Source of Capital

Bilateral and Multilateral Development Institutions

Type Of Entity	Development Finance Institutions (DFIs), Multilateral Development Banks (MDBs), Bilateral Development Agencies, Climate Funds
Investment Stage	Typically, mid-late stage investments. Concessional and commercial (esp. DFIs with private sector orientation)
Impact	Prioritize social, economic, and environmental impact and crowding in private capital
Instrument	Debt, equity, guarantees and grants. Commercial and concessional
Supplier Of Concessional Capital	YES NO

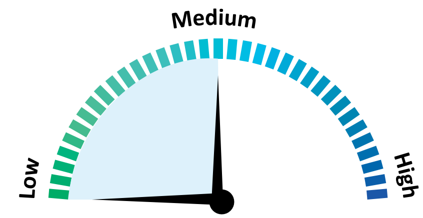
Description

Bilateral, multilateral and development financial institutions are main channels through which official development assistance (ODA) is distributed.

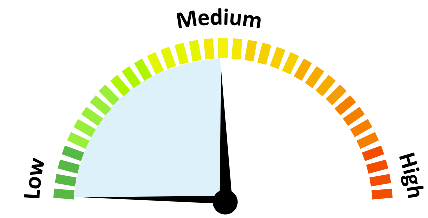
Bilateral partners distribute resources directly to the recipient country, while multilateral funders, such as the World Bank, receive funds from member countries and then distribute financial resources to recipient countries. Similarly, Development Finance Institutions (DFIs) are specialized development organizations, often majority-owned by governments, that invest in private sector initiatives in low- and middle-income countries for sustainable economic growth. Bilateral and multilateral funders provide direct climate funds to governments and projects, channel funding through dedicated climate funds such as the Green Climate Fund (GCF), act as trustees and implementing institutions of dedicated climate funds and can provide technical assistance and advisory services to recipients. They are one of the most flexible sources of capital.

DFIs are also crucial to attracting private capital, as they are a preferred co-investor for institutional investors that lack experience in a country or sector.

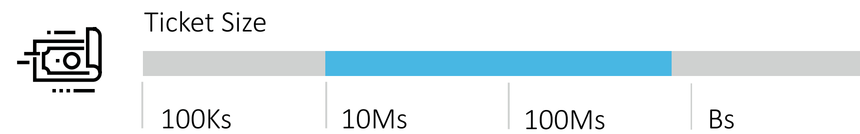
They can de-risk the project and can also provide trusted due diligence of the market, the commercial opportunity, and the reputation of the counterparty. A crucial challenge they face is balancing return requirements with development impact requirements. They often require closer to commercial returns – limiting their ability to crowd in private investors at the scale required.



Relative Return Requirement



Relative Risk Appetite



Recommended Actions By Key Source Of Capital

Some suggestions for what MDBs, DFIs and other bilateral funders can do more of to enhance Just Financing outcomes include:

- Incorporate Just Financing Principles into all financing modalities. Ensure projects funded as part of a country's Nationally Determined Commitments (NDC) are consistent with and reflect Just Financing Principles.
- Ensure that all funding deployed integrate climate-related risks assessments, and that investments reflect (in their financial structure) incentives for low-carbon, climate resilient investment.
- Where a bilateral, multilateral or DFI supports (with grants) the development of a country's Nationally Determined Contribution, ensure that such support emphasizes Just Financing principles and outcomes.
- Significantly ramp-up financing with higher financial additionality (e.g., local currency debt and equity), diversifying away from current financing practices (85%+ of annual financial commitments made as hard currency loans) that jeopardize developing economy debt sustainability.
- Originate and arrange financial assets in high demand by investors, distributing them to Blended Finance Vehicles, while holding assets in low demand by investors on their balance sheets.
- Invest in mezzanine positions in Blended Finance Vehicles, thereby creating more investment assets that meet the fiduciary obligations of private sector investors in climate-aligned projects.
- Update the governance of MDBs and DFIs, to further support climate action by developing KPIs that will significantly increase the volume of investment these organizations arrange and distribute to private investors, while fully deploying their capital consistent with prudential requirements.
- Aggregate and share reliable transaction data among all financial stakeholders to more efficiently and effectively bring together different types of capital for low-carbon, climate-resilient, just financing opportunities, to enhance national capacities in planning climate investments and strengthening institutional capacities.
- Scrutinize the additionality of climate funding closely in order to avoid unanticipated profits for the private sector as a result of publicly funded climate projects.
- Consider ways to make accessing dedicated climate finance funds less bureaucratic so that both private sector companies and governments see it as worth their time and effort to access them.
- Make available and increase technical assistance and capacity building to developing countries.