BLENDED
FINANCE
TASKFORCE

PROGRAMME OF ACTION

“Mobilising private capital for the SDGs at scale”

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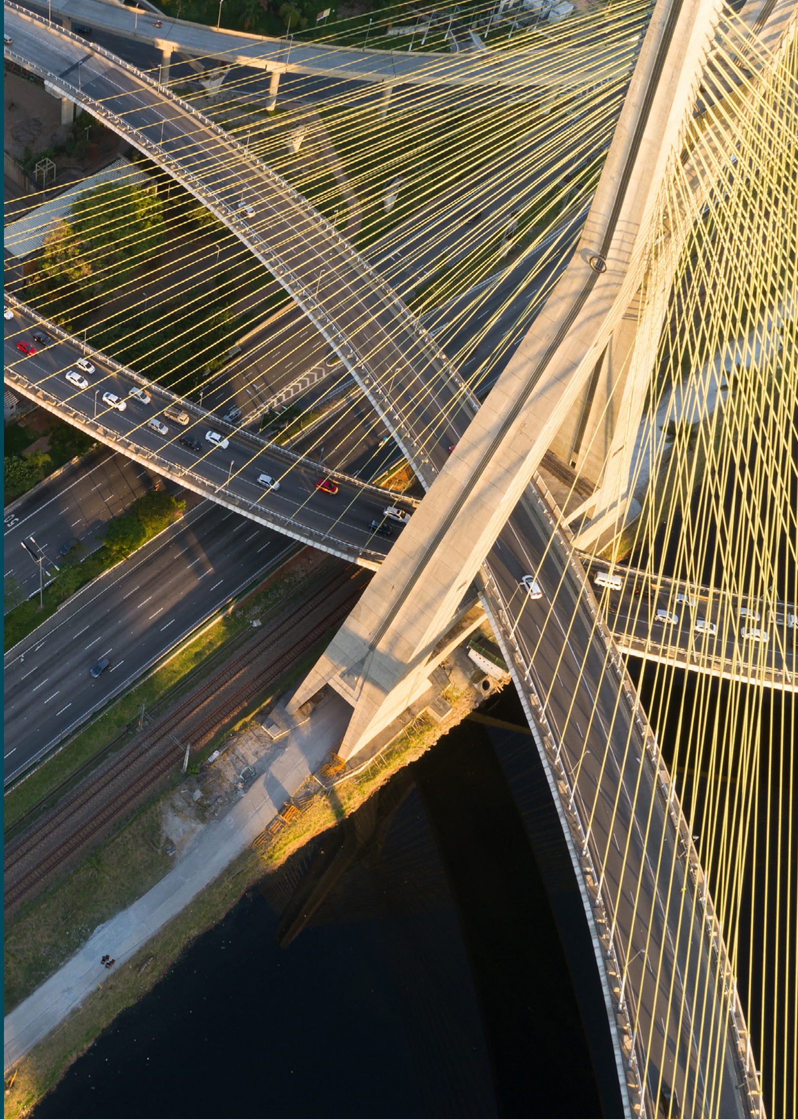

Programme of Action: 8 key initiatives

1. **Mobilisation:** Provide a clear, ambitious proposition on MDB/DFI mobilisation targets in line with the requirements of the Paris Agreement and the SDGs.

2. **Investor club:** Form a high ambition club of institutional investors and asset managers, willing to commit to sustainable infrastructure targets (e.g. 2% by 2020 and 5% by 2025).

3. **Regulatory disincentives:** Support the launch of a standardised development guarantee and accelerate amendment to financial regulations (e.g. Solvency II and Basel III) which currently disincentivise investment in emerging markets and infrastructure.

4. **Infrastructure data:** Drive greater access to data on infrastructure performance (including historical MDB/DFI data) as a public good to help build infrastructure as an asset class.

5. **Blended finance vehicles / instruments:** Double capacity for long-term FX hedging instruments to support deepening of local capital markets; profile existing blended finance vehicles to support scale up.

6. **Private intermediaries and incubators for pipeline:** Work with investment platforms, incubators and foundations to seed new blended finance intermediaries (e.g. 20 by 2020) to drive project pipeline and ensure innovation as well as scale, especially in frontier markets.

7. **Investment for priority sectors:** Dramatically scale private investment for resilient cities, sustainable land-use (+ ocean plastic, energy access) by developing blended finance strategies for high-impact sectors.

8. **Blended finance capacity in developing countries:** Create a network of blended finance funds and initiatives to share knowledge and build capacity to drive sustainable growth and deliver the Paris Agreement and the SDGs.

BLENDED **FINANCE** TASKFORCE

1. MDB/DFI private capital mobilisation

Initiative:

- Set or increase development bank targets for external private capital mobilisation and climate finance; create reciprocal performance dialogue between development banks and investors.

Targeted outputs:

- By **Bali Annual Meetings (Oct 2018)**, leading MDBs and DFIs have developed a strategy for increased private capital mobilisation.
- By **WB/IMF Spring Meetings (April 2019)** leading MDBs and DFIs have set enhanced mobilisation targets in line with Paris Agreement requirements.

Indicative champions:

IFC
European Bank
for Reconstruction and Development
IDB
EDFI
ODI

Purpose:

- Development banks are crucial intermediaries in the blended finance system. However their private sector mobilisation needs to significantly increase if we are to "hit the trillions" of investment into sustainable infrastructure and other SDG related assets in emerging markets.
- Beyond setting targets, increasing mobilisation will require development banks to improve their interface with private investors (e.g. streamlining processes and standardising products). But it also requires investors to acknowledge a development bank's real "risk-mitigation" benefits, and the reasons for their various constraints (which are often driven by their environmental, social and governance guidelines).

Role of the Taskforce:

- Work with leadership within the development banks and their shareholders on how to effectively drive more private sector mobilisation through incentives and target frameworks without compromising development mandates of the MDBs/DFIs.
- Facilitate a reciprocal performance dialogue and coordinate constructive feedback between institutional investors (investment banks, pension funds, insurers, asset managers etc.) and the development banks.

2. Investor Club

Initiative:

- Joint investor commitments to increase allocation for resilient and sustainable infrastructure.

Targeted outputs:

- By **Governor Brown's Global Action Climate Summit (Sept 2018)**, launch a high-ambition "Clean Investment Club" that commits to allocate [2]% of their portfolio to sustainable infra by 2020 and [5]% by 2025 in line with their fiduciary duties. By 2025, this would be about $0.5 trillion a year to sustainable infra and cover about a third of the estimated private sector funding gap.
- Commitments should come from asset owners, who should also mandate asset managers.

Indicative champions:

Purpose:

- Estimates suggest that the SDGs could translate into economic opportunities worth up to $12 trillion for the private sector. There is an estimated $2-3 trillion dollar annual "SDG funding gap" – the majority of which is needed for sustainable infrastructure (economic, social and natural) in emerging markets.
- Global institutional investors manage around $100 trillion AUM today - less than 1% of that is invested in infrastructure (with a few exceptions such as the Canadian pension funds). Only a fraction of this is going into emerging markets. An increase to [5]% by 2025 (in large part facilitated through green bonds) could facilitate a flow of roughly $0.5 trillion a year (which is roughly 1/3 of the estimated private sector funding gap).

Role of the Taskforce:

- Coordinate with - and build on - existing initiatives in the climate space including RE100, TCFD, Climate Action 100+ and the recent "Green Bond Pledge".
- Work with the investment community within the Taskforce network (including asset owners, asset managers and investment advisors) to drive the "Clean Investor Club" commitments which lead to meaningful increases in capital allocation to sustainable infrastructure assets, particularly in emerging markets.

3. Manage regulatory disincentives

Initiative:

- Develop standardised template for development guarantees; address regulatory disincentives to investing in sustainable infrastructure and emerging markets (e.g. Solvency II, Basel III).

Targeted outputs:

- Financial regulations (e.g. Basel III) which disincentivise G20 banks from lending in emerging markets is on the **G20 Leaders Summit (Nov 2018)** agenda.
- By **Spring Meetings (April 2019)**, launch a standardised development guarantee template which is compatible with bank regulations.
- By **2020**, financial regulation (e.g. Solvency II for insurers) is no longer cited as a disincentive to invest in emerging markets or infrastructure.

Indicative champions:

Financing a Sustainable European Economy; Milken Institute; Allianz; USAID From the American People; G20 Argentina 2018; Sida

Purpose:

- European insurers hold more than €9.6tn of investments and US insurers have total assets of more than $8.5tn. But insurers and other institutional investors are subject to a range of regulatory constraints which can act as a barrier to investing in infrastructure and emerging markets (e.g. "matching" liabilities and capital adequacy requirements under Solvency II).
- Banks are also subject to a range of regulatory constraints which can act as a barrier (e.g. liquidity and capital adequacy requirements under Basel III).
- Regulatory constraints can limit the effect of blended finance instruments. Under Basel III, most development guarantees will not qualify as high-quality liquid assets because they are not sufficiently tradable or transferable.

Role of the Taskforce:

- Engage with policymakers and others working on financial regulations issues, including the EC (following the release of its Action Plan on Sustainable Finance), the G20 and the development banks. Act as an advocate for Taskforce members and champions (e.g. Allianz) who are affected in order to rapidly accelerate solutions.
- Provide input to working groups on development guarantees, peer review standardised template, and ensure the deep expertise in the Taskforce network is brought into this work (including from Sida and USAID).

4. Availability of infrastructure data

Initiative:

- Increase access to performance data on unlisted infrastructure (debt and equity) to build benchmarks which are useful to investors.

Targeted outputs:

- By **Bali Annual Meetings (Oct 2018)**, release clear timeline to increase access to MDB/DFI performance data (e.g. GEMs database to be shared with EDHEC*infra* on an anonymised basis).
- By 2020, historical MDB/DFI data on infrastructure is available to all as a public good.

Indicative champions:

EDHEC*infra* Infrastructure Institute-Singapore

G20 ARGENTINA 2018

OECD

Moody's

Purpose:

- Although large amounts of capital have been raised for unlisted infrastructure funds in recent years, the vast majority has been for developed countries. There is a significant data gap when it comes to the historical performance of emerging markets infrastructure projects. Current public proxies are insufficient.
- The lack of data acts as a barrier for investment in sustainable infrastructure at scale and can lead to a higher perception of risk.
- The MDBs and DFIs have a long track record of investing in emerging markets and therefore have collective data pools on performance (e.g. GEMs database on default and recovery rates). If shared with other actors, such data can fill gaps for markets which lack statistically robust data and external rating agencies information.

Role of the Taskforce:

- Work with various public actors (MDBs/DFIs) and initiatives (including G20/OECD) to accelerate the release of emerging markets infrastructure performance data to the wider investor audience.
- Support and raise awareness across the private and public sector about new tools and data benchmark providers that are emerging (such as EDHEC*infra*).

5. Scale blended finance vehicles / instruments

Initiative:

- Support existing blended finance vehicles or instruments to scale faster – especially those which address key investor risks and support development of local capital markets.

Targeted outputs:

- By **2020**, capacity for long-term, cost-effective FX hedging instruments has [doubled] (e.g. scale up of TCX's infrastructure activities from [5]% to [20]%).

- By **2020**, existing blended finance vehicles across various sectors have scaled significantly, [on average, doubling in size] (e.g. AgDevCo; CIO; EAIF; BEFF) and / or have been successfully replicated (e.g. TLFF capital market structure applied to other sectors).

Indicative champions:

Purpose:

- Currency risk is one of the major barriers to investing in emerging markets. Weak local capital markets and a lack of FX hedging instruments makes it difficult to create access to long-term, local-currency finance in developing countries.

- We need to accelerate the growth of blended finance tools which develop local capital markets and address key barriers to investment like FX risk.

- In order to deepen the market, we also need to see a dramatic scale-up in the size of existing blended finance vehicles, and a replication of successful blended finance fund structures, moving from many fragmented $100 million funds, to a growing number of vehicles, each with at least $[500] million of capital or more.

Role of the Taskforce:

- Support existing providers of blended finance instruments with a proven track record of offering long-term solutions to mitigate key investor risks (e.g. TCX) to effectively and efficiently scale up operating capacity.

- Work with existing blended finance funds (e.g. AgDevCo) to support scale up and replication, including by profiling them within our networks.

6. New private blended finance intermediaries and incubators for pipeline

Initiative:

- Accelerate creation of new private sector blended finance intermediaries and pipeline development through seed funding and support.

Targeted outputs:

- By **Governor Brown's Global Action Climate Summit (Sept 2018)**, [5] leading foundations com mit to ambitious blended finance strategies targeting [5]% of their activities for blended finance by **2020**.
- By **2020**, [20] new blended finance intermediaries with clear pipelines in priority sectors (including sustainable land use, resilient cities and ocean plastics) have been seeded using philanthropic and development capital, investment platforms and incubators.

Indicative champions:

USAID FROM THE AMERICAN PEOPLE

SUSTAINABLE DEVELOPMENT GOALS

Partnerships for Forests

Center for Global Development

The Lab Driving Sustainable Investment

SYSTEMIQ

+ Leading foundations

Purpose:

- A lack of bankable projects is a major barrier to investing in the SDGs. This is even more acute in frontier markets, or less mature sectors where returns are hard to monetise. Pipeline is crucial.
- There are few private intermediaries (asset managers / project developers) who have the skills and capacity to blend capital. BF vehicles tend to be expensive and take a long time to set up. Programmatic tools which offer seed funding to support early stage SDG / BF ventures are rare.
- Foundations represent some of the world's most mission-driven and flexible asset holders, managing just over $1 trillion in assets (~0.5% of total global AUM). They are ideally placed to support pipeline development and bridge early stage funding gaps and can be even more effective by pooling resources to mobilise capital.
- Development agencies, "incubators" and investment platforms (especially for high-impact sectors in frontier markets) are also critical to addressing these gaps.

Role of the Taskforce:

- Explore ways to pool philanthropic resources e.g. by establishing an **SDG GP Seed Fund** with key foundation partners to provide seed funding for BF vehicles using best practice to [halve] typical start up time and costs.
- Work with incubators, BF platforms, fund managers etc. to share learnings about accessing BF capital, expand to priority sectors, and design projects with end financing in mind. Support dev agencies as they pioneer ways to crowd in largescale capital to seed BF intermediaries and programmatically develop pipeline.

7. Drive investment for priority sectors

Initiative:

- Increase capital flows to high-impact sectors including resilient cities, sustainable land-use, [ocean plastics, energy access +] by making them more "investable".

Targeted outputs:

- In **2018**, pilot blended finance strategy for [2] priority sectors including: (a) **resilient cities**; and (b) **sustainable land-use**.

- By **2020**, investors describe sustainable land-use as part of an existing asset class as a form of "natural" infrastructure (e.g. real assets / commodities).

- By **2020**, % of green bonds invested in **resilient cities** in developing countries increases from <1% to [5]%; % of green bonds in **sustainable land-use** increases from <1% to [5]%; direct investment into these sectors [doubles].

Indicative champions:

Forest Trends, The Rockefeller Foundation, 100 Resilient Cities (Pioneered by the Rockefeller Foundation), Climate Policy Initiative, Norway's International Climate and Forest Initiative (NICFI), Unilever, Climate Bonds Initiative, The Nature Conservancy

Purpose:

- High-impact sectors are often extremely undercapitalised (e.g. urban resilience and sustainable land-use because they do not fit into typical asset allocations or have untraditional business models.

- We need to profile initiatives which are currently working, and pilot new structuring solutions with an emphasis on "learning by doing" to demonstrate the investability of priority sectors. Linking this work to the low carbon pathway and green bonds initiatives will also be important to get conservative capital flowing at scale.

Role of the Taskforce:

- Work with leading foundations, development agencies, project incubators, and sectoral / regional experts to develop blended finance strategies for priority sectors to make them more "investable" – including **resilient cities** (e.g. with Rockefeller's 100RC initiative, CBI, C40, Coalition for Urban Transitions); and (b) **sustainable land-use** (e.g. with P4F, TNC, Forest Trends, FOLU, NICFI, CPIC, CBI, CPI, G&B Moore Foundation).

- Use learnings from the clean energy sector to replicate successes when developing blended finance strategies for nascent sectors. Profile interim progress at Governor Brown's Global Action Climate Summit (Sept 2018).

8. Build developing country blended finance capacity

Initiative:

- Create a platform of blended finance funds and initiatives to build developing country capacity; drive collaboration across blended finance initiatives.

Targeted outputs:

- Blended finance is on the agenda at the **G7 Summit (June 2018)** to deliver goals for priority sectors e.g. for ocean plastics.
- At **Bali Annual Meetings (Oct 2018)**, launch a network for shared learning between blended finance initiatives in developing countries.
- Blended finance is part of the G20 Infrastructure Working Group agenda at the **G20 Leaders Summit (Nov 2018)** to drive investment for sustainable infrastructure.

Indicative champions:

Purpose:

- The enabling context and overarching policy environment for the "billions to trillions" agenda, along with momentum around blended finance, is growing (e.g. Paris Agreement, NDCs, TCFD, green bonds commitments & other investor-led climate focused initiatives, OECD and MDB/DFI blended finance working groups, platforms like the WEF's SDIP, Convergence, CPI's "Climate Finance Lab" and the G20 focus on infra).
- Building blended finance capacity in developing countries is critical. Countries with institutions that take a "programmatic" approach to pipeline development, and which can link national strategy, robust sustainability policies and strategic investment programmes tend to be able to mobilise more largescale commercial capital (both domestic and international).

Role of the Taskforce:

- Provide strategic support (along with UID and SMI) for the Government of Indonesia in preparation for the Bali Annual Meetings. Indonesia could become a model of developing country leadership for using blended finance as an enabler of the Paris Agreement and the SDGs for priority projects (e.g. urban transport, renewable energy, waste management, sustainable land-use).
- Contribute to and help coordinate existing blended finance initiatives by bringing a private sector voice to the broader policy and development discussions.

Indicative 2018 Timeline

January

- Davos (launch of “Better Finance, Better World)
- OECD Blended Finance Knowledge Exchange

February

- G20 Sustainable Finance meetings including OECD Long Term Investment financing workshop and G20 Infrastructure Working Group (London)

March

- Climate Bonds Initiative Annual Conference (London)
- Infrastructure Investor Emerging Markets Forum (Berlin)
- *Quarterly SteerCo Call*

April

- **WB / IMF Spring Meetings including Taskforce launch (Washington, DC)**
- Financing for Development Forum (NYC)

May

June

- *Quarterly SteerCo Call*
- Annual G7 Summit (Charlevoix)

July

August

September

- *Quarterly SteerCo Call*
- **Governor Brown’s Global Climate Action Summit (California)**
- UN General Assembly / Climate Week (NYC)

October

- **WB / IMF Annual Meetings including THK Forum on Blended Finance for the SDGs and Innovation (Bali)**

November

- G20 Leaders Summit (Buenos Aires)

December

- *Quarterly SteerCo Call*
- COP24 (Poland)

Value of the Taskforce and a coordinated programme of action

Collective ownership and accountability for blended finance agenda as a strategic imperative for delivering the Paris Agreement and the SDGs

Peer network of committed “champions” from the public and private sector

Potential for operational synergies and learning across different initiatives

Accelerator to help speed delivery and mainstreaming of blended finance change programmes – moving from individual initiatives to a systemic approach

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In partnership with

This programme will evolve as new champions join the different initiatives, and as we learn where there is the strongest practical momentum and prioritise efforts accordingly. While there is good agreement across the Taskforce on the overall shape of the plan, members do not necessarily agree with the exact wording of each initiative.


Become a champion:
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