


Why Blended Finance is Critical – In 10 Easy To Understand Steps

A few years back, based on all my ESG work and reading, I realized that **1** most projects / activities that are needed to achieve the  are actually not profitable, or not profitable enough, or not yet profitable. Also, **2** most are small scale. And **3** most are in emerging markets. At the same time, **4** we need x trillion annually (estimates vary) to flow to these activities, **5** much, much more than governments, NGOs, foundations and charities have. In other words, **6** we need institutional investors like pension funds and insurance companies, because that's where the money is. But! **7** They do not invest in small-scale, emerging markets projects that are not profitable. Also, **8** it's very unlikely we can persuade pension fund boards to start making impact-first investments at large scale – their primary aim is to invest on behalf of pensioners which comes with strict investment criteria, as it should be. Also, **9** none of the existing ESG activities (labels, ESG funds, green bonds, ESG integration, SFDR art. 8/9, PRI, TCFD, Taxonomy, Net Zero) are achieving much or any of this. So if we want to scale all this up fast in order to meet the 2030 deadline, **10** we need to start tailoring these needed projects so that they *do* meet institutional investors' requirements, and this is what blended finance does: government (or DFI or philanthropic) interventions such as guarantees, co-investments, or loss-taking, can change the risk/return profile of impactful projects ... *enabling* institutional investors to allocate to them.