



ILX Management - Submission to the Baku to Belém Roadmap to 1.3Tn

Call for submission: [UNITED NATIONS](#)

Deadline: 21 March 2025

On behalf of ILX Management please find below the input to the key issues raised for the Baku to Belém Roadmap.

(a) What are your overall expectations for the “Baku to Belém Roadmap to 1.3Tn”?

We expect this paper to clearly outline the key steps required to unlock the 1.3 trillion private financing target as part of the New Collective Quantified Goal on Climate Finance (NCQG). It should first highlight which **actors** (i.e. pension funds, sovereign wealth funds) and which **asset class types** (private credit/equity products which deliver fresh capital to sub-investment grade Emerging Markets (EMs) projects where public markets cannot) can be most effective in financing the low-carbon and resilient transition. It should subsequently highlight the **investment barriers** faced when channelling funds towards emerging markets (i.e. investor biases and perception of risk in EMs, private vehicles investment vehicles costs and learning around setting up EM-focused private investment vehicles, regulatory barriers related to solvency & capital requirements in EMs), and identify the **priority actions** required to scale the innovative financing solutions that can overcome these barriers.

(b) Which topics and thematic issues should be explored to inform the Roadmap, within the scope of the mandate?

- 1. Attention should be on private financing solutions that are proven to work, and scalable:** The narrative that blended finance is the ultimate solution for mobilising private capital into emerging markets should be reconsidered. This approach is not scalable due to its dependence on public sector concessional capital. Rather, the focus should be on scaling financing solutions that are accepted by market-based investors and do not require concessional blending. This approach reserves public capital for high-risk, low-income segments, ensuring a more efficient use of resources. Blended finance should complement rather than compete with institutional capital, which can ensure that both public and private sectors work together effectively. For example, strategies that involve investing in emerging markets alongside Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) should be explored, as demonstrated by the ILX business model, which shows that full risk-sharing co-investment alongside MDBs and DFIs can be achieved without blending.
- 2. Scrutiny of Blended Vehicles:** Blended vehicles at the vehicle level should be carefully scrutinised due to potential market distortions and transparency issues regarding which projects receive blending. When a vehicle-level blended vehicle is necessary, the rationale should be clearly defined, particularly for high-risk mandates in Low-Income Countries (LICs), equity structures, and new technologies that systematically require blending across projects.



3. **Role of MDBs in Climate Financing:** The critical role of MDBs in mobilising large-scale financing toward climate initiatives in emerging markets must be recognised. Their business models should evolve to incorporate risk-sharing across their portfolios, where private capital can be more readily mobilised. To ensure profitability and additionality, MDBs should focus on financing riskier areas, thereby supporting markets where private capital is more difficult to mobilise, even with MDB assistance.
4. **Importance of Pension Funds:** Pension funds should be acknowledged as key mobilisation partners due to their characteristics as long-term investors, evolving mandates increasingly seeking to contribute to sustainability issues and their enormous financing potential. Globally pension funds are managing trillions of dollars, and in the Netherlands alone, pension assets were approximately EUR 3.37 trillion in 2023 (Statista, 2023). To unlock institutional capital it is essential to address the information asymmetry between institutional investors and MDBs. This requires comprehensive data on asset performance, risks, and impacts. Stakeholders must learn to utilise the Global Emerging Markets Risk Database (GEMs) data to understand development finance as an asset class rather than focusing solely on project-specific returns.

(c) What country experiences, best practices and lessons learned can be shared related to barriers and enabling environments; innovative sources of finance; grants, concessional and non-debt creating instruments, and measures to create fiscal space?

The ILX model introduces pension funds to development finance as a novel asset class, aiming to unlock their investment potential for climate finance and Sustainable Development Goals (SDGs). ILX invests in development finance assets by co-financing with MDBs and DFIs and adhering to their environmental and social safeguarding requirements. In 2022, ILX Fund I was launched with a USD 1.05 billion commitment from Dutch pension funds ABP, pfBouw, and Pensionfund Vervoer. Fund II achieved its first close in November 2024 with commitments from Nordic pension funds, reaching an AuM of USD 1.7 bn.

The success of ILX as an innovative financing model lies in its ability to enable pension funds, which often have a knowledge gap when it comes to investing in emerging markets, to participate in a diversified portfolio of syndicated emerging markets private sector loans. This is achieved by co-investing with leading global MDBs and DFIs which have the best-in-class ESG and credit risk mitigation practices in emerging markets.

Co-investing alongside these global institutions delivers commercially attractive returns, as demonstrated by the GEMs database, which tracks the historical performance of the development finance asset class. Furthermore, ILX's performance shows that investing in emerging markets private credit can offer pension funds stability during market downturns, due to the low correlation with typical emerging market bond indices, thus providing diversification benefits. Additionally, the model supports pension funds' climate and SDG investing ambitions while helping MDBs leverage their balance sheets.

The ILX business model addresses several barriers:



1. **Perception of Risk:** It offers risk-adjusted returns that align with investor expectations, thereby addressing the perceived risk associated with emerging markets.
2. **Investment Vehicle Mismatch:** ILX aligns with the scale, time horizons, and risk/return requirements of pension funds, overcoming mismatches with alternative strategies.
3. **Investor Knowledge Limitations:** By partnering with MDBs and DFIs with significant track records in emerging market investing, ILX helps bridge the knowledge gap and provides the necessary resources for informed investment decisions.

(d) Which multilateral initiatives do you see as most relevant to take into account in the Roadmap and why?

The most relevant channel for delivering the private finance portion of the NCOGC is through the MDB and DFI system, which are currently the largest providers of climate finance through the development finance assets class and play a crucial role in mobilising the private sector by de-risking assets where financial markets are still developing. However, MDBs currently attract less than USD 1 of private capital per USD invested (IMF, 2022). Meanwhile, global pension funds managing trillions of dollars are increasingly seeking climate investment opportunities. Estimates suggest that over half of the external financing required by EMs will come from the private sector, with more than half of this being catalysed by MDBs and other DFIs (IHLEG, 2023).

References

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