

Blended finance for climate action

Good value for money?

By Farwa Sial • February 2024



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Glossary of terms

Additionality – refers to the (allegedly) added value that private investors bring by providing new finance and positive development impact to development and climate-related projects.

Blended Finance – or 'Blending' can be broadly defined as the combination of public concessional finance (finance with more generous terms than the market has to offer) with private or public resources. This generally has the goal of 'mobilising' or 'leveraging' development finance from other actors.

Climate finance – the operational definition of the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance states: "Climate finance aims to reduce emissions, and enhance sinks of greenhouse gases, as well as reducing the vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts." This operational definition is used as a guide by different countries, but each continues to define climate finance differently.

Equity in blended finance – when investors take a share in the ownership of a corporation or a certain project and derive a claim on the residual value of cash flow streams after creditors' claims are met. As in debt structures, there are typically senior and junior (subordinated) tranches.

Financing gap – this refers to the absence or gap of finance within global south countries, which is essential to fulfil the basic needs of citizens and provision of essential services. The use of the term in international development has a long history. However, its current representation is focused on fulfilling the Sustainable Development Goals (SDGs) through an emphasis on the role of private sector finance in conjunction with public finance.

Grants – financial resources that do not need to be repaid. They are also sometimes used to make projects 'investment ready'.

Leveraging – broadly defined as the ratio of commercial financing (from development finance institutions, sponsors and private financiers) to the amount of concessional funds. There is no consistent definition of leveraging but it can be summed as the use of concessional funds to attract commercial finance from DFIs or private sources.

Performance grants – represent an award that may be earned or exercised, in whole or in part, based on the attainment during a specific period of one or more goals.

Risk-sharing guarantees – these can be defined as a type of insurance policy meant to protect financial institutions and investors from the risks of non-payment. They can be tailored to cover specific types of risk, which might be linked to the instruments for which they are used. Guarantees offer the benefit of not requiring immediate monetary outflows by donors.

Senior debt – this refers to debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer.

Special Purpose Vehicle (SPV) – legal entities constructed to fulfill a narrow and specific purpose. Special purpose vehicles are used to channel funds to and from third countries, and are commonly established in countries that provide specific tax benefits for such entities

Subordinated (sub) debt – a debt that, in the event of default, will only be repaid after all senior obligations have been satisfied.

Syndicated loan – a loan that is provided by a group of lenders and is structured, arranged, and administered by one or several commercial banks or investment banks known as lead arrangers.



Executive summary

During the 2023 United Nations climate conference in Dubai (COP28), the issue of 'blended finance' for climate action was a major focus at the inaugural Business and Philanthropy Climate Forum.¹ This event saw global funds – the Green Climate Fund, Allied Climate Partners and Allianz Global Investors – collectively announce the mobilisation of US\$ 5 billion through several blended finance structures, bringing together philanthropies, development finance institutions (DFIs), and the private and public sectors.² But what is blended finance and what role does – and should – it have in climate action? There is already extensive literature on blended finance for development. But the case for blended finance for climate action is still relatively unexplored. This report seeks to help create an informed debate on this issue. And it explores the opportunities, and the risks, that these instruments pose.

What is blended finance?

There is no standard definition of blended finance, which has made this study, including the collection of evidence of its prevalence and impact, more challenging. However, 'blending' can be broadly defined as the combination of public concessional finance (finance with more generous terms than the market has to offer) with private or public resources. This generally has the aim of 'mobilising' or 'leveraging' development finance from other actors.

Blended finance projects can take very different forms – from large-scale sovereign bonds backed by international public finance; through to impact investment funds mixing public and private funds, to projects aimed at increasing lending to underserved communities through risk-sharing.

There is also no consistency in how different institutions report on the amount of private finance that has been mobilised. Leverage ratios continue to vary according to donor and investor approaches. As a result, blending remains an elusive concept and measuring its ability to raise additional finance – and thus have positive impacts on, for example, climate action and development – remains difficult.

Despite this, blended finance is often promoted by governments and multilateral institutions as a 'silver bullet' to deliver on development and, increasingly, climate action-oriented projects. The urgency and scale of the climate crisis has led to a strong momentum in the global north for using public resources to leverage private finance for climate action in the global south. Instruments such as blended finance are often seen as a 'win-win' option.

How does blended finance impact on the future of climate finance?

Climate finance is not only about making climate action fair, it is also about making climate action possible. At the time of this report, countries in the global north are three years late in delivering US\$100 billion a year in climate finance to countries in the global south – a sum that is already insufficient to tackle the current climate emergency. This is not merely a delay in supporting adaptation and mitigation measures, it represents a step back in global efforts to reverse the existential crisis of planetary destruction.

The quality of climate finance provided by countries in the global north is as important as the quantity of provision. The goal of climate finance is to empower communities to develop sustainable futures, rather than create dependencies on richer countries. In this context, blended finance in climate action is often presented by governments and multilateral institutions as a means to address the multifaceted problems of climate change. But with a lack of evidence on its positive impact, they must exercise extreme caution before expanding its use.

Trends in climate finance

Despite problems with the definition of blending, this report has been able to identify six main trends of blended finance for climate action:

1. **Amount:** Between 2019-2021, US\$14 billion was invested into blended climate finance transactions, compared to US\$36.5 billion between 2016-2018. A number of reasons, including fall in demand during the Covid-19 pandemic and risk aversion by investors, has led to this decline. Yet, blended finance continues to be a significant financial instrument used for climate finance transactions, as demonstrated by recent announcements made at COP28.
2. **Stakeholders:** Blended finance for climate projects are delivered through the collaboration of a diverse set of actors, including multilateral and bilateral institutions and investors. Private actors such as philanthropic organisations, companies, commercial banks and insurance companies are also active stakeholders in the blended finance landscape.
3. **Type of climate finance:** Blended finance for climate action tends to be used to address mitigation needs. Mitigation finance deals include efforts aimed at limiting the effects of climate change by reducing the emission of CO² and other greenhouse gases.
4. **Type of blended finance instruments:** Concessional senior loans – debt that takes priority over other unsecured or otherwise more ‘junior’ debt owed by the issuer – remain the preferred form of blended finance, followed by risk-sharing facilities, guarantees, junior debts and performance grants (See Table 3).
5. **Regional distribution:** Between 2016-2021, most blended finance investments in climate were in Africa, followed by Latin America and the Caribbean, South Asia, East Asia and Pacific and the Middle East and North Africa. The largest proportion of blended climate finance transactions targeted middle-income countries, followed by lower-middle income countries. Low-income and Least Developed Countries (LDCs) continued to lag behind. This means that blended climate finance is primarily targeting investments that generate the most profits, despite official efforts to mobilise funds for lower income countries.

6. **Recipients of blended finance in climate action:** The largest recipients of blended finance for climate action have been corporates and project developers, which accounted for 70 per cent in 2016-2018, rising to 78 per cent in 2019-2021. This is followed by financing to entrepreneurs and small- and medium-sized businesses (SMEs) and small and growing businesses.

A risky business

When the risks posed by blending in climate action are closely examined in this report, they are found to be numerous (see Table 6 on page 30). They include the fact that blended finance often includes debt, which must be paid back. There is a risk of blended finance projects perpetuating neo-colonial extraction of natural resources. They overwhelmingly rely on external private finance, to the detriment of local financial sectors. And there are serious issues around transparency and accountability.

If governments are to continue spending public money on blended climate finance, they need to ensure that the money could not have achieved better climate impacts if it had been spent in other ways. Moreover, blended finance should be made readily available to local entrepreneurs and communities implementing projects, and adequate steps should be taken to ensure that blended finance does not come with any conditions (as happens in some cases) such as privatisation or deregulation of targeted sectors in the recipient country.

Policy recommendations

For blended finance to be an effective tool for climate action, its efficacy, additionality and transparency must be adequately established. As evidenced in this report, this is not yet the case.

We recommend that:

- 1. Public finances should not be spent on projects that may have happened anyway, the additionality of blended finance for climate must be accurately defined.**
- 2. All blended finance projects must be transparent and include key information on project costs, subsidies to different actors and disclosures on intermediaries.**
- 3. Blended finance for climate action should not be subject to economic policy conditionalities** and should not force countries to undergo restructuring of legal processes to adjust to investor needs.
- 4. Country ownership and community-led solutions should be at the forefront of building resilience and adaptation to climate change.**
- 5. Blended finance must not be used as a financing instrument of the Loss and Damage Fund.** The Fund is based on the responsibility of countries in the global north to those in the global south; blended finance risks diverting attention from this principle.

Ultimately, blended finance for climate action must be aligned with climate justice principles and the climate financing commitments of countries in the global north.

Blended finance certainly presents opportunities, but there are many risks, which must also be addressed, and the context of each potential project must be carefully considered.

It is only by taking the approach outlined in these recommendations that blended finance could play a more positive role in tackling the climate crisis.

[CLICK HERE TO READ TWO CASE STUDIES WHERE BLENDED FINANCE HAS BEEN USED FOR CLIMATE ACTION](#)

→ 1. Introduction

In recent years, private sector finance, resources and expertise have dominated the field of international development. The mobilisation of private finance into development projects through a series of de-risking instruments, using Official Development Assistance (ODA) and concessional public finance, is at the core of practices from Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs). Blended finance – the practice that combines concessional finance with other private or public resources to ‘leverage’ additional funds from other actors – is one of the instruments being promoted as a ‘silver bullet’ (see Figure 1).

The urgency and scale of the climate crisis has built strong momentum in the global north for increased investment in blended finance for climate action in the global south. IFIs have been at the forefront of the global push for more climate financing through blended finance. In 2021, Maktar Diop, Managing Director of the International Finance Corporation (IFC) – the private sector arm of the World Bank Group (WBG) – noted:

“I believe that in the future, all activity related to climate change will be perceived as much less risky than it was in the past and the amount of blended finance that we will be bringing will be allowing us to leverage much more resources than we have been able to mobilise in the past.”³

Similarly, ad hoc initiatives such as the Tri Hita Karana Blended Finance Platform⁴ and the UN-convened Net Zero Asset Owner Alliance (NZAOA)⁵ – have also expressed interest in expanding blended finance for climate action.

The surge of interest in blending for climate finance is driven by the fact that countries in the global north have been lagging behind in delivering on the existing global climate finance goals.⁶ In fact, the finance provided has been mainly channelled through loans.

In 2021, total climate finance provided and mobilised by developed countries for developing countries amounted to US\$89.6 billion. Of this, mobilised private climate finance, for which comparable data are only available from 2016, amounted to US\$14.4 billion in 2021 (16.07 per cent).⁷ While the 2023 OECD report indicates that countries in the global north likely met their US\$100 billion climate finance target in 2022, the claim is not supported by publicly available data and the prevalent approach remains dominated by loans instead of grants. In 2020, 71 per cent of climate finance consisted

of loans while only 26 per cent was provided in grants and 3 per cent in equity.⁸ In 2021, 69 per cent of climate finance was provided in loans, almost 28 per cent in grants (27.6) and almost 4 per cent in equity (3.8). In 2021, mitigation continued to represent the majority (60 per cent) of total climate finance provided and mobilised, adaptation 27 per cent and cross-cutting 13 per cent⁹. This is not enough to meet the aim in the Paris Agreement to balance finance for adaptation and mitigation (see different categories of climate finance in Box 2)

On the whole, the main leveraging mechanisms used to mobilise 77 per cent of total private climate finance between 2016 and 2021 were composed of direct investments, guarantees and syndicated loans.¹⁰

As evidenced by the COP28 agenda in 2023, blended finance is viewed as a ‘low hanging fruit’ to meet climate finance objectives. However, it is not a quick and easy fix. The rationale for using blended finance in development has been extensively covered in different civil society reports, including previous reports by Eurodad,¹¹ but the case for blended finance for climate action is still relatively unexplored.

Methodology

This report presents the key trends and investment patterns of blended finance in climate action, along with a mapping of the key stakeholders involved in delivering blended finance for climate. It also examines the risks and opportunities of blended finance in climate action with the aim of engaging a broad range of groups and institutions in a debate on the issue.

The report has drawn on interviews and desk-based research using official reports. Databases used for the report included the OECD database on blended finance; IFC reports; latest publications by the DFIs working group; and the database of Convergence – a global network of public, private and philanthropic actors for blended finance. The lack of field work-based research on this subject has unfortunately limited a comprehensive analysis of the impact of blended finance projects. The diversity of project types, the lack of standardised definitions and harmonised practices in blended finance and the relatively recent growth of blending – compounded by the global pause in investment during the pandemic – has further impeded the research process.

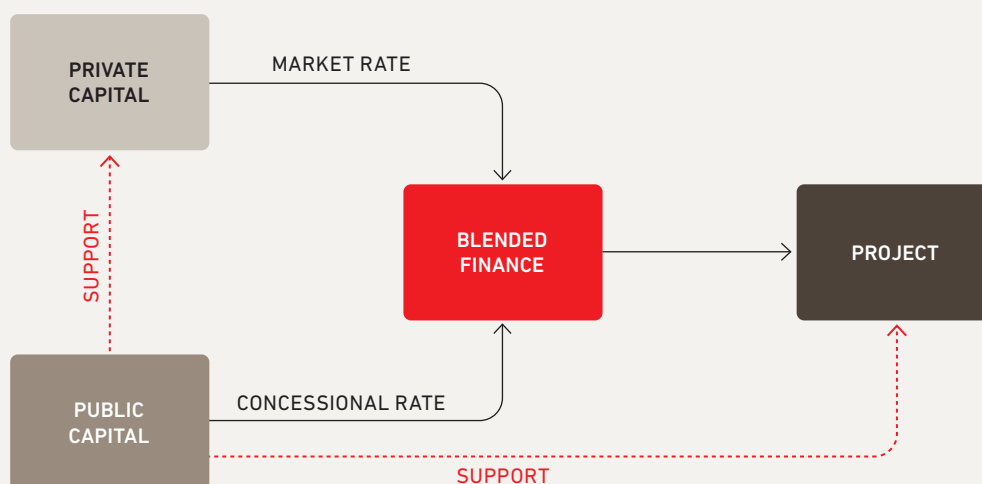
The report is structured as follows:

- **Section 2** covers key concepts around blended finance for climate action.
- **Section 3** provides the background and context surrounding the promotion of blended finance as an instrument to leverage private finance for climate. It also raises some conceptual issues related to blended finance and climate action.
- **Section 4** focuses on the recent rationale for using blended finance in climate action and provides an overview of the stakeholders involved.
- **Section 5** highlights some recent trends in the provision of climate finance through blending, focusing on financing instruments, types of climate finance (such as adaptation and mitigation), regional focus and the type of recipient.
- **Section 6** focuses on the risks and opportunities of using blended finance in climate action.
- **Section 7** presents conclusions and key policy recommendations.

Box 1: Typical forms of development finance funding

Official Development Assistance (ODA)	Official Development Assistance (ODA) is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries. It is provided by official agencies, including state and local governments, or by their executive agencies; and is concessional in character.
Blended finance	Blending can be broadly defined as the combination of public concessional finance with private or public resources, generally with the aim of 'mobilising' or 'leveraging' development finance from other actors. However, the concept does not have an officially shared definition (see Section 2 for more details.)

Figure 1: Basic structure of blended finance models



Box 2: Types of climate finance

Mitigation finance consist of efforts aimed at limiting the effects of climate change by reducing the emissions of CO² and other greenhouse gases (GHGs) from human-made sources into the atmosphere or enhancing the removal of GHGs from the atmosphere through carbon 'sinks'.

Adaptation finance is finance to adjust to the already apparent or expected consequences of climate change, such as sea-level rise, more frequent and extreme weather events, and changing crop growing seasons.

Hybrid climate finance refers to cross-cutting transactions aimed at producing both climate mitigation and adaptation outcomes. Hybrid transactions could also relate to sectors that address both mitigation and adaptation, such as forest restoration work. Forest restoration work has the potential to provide benefits for climate change mitigation through carbon sequestration and adaptation benefits through biodiversity preservation.

Loss and damage: When the current global climate finance goal of US\$100 billion was set in 2009, it did not cover loss and damage, only mitigation and adaptation. Article 8 of the 2015 Paris Agreement is on loss and damage. For 30 years, countries in the global south have asked for finance to address loss and damage. However, it was not until COP27 in 2022 when a Loss and Damage Fund was established. The fund was operationalised at COP28, with pledges totalling just over US\$700 million, the equivalent of less than 0.2 per cent of the losses suffered by countries in the global south.¹² As such, these pledges are drastically underfunded. The fund is also being hosted in the interim by the World Bank, which has drawn criticism from civil society for a lack of independence.¹³

As evidenced by the COP28 agenda in 2023, blended finance is viewed as a 'low hanging fruit' to meet climate finance objectives.

→ 2. Key concepts around blended finance

Blended finance: The fallacy of definitions and concepts

The use of blended finance continues to raise three methodological issues. First, an official definition is not shared across organisations. Second, leveraging or the capacity to mobilise private finance through blending remains a difficult and unquantifiable concept. Third, additionality of private finance in blending also suffers from quantitative and qualitative challenges. In this section, these issues will be explored in more detail.

1. Definition of blended finance

As detailed in a 2017 Oxfam report, explanations of different blended finance instruments show similarities and complementarities, but no two definitions are the same.¹⁴ There have been different attempts to harmonise the definition, as well as attempts to establish voluntary principles on its use (see Box 3).¹⁵ For instance, European DFIs have mentioned the benefits of adopting a wider definition of blended finance for MDBs:

“With a narrow definition of blended finance and focusing on a small slice of their balance sheet, MDFIs (Multilateral DFIs) and DFIs will continue to mobilise small amounts. A wider definition, encompassing concessional and non-concessional blending, could facilitate the mobilisation of larger amounts and along with this greater use of instruments such as guarantees.”¹⁶

However, widening the definition does not address the existing gap in assessing development impacts. A loose definition of blending could generate an even more vague approach to additionality and impact.

As Box 2 shows there is a lack of harmonisation in the definition of blended finance and definitions vary from one organisation to the other. This impacts how blended finance is reported, quantified and analysed to measure developmental impact.

Box 3: Different definitions of blended finance

The International Energy Agency (IEA) definition:

“Blended finance’ is a combination of concessional funds from donors, and commercial funds from private investors and development finance institutions [DFIs]. It is used to enable investment in projects that have high development impact but are not yet commercially viable, such as those with high upfront costs or involving adoption of new technologies that have not yet scaled up. Concessional funds are deployed to provide partial guarantees or subordinated debt or equity, cover some project development costs, or create performance-based incentives for project sponsors to meet targets.”

IEA-IFC (2023) Scaling up Private Finance for Clean Energy in Emerging and Developing Economies.

OECD definition:

“The strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.”

OECD website

European Commission (EC) definition:

“Blending can be defined as the strategic use of a limited amount of grants to mobilise larger amounts of financing from partner Financial Institutions [FI] and enhance the development impact of investment projects. The joining of grant money with other more commercial sources of financing is not new. ‘Co-financing’ has been on the scene since the 1970s with grants often funding the technical assistance component of FI-financed development projects. What is new though is the broader application of grants to 5 different instruments in the blending ‘family’. These include the: (i) Direct Investment Grant; (ii) Interest subsidy grant; (iii) Risk capital; (iv) Guarantees; and (v) Technical assistance. Blending is therefore an approach describing a family of five fairly diverse financing instruments.”

ADE (2016) Evaluation of Blending Final Report Volume I, European Commission (2016) Evaluation of Blending. Final Report

Source IEA-IFC (2023)¹⁷, OECD¹⁸, ADE (2016)¹⁹ EC (2016)²⁰

2. Leveraging

The main goal of blended finance as an instrument is to crowd in private finance. Leveraging can be broadly defined as the ratio of commercial financing (from DFIs, sponsors and private financiers) to the amount of concessional funds. There is no consistency in how different facilities report on the amount of mobilised private finance – and leverage ratios continue to vary according to donor and investor approach. This can be observed in the reporting of different DFIs.²¹ As documented extensively by Eurodad and others, leveraging remains an elusive concept owing to a host of issues.²²

In the absence of adequate reporting on the level of mobilisation of private finance, it is not clear if leveraging has taken place, or if investment is following the market as investors continue to pool money in already attractive sectors. This is additionally supported by the fact that Least Developed Countries (LDCs) remain the most neglected income group of countries in which private finance is mobilised (see section on trends). Moreover, leverage on its own is not evidence of development or financial additionality. As noted by the Overseas Development Institute (ODI), in practice, leverage ratios are much lower when disaggregated by income level of recipient countries: “USD 1 of public investment by MDBs and DFIs mobilises just USD 0.37 of private finance in low-income-Countries, USD 1.06 in low and middle-income countries and USD 0.65 in upper middle-income countries.”²³

In the case of climate transactions, the International Energy Agency (IEA) notes that leverage ratios are higher in climate deals (US\$1 to US\$10), comprising US\$3 of IFC’s own funds and US\$7 of commercial third-party capital, owing to large finance structures (using senior and mezzanine debt products).²⁴ However, given the lack of consistency and transparency in reporting of leveraging, it is not clear if a high leverage ratio is indicative of new private finance being mobilised or if this finance would have been committed regardless, thanks to an existing interest in climate owing to, for example, desirable returns on Environmental, Social and Governance (ESG) investing.

3. Additionality

The term ‘additionality’ is used to represent the role of private finance in bringing financial and developmental addition to projects. However, measuring additionality in blended finance is even more difficult than achieving precision on leverage ratios. Measuring development additionality remains an elusive exercise. Three main problems, highlighted in a 2017 Oxfam report on blending,²⁵ still persist. First, in the absence of harmonised definition, approaches and methodologies to measure additionality, it is still impossible to compare additionality claimed by different institutions. Second, additionality continues to be measured ex-ante – in other words, before the projects are completed on the basis of information provided by project promoters. Self-reporting by interested parties remains the norm. Third, there is still a strong focus on financial additionality – albeit with methodological differences, but with less emphasis on development additionality. While the DFI Working Group’s principles on blended finance are trying to address some of these concerns, the principles of private finance remain voluntary in nature and therefore open to investor discretion in self-reporting.

Climate finance additionality presents another layer of challenge. Not all countries in the global north track whether their climate finance provision is new and additional, and each country uses various methodologies for counting additionality.²⁶ Comparability between reported climate finance is therefore difficult.²⁷ Since 2009, the Paris Agreement ‘rulebook’ was agreed and states that countries should include “[a]n indication of what new and additional financial resources have been provided, and how it has been determined that such resources are new and additional”²⁸ in their biennial communications on projected levels of climate finance. For these rules to be actionable, there should be a common understanding of what counts as ‘new and additional’ climate finance, which the New Collective Quantified Goal on Climate Finance (NCQG) process can facilitate an agreement on.

Defining climate finance

Climate finance has an operational definition as used by the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance. It states: "Climate finance aims to reduce emissions, and enhance sinks of greenhouse gases, as well as reducing the vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts."²⁹ This operational definition is used as a guide by different countries, but each country continues to define climate finance differently.

A problem of analysing climate finance as a specific category of blended finance is the intersecting nature of finance for climate action. For example, finance that is allocated for complementary sectors such as agriculture has a direct impact on climate mitigation but there is no consensus on what should be reported as 'climate finance' and what is reported as 'agriculture'. The DFI Working Group has addressed this problem by acknowledging that blended concessional finance encompasses inter-linked areas. This group has approached the definition of blended finance to consist of three complementary themes, including climate finance; agribusiness/food security; and small- and medium-sized enterprises (SMEs). Despite this thematic definition, it is not clear whether self-reporting data by DFIs used by the DFI Working Group also reflects the thematic definition.

As a way of getting past the definitional problems, this report analyses concessional blended finance for climate action as a broad category, which includes all aspects of climate related finance.

There is a lack of harmonisation in the definition of blended finance and definitions vary from one organisation to the other. This impacts how blended finance is reported, quantified and analysed to measure developmental impact.

→ 3. Background and context

The rise of blended finance as a catalytic instrument to leverage private finance for international development has its roots in the World Bank's 2015 strategy entitled 'From Billions to Trillions'. Dubbed as a 'paradigm shift', this approach claimed that leveraging of private finance for international development would unlock more capital for achieving the Sustainable Development Goals (SDGs).³⁰ Building on this approach, the World Bank set out its 'Maximizing Finance for Development' approach,³¹ under which a series of instruments were created to accelerate the flow of private finance through public subsidies and innovations in de-risking strategies.

While these strategies have been critiqued for their failure to generate the promised 'trillions',³² a linear narrative of a so-called 'financing gap' – which can primarily be filled through de-risked private finance – continues to govern the rationale of

multilateral financing of countries in the global south. The most recent analysis in 2022 by the Independent High-Level Expert Group on Climate Finance, led by economists Songwe, Stern and Bhattacharya, has placed the financing gap at US\$1 trillion per year by 2025 and around US\$2.4 trillion per year by 2030.³³

The quantitative estimates of the external financing gaps not only continue to grow every year, they also operate at the expense of critical discussions on the qualitative aspects of finance, such as the ability to generate development impact and the historical and recent success of public finance as an alternative (see Box 4). Placed in this context, the increasing role of blended finance for climate action reflects an on-going consensus between IFIs and private investors, in which private actors can be incentivised through lowered costs and complementary risk mitigation instruments.

Box 4: The 'financing gap' and its limitations

What is the 'financing gap'?

The term 'financing gap' in international development has a long history.³⁴ However, its current iteration can be linked to the conceptualisation of poverty alleviation and economic growth by the United Nations (UN) and IFIs in a specific way. This entailed setting up of a series of targets or goals to be achieved by countries across the globe. The rise of the Millennium Development Goals (MDGs) – later reframed as Sustainable Development Goals (SDGs) – were thus designed as development goals, to be assessed through a series of indicators.³⁵ The underlying incapacity to meet the SDGs is directly linked to the 'gap' in finance available for countries in the global south.³⁶ In the aftermath of the 2008 financial crisis, ODA started to decline, followed by a call for an increased role for the private sector in filling the finance gap.³⁷ There is no doubt that developing countries suffer from a lack of finance for their development needs, including for a just energy transition. However, the 'financing gap' equates social and environmental problems with a lack of finance. This falsely connects things such as biodiversity loss or unsustainable natural resource management and the inability to transition to sustainable energy with the notion of poverty within countries in the global south, as opposed to affluence and the behaviours of external organisations and global finance.

Financing gap or development as a technocratic fix?

While the 'financing gap' aims to quantify the developmental and climate transition needs of developing countries, the term is solely focused on more money as the solution to

a country's underdevelopment and inability to implement clean energy and technologies. In doing so, the term eliminates the historical, political and social obstacles that define the condition of underdevelopment in the global south. Development and the problem of climate change are therefore presented as 'technocratic' problems without roots in social contexts.³⁸ The lack of access to finance has been a persistent, historical and structural problem for the global south but a linear financing gap narrative ignores this history. For example, International Monetary Fund (IMF)/World Bank conditionalities such as the privatisation and liberalisation of public services since the 1990s have led to the deterioration of the state's ability to invest in public services across the world.³⁹ The absence of public investment makes financing the green transition even harder in these countries. In addition, the unwillingness of donors and investors to adequately respond to the problem of unsustainable debt in many developing countries has exacerbated the problem. The financing gap does not advocate for reforming these drivers but solely focuses on the quantity of finance as the solution to the problem. Unless the drivers of the lack of finance are addressed, the finance gap will continue to perpetuate itself as a never-ending cycle. Simultaneously, the solution to the financing gap is overwhelmingly focused on the mobilisation of more private finance for development and tackling climate change. This emphasis does not engage with the risks associated with private finance and also fails to consider alternative public methods of financing.

A major limitation of using blended finance for climate action is the fact that development additionality has not been conclusively demonstrated.⁴⁰ While the efficacy of the blended finance agenda is still being questioned by Civil Society Organisations (CSOs), there has been a concerted effort by organisations such as the IFC and the European Development Finance Institutions (EDFI) to respond to this critique through the use of impact standards, which

are voluntary (discussed in section 6 below). In general, climate action was considered a natural frontier for blended finance as the climate emergency intensified. Recent proposals for changes to the international financial architecture – including reform of the MDBs, the Bridgetown Agenda and The New Global Financing Pact – have only deepened the role of private finance with an enhanced focus on climate action (see Table 1).

Table 1: Recent proposals for changing the international financial architecture and role of blended finance

Initiative	Description	Role of blended finance
Multilateral Development Bank (MDB) reform – exemplified by the World Bank Evolution Roadmap	In 2018, MDBs developed a framework to ensure a consistent approach to the implementation of their commitment to align with the Paris Agreement. This framework focused on six building blocks: alignment with mitigation goals; adaptation and climate-resilient operations; accelerated contribution to the transition through climate finance; engagement and policy development support; reporting; and alignment of internal activities. ⁴¹ Building on this framework, in 2023, 10 MDBs outlined joint principles on how they will ensure alignment of their new operations with the mitigation and adaptation goals of the Paris Agreement, with a defined role for the private sector. ⁴² This report was followed by a two-volume report from the Independent Experts Group aimed at fundamental transformation of multilateral development banks. ⁴³	The launch of the World Bank Group's 2023 Private Sector Invest Lab promises to promote a greater participation of blended finance for climate. ⁴⁴
Bridgetown Agenda	Led by Barbados Prime Minister Mia Mottley in 2023, the Bridgetown Agenda is an action plan to reform the global financial system through unlocking climate finance to better respond to current and future crises. ⁴⁵	The Bridgetown Agenda proposes the mobilisation of over US\$1.5 trillion in private sector investments to achieve green transformations through a combination of blended finance and guarantees.
Summit for a New Global Financing Pact	The New Global Financing Pact was an ad hoc summit held in June 2023 in Paris and hosted by French President Emmanuel Macron. The aim of the summit was to rethink the global financial architecture and mobilise financial support for developing and low-income countries (DLICs) facing the challenges posed by excessive debt, climate change and poverty.	The New Global Financing Pact laid an exclusive focus on blended finance as a way of enhancing DFIs' access to private financing for the SDGs. ⁴⁶

Climate justice

Climate justice is the recognition that climate change has been caused by the global north's extraction and exploitation of natural resources, as well as disproportionate climate impacts and economic decline in the global south.⁴⁷

Historical context for climate justice cannot be ignored because climate change impacts the current populations as well the future generations.

The responsibility to meet global climate finance goals – including the post-2025 NCQG that is due to be set by 2024⁴⁸ – lies with countries in the global north, not with the international private sector or international financial institutions. The UNFCCC's principle of Common but Differentiated Responsibilities (CBDR) also creates a concrete foundation for an equitable distribution of all countries' responsibilities and redistribution of resources to tackle the global challenge of climate change.⁴⁹

In the face of an extreme climate emergency, as well as a rise in global south debt, the process to set up a post-2025 NCQG as part of the UNFCCC should prioritise preventing further indebtedness from climate finance in the global south in order to protect the very integrity of the Paris Agreement. Focusing on the role of blended finance in climate action therefore requires an understanding of the existing evidence around blended finance, as well as its potential to respond to new emergencies. In principle, this would also cover private sector engagement in climate action. However, as noted in a joint civil society response to the NCQG negotiation, the "dispersed nature of the private sector (different international, national, regional, local regulations and laws) will make it very difficult to ensure that commitments from this sector fall under the auspices of the UNFCCC".⁵⁰

The year 2023 also saw the start of discussions on Article 2.1(c) of the Paris Agreement on sustainable finance streams related to aligning financial flows with low greenhouse gas emissions and climate-resilient development.⁵¹ This creates a dedicated space for the interests of the private sector – to 'flourish' alongside other relevant climate finance discussions, such as the process to set a new post-2025 global climate finance goal. In 2023 the UNFCCC Secretariat published a Recognition and Accountability Framework for non-Party stakeholder climate action to create greater accountability. This would, in principle, also cover private sector engagement in climate action.

The responsibility to meet global climate finance goals lies with countries in the global north, not with the international private sector or international financial institutions.

→ 4. Rationale and stakeholders

The underlying rationale for private investment in climate action, through instruments like blended finance, is based on the narrative of the 'climate financing gap' discussed in the previous section. This official narrative, promoted by governments in the global north and IFIs and supported by many governments in the global south, privileges the quantity of finance over quality. It argues that the gap will be filled by lowering the risk of (or de-risking) private investment.⁵² However, as noted by academic Nick Bernards, this inhibits meaningful progress on development, including redistributive actions to repair the uneven hierarchy between the global south and the global north in the financial architecture.⁵³

While investment in clean energy projects in the global south is a necessity, these countries have historically made the smallest contribution in terms of climate change.⁵⁴ External private investment in global south energy projects is tied to their capacity for ensuring profitability. Investors consider investing in such projects in the global south to be too risky and thus they raise the demand for de-risking. This means providing private investors with risk mitigation such as guarantees against losses as well as ensuring handsome returns or profit maximisation.

However, while investors demand a certain ratio of risk and reward to invest in developing countries, risk profiles are an arbitrary measure and remain subject to the demands of investors as opposed to any globalised standards. As noted by Avinash Persaud, Special Climate Envoy to Barbados Prime Minister Mia Mottley and a key proponent of the Barbados-led Bridgetown Agenda, the higher cost of capital in countries in the global south, and risk premiums paid by these countries, are not adequately defined in comparison with countries in the global north.⁵⁵ While policy uncertainties exist in countries in the global south, they are also mirrored in countries in the global north.

However, unlike the countries with fewer financial resources, those in the global north have additional tools to protect their investments.⁵⁶ On top of this, while these countries do not have to worry about compensating any external investors for potential losses, countries in the global south face a different challenge. As Avinash Persaud says:

"...in developing countries, foreign investors threaten to walk if they are not given guaranteed fiscal privileges and immunities and agreements that subject developing countries for decades to come to international arbitration around compensation for policy changes."⁵⁷

It is also not possible to equate what amount of risk mitigation is best for investing in different sectors and projects. For example, clean energy is a booming industry across the world, and it is hard to ascertain if its attraction to investors will diminish owing to a lack of subsidy through development finance.

Despite this confusion, the rationale for blended finance is supported by a diverse set of stakeholders who coordinate, complement and amplify this narrative in different capacities.

Diverse stakeholders

Blended finance projects are delivered through the collaboration of a diverse set of actors, including multilateral and bilateral donors and investors. Private actors such as philanthropic organisations, companies, commercial banks and insurance companies are also active stakeholders in the blended finance landscape (see Table 2 for an overview).

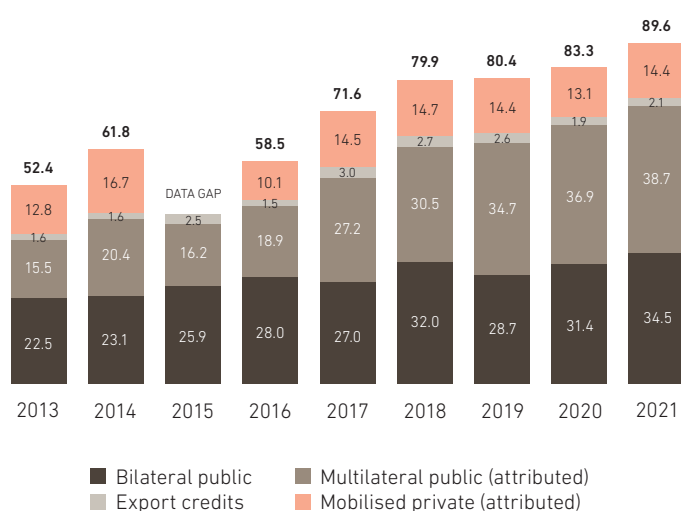
Table 2: Major stakeholders of blended finance

Institution and engagement in the field of blended finance	Selected examples of climate action projects
International Financial Cooperation (IFC) The IFC is one of the world's largest implementers of blended finance. Between 2010-22, the IFC has deployed US\$3.1 billion of concessional donor funds to support 369 high-impact projects in over 50 countries. It supports bilateral and multilateral climate facilities. International Development Association (IDA)-Private Sector Window (World Bank Group) IDA is the World Bank's main provider of development finance to the world's poorest countries. The IDA-IFC-MIGA (Multilateral Investment Guarantee Agency) Private Sector Window (PSW) was established in 2017, as part of the 18th replenishment of IDA, to mobilise private sector investments in the poorest and most fragile countries. The PSW uses IDA funds to subsidise IFC and MIGA projects in those countries. It is, therefore, a key pillar of the IFC's 3.0 strategy, which aims to tackle difficult development challenges by creating markets and mobilising private investors, and MIGA's strategy focusing on IDA countries.	Bilateral Blended Finance Funds⁵⁸ • Canada IFC Renewable Energy for Africa Programme • IFC Rockefeller Partnership Multilateral Blended Finance Funds • Climate Investment Funds • The Global Environment Facility • The Green Climate Fund IDA-IFC Projects • Power sector in Pacific Island countries • Solar power in West Africa⁵⁹
EU-European Commission The European Fund for Sustainable Development Plus (EFSD+) is part of the EU's investment framework for external action. It ensures worldwide coverage for blending, guarantees and other financial operations. It is included in the EU's long-term budget programme for external action: Global Europe –Neighbourhood, Development and International Cooperation Instrument (NDICI). The EFSD+ Plus is the main financial tool to mobilise investments under Global Gateway – the EU strategy to narrow the global investment gap in infrastructure. The EU implements blended finance facilities through seven regional initiatives.	The EU blending facilities have specific climate change windows (CCWs) to support partner countries in meeting their climate finance commitments.⁶⁰ The Investment Facility for Central Asia (IFCA): Of the 38 IFCA contributions approved between 2010 and 2020, 26 have a climate action component. Asia Investment Facility (AIF): Between 2012 and 2020, 53 out of 63 AIF contributions targeted climate action. Latin American Investment Fund (LAIF) on climate action: Between 2010 and 2020, 85 per cent of LAIF contributions targeted climate actions.⁶¹ Caribbean Investment Fund (CIF) climate action: Between 2013 and 2020, 18 of the 20 CIF contributions have targeted climate actions.⁶²
European Development Finance Institution (EDFI) EDFI – the association of bilateral European Development Finance Institutions – was founded in 1992 and currently represents 15 member institutions. EDFI management and European DFIs put forward proposals to EFSD+ for investments. In 2022, EDFI 40 investment programmes amounting to €6.05 billion, including 27 proposals, were approved by EFSD+.	Notable climate blended finance projects undertaken by EDFI members include the Climate Finance Leadership Initiative (CFLI) and RenewAfrica. Just Energy Transition Partnerships (JETPs) as well as the AgriFI (sustainable agriculture) and ElectriFI (renewable energy) programmes.
European Investment Bank (EIB) The EIB is a key implementer of the EU's blended finance facilities. It receives EU grants under an agreement with the European Commission	The EIB provides various blending finance grants through the Africa Investment Platform, Asia Investment Platform, Caribbean Investment Platform and Neighbourhood Investment Platform. For example, Investment Grant for the Gambia Renewable Energy Project Comp 4 and Investment Grant for the Egyptian Pollution Abatement (EPAP) III were two of the initiatives that received investment.⁶³
The European Bank for Reconstruction and Development (EBRD) The EBRD addresses the climate change challenge through its green economy transition approach, which aims to scale up investments in energy efficiency and renewable energy, as well as investments that minimise water and material consumption.	The EBRD provides blended finance through a combination of donor financing with EBRD's commercial investments. Examples include the Clean Technology Fund, Climate Investment Fund (CIF) and Global Environment Facility (GEF).⁶⁴
Bilateral providers leveraging blended finance through MDB funds and facilities	Canada's funding of trust funds at IFC, Asian Development Bank (AsDB) and Inter-American development Bank dedicated to sustainable development and climate action. Japan is leading Asia's Private Infrastructure Fund (LEAP) at the AsDB (established 2016). Finland-IFC Blended Finance for Climate Programme (established 2017).
Standard-setting organisations – OECD's DAC	The Community of Practice on Private Finance for Sustainable Development (PF4SD) CoP-PFSD – Development Assistance Committee-led Platform.⁶⁵

→ 5. Main trends of blended finance for climate action

In 2021, total climate finance provided and mobilised by countries in the global north for countries in the global south amounted to US\$89.6 billion, showing a 7.6 per cent increase from 2020 (see Figure 2). However, this increase is not reflected in blended finance figures, which have been falling since 2018 (see Figure 3). Between 2019-2021, US\$14 billion was invested into blended climate finance transactions, compared to US\$36.5 billion between 2016-2018. This decline can be attributed to a combination of reasons. These include the impact of the Covid-19 pandemic, geopolitical uncertainties, climate change-led natural disasters, high debt burdens in many countries and ongoing inflationary pressures. At the same time, the challenges posed by the current macroeconomic setting are also accompanied by strong consensus on the need for blended finance as promoted by the IFIs (as detailed in Section 3), as well as the global push towards green energy investments. A fuller picture of the trends in blended finance in climate are discussed in this section with a focus on the type of climate financing, type of blended finance instrument, breakdown by region and country income level and the list of recipients.

Figure 2: Total climate finance provided and mobilised in 2013-2021 (US\$ billion)



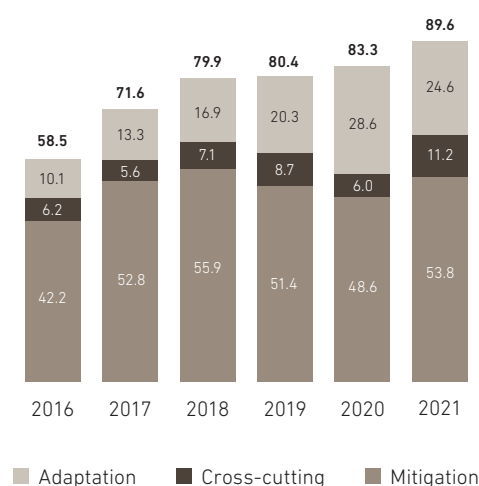
Source: OECD (2023), Climate Finance Provided and Mobilised by Developed Countries in 2013-2021.⁶⁶

Type of climate financing

A disaggregation of climate financing flows shows an overall inclination towards mitigation. According to the OECD's 2023 dataset, mitigation, adaptation and hybrid finance (cross-cutting) provided and mobilised by countries in the global north grew in absolute terms.⁶⁷ However, as Figure 3 shows, when compared with 2020 adaptation finance dropped by US\$4 billion (-14 per cent), while mitigation and hybrid finance (cross-cutting finance) increased by US\$5.1 billion (+11 per cent) and US\$5.2 billion (+86 per cent) respectively. Therefore, in 2021, mitigation continued to represent the majority (60 per cent) of total climate finance provided and mobilised, while adaptation represented 27 per cent and hybrid finance represented 13 per cent.

Mitigation finance has gained attention because of a rise in renewable energy and investors' inclination towards large infrastructure projects. For example, Independent Power Producers (IPP) renewable energy models in electricity transmission and distribution projects were popular, owing to the availability of multilateral financing in infrastructure. While adaptation projects were limited in comparison to mitigation initially, this has changed owing to the deepening of the climate emergency, a consistent trend of investor portfolios being more aligned to climate risks, and due to industry supply chains being affected by climate change, and thus the industries themselves needing to adapt.

Figure 3: Type of climate finance provided and mobilised in 2016-2021 (US\$ billion)



Source: OECD (2023), Climate Finance Provided and Mobilised by Developed Countries in 2013-2021⁶⁸

The gross underfunding of the Adaptation Fund

While there is growing acceptance and recognition of the need for adaptation from the global north's private sector, this alone is not enough to ensure that blended finance projects on adaptation will actually meet identified needs in the global south. Overall, the picture is not good. The Adaptation Fund, officially launched in 2007, has been grossly underfunded for years,⁶⁹ while fossil fuel subsidies have continued to outnumber financial flows to the Fund. Research by Oil Change International and Friends of the Earth US shows that G20 countries and MDBs provided US\$55 billion for fossil fuels between 2019 and 2021.⁷⁰ In this same period, total contributions⁷¹ to the Adaptation Fund amounted to US\$1,574.62 million.⁷² This means that approximately, 35 times more finance went to fossil fuels than to adaptation finance, highlighting the huge discrepancy between what the global north chooses to finance and the financing needs of the global south. Financing fossil fuels also goes against the global north's commitment to the Paris Agreement's aim to limit global temperature rise to 1.5°C, and creates an even larger climate debt that is owed to the global south.

The amount of financing provided is also still a far cry from achieving the Paris Agreement's call for a balance between mitigation and adaptation finance flows.⁷³ Moreover, based on the 2021 figures, even if adaptation finance were to be doubled this would amount to US\$ 49.2 billion, which falls short of the COP26 request for countries in the global north to "doubl[e] adaptation finance with the aim of achieving a balance between mitigation and adaptation".⁷⁴ For climate finance to be impactful, countries in the global north need to be meeting global climate finance goals, to ensure that the global south can meet ongoing and evolving climate action needs. This means setting priorities to make sure that climate finance flows meet the identified needs of the global south, as opposed to meeting the needs of the profiteer-focused industries in global north. Doing so will help ensure that mitigation, as well as adaptation and loss and damage measures, can also be implemented.

Ultimately, it is crucial to ensure that the gap in adaptation finance is addressed through public climate finance from the global north.

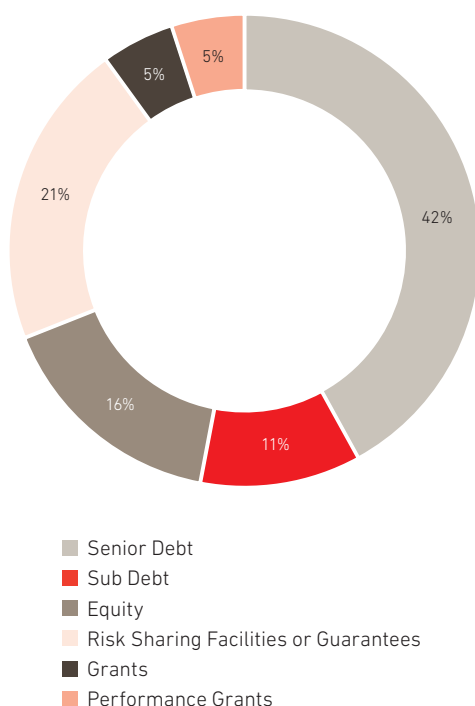
Type of blended financing instruments

Blended finance projects led by DFIs to address climate change usually entail a combination of debt, concessional finance and grants. However, the use of some instruments is more dominant than others. The traditional list of blended finance instruments (see Table 3) is reflected in the most recent calculations. Concessional senior loans remain the preferred form of blended finance followed by risk-sharing facilities, guarantees, sub debts and performance grants (see Figure 4). The vehicles through which instruments are distributed is also skewed in favour of ad hoc projects, followed by specific climate funds as well as company investments.

Table 3: Instruments of blended finance

Instruments	Details
Senior debt	This refers to debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer.
Subordinated (sub) debt	A debt that, in the event of default, will only be repaid after all senior obligations have been satisfied.
Equity	When equity mechanisms are used, investors take a share in the ownership of a corporation or a certain project and derive a claim on the residual value of cash flow streams after creditors' claims are met. As in debt structures, there are typically senior and junior (subordinated) tranches.
Risk-sharing guarantees	These can be defined as a type of insurance policy meant to protect financial institutions and investors from the risks of non-payment. They can be tailored to cover specific types of risk, which might be linked to the instruments for which they are used. Guarantees offer the benefit of not requiring immediate monetary outflows by donors.
Grants	These represent the provision of financial resources that do not need to be repaid. Grants help decrease the total funding costs of a given investment project and as such are sometimes used to make projects 'investment ready'.
Performance grants	These represent an award that may be earned or exercised, in whole or in part, based on the attainment during a performance period of one or more performance goals.

Figure 4: Concessional commitment volume by blended finance instrument, 2021 (percentage)



Source: DFI Working Group

The use of climate-related bonds has expanded in the past five years (see Box 5). Various iterations of green bonds are largely being issued by the global north. However, some countries in the global south are also joining the trend. The issuance of bonds is also accompanied by proposals for project aggregation platforms, as well as the creation of voluntary carbon markets to enhance international investment capital.

Box 5: Blended finance bonds

Green bonds that broadly focus on climate, but have a targeted emphasis on mitigation or adaptation, conservation, sustainability and ESG, have been on the rise. Europe was the largest source of green bonds in 2020, followed by North America (20 per cent of all issuances), Asia Pacific (19 per cent), Latin America (3 per cent) and Africa (0.4 per cent). Countries in the global south are joining in the issuance of green bonds generally. In 2017, the government of Fiji was the first developing country to issue a green bond for US\$50 million.

Some of these bonds also rely on blended financing mechanisms and their expansion remains contingent on concerted platforms aimed at the issuance of bonds. For example, the LAGREEN Fund – launched by the German Development Bank (KfW) – is a fund aimed at promoting the development of a green bond market in Latin America and the Caribbean. The fund is based on a blended finance model, with a target volume of US\$500 million. The initial first-loss capital will be from the European Commission and the German Ministry of Economic Cooperation and Development (BMZ) – that is, the concessional component of the mechanism to be leveraged with additional funding from the private sector. Technical assistance will be delivered by BMZ and the EU.

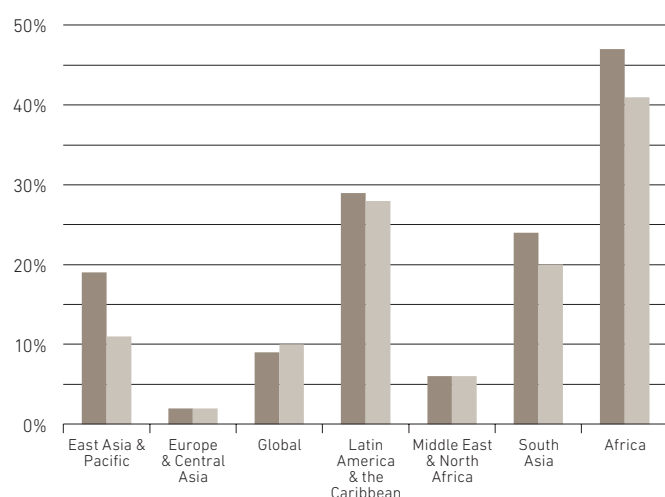
Source: Compiled from the OECD (2021) *Scaling up Green, Social, Sustainability and Sustainability-linked Bond Issuances in Developing Countries*.⁷⁵

Regions, countries and income levels

A regional breakdown shows that, from 2016-2021, most blended finance investments related to climate have been in Africa, followed by Latin America and the Caribbean, South Asia, East Asia and Pacific and the Middle East and North Africa (see Figure 5). The largest proportion of climate-blended finance transactions targeted middle-income countries, followed by lower-middle income countries. One possible explanation of regional inclination towards Africa and Latin America and middle-income countries in general is the ongoing push for renewable energy investment in these areas.

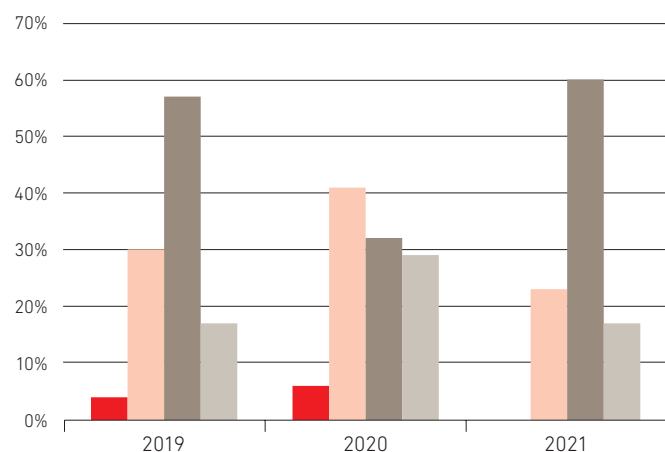
Upper-middle income countries gained additional traction in 2021 and, on the whole, low-income countries and LDCs continued to lag behind. Although LDCs are highly vulnerable to climate change and are amongst the least likely to recover from climate stresses, according to Convergence – the global network for blended finance – they were recipients of only 27 per cent of total financing between 2019-2021 (see Figure 6).⁷⁶

Figure 5: Proportion of climate blended finance deals by region, 2016-2021



Source: Convergence (2022) State of Blended Finance. Climate Edition

Figure 6: Proportion of climate finance transactions by country income level, 2019-2021

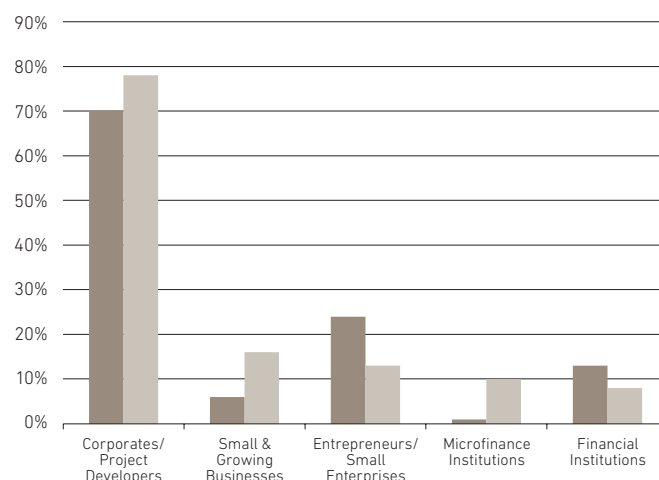


Source: Convergence (2022) State of Blended Finance. Climate Edition

Recipients of blended finance in climate action

The largest recipients of blended finance for climate action have been international corporations and project developers, which total 70 per cent in 2016-2018, rising to 78 per cent in 2019-2021 (see Figure 7). This is followed by financing to entrepreneurs and SMEs and growth-stage businesses (small and growing businesses or SGBs). Financing to microfinance and financial institutions has also been on the rise. Table 4 presents an example of a list of companies involved in different types of blending finance models. These examples show that global conglomerates, major financial intermediaries and private equity companies are some of the key recipients of blended finance models.

Figure 7: Direct recipients of climate blended finance transactions, 2016-2021



Source: Convergence (2022) State of Blended Finance. Climate Edition



Nyabarongo river scene with Bugesera Marshes, outside Kigali, Rwanda © Adam Jones

Table 4: Examples of blended finance for climate

Type of blended finance model	Name	Basic structure and corporate involvement
Project level	Kigali Bulk Water Project ⁷⁷	Kigali Water is one of the first water projects to be developed using a public-private partnership (PPP) model in Africa. Blended Finance Model: Three companies form part of the Private Infrastructure Development Group (PIDG): the Emerging Africa Infrastructure Fund (EAIF), the Technical Assistance Facility (TAF), and DevCo helped to finance the project at different stages of its development. The agreement is funded via a tiered capital structure, which means that Kigali Water Limited (KWL), a fully owned subsidiary of Dubai-based Metito, will build, maintain and operate the treatment plant and sell drinking quality water to WASAC-Rwanda's Water and Sanitation Corporation.
Fund Level	Climate Investor One ⁷⁸	Climate Investor One (CI1) is a blended finance facility, funded by donors and investors including the EU. CI1 is managed by Climate Fund Managers (CFM), established in 2015 to launch a series of financing facilities targeting climate change mitigation and adaptation. CFM is jointly owned by the Dutch Entrepreneurial Bank, FMO, and Sanlam InfraWorks, part of the Sanlam Group of South Africa.
Fund of Funds	Global Energy Efficiency and Renewable Energy Fund (GEEREF) ⁷⁹	GEEREF is a Fund of Funds advised by the European Investment Bank Group. GEEREF invests in private equity funds that focus on renewable energy and energy efficiency projects in emerging markets. GEEREF committed US\$19.6 million to the Africa Renewable Energy Fund (AREF) – managed by Berkeley Energy.
Facility	Global Environment Facility ⁸⁰	The Global Environment Facility is a family of funds dedicated to confronting biodiversity loss, climate change, pollution and strains on land and ocean health. Its grants, blended financing and policy support help developing countries address their biggest environmental priorities and adhere to international environmental conventions. Examples of private sector partners include Philips and Osram.

Source: Compilation from various sources

→ 6. Risks and opportunities

Blended finance is often presented as a 'silver bullet' to tackle the climate crisis. But in fact, it presents several risks, as well as opportunities. A table listing the risks and opportunities can also be found on page 30 (Table 6).

Risks

1. Blended finance perpetuates climate colonialism

The use of blended finance is presented as a neutral financing model and an ad hoc solution to climate change- packaged into multiple projects. However, this view misses two points. First, that developing countries are in need of external finance owing to a combination of reasons including the colonial origins of their current poverty and the inability to move out of poverty owing to unequal relations of power against global north countries. Second, that the nature of private financing, including blended finance, is not entirely concessional but interest-bearing and an investment opportunity for global north investors.

This can be understood in the current nature of green transitions in the global north. While many have commended the ushering in of a new phase of planned industrial policy in the US and Europe, energy transition policies in these countries have an underlying extractivist and hegemonic approach towards the rest of the world. Climate vulnerability of global south countries are forced to exploit their domestic energy resources for export purposes. Dependency on such resources inhibits a country's capacity to pursue economic diversification, whilst simultaneously harming the environment as transport and logistics remain carbon intensive. The acquisition of raw materials in the global south to power green new deals in particular remains a major part of these models.

Today, studies on the export of 'green investments' such as hydrogen from the global south to the global north show that the process is extractive and at the expense of global south countries.⁸¹ Similarly, the EU's new Critical Raw Materials Act is focused on ring-fencing the bloc's access to critical raw materials and private investments are designed to secure the EU's global geopolitical precedence. This act can be directly linked to the EU's new development and connectivity project, the Global Gateway, under which France recently announced an investment of €50 million in the Democratic Republic of Congo's (DRC) critical raw materials sector.⁸² The Global Gateway is in fact a rebranding of the EU's official development assistance and development finance.⁸³ A neo-colonial race for raw materials will further perpetuate the global south's resource dependency.⁸⁴

What this demonstrates is that blended finance projects in renewable and green energy are essentially a subsidy to global north investors and these projects should not be a vehicle for perpetuating neo-colonial extraction.⁸⁵ As shown in Table 4, the majority of investments through blended finance funds are ultimately being delivered to investors in the global north and some major companies in the global south, which means that profits are repatriated to countries in the global north.

2. Creating climate as a market in the global south

Private finance has been at the forefront of solutions to the global climate crisis, which has been framed as a linear problem of a quantifiable financing gap. Like other instruments to leverage private finance, blended finance necessitates major transformations in recipient countries' regulations and domestic policy frameworks to adapt to investors' needs. The degree of restructuring of public systems, and domestic legislation required for ad hoc foreign investment projects, is elaborate and can be understood as a concerted approach towards the creation of new markets where none exists.

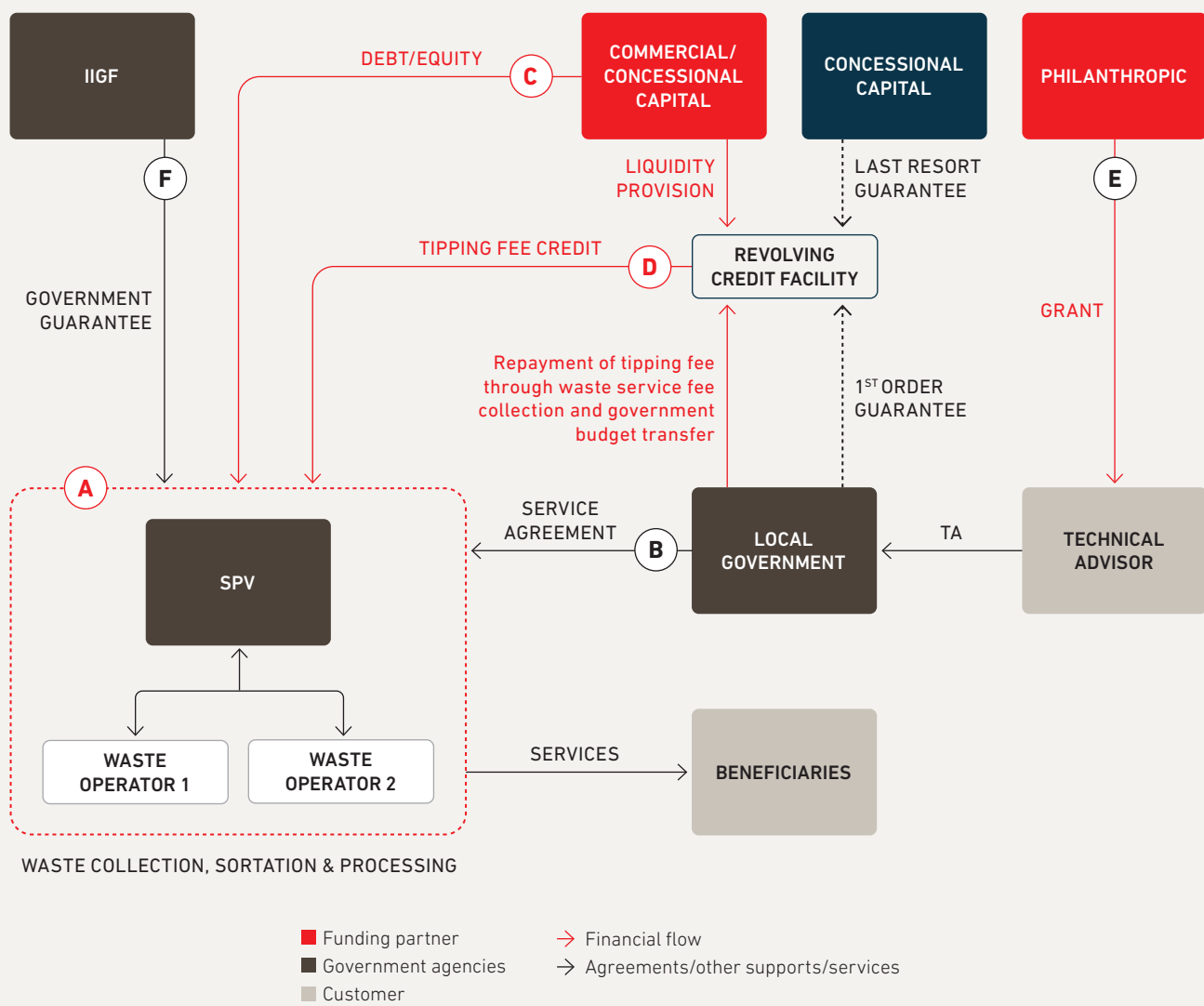
An example of this risk is the proposed blended finance project for the waste collection sector of Indonesia (see Figure 8).⁸⁶ This project is presented as a proposed case study by the Blended Finance Taskforce, a coalition hosted by the company Systemiq, which includes a diverse member and partner base of development banks, commercial and insurance companies.⁸⁷ The project entails the privatisation of waste management, which will be much more expensive than the current ad hoc user-fee model in Indonesia as it will incur costs from households as well as local governments. In addition, it will require extensive risk mitigation instruments and subsidies from the national government (see Figure 8 for details). Ultimately, while the public actors remain involved, provide certain services and incur additional costs, the outsourced private actors are paid more. Finally, the project is accompanied by new avenues of financial innovations such as voluntary credit markets (carbon credit and plastic credit markets) to monetise waste management activities.

The different proposals in this model, such as the setting up of the Revolving Credit Facility (RCF) for local governments to borrow money and of the Infrastructure Guarantee Fund to guarantee against the losses incurred by PPPs, are presented as additional layers to the blended financing model. However, they are a part of the leveraging of private finance rationale to attract more private actors. This approach ignores the easy solution of simple reforms and strengthening of the existing

public sector waste management. Moreover, the problem with proposals of voluntary markets is that their efficacy remains without evidence; profits reaped by investor intermediaries are not accompanied by complementary reporting and have been criticised for their opacity.⁸⁸

In general, whilst guaranteeing profits to investors since all contracts are long term, the monetisation of public utilities such as waste management does not provide mitigation against the harm caused by elements such as carbon and plastic.

Figure 8: Illustration of the blended finance project for the waste collection sector of Indonesia



Source: Blended Finance Taskforce (2023)

Description of Figure 8

- A. Project developer sets up a ring-fenced legal entity (i.e. a Special Purpose Vehicle (SPV)) specifically formed for the purpose of this transaction, to manage the economics of the project (both funding from various sources and profits). The project developer will act as the equity investors of the SPV.
- B. The SPV enters into service agreements with local governments to build waste facilities and set up new waste systems. Local governments commit to contribute a pre-agreed tipping fee to the SPV to cover waste system operating costs and the payback of the infrastructure loan.
- C. Concessional and commercial debt capital funds the SPV to purchase waste infrastructure and set up waste systems. Blending concessional capital can lower the overall cost of capital, as traditionally seen in successful blended finance structures, although a purely commercial model is possible.
- D. A Revolving Credit Facility (RCF) is set up to allow local governments to borrow money repeatedly to a set dollar limit while repaying a portion of the current balance through loan payments. The RCF can be funded by a commercial bank (or philanthropic funding) and will benefit from a first resort guarantee from local government and a last resort guarantee from concessional capital or the national government.
- E. Philanthropic capital funds technical assistance to reduce implementation risk. Experienced technical assistance is used to build local government and waste operator capacity to set up and operate new circular waste systems sustainably and to support the national policy needed to professionalise the waste system revenue model.
- F. Indonesia Infrastructure Guarantee Fund (IIGF) guarantees infrastructure risks stemming from government inaction that could result in financial losses for PPP infrastructure projects, for example, delay in licence and permit issuance, change in regulation, failure of tariff adjustment, failure of network/facility integration, and other risks covered or allocated to the government in the PPP contract.

3. Blended Finance crowds out domestic financial markets and exacerbates dependency

The reliance of blended finance on external private finance can lead to a risk of crowding out the domestic financial sector in host countries. Projects that are not aimed at supporting, targeting or developing the domestic private sector do not focus on fostering economic linkages with the rest of the economy. These linkages are necessary for strengthening, deepening and expanding domestic financial markets for developmental ends. An ad hoc project-based approach to climate transition, based on an external financing model designed to meet investor returns, does not need integration with the domestic financial models.

The problem is that the goal of a just climate transition model in developing countries is incomplete without the development and enhancement of a responsive domestic financial model. As the history of the East Asian developmental model shows, a strong domestic financial sector with public banks at the forefront of industrial and

social policy making has been an essential recipe for the dynamic socio-economic development that countries in Japan and South Korea experienced.⁸⁹ In fact, the weakening of East Asia's domestic financial sector in the aftermath of the 1998 financial crisis has also been associated with the decline of East Asian developmentalism.⁹⁰

4. Blended finance ignores the problem of access to climate technologies

Blended finance risks undermining a country's ability to have country-ownership over its investment in vital climate technologies. This is because it prioritises the interests of international financial markets in terms of which climate technologies to invest in/make affordable and crowds out domestic climate technology markets. Under the UNFCCC Convention Text,⁹¹ countries in the global north bear the responsibility for transferring relevant climate technologies to the global south⁹² to help ensure that those countries have the necessary means of implementation (capacity building, technology transfer and finance) to

implement climate measures. This is further enshrined in the Paris Agreement (Article 10).⁹³ The Climate Technology Centre and Network (CTCN) “is the implementation arm of the [UNFCCC] Technology Mechanism”,⁹⁴ and promotes and supports (including through technical assistance) the transfer of technology to countries in the global south. Technology transfer is particularly necessary for countries that do not have the domestic finances to either manufacture such technologies domestically, or that face barriers such as high tariffs, to import climate technologies.

The understanding that climate and adaptation would require the affordable transmission of technology from global north to global south has roots in the early UN climate negotiations.⁹⁵ The Rio Declaration states that newly developed technologies must be “in the public domain” and made accessible to developing countries “at affordable prices”.⁹⁶ Instead, developing countries are currently locked in a state of dependency on expensive climate technologies.⁹⁷ This generates royalties and also presents an added cost for countries. Estimating the total cost of royalties that countries in the global south are currently paying for climate technologies is outside of the scope of this report. However, the OECD patent database shows that the phenomenon could be sizeable. Specifically, it indicates that “more than 85% of climate/environmental goods are patented in OECD countries, and more than 70% of global exports of such goods are from the US, Japan, UK, and some EU [countries...]”.⁹⁸ The problem of royalties also shows that climate action needs to be approached through a holistic lens, underscoring the existing and multifaceted issues of inequity between the global north and the global south. Issues such as unjust trade rules and intellectual property rights need to be addressed in conjunction with the implementation of blending models.

5. Blended finance exacerbates current sovereign debt crises

The role of blended finance in contributing towards sovereign debt and private debt needs careful analysis, especially in the case of projects that are supported through sovereign loans.⁹⁹ The global sovereign debt crisis, currently affecting a growing number of countries in the global south, is at a precipice; 54 countries are in debt crisis as this report is published, with external debt payments increasing by 150 per cent between 2011 and 2023.¹⁰⁰ The climate crisis and the debt crisis are intertwined.¹⁰¹ In fact, 93 per cent of the countries that are most vulnerable to the climate crisis are

in debt distress, or are at significant risk of debt distress.¹⁰² Many developing countries that rely on fossil fuel extraction to generate revenues are locked into an extractive model to service their debt, which in turn jeopardises adaptation and mitigation ambitions. As Eurodad research shows, Small Island Developing States (SIDS) have spent 18 times more in debt repayments than they receive in climate finance.¹⁰³

In this context, it is important to note that what little climate finance is available for countries in the global south is largely delivered as loans. According to OECD figures, in 2021, 68 per cent of climate finance consisted of loans, while only 26 per cent was provided in grants and 3 per cent was provided in the form of equity investments.¹⁰⁴

When states in the global south provide sovereign guarantees for private debt, which happens in one type of blended finance for climate projects, it means that private debt is ultimately a problem of those countries. Moreover, many blended finance projects include contingent liabilities, simply defined as a potential liability that may occur in the future, which are hidden or undisclosed during the start of projects. Blended finance models operate to satisfy the investors’ appetite for ‘bankable’ (ie, profitable) and ‘scaleable’ projects, which puts pressure on countries to host large infrastructure energy projects, even when climate goals can be achieved through simpler and community-based initiatives. In short, countries in the global south are forced to bear the brunt of a climate and economic calamity that is not of their making.

6. Lack of transparency and poor democratic accountability

Blended finance projects continue to suffer from challenges including low transparency and poor democratic accountability, and projects targeting climate action are not the exception. Transparency and democratic accountability can be understood as the result of complex interaction of different reporting measures, as well as a general inclination towards ensuring that access to information is publicly available. While it is impossible to ascertain the operations of all DFIs,¹⁰⁵ it is also important to acknowledge that, for example the IFC and the DFI Working Group, are making significant advances towards transparency by improving access to publicly available information as well as enhancing and deepening information on project reporting.¹⁰⁶ It is also important to acknowledge that some DFIs are more transparent and accountable in certain aspects in comparison with others. Examples include the presence of complaint

mechanisms and the information they share about the level of subsidies offered to the private sector. However, these advances do not offset the fact that definitions of blended finance are not harmonised across organisations and reporting remains subjective.

The participation of governments from the global south and other stakeholders in the decision-making process is clearly missing, as most projects remain heavily led by donors, DFIs and investors from the global north. This is a clear contradiction of Article 9.4 of the Paris Agreement on climate finance, which emphasises the need for country ownership of climate action.

Finally, the tendency of DFIs to lay emphasis on simple reporting and disclosure without providing evidence for meaningful impact and additionality to support recipient countries' long-term developmental goals remains a major concern. As noted in an OECD Working Paper, analysing the impact of blended finance is a complex process given the variety of blended initiatives involving a diversity of contexts, objectives, instruments and actors.¹⁰⁷ In addition, the involvement of many intermediaries in the implementation of blended finance presents a further complication in promoting transparency.

7. Blended finance has limited capacity to mobilise additional (private) finance for climate

Blended finance has not been successful in mobilising adequate amounts of private finance for climate action. In 2021, total climate finance provided and mobilised by countries in the global north for countries in the global south amounted to US\$89.6 billion. Of this, the amount of private climate finance mobilised was US\$14.4 billion in 2021 (16.07 per cent), for which comparable data are only available from 2016.¹⁰⁸ This pattern is also consistent in blended finance deals; according to DFI Working Group calculations, private sector finance leveraged by DFIs increased from US\$3 billion in 2020 to US\$4.6 billion in 2021.¹⁰⁹ In spite of this annual increase, the fact remains that blended finance is still very limited in LDCs where the case for the financial additionality of blended finance would have been the strongest.

Opportunities

1. Strong regulation to ensure results

The significant and multiple risks of blended climate finance models can be mitigated to increase the quantity and quality of finance for climate if they are comprehensively regulated and accountable to taxpayers, governments and communities in the global south and the global north. A window of opportunity exists within the OECD-UNDP Impact Standards for Financing Sustainable Development as well as the DFI Working Group's 'DFI enhanced principles for blended concessional finance for private sector projects'.

On 26 March 2021, the OECD DAC approved the OECD-UNDP Impact Standards for Financing Sustainable Development. The purpose of the standards has been summed up by the OECD-UNDP as follows:

"The Standards provide donors, DFIs and private investors with a joint best practice guide and self-assessment tool with which to integrate impact management into investment practices and decision making" (OECD, UNDP, 2021).¹¹⁰

The standards were designed through a series of consultations with multilateral organisations such as the OECD, United Nations Development Project (UNDP), EDFI and private sector actors (see Table 5). Similarly, the DFI Working Group's enhanced principles for blended concessional finance were also designed collectively by MDBs and bilateral DFIs and EDFI (see Box 6).

Table 5: OECD-UNDP impact standards for financing sustainable development

What are the OECD-UNDP Impact Standards for Financing Sustainable Development?	On 26 March 2021, the OECD DAC approved the OECD-UNDP Impact Standards for Financing Sustainable Development. The Standards constitute a best practice guide and self-assessment tool and are voluntary. They aim to: • provide a framework that assists donors, DFIs and their private sector partners that are seeking to optimise their positive contribution to the SDGs • promote impact integrity • avoid impact washing
Four main standards	• Standard 1: Impact Strategy: The partner sets development objectives, framed in "the terms of the SDGs with particular attention to the overarching commitment to 'leave no one behind'. Objectives are aligned with donor and partner country priorities and are embedded in the impact-centred investment strategy. • Standard 2: Impact Management Approach: The partner adopts an impact management approach that integrates development impacts, human rights safeguards, the SDGs and ESG into the design and management of its operations. • Standard 3: Transparency and Accountability: The partner discloses to donors and beneficiaries how it manages and measures the development impact and contribution to the SDGs of the private sector operations that use public resources, as well as how development impact is integrated in its management approach and governance practices. • Standard 4: Governance: The partner's commitment to contributing positively to the SDGs is reflected in its governance practices and arrangements, including:
Each Standard is also accompanied by 3 to 5 sub-Standards.	• success signals • detailed practical guidance on what success can look like in practice • useful examples • anchor impact management principles • principles and frameworks specific to this sub-Standard.

Source: OECD, UNDP (2021) OECD-UNDP Impact Standards for Financing Sustainable Development.

Box 6: DFI-enhanced principles for blended concessional finance for private sector projects

- **Rationale for blended concessional finance:** Making a contribution that is beyond what is available, or that is otherwise absent from the market without crowding out the private sector.
- **Crowding-in and minimum concessionality:** Helping to catalyse market development and the mobilisation of private sector resources, with concessionality not greater than necessary.
- **Commercial sustainability:** The impact achieved by each operation should be sustainable and contribute towards commercial viability.
- **Reinforcing markets:** Addressing market failures effectively and minimising the risk of market distortion or crowding out private finance.
- **Promoting high standards:** Encouraging adherence to high standards, including in areas of corporate governance, environmental impact, integrity, transparency and disclosure.

Source: IFC website¹¹¹

The standards on financing for development, as well as enhanced principles on blended concessional finance, are aimed at standardising and harmonising best practice, as well as ensuring measurable and evidence-based impact. However, these standards are voluntary and subject to the DFI's own incentives and discretion, which are not bound by any regulation. Best practice guidelines are not a substitute for legally binding accountability and the question of investment should not be reduced to standards and guidelines.

For blended finance projects to be accountable, transparent and effective, these standards need to transform from their voluntary status towards becoming legally binding. For example, while standards advocate for the 'avoidance' of impact washing, appropriate legislation can bind all project investors and implementers to ensure that development additionality is a legislative responsibility accompanied by penalties in the event of failure of implementation. At the same time, this legislation must also ensure that human rights concerns such as displacement of communities are adequately protected through remedial courses of action.

2. Strengthening public finance

Blended climate finance can play an active role in directing (external) concessional finance to strengthen public finance in recipient countries. In many countries in the global south, national (development) public banks, if well governed and resourced, can (and should) play a critical role in supporting climate resilient infrastructure and public services. They were the most important actors in improving the economic impact of the Covid-19 pandemic.¹¹² As analysed by the United Nations Conference on Trade and Development (UNCTAD), the role of public banks in the pandemic was exceptional in meeting their mandate of fulfilling public purpose, their ability to respond rapidly to crisis situations, to mobilise their existing institutional capacity, to act boldly, to contribute generously and finally to build on 'public-public' solidarity.¹¹³ In short, unlike private banks, public (development) banks have a much wider mandate beyond profit-seeking and their approach towards 'risk taking' is aligned with their mandate of responding to public needs. Their institutional design compels them to advance on nationally determined development strategies, and this can enable them to direct concessional finance towards climate as a public good. Blended finance investments through public banks can

ensure stronger country ownership and better allocation of resources towards the most efficient and urgent investments in climate projects.

3. Targeting local private sector and communities

Blended finance for climate should be targeted to reach local private sector companies, entrepreneurs and communities that otherwise do not have access to finance to implement climate-resilient infrastructure and energy transition projects. Considering that the goal of blended finance is to address financing challenges in developing countries, the direct injection of finance to domestic banks would help to create a strong layer of entrepreneurs and local investors to foster much-needed climate investments. Financing local communities through blended finance will also ensure that those with the most knowledge about the climate crisis and the local context are empowered to have a high degree of ownership in implementing the right energy transition projects.

4. Transfer of technology and technological know-how to the recipient countries

Blended finance – provided through grants – can be targeted to support renewable energy infrastructure. This can spur the transfers of technology and technological know-how to the recipient countries. Many countries in the global south are still in the early phases of building climate resilient infrastructure. Delays in technology would mean that these countries are confined to high emission systems for prolonged or indefinite periods of time. Allocation of grants for the transfer of technology and technological know-how provided in conjunction with government assistance programmes, government direct investment, cooperative research and co-production agreements between countries in the global south and global north, including education and training, could accelerate the autonomy of countries in the global south in the investment and manufacturing of technology.

Table 6: Summary of Risks and Opportunities of Blended Finance in Climate Action

Risks	Opportunities
1. Blended finance can perpetuate climate coloniality. Blended finance projects in renewable and green energy are ultimately a subsidy to investors in the global north. There is a risk of blended finance projects perpetuating neo-colonial extraction of natural resources. 2. Blended finance can contribute towards marketisation of the climate agenda in the global south 3. Blended finance often entails debt (sovereign and/or private debt, sometimes with sovereign guarantees). This debt needs to be repaid, even if the beneficiaries are provided with softer terms than purely commercial loans. This can contribute towards a recipient country's indebtedness. 4. The reliance of blended finance on external private finance in host countries can lead to a risk of crowding out the domestic financial sector. 5. Blended finance risks undermining a country's ability to have country ownership over its investment in vital climate technologies, by prioritising the interests of foreign private investors over decisions around the most effective climate technology investments. 6. Blended finance projects suffer from low levels of transparency and poor democratic accountability. Climate blended finance projects also follow the same pattern. 7. Blended finance has not been successful in mobilising adequate amounts of private finance for climate action. In 2021, DFIs financed long-term projects totalling US\$13.4 billion, supported by blended concessional finance (total volume of private sector finance leveraged was approximately US\$4.6 billion, and DFI own-account investments in these projects were about US\$5.3 billion).	1. The redirection of (external) concessional finance to strengthen public finance for climate action in recipient countries could have a positive impact on projects. Regional and national public (development) banks, if well governed and resourced, can play a critical role in supporting climate-resilient infrastructure and public services. 2. As blended finance for climate action is a relatively new area, there are opportunities to shape and regulate it better. For example, through improving the OECD-UNDP Impact Standards for Financing Sustainable Development and the DFI Working Group's 'DFI enhanced principles for blended concessional finance for private sector projects'. 3. Blended finance for climate can be targeted to reach local private sector companies, entrepreneurs and communities that otherwise do not have access to finance to implement climate-resilient infrastructure and energy transition projects. 4. Blended finance – provided through grants – can be targeted to support renewable energy infrastructure. This needs to spur the transfers of technology and technological know-how to the recipient countries

7. Conclusion and policy recommendations

It is indisputable that the climate emergency demands urgent action, including the need for more climate finance to be delivered to the global south.

For many years, the use of blended finance has been increasingly advocated by wealthy countries and institutions as another way to address the climate crisis. This was clear at COP28 at the end of 2023, where the mobilisation of US\$5 billion through several blended finance structures was announced.

But there are many concerns around the use of blended finance for climate action, which this report explores.

It identifies six main trends:

- 1. Amount:** Between 2019-2021, US\$14 billion was invested into blended climate finance transactions, compared to US\$36.5 billion between 2016-2018. A number of reasons, including fall in demand during the Covid-19 pandemic and risk aversion by investors, has led to this decline.
- 2. Stakeholders:** Blended finance climate projects are delivered through the collaboration of a diverse set of actors, including multilateral and bilateral donors and investors. Private actors such as philanthropic organisations, companies, commercial banks and insurance companies are also active stakeholders in the blended finance landscape.
- 3. Type of climate finance:** Blended finance for climate action tends to be used to address mitigation needs. Mitigation finance deals include efforts aimed at limiting the effects of climate change by reducing the emission of CO₂ and other greenhouse gases.
- 4. Type of blended finance instruments:** Concessional senior loans – that is, debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer – remain the preferred form of blended finance followed by risk-sharing facilities, guarantees, junior debts and performance grants (see table 3).

5. Regional distribution: Between 2016-2021, most blended finance investments in climate were in Africa, followed by Latin America and the Caribbean, South Asia, East Asia and Pacific and the Middle East and North Africa. The largest proportion of blended climate finance transactions targeted middle-income countries, followed by lower-middle income countries. Low-income and Least Developed Countries continued to lag behind. This means that blended climate finance is primarily targeting investments that generate the most profits, despite official efforts to mobilise funds for lower income countries.

6. Recipients of blended finance in climate action: The largest recipients of blended finance for climate action have been corporates and project developers, which accounted for 70 per cent in 2016-2018, rising to 78 per cent in 2019-2021. This is followed by financing to entrepreneurs and SMEs, and small and growing businesses. Financing to microfinance institutions and financial institutions have also been on the rise.

The numerous risks and attempts at reforming the deficiencies and problems of the blended finance agenda demonstrates that risks outweigh opportunities (see Table 6 on page 30). Blended finance for climate action can include large amounts of concessional funding, which increases the likelihood of drawing funds away from other types of intervention. Access to high-quality, new, public and additional, debt-free, pro-poor, gender-responsive, climate finance grants that are free from economic conditions must be prioritised.

Based on these findings, these five recommendations would help provide safeguards within the evolving blended finance agenda for climate action:

We recommend that:

- 1. Public finances should not be spent on projects that may have happened anyway, the additionality of blended finance for climate must be accurately defined.** Additionality should be understood both as attracting investments that would not have happened (financial additionality), but also on the positive impacts of such investments on lowering emissions, improving resilience, and creating jobs in the recipient country. They should not have negative impacts such as distorting domestic financial or technological markets (development additionality). The added value of blended finance for climate action must be explicitly demonstrated against absence of viable public alternatives, instead of simply being assumed.
- 2. All blended finance projects must be transparent and include key information on project costs, subsidies to different actors and disclosures of intermediaries.** Projects must demonstrate democratic accountability and provide evidence of an equal partnership between donors, investors, recipient countries and communities.
- 3. Blended finance for climate action should not be subject to economic policy conditionalities** and should not force countries to undergo restructuring of legal processes to adjust to investor needs. This includes avoiding policy conditionalities that promote the privatisation of public infrastructure and services or deregulation.
- 4. Country ownership and community-led solutions should be at the forefront of building resilience and adaptation to climate change.** These solutions should be supported through adequate instruments that increase their access to affordable and sustainable finance. Blended finance practitioners should explore best practices and possible approaches in this area.
- 5. Blended finance must not be used as a financing instrument of the Loss and Damage Fund.** The Fund is based on the responsibility of countries in the global north to those in the global south; blended finance risks diverting attention from this principle.

Ultimately, if blended finance for climate action is going to be used to help tackle this crisis, it must be aligned with climate justice principles and the climate financing commitments of global north countries. Its efficacy, additionality and transparency must also be adequately established.

It is clear from this paper that this is not yet the case, and more must now be done to make blended finance a truly impactful tool that can play a positive role in those countries that are on the frontline of the climate emergency.

If blended finance for climate action is going to be used to help tackle this crisis, it must be aligned with climate justice principles.

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