Source of Capital

Private Debt Providers

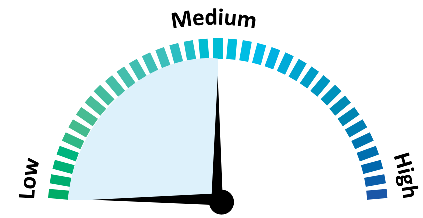
Type Of Entity	International and Domestic Commercial Banks/Financial Institutions, Private Credit Funds, Microfinance and SME lenders
Investment Stage	Typically, mid-late; for infrastructure can be greenfield/construction through operations; For enterprises, debt provided typically as corporate finance when revenue streams are established.
Impact	Finance working capital and capex for companies, as well as projects. Debt offers lower cost capital than equity, but typically has a collateral requirement which can restrict access to finance for borrowers.
Instrument	Commercial Debt
Supplier Of Concessional Capital	YES **NO**

Description

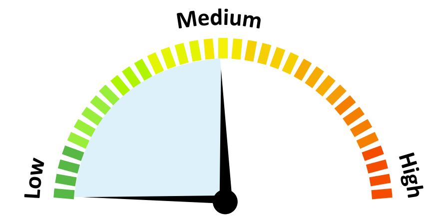
International and domestic commercial banks provide debt capital to projects and companies. Local banks play a key role in covering working capital and (in some cases) trade finance for growing businesses and financing capital expenditures.

The local banking system varies greatly from country to country and local banks typically seek revenue-generating companies with sufficient collateral to lend against and may require shorter repayment periods than is needed to support climate-related investments. In many developing economies collateral requirements can be prohibitive thereby restricting access to finance. Domestic private financial institutions provide a significant share of climate finance in developing and emerging economies in part because these institutions understand and can better manage the risks present in these markets. International banks are an important source of funding for large, bankable infrastructure projects and mature businesses but face numerous challenges to lending such as high perceived and actual risk, low sovereign credit ratings, difficulty obtaining collateral, weak legal enforcement and other barriers. Private credit funds may have a regional focus (e.g., Africa and the Middle East) and may require higher returns. Microfinance institutions necessarily operate at a smaller scale but play an important role in demonstrating the creditworthiness of underbanked borrowers and communities.

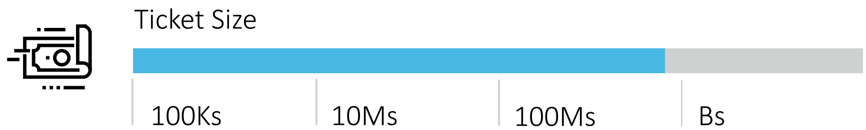
Commercial finance institutions account for nearly 40% of private climate finance; deploying $122 billion on average 2019/2020.



Relative Return Requirement



Relative Risk Appetite



Recommended Actions By Key Source Of Capital

Some suggestions for what Private Debt Providers can do more of to enhance Just Financing outcomes include:

- Private debt providers can ensure that all funding deployed integrates climate-related risks assessments, and that investments reflect (in their financial structure) incentives for low-carbon, climate resilient investment.
- Domestic banks can promote 'Just Financing' principles in their lending practices by enlarging and targeting their lending programs toward climate investments consistent with the country's Nationally Determined Contribution.
- Domestic and international banks, and private credit funds can increase their lending envelopes to developing and emerging economies whose NDC commitments, where well-defined, reflect a long-term commitment to climate action and therefore more likely supporting policy and more favorable credit conditions.
- Domestic and international banks, and private credit funds can incorporate 'just Financing' principles in their borrower due diligence and lending policies.