the social and environmental outcomes of investments.

Finding the right partners is critical to ensure that available funds are spent wisely and efficiently, and that projects are executed effectively.

- Family offices have the potential to become valuable partners in blended finance, but unlocking this potential requires tailored solutions, strategic use of technology, transparency, and deep engagement with the next generation. Conference participants suggested the following factors as key potential enablers for such partnership with family offices:
  - Tailored Expertise: Family offices need bespoke guidance that aligns investment opportunities with their unique impact goals. MDBs and DFIs could potentially better tailor their expertise to fit these diverse needs.
  - Education and Engagement: Ongoing education is essential. Workshops, training sessions, and accessible tools could potentially help family offices better understand impact investing and blended finance, and how to scale them up.
  - Personalized Communication: Family offices—especially younger family office leaders—expect transparent, real-time communication. AI and digital platforms could provide the level of engagement and insight necessary to build trust with this younger generation.
  - Holistic Solutions: Family offices often seek more than just investments—they are looking for integrated services that address succession planning, cross-border operations, and more. MDBs, DFIs, and others could aim to address these broader needs.
- Conference participants pointed out that SIRI can provide a valuable platform that helps provide opportunities for entrepreneurs and capital providers (from across the spectrum) to connect, collaborate, strengthen partnerships, leverage resources, and share expertise.

[For a related discussion on how MDBs and DFIs themselves can be more catalytic and invest their capital more efficiently, see the section on *"How can MDBs and DFIs go beyond the private co-financing ratio?"* (pp. 13-15) and see "Blended Finance" (Flammer, Giroux, and Heal, NBER 2025).]

Increasing Supply of Investable Projects & Attracting Institutional Investors

Developing the pipeline of investable projects – Can common criteria be defined for institutions to share "pipelines" for maximum impact? Are there examples/learnings from "deal sharing" platforms?

There is a noticeable gap between market readiness and project pipelines in developed versus developing countries. In emerging and developing markets, where the need is greatest, the project pipeline is less developed. Despite large financial commitments to support the global transition, much of the funding has been concentrated in developed markets. One of the key challenges is that financing doesn't happen in a vacuum. Real-world transformation requires collaboration between businesses, governments, and the public sector to implement and lead the transition. Policies at the macro level need to translate into sector mandates and country-specific plans. This is where platforms (e.g., Just Energy Transition Partnership (JETP)) play a crucial role in facilitating the necessary collaboration and implementation.

However, despite the importance of these platforms, progress has been slow. After years of participation, results have been limited. To make these platforms more effective and successful, participants highlighted the following key factors:

- There is a need for standardization and harmonization in project terms, financing structures, and conditions to produce scalable and replicable solutions and speed up the process.
    - Note that, while standardization is ideal, participants pointed out that a complete standardization might not be realistic as deal structures need to take into account local regulations and sector-specific conditions that can vary widely across countries and sectors.
- Platforms must not only appeal to banks but also to institutional investors, such as insurance companies, pension funds, and sovereign wealth funds.
- Projects should be scalable and replicable across different regions, with standardized terms that meet the needs of large investors.
- Initiatives like the certification of sustainable infrastructure (e.g., FAST-infra label) could help establish industry standards, build market confidence, and make these investments more attractive. Alignment of such certification with the EU taxonomy (and similar) will be important to institutional investors and help attract private capital.

In conclusion, platforms are essential tools for scaling sustainable infrastructure projects and transforming them into viable asset classes. However, to achieve success, there needs to be a greater focus on standardization, investor engagement, and the creation of replicable solutions.

Moreover, participants pointed out a mismatch between the types of projects that DFIs are willing to invest in and the institutional changes needed to make those projects viable. In particular, the following issues were highlighted and fixes suggested:

- Lack of local infrastructure. DFIs (and other investors) themselves often lack the necessary infrastructure to engage in certain regions effectively. (For example, to successfully do deals in a target region, DFIs need to have a local presence and staff who speak the local language and are familiar with the local business environment.)
    - Suggestion: Establishing more on-the-ground staff in target countries. A successful example of this is the African Resilience Investment Accelerator (ARIA), initiated by the G7, which brought DFIs together to explore investment constraints and opportunities in fragile areas. Through joint delegations, ARIA helped generate more deals.

- Small deal size. DFIs typically do not consider projects below a certain deal size ($30mio was mentioned). Yet, investing in smaller projects is critical, especially in EMDEs, as it is those projects that might become important game-changers (e.g., the first 5-10 MW solar project in a developing country can be game-changing). Instead, smaller-scale projects are often overlooked in favor of larger, more lucrative ones.
    - Suggestion: DFIs should focus on getting these first deals across the finish line, even if they are smaller in size, as they pave the way for future projects. A shift of mindset is needed away from optimizing on "financial return" towards "sustainable development impact additionality".

- DFIs are often measured by the size of their portfolios, which incentivizes them to grow their portfolios and achieve high returns as opposed to focus on increasing their development impact and catalyzing private sector investment. This focus on portfolio size and financial return is likely counterproductive to development and might crowd out private capital investments.
    - Suggestion: The success of DFIs should be measured by their ability to do impactful projects that catalyze private sector involvement. This would allow DFIs to shift their focus towards projects that are central for sustainable development in EMDEs, that is, smaller and riskier projects that are central for development but do not get funded by the private capital market.
    - To use scarce public funding efficiently, it should only be used if there is a market failure (i.e., if their funding is "financially additional") and if it is invested in impactful projects (i.e., "impact additionality") that have the potential to scale and catalyze private sector capital. Once the private capital market steps in—and there is no longer a market failure—DFIs can step back and invest their scarce funding

in other markets critical for development. [Related to this recommendation, see "Blended Finance" (Flammer, Giroux, and Heal, NBER 2025).]

- Participants highlighted the need for research and education (across capital providers, including DFIs, their fiduciaries, and others) on how to efficiently stack capital to successfully increase the financing of investable projects and drive forward sustainable development.

How can institutional asset owners/managers be attracted to increase their engagements in blended finance and investments in the Global South (e.g., by decreasing perceived political risks)? How to better train institutional investors teams?

To increase private capital investments in EMDEs by institutional investors, the conference participants consider the following factors to be critical: risk mitigation, transparency and simplification, incentives, education, and collaborative platforms.

- Risk Mitigation. To overcome market failure and meet the risk-return threshold sought by institutional investors, the inclusion of de-risking mechanisms is crucial. This is especially the case for projects in countries with high political risk, currency risk, and information asymmetry (e.g., due to a lack of disclosure, unfamiliarity with the business environment, etc.). [For more information on this relationship, see "Blended Finance" (Flammer, Giroux, and Heal, NBER 2025).]

- Transparency and simplification to decrease perceived risk and improve confidence. Investors value transparency:
  - Enhancing (risk-return-impact) disclosure helps decrease the perceived riskiness of projects and increase investors' willingness to invest. Relatedly, building up local expertise and presence—e.g., by involving a local expert, a local bank, or a local partner who works alongside the main investment team—can give investors more confidence in moving forward with the project.
  - Credit risk ratings help provide a clearer understanding of the risks involved and more comfort to private investors. To inform and better calibrate their risk assessments of blended finance projects, DFIs (and others) could share historical defaults of their blended finance deals, and recovery levels for comparables with credit rating agencies. [For more information, see the above section "*Ratings agencies and how can their assessment of credit risks in blended finance deals be improved?*" *(pp. 7-8).]*

- Blended finance deals can quickly get overly complex. As the complexity of deal structure increases, the likelihood of convincing investment committees decreases. To increase the likelihood of success, it is important to keep the process and structure simple and investor-driven. Simplicity, standardization, and scalability are considered to be key factors to mobilize private sector capital, as institutional investors tend to prioritize these aspects to ensure that proposals align with their investment committees' requirements.
- To attract deeper pools of capital, starting with simple structures is recommended, and then building from there, focusing on demonstrating successful large transactions. This gradual approach helps investors become more comfortable, and over time, a "fear of missing out" (FOMO) may begin to set in. When investors see their peers achieving strong returns on these new blended finance deals, it can create a positive, virtuous cycle where more investors are drawn in, leading to greater participation and momentum in the market.

- Incentives—such as tax benefits, regulatory frameworks (e.g., "comply or explain" mechanisms, disclosure, etc.), and pricing mechanisms for externalities (e.g., carbon pricing)—can help direct capital toward projects that are critical for sustainable development.

- Education is needed to help institutional investors better understand the risks and opportunities associated with blended finance deals, sustainable innovations, and EMDEs. The large majority of investors are unfamiliar with blended finance and other geographic regions. Moreover, they may lack the expertise to properly assess the value of innovative solutions in climate tech, renewable energy, nature-based solutions, social innovation, and similar innovations. As a result, their perceived riskiness of such investments might be higher than the actual risk and, similarly, they might underestimate the return. Education around blended finance, including the various de-risking and subsidy mechanisms in place, is critical to help investors better understand blended finance deal structures and more accurately estimate the project's risk and return.

- Finally, collaborative platforms between the private sector and DFIs can significantly enhance investment impact. While this collaboration has begun, it remains underdeveloped, and further efforts are needed to fully leverage its potential. [For more information on collaborative platforms, see the earlier section on "*Developing the pipeline of investable projects – Can common criteria be defined for institutions to share "pipelines" for maximum impact? Are there examples/learnings from "deal sharing" platforms?" (pp. 22-24).]*

NEXT STEPS & AVENUES OF COLLABORATION

We hope the above summary helps inform future plans and actions of each participating organization about the critical bottlenecks and opportunities in developing and scaling up the global marketplace for blended finance to help foster sustainable (economic, environmental, and social) development.

Similarly, they inform SIRI's research activities and educational programming. To stay engaged with SIRI and informed about its various activities, please join the mailing list and visit the dedicated webpage: https://siri.sipa.columbia.edu/content/blended-finance.

We will hold future roundtable discussions and conferences on blended finance in the near future. Specifically, the 3rd roundtable discussion will be focused on Brazil and take place on Friday June 13, 2025, followed by the annual SIRI Blended Finance Conference on September 24, 2025. Once again, we will invite key leaders investing and operating in the specific country of focus.

Please save the dates:

- **3rd SIRI Decisionmakers Blended Finance Roundtable Discussion on Brazil – Friday June 13, 2025**
- **2nd Annual SIRI Blended Finance Conference – Wednesday September 24, 2025**

To drive progress and help scale up the global marketplace for blended finance, SIRI would be delighted to engage you and/or your organization in its various activities across education, research, and dialogue. Collaborations can take on many different forms:

1) co-hosting SIRI Blended Finance convenings and other activities to foster dialogue among leaders from academia, public policy, and the private sector around blended finance;
2) writing case studies and fostering academic research on blended finance;
3) developing better measures to track progress on addressing climate change, biodiversity loss, and other system-level challenges;
4) supporting curriculum development and extra-curricular activities for graduate students (including case studies, consulting projects, internships, job opportunities, etc.) to educate the future leaders in finance, business, and policy; and
5) developing workshops, trainings, and executive education around blended finance to educate the current (and next generation of) leaders in finance, business, and policy.

If you or/and your organization are interested in exploring potential avenues of collaboration with SIRI, please reach out to SIRI Director and SIPA Vice Dean Professor Caroline Flammer (caroline.flammer@columbia.edu) and Associate Dean Katherine Benvenuto (kad57@columbia.edu).

Thank Yous

A big thank you to everyone for joining the Inaugural SIRI Blended Finance Conference. Your insights were invaluable to the conversation (and to this summary report) and to making progress in developing and scaling up the global marketplace for blended finance!

A special thank you goes to our Sponsoring Partners Mirova and SIMFO, Knowledge Partner Origination, as well as Chandana Yelkur (SIRI), Osvald Bjelland (Origination), Erich Cripton (CDPQ), Abhisheik Dhawan (UN CDF), Sébastien Duquet (Mirova), and Thomas Giroux (Mirova) for their advice and help in organizing and bringing you all together, and to Columbia graduate students Parkhi Agarwal, Neha Arora, Ganis Syahputra R. Bustami, Noveena Sree Padala, and Hamida Qanbari for their diligent notetaking during the convening.