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# Concessional Equity and Private Equity



Equity is a capital instrument that provides ownership in a company, project, or fund, rather than creating debt obligations. It supplies risk-absorbing capital that can finance early-stage or higher-risk projects and funds, as this capital is willing to accept lower financial returns.

Equity is recognized in OECD-DAC guidance as one of the core instruments that can be strategically deployed within blended finance approaches to mobilize additional commercial capital. Equity can be provided on commercial terms (e.g., from private equity and infrastructure funds) or on concessional terms (e.g., from governments, DFIs, and philanthropic investors).

- Commercial private equity is provided by commercial investors seeking market returns. It typically operates through fundraising capital, investing in companies or projects, and exiting (via trade sales, secondary sales, or public listings). Returns are driven by value creation and are realized at the exit, either through trade sales to strategic buyers, secondary sales to other investors, or through public listings (IPOs) on the stock exchange, which enables scale.
- Public and concessional equity is supplied by public or philanthropic investors willing to accept higher risk or lower returns to catalyze private investment.

Such equity can be deployed catalytically to improve risk-return profiles and crowd in senior commercial equity and debt. This helps overcome barriers such as high perceived risk, limited track record, and market failures. In emerging markets, governments, DFIs, and philanthropic actors may provide concessional anchor equity to improve the risk-return profile at the exit.

There are two concessional equity scenarios:

1. **Government as a beneficiary:** Concessional equity is used to capitalize funds that attract private investors.
2. **Government as an equity investor:** Deploying its own capital, directly or via public financial institutions, to crowd in private investors and de-risk critical sectors to demonstrate viability.

## RISKS ADDRESSED

Equity addresses capital structure and market risks by supplying risk-absorbing capital for early-stage climate investments. Unlike debt, equity does not create fixed repayment obligations, thereby enabling projects and businesses to raise capital. This helps mitigate:

- **Credit risk:** By taking first-loss or subordinated positions, equity protects debt investors and concessional equity protects senior private investors from defaults, increasing creditworthiness.
- **Market risk:** Equity absorbs volatility in revenues and project performance, providing flexibility where returns are uncertain.
- **Liquidity risk:** Anchor equity commitments improve fundraising, ensuring projects reach financial close.

## SECTORAL RELEVANCE

- For distributed renewables and resilient infrastructure platforms, equity provides the capital required to finance early-stage project development. However, it is only suitable where a commercial return is ultimately expected. Distributed renewables projects often have significant development or pre-revenue costs that are not suitable for debt financing. Equity can help absorb the risks associated with rolling over shorter-term debt instruments during the project's operational life. Distributed renewables are highly decentralized but can still generate predictable revenues from power sales, tariffs, or off-take agreements. Equity can be deployed where revenue is expected—for example, investors may provide equity to a holding company that owns a portfolio of mini-grid or rooftop solar projects. This structure enables risk pooling, operational efficiency, and exit scalability.
- Adaptation projects and nature-based solutions projects face limited access to debt due to collateral requirements and perceived credit risk. Equity fills this financing gap, allowing them to scale and absorb volatility without immediate repayment obligations. Equity can shoulder early-stage revenue risk related to investments in nature-based systems (e.g., reforestation, mangrove restoration, or regenerative agriculture) that generate uncertain and back-loaded cash flows (e.g., from carbon credits, ecosystem services, or yield improvements).

## TYPES OF INSTRUMENTS AND PROVIDERS

### A. Commercially available instruments and providers

#### Private equity and infrastructure funds:

1. African Infrastructure Investment Managers (AIIM): Develops and manages private equity infrastructure funds to invest long-term institutional unlisted equity in African infrastructure projects.
2. Adenia Capital V L.P: A pan-African private equity investor in Africa exclusively focused on making control investments to drive significant positive impact.
3. Actis: A renewable energy private equity firm, leading global investor in sustainable infrastructure.

### B. Concessional or public instruments

1. [Bluefield Solar Income Fund](#): An investment trust focused on low-carbon assets owning solar and wind farms in the UK.
2. [GMO Climate Change Fund](#): A public equity mutual fund investing primarily in publicly listed equities of companies that benefit from or contribute to addressing climate change (e.g., renewable energy, resource efficiency, sustainable agriculture, water infrastructure).
3. [American Century Emerging Markets Transition Equity Fund](#): Focused on emerging market equities contributing to multiple SDGs (e.g., industry, infrastructure, decent work, sustainable cities) rather than a single climate theme.
4. [IFC Asset Management Company \(IFC AMC\)](#): A subsidiary of the IFC that mobilizes and manages third-party capital alongside IFC's investments. AMC provides equity and quasi-equity financing in emerging markets.

## DEBT SUSTAINABILITY

- **Direct effects**
  - No new debt obligations, as equity is not a loan for the recipient. When a government or state-owned enterprise (SOE) receives equity investment from external partners (e.g., DFIs or blended funds), it does not incur a loan or repayment obligation. This directly reduces the risk of debt distress compared to hard-currency borrowing, lowering pressure on debt service indicators
  - There is also capped fiscal exposure for equity providers, unlike with loans.
  - When governments, MDBs, or DFIs take junior/first-loss equity, this exposes the public balance sheet to losses if projects underperform. However, guarantees are contingent liabilities; they do not require upfront payment, but the government or institution is liable if the guarantee is triggered.
  - The OECD notes that equity positions by governments or DFIs may still be considered as fiscal exposures under international reporting standards, but they do not automatically increase debt service ratios.
- **Indirect effects:** Equity instruments
  - **Improve future debt terms:** By absorbing early-stage risk, equity helps projects achieve bankability, enabling cheaper/longer-tenor debt later by refinancing on stronger debt service coverage ratios.
  - **Reduce pressure on sovereign borrowing:** Concessional equity can be used to capitalize projects that would otherwise require government financing or borrowing, and it can reduce the need for sovereign guarantees or new debt issuance.
  - **Hold potential to build local capital markets:** Successful equity exits and public offerings create demonstration effects that can broaden domestic investor participation over time.
  - **Carry exit risk considerations:** If exits are delayed, concessional equity can tie up fiscal space longer than planned; program design should include clear exit pathways.

## INTERNAL CAPACITY REQUIREMENTS

This section focuses on scenarios where

1. The government, through its Ministry of Finance (MoF), is directly investing equity into projects;
2. External partners (i.e., DFIs/MDBs) make public/concessional equity investments.

Higher capacity is needed in instances where equity is provided by governments.

### A. Minimum threshold

MoFs public financial institutions require foundational capacity to:

- Undertake basic portfolio modeling (loss waterfalls, junior/senior tranche sizing) to understand how risk is shared across investors in a fund.
- Understand additionality and how finance can be catalytic.
- Manage related processes—track records, governance, oversee fee/carry terms, and pipeline quality.

- Document exit rationales to ascertain how and when public investors might exit, as well as target mobilization ratios.
- Curate impact KPIs (i.e., adaptation benefits quantified or emissions reduced).
- Structure basic capital stacks.
- Legal authority to invest in equity: MoFs, SOEs, or development banks must be legally allowed to buy equity stakes (directly or through funds), and to sell those stakes later.
- Fiscal risk reporting: Though equity is not debt, governments still understand that investing public money in equity carries risks, especially if it is first-loss/junior equity. These exposures should be disclosed in fiscal reports.

## **B. Requirements for full integration**

MoFs will require the capacity to:

- Structure layered capital stacks (first-loss/junior, mezzanine, senior equity) calibrated to minimum concessionality to make sure that public capital is only as concessional as strictly necessary.
- Actively manage portfolios, including setting up investment committees, tracking financial performance, tracking climate outcomes, and creating incentives.
- Oversee technical assistance (TA) facilities, running the grant-funded side of blended funds, helping SMEs improve governance, financial management, and climate reporting.

## **C. Pathways to build capacity**

Ministries and local financial actors can:

- Use OECD DAC-style checklists to ensure that equity investments follow blended finance practice (i.e., mobilization, transparency, market-building).
- Embed experienced fund structuring advisors to assist government staff during the first deals to provide hands-on support.
- Secure co-investment with DFIs/the Green Climate Fund Private Sector Facility.
- Develop standard term sheets and model LP agreements to speed diligence and ensure consistency.

# **REGULATORY CAPACITY REQUIREMENTS**

*The MoF and local financial institutions must operate in a jurisdiction where the broader regulatory environment supports a functional and trustworthy private equity ecosystem and public equity markets. This includes the legal, institutional, and supervisory frameworks necessary to govern the formation of equity funds, securities exchanges, investor protection, and climate-related financial disclosures.*

## A. Minimum threshold

MoFs need at a minimum:

- Fair selection of fund managers: There must be clear and transparent rules for choosing which private equity funds or managers receive public capital, to avoid favoritism and ensure competition.
- Clear legal frameworks allowing private equity fund formation.
- Rules for stock exchange listings and public offerings (i.e., IPOs).
- Licensing requirements and oversight for fund managers.
- Basic ESG and climate-risk disclosure obligations for listed entities and investment funds.

## B. Requirements for full integration

Blended finance guidance: Clear policies on when and how concessional climate equity flows should be established, in combination with private investment, and ensure a minimum concessional and transparent reporting of mobilized finance.

- Domestic investor regulations: Guidance for pension funds, insurers, and other local investors so they can safely invest in climate equity without breaching risk limits.
- Impact and reporting standards: Agreed rules on how to measure results, value equity positions, and show them in government accounts.
- Criteria to classify eligible green and transition activities, ensuring consistency across funds and listed instruments.

## C. Pathways to build regulatory readiness

- Issue policy notes (aligned to OECD DAC guidance) explaining how concessional equity should be structured, with caps, sunset clauses, and transparency rules.
- Create a roster of pre-approved fund managers to streamline selection processes.
- Update local investment regulations so that domestic institutional investors (pensions, insurers) can take part in climate equity funds, but with safeguards.
- Strengthen concessional equity and exchanges: securities regulators must ensure disclosure of material ESG-related risks, uphold investor protection, and maintain fair, efficient, transparent markets to support capital-raising.
- Harmonize fund registration and disclosure standards across EMDEs to attract cross-border private equity investment.

## FINANCIAL MARKET READINESS

### A. Shallow markets

- **Characteristics:** Very limited private equity ecosystem; Few or no experienced fund managers; Small deal sizes, often fragmented; Weak or non-existent exit opportunities (IPOs, trade sales).
- **Constraints:** Hard to attract private LPs (limited credibility, small pipeline); High transaction costs per deal; Little domestic institutional investor participation.
- **Applicable solutions:** Regional funds with public junior/first-loss equity to pool projects across countries; Use of cornerstone commitments from DFIs or governments to help funds reach first close; Pair funds with grant-funded technical assistance (TA) to strengthen investees.
- **Readiness pathways:** Aggregate small projects into platform vehicles; Provide TA to build pipelines of bankable investments; Demonstrate a few successful exits to signal viability to local investors.

### B. Emerging markets

- **Characteristics:** Some domestic investor appetite, particularly from development banks and pension funds, but limited. A pipeline exists, but this is modest and uneven. Early signs of exit and public equity/stock market activity, but with limited liquidity. Some local fund managers.
- **Constraints:** Exit options but not yet reliable; limited capacity for local investment banks to underwrite public equity offerings and facilitate equity trading. Many local fund managers lack long track records, which makes investors cautious. Investment opportunities are often too small for institutional investors.
- **Applicable solutions:** Bringing in TA facilities to improve investee governance and reporting. Incentivize larger investors through co-investment rights. Blended funds with first-loss or junior equity tranches.
- **Readiness pathways:** Support managers with capacity-building and TA. Provide anchor commitments that taper as private capital comes in. Standardize diligence processes to cut costs and staff time.

### C. Mature markets

- **Characteristics:** A wide pool of experienced fund managers and institutional investors (pension funds, insurers, sovereign wealth funds) already exist; many investable climate projects, particularly in renewable energy and infrastructure; exit routes are well-developed (i.e. through stock market listings, mergers, or acquisitions). Domestic institutional investors are active in private equity.
- **Constraints:** Concessional equity is harder to secure as markets are already deep. Large amounts of concessional finance can push out private investors (who are ready to invest without subsidies). Market focus is skewed towards mitigation (i.e., renewable energy) rather than adaptation.
- **Applicable instruments:** Introduce impact-linked incentives so that fund managers are motivated to achieve climate and resilience outcomes. Only use time-bound concessional equity, focused on areas where the market under-invests (i.e., adaptation, water resilience).
- **Readiness pathways:** Gradually phase out concessional equity as domestic capital markets deepen and commercial investors are more comfortable with diversifying investments in 'riskier' climate projects. Broaden investment options to attract a wider range of mainstream investors.

## PRICING CONSIDERATIONS

### Factors affecting cost:

- **Stage of investment:** Early-stage ventures and adaptation SMEs are riskier, so investors expect higher returns. Large, proven infrastructure projects usually command lower required returns.
- **Sector differences:** Nature-based solutions and climate-smart agriculture can have delayed or uncertain revenues, which increases perceived risk and required returns.
- **Country risk:** Macroeconomic risks in emerging markets push up the return thresholds investors demand.
- **Exit prospects:** The harder it is to exit, the higher the expected return to compensate.

**Role of concessional support:** A crucial role—public or philanthropic equity can deliberately accept below-market returns to improve the risk-return profile for commercial investors, i.e., first-loss/junior equity, anchor investments, or capped returns.

## TIMEFRAME TO DEPLOY

- **Fund-level equity commitments:** Around 3–9 months from mandate to first close, depending on pipeline readiness and investor appetite. If a new technical assistance facility is established, timelines may be extended.
- **Direct/project equity:** Around 3–12 months, depending on due diligence, permits, and co-investor alignment.
- **Listed concessional equity funds or trusts:** Slightly faster (days to weeks) as they trade on exchanges, but subject to market conditions and liquidity.

## KEY CHALLENGES TO UPTAKE

- **Technical:** Sizing first-loss tranches appropriately; aligning fund manager incentives with profit and climate outcomes; weak monitoring systems for climate impacts.
- **Market:** Lack of investable projects (especially for adaptation-focused solutions); small deal sizes that may not attract large investors; uncertain exit options in many emerging markets.
- **Legal:** Governments *may* lack legal authority to invest in equity; procurement challenges in selecting fund managers.
- **Institutional:** MoFs may not have staff experienced in private equity transactions; potential limited coordination capacity between MoFs, development banks and DFIs.

## HOW TO ADDRESS KEY CHALLENGES

- **Practical steps for ministries and partners**
  - Standardizing repeatable templates (for term sheets, LP agreements, impact KPIs, etc.)

- Cap first-loss equity at the minimum needed and include sunset clauses to exit public capital over time.
- Pair with technical assistance.
- Improve monitoring: Track mobilization, climate impacts and exits, publish results to build market confidence.
- **Role of donors/DFIs**
  - Provide catalytic first-loss or anchor commitments.
  - Co-invest with governments to transfer skills and confidence.
  - Offer TA grants alongside equity to improve project pipelines.
  - Support regulatory reforms to allow local institutional investors (pensions, insurers) to safely participate.

## RELEVANT SOURCES

- [OECD DAC \(2025\) Blended Finance Guidance – principles and capacity frameworks](#)
- [OECD \(2021\) Measuring Distortions in International Markets: Below-Market Finance](#)
- [Convergence Blended Finance Knowledge Hub:](#)
  - [\(2025\). Practical guidance to scale blended finance: First-loss structures, transaction templates, market insights](#)