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The Action Plan for Climate & SDG Investment Mobilization

For Emerging Markets & Developing Economies

High Level Summary

CONVERGENCE
BLENDING GLOBAL FINANCE

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

KEY TAKEAWAYS

- The development finance system currently provides and mobilizes just 5% ($240 billion)[1] of the $4.5 trillion in annual investment needed for Emerging Markets and Developing Economies (EMDEs)[2] to achieve the climate and Sustainable Development Goals (SDG) objectives.
- Private capital is crucial to closing this gap, yet the development finance system as a whole has averaged an anemic $45 billion/year of private investment mobilization[3] over the last five years.
- Five large investor groups representing over $130 trillion in assets under management[4] and a core group of donor governments and philanthropic foundations have together outlined an Action Plan for Climate and SDG Investment Mobilization, a roadmap that would more than double total investment into developing economies to $530 billion, including a significant increase in private investment mobilized to $286 billion, with no additional public sector financial resources necessary.
- The Action Plan builds on 15+ years of evidence and 750 blended finance transactions to address the two enduring constraints to greater long-term capital flows that build resilient societies: increasing the number of investable climate and SDG projects and increasing the supply of capital willing and able to invest in these projects in EMDEs.
- Key pillars include (i) increasing the supply of flexible catalytic funding that can be used to help investors mitigate key risks that are preventing them from investing in EMDEs at scale; (ii) establishing a Catalytic Funding Network and an Investment Mobilization Hub to coordinate stronger de-risking integration among MDBs/DFIs, donor governments, philanthropic institutions, and private investors, and (iii) empowering domestic financial intermediaries and capital markets.
- This report represents the High-Level Summary Action Plan for policymakers and executives. The Full Action Plan for practitioners can be found here.

BACKGROUND

A massive climate and SDG financing gap persists with no tangible increases in private investment mobilization over seven years, since the establishment of the SDGs and Paris Agreement laid out a critical role for the private sector. As the risks from inadequate action build within the system, their associated costs to public and private sectors alike in the future far exceed the cost of addressing them today. As the Addis Ababa declaration and the Paris Agreement underscored, public resources cannot, nor do they have to be, the entire solution to bridging these financing gaps. Global private investors are estimated to hold over $410 trillion in financial assets[5], with $16 trillion alone located in developing countries. These private pools of capital are arguably the most under-utilized resource on

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1 This $240 billion annual figure includes: (i) $140 billion of MDB and DFI annual investment commitments, (ii) one-third of the $170 billion of Official Development Assistance estimated to be allocated for investment, and (iii) $45 billion of total private investment mobilization reported by the OECD.

2 The Action Plan uses the expression Emerging Markets & Developing Economies which is the equivalent of the official development community's expression Low and Middle-Income Countries as defined by the OECD and World Bank.

3 OECD, Amounts mobilized from the private sector for development, averages for 2017-2020

4 The five large investor groups are the Glasgow Financial Alliance for Net Zero (GFANZ), Net-Zero Asset Owner Alliance (NZAOA), the Sustainable Markets Initiative, the Global Investors for Sustainable Development Alliance (GISD), and the Investor Leadership Network (ILN).

5 Financial Stability Board, Global Monitoring Report on Non-Bank Financial Intermediation 2021 Report

the globe despite their growing appetite for higher financial, social, and environmental returns possible in EMDEs. Leveraging just 1% of these financial assets would dramatically advance climate and SDG action and leverage the scale and sophistication of a new set of actors.

Higher real and perceived risk in EMDEs is a key barrier to private sector investment. A full 88% of EMDEs are classified as sub-investment grade, including 76% rated “B” or lower, falling outside the fiduciary mandate of most investors. With fewer tools to manage risk in EMDEs, private investors need public and philanthropic sector support to invest at the scale required. Unfortunately, the public and private sectors often operate in their own separate silos in EMDEs, sometimes crowding out each other’s investments rather than reinforcing comparative advantages. A deeper, strategic collaboration between public, philanthropic and private sectors can change this, helping the private sector manage risk and mobilize private investment at scale.

By adopting a more catalytic approach, grounded in blended finance principles already practiced by donor governments and philanthropic foundations, public and philanthropic resources can mobilize significantly greater sums of private investment focused on the world’s most pressing challenges. More public resources are not strictly required. What is required is a more intentional strategy to deploy some of the existing public and philanthropic resources strategically, one that emphasizes investing more in the long-term resilience that would begin to diminish the accumulated costs of climate and SDG inaction. This Action Plan for Climate and SDG Investment Mobilization lays out that strategy in five integrated pillars, providing a blueprint for a creative rethinking of how a portion of existing development finance and assistance resources are deployed.

This Action Plan has been a collaboration between public sector donor governments, philanthropic foundations, and five large investor groups identified in the Acknowledgments Section. It has been intentionally designed and drafted with two objectives:

- i Outlining a more effective and efficient development finance and climate finance environment that can significantly increase investment mobilization by addressing the constraints private investors themselves have identified publicly; and
- ii Not requiring any fundamental changes to the existing development finance and climate finance architecture.

For example, the Action Plan does not require any new public sector funding commitments, any new organizations, or any reforms that can only be undertaken in the medium or long-term. It has intentionally been designed and written to be fully implementable within 12 months, with an expectation that the Action Plan could increase investment provided and mobilized from the existing $240 billion to $530 billion annually.

All public and philanthropic resources contemplated in the Action Plan must be subject to high development and climate impact standards, including the five OECD Blended Finance Principles, development and financial additionality, and minimum concessionality.

THE ACTION PLAN FOR CLIMATE AND SDG INVESTMENT MOBILIZATION

Developed in consultation with over 100 public, philanthropic, and private stakeholders, the Action Plan identifies how a small amount of public and philanthropic financial resources can act as a system-wide catalyst, combining strategically with Multilateral Development Bank and Development Finance Institution (MDB/DFI) investments and private capital to drive systemic change.

The Action Plan responds to the Climate Finance Delivery Plan's call to consider the broader financial transition needed to implement Article 2.1(c) of the Paris Agreement, and calls for deeper public-private-philanthropic collaboration to address the two enduring constraints to greater long-term capital flows that build resilient societies: increasing the number of investable climate and SDG projects and the supply of capital willing and able to invest in these projects in EMDEs. While this collaboration has already begun, with more than 15 years of evidence and over 750 blended finance transactions behind it, efforts to date have been piecemeal without a specific plan for achieving scale. The five pillars enumerated below center around greater development community coordination with global and local financial actors that can de-risk the underlying investment risk in EMDEs to within private investor risk thresholds - creating a greater universe of investable projects and investment assets for investors to invest in at greater scale and impact. Over time, this partnership should lower the perceived risk of investing in EMDEs as private investors learn to assess, benchmark, and price that risk, as has been demonstrated in markets such as Colombia, Panama, and Turkey. Private investment flows would then increase organically and sustainably, with less and less de-risking assistance required over time from catalytic funding providers and MDBs/DFIs.

THE FIVE INTEGRATED PILLARS OF THE ACTION PLAN

The five integrated pillars of the Action Plan are designed to set the foundation for a coordinated mobilization approach across the development and climate finance systems:

PILLAR 1 INCREASE THE SUPPLY OF CATALYTIC FUNDING: CROWD IN A LARGER UNIVERSE OF RESOURCES & INNOVATION

Allocate some existing public and philanthropic financial resources to create a sizable and meaningful pool of flexible Catalytic Capital that can mobilize larger sums of private capital, focusing the sophistication and financial weight of global markets on climate and SDG investments and reducing growing pressure on public budgets and developing world indebtedness

PILLAR 2 MAKE MDBS & DFIS CATALYSTS OF MOBILIZATION

MDB/DFI shareholders establish a set of Key Performance Indicators (KPIs) for mobilization to forge a deeper investment mobilization and de-risking partnership with private actors to maximize their contributions to climate and SDG goals

PILLAR 3 MAXIMIZE INVESTABLE PIPELINE & IMPACT THROUGH MORE INTEGRATED DEVELOPMENT FINANCE & CLIMATE FINANCE SYSTEMS

Strengthen operational collaboration between providers of Catalytic Capital, MDBs/DFIs, and private sector investors to create investment assets that meet investors' fiduciary requirements and investment mandates, building portfolios of investable financial assets

PILLAR 4 PROVIDE INVESTORS ACCESS TO THE BEST INVESTMENT DATA & MOBILIZATION RESOURCES THROUGH AN INVESTMENT MOBILIZATION HUB

Improve enabling environment certainty and investment decision-making by establishing a Hub that curates the best investment data, platforms, and vehicles in one accessible resource

PILLAR 5 EMPOWER LOCAL CAPITAL MARKETS & FINANCIAL INTERMEDIARIES IN EMDEs

Deepen, broaden, and improve the ability of domestic financial markets and local financial intermediaries in EMDEs to drive local savings and cross-border funds into climate and SDG projects

The Action Plan's five pillars are not a panacea to solve every challenge in the developing world or address every issue requiring reform within the development finance system. Instead, they are a set of pragmatic and achievable solutions that seek to bind the current system closer together with the larger universe of private capital and market innovation needed to achieve the SDGs.

Only with a clear plan for private investment mobilization - coordinated across donor governments, philanthropic foundations, DFIs/MDBs, and the private sector - can the development community act with one purpose and support the achievement of the Paris Agreement and the SDGs.

ACTION PLAN OBJECTIVES & APPROACH

The Action Plan has been designed through a broad collaboration of development, development finance, blended finance, and private investment experts. It is an effective blueprint that is realizable in the short term and will not require any fundamental changes to the operations of donor governments, philanthropic foundations, MDBs/DFIs, and private sector investors. The Action Plan distills multiple public calls to action from private investors, the public sector, and philanthropic sector into a unified approach to increasing climate and SDG investment in EMDEs significantly.

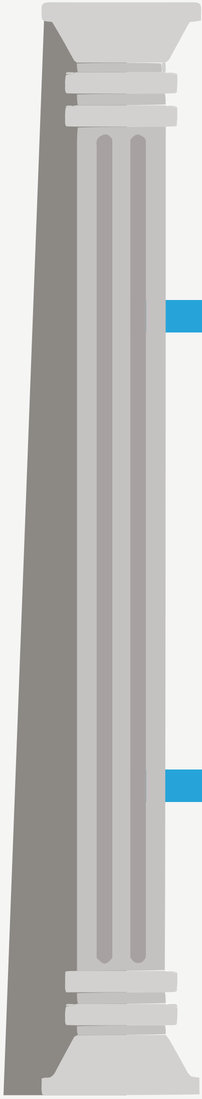
At its core, the Action Plan identifies how a small amount of public and philanthropic funds (approximately $13-15 billion per annum) can be re-directed to act as a system-wide catalyst, combining strategically with MDB/DFI investments and private capital to move the international system from $240 billion in annual investment to $530 billion, with no new budgetary resources appropriated. The Action Plan proposes to take a portion of funding from existing financial buckets and make it available to work in a more integrated fashion with the private sector to mobilize the scale and sophistication of their investment and expertise. For example, the Action Plan identifies how combining Catalytic Funding resources with MDB/DFI mezzanine investments can mobilize up to 14 times the average direct mobilization reported annually by the MDBs/DFIs (taking MDB/DFI private investment mobilization from $20 billion[6] to $286 billion annually).

The interventions identified in the Action Plan connect in the following ways. Pillars 1 and 2 reflect the quantum of risk capital needed to effect change at scale. Currently, there is simply not enough flexible, non-earmarked high risk funding in the system to create investable assets that would mobilize private investment at the scale required. Pillars 1 and 2 redirect a small portion of financial resources already in the development and climate finance systems, focusing them to work more collaboratively with private capital to mobilize investment at scale.

If Pillars 1 and 2 reflect the "What", Pillar 3 illustrates the "How": how to bring together Catalytic Funding providers, MDBs/DFIs, and private investors strategically and collaboratively to maximize the universe of investable projects and create investment assets that meet investors' fiduciary and regulatory obligations. Pillar 3 requires the scale-up of market-tested structures and approaches, creating more blended finance vehicles that can operate at the speed of the market and mobilize investment at scale. Pillar 3 additionally calls for increased investment promotion efforts and distribution of investable assets by MDBs/DFIs to stimulate a greater supply of investment assets.

Pillars 4 and 5, along with Complementary Activities A and B, are designed in concert to support the implementation of Pillar 3. By creating an Investment Mobilization Hub that curates the best available information, global investors would begin to learn how to independently evaluate and manage risks in EMDEs. Empowering domestic financial intermediaries and local capital markets would link local capital supply to local priority projects, and improving the local investment climate would optimize the core interventions in Pillars 1 and 2 aimed at creating a more integrated development finance system.

6 $20.6 billion reported as private direct mobilization in the MDB Mobilization of Private Investment Report 2019, Table A.4 page 42.



PILLAR 1:
INCREASE THE SUPPLY OF CATALYTIC FUNDING

OBJECTIVE: Create a critical mass of Catalytic Funding and a Catalytic Funding Network to mobilize private investment in a more integrated manner.

SUMMARY

- Private investors have the capital and intention to invest in EMDE assets with climate and SDG impact, but their fiduciary obligations to their retirees and shareholders and high risks in unfamiliar developing markets prevent them from making investment commitments. This is evidenced in numerous private sector reports like the Global investors for Sustainable Development (GISD) Alliance's Increasing Private Finance Mobilization Report.
- A more intensive de-risking strategy by donor governments and philanthropic foundations to create investable assets that meet private investors' fiduciary obligations would unlock private capital at scale and allow the private sector to develop the tools and experience to manage EMDEs' risks on their own.
- Catalytic Funding, comprised of grants and risk capital, is a primary tool donor governments and philanthropic foundations can use to de-risk investments in EMDEs and mobilize private investment at scale.

ACTIONS

- Redirect $13-15 billion per annum from existing development finance and climate finance resources and deploy them strategically and flexibly alongside the private sector to achieve investment mobilization at scale across climate and SDG objectives.
- Create a Catalytic Funding Network to spearhead this deployment of Catalytic Funding and build an evidence base for best practices.
- This Network would be a loose and decentralized association amongst numerous public and philanthropic organizations to optimize their deployment of Catalytic Funding, rather than a new organization.

1.1 CATALYTIC FUNDING FOR INVESTMENT MOBILIZATION

In most EMDEs, high perceived and actual risks are simply beyond the fiduciary limits of most mainstream investors. Although the investor groups and large investors who co-wrote this Action Plan have clearly signaled a growing appetite for *purpose investments*[7] that can generate higher financial and social returns in EMDEs, in most cases, the country risk is beyond investors' fiduciary obligations to their retirees, shareholders, and regulators. For example, only 12% of the 142 Low and Middle-Income Countries are rated investment grade, with 76% rated "B" (highly speculative) or worse by the Big 3 Rating Agencies. Private sector investments in those same countries are considered riskier, with most debt investment opportunities rated "B" and "CCC" – a long way from risk limits usually established by investors at "BBB" or "BB". International investors frequently adopt a similar rationale for equity investments.

7 Such as Environmental, Social and Governance (ESG), Sustainable Finance, Green Finance, Climate Finance, and Impact Investing mandates.

There is, however, a market-tested approach to address this binding constraint. Basic portfolio management in international finance has developed proven strategies to mitigate risk over centuries of market practice. More recently, donor governments and philanthropic foundations have adapted these market practices to development finance, establishing a core competency of using Catalytic Funding[8] and blended finance to transform non-fiduciary investment opportunities into fiduciary investment assets in the developing world.

Catalytic Capital is funding from donor governments or philanthropies in the form of a grant or a financial instrument that can be deployed to alter the risk-return profile of an investment opportunity, improving its risk profile and mobilizing the private investor to make an investment it would not otherwise make. Best estimates indicate $3-4 billion of Catalytic Capital is currently allocated annually in a highly fragmented way by donor governments and philanthropic foundations, with no agreed-upon strategy or objectives. This funding is often programmed in a restricted manner by sector, geography, or instrument, limiting its ability to scale and integrate with private investors, who manage risk by deploying capital more flexibly across countries and sectors. Approximately 70% of this funding has been allocated through MDBs and DFIs with limited private investment mobilization. Not surprisingly, these funds are currently estimated to mobilize low amounts of private investment – likely less than $15 billion per annum. Such siloed approaches have not led to a material increase in climate and SDG investment or private investment mobilization.

1.2 INCREASING CATALYTIC FUNDING AND COORDINATING THROUGH A CATALYTIC FUNDING NETWORK

In order to be effective, Catalytic Funding should be deployed intentionally alongside investors to address the barriers they face, creating investment assets with high financial additionality that would mobilize their private investment.

The proposed Catalytic Funding resource base of $13-15 billion[9] deployed strategically through blended finance, could mobilize $286 billion in private capital, seven times current levels of mobilization by the entire development and climate finance systems in a typical year, and 14 times the average private direct mobilization reported annually by the MDBs & DFIs. Total public, philanthropic, and private investment in climate would be expected to rise to $210 billion under this scenario.

These top-line mobilization numbers assume that a limited resource envelope of Catalytic Funding is allocated to the best private investment mobilization proposals globally, moving at the speed of the market and crowding in the innovation, sophistication, and depth of private sector actors and global capital markets. Scale-level success will require close partnership with MDBs/DFIs, with their participation as arrangers of assets, distributors of investments to blended finance vehicles, and investors in mezzanine investments to create fiduciary investment assets for private investors.

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8 In the Action Plan, **Catalytic Funding** is simplified to be deployed in two forms: **(i) Catalytic Grants** and **(ii) Catalytic Capital**, where the latter is deployed to accept disproportionate risk or concessionary returns, allocated in a manner that improves the risk-return profile of a blended finance transaction to mobilize a private investor to make an investment it would otherwise not be willing or able to make, since it lies outside its fiduciary and/or regulatory obligations. See Full Action Plan for a detailed explanation.

9 This $13-15 billion is equal to approximately 6-7% of all development finance and climate finance funds committed by developed country governments annually.

Effective governance of development finance and climate finance resources and the efficient allocation of Catalytic Funding will be as important as the quantum of Catalytic Capital. Excessive bureaucracy and inflexible funding streams have in the past created unworkable barriers to collaboration for a global private sector that must operate at the speed of the market. The past decade has provided numerous cases demonstrating the best value-for-money for Catalytic Capital is through transparent, competitive calls open to all good proposals globally.

The Action Plan proposes providers of Catalytic Funding form and join a Catalytic Funding Network that can provide a centralized collaboration network and starting point to guide Catalytic Funding providers in deploying their funds efficiently and with maximum impact. The Network could lead to the creation of several Catalytic Capital Facilities funded by public-sector organizations, and possibly philanthropic organizations, where funds would be awarded to five key mobilization Use Cases identified by the market (Table 3.1). Each facility would need a minimum amount of scale (e.g., $500 million per annum) to drive mobilization at scale and at the lowest cost. For each Catalytic Capital Facility, the Action Plan recommends investment decisions be taken by an expert investment committee drawn from a combination of the private sector and development finance communities. Governance and decision-making for each Catalytic Capital Facility would need to be streamlined, providing maximum operating autonomy to the Investment Committee to deploy capital with minimum bureaucracy. It is further recommended that Catalytic Capital Facilities be supported by a Catalytic Facility Manager appointed on a competitive basis who would help Catalytic Capital providers award their funds to the best proposals and centralize learning and success stories across the Catalytic Funders and Network Members. The Facility Manager would also ensure that proposals approved by the Investment Committee are profiled to Network Members for possible co-funding. The Facility Manager would also liaise with developing country governments to ensure that all Catalytic Capital Facilities are considering host country development and project priorities, such as Nationally Determined Contributions projects.

1.3 CATALYTIC FUNDING AND THE WAY FORWARD

In order to be effective, Catalytic Funding should be deployed intentionally alongside investors to address the barriers they face, creating investment assets with high financial additionality that would mobilize their private investment.

A relatively small amount of flexible Catalytic Capital, programmed alongside the MDB/DFI system and private investors, has the potential to significantly jump-start what has been a slow and low investment response to the climate and SDG goals. Stakeholders should begin with

- i The immediate creation of a Catalytic Funding Network of public and philanthropic organizations to optimally allocate Catalytic Funding and
- ii Over the first six months, the creation of one or more Catalytic Capital Facilities of minimum size to award public-sector (and possibly philanthropic sector) funds as Catalytic Capital.

In principle, the $13-15 billion envisioned in the Action Plan could be funded as new financial resources, but is more realistic to be re-directed to some of the existing financial resources in the development finance and climate finance system.

Short-term potential sources of co-financing or funding for Catalytic Funding include:

- A portion of the $63 billion of climate finance provided by developed countries – See OECD 2022 Climate Finance Provided and Mobilised by Developed Countries Report.
- Some of the funding pledged at COP 26 – see table.
- A portion of the $600 billion G7-led Partnership for Global Infrastructure and Investment.
- A portion of relevant multilateral climate funds, such as the Green Climate Fund, Global Environment Facility, and Climate Investment Funds.
- A portion of the Special Drawing Rights created by the IMF in April 2022 in its Resilience and Sustainability Trust Facility.
- Philanthropic contributions, including from foundations, individuals, and family offices. This OECD Report estimates foundations allocate $9 billion per annum to EMDEs. 20% of this, e.g., $2 billion per annum, could be possible.

In the medium term, likely source of funds could include:

- A percent of Official Development Assistance (ODA) could be targeted for mobilization for the entire period 2023-2030.
- A percent of climate finance could be targeted for mobilization for the period 2023-2030.
- A percent of the G-7 led $600 billion described in the G7-led Partnership for Global Infrastructure and Investment.
- Some repatriated and/or repurposed government funds contributed to trust funds established at the MDBs. Convergence estimates there is almost $50 billion in these trust funds – some of which have been idle/dormant for years. The World Bank Group has the largest amount ($40 billion) in more than 40 funds. A simple agreement between donor governments and the WBG would free-up some funds to be repurposed as Catalytic Capital.
- A portion of International Development Association (IDA) funds allocated for IDA-eligible countries.[10] For example, a portion of the $2.5 billion IDA Private Sector Window currently available exclusively to the World Bank Group.
- MDB/DFI profits – possibly 33% of annual profits allocated to this pool. This approach is already used at International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) (net income allocations).
- Unused MDB/DFI Capital – if the MDBs and DFIs are not able to fully deploy their capital in development assets by 2025, the shareholders could re-direct excess capital to Catalytic Capital.
- Corporate contributions from financial institutions and real-economy companies.

10 Countries with less than $1,200 GDP per capita. See World Bank Group definition.

PILLAR 2:
MAKE MDBS & DFIS CATALYSTS OF MOBILIZATION

OBJECTIVE: Align MDB/DFI[11] Objectives with the 2030 Agenda and a changed global economy.

SUMMARY

- MDBs/DFIs have tremendous capabilities, comparative advantages, and track records in EMDEs that should be leveraged further in a more integrated approach with donor governments, private investors, and philanthropic foundations.
- MDBs/DFIs can act simultaneously as creators and arrangers of investable projects and assets, mobilizers of private investment, and in some cases where the risk profile is consistent with their mandate, de-riskers to create fiduciary investment assets for investors.

ACTIONS

- MDB/DFI shareholders should govern them to align with the modern 2030 Agenda of investment mobilization through a set of KPIs, including increasing their investment and mobilization amounts beyond the current $160 billion[12] of annual gross financing and mobilization commitments (3.5% of the annual climate and SDG investment needs in EMDEs).
- MDBs/DFIs should fully deploy their capital in development assets, and maximize their arranging and financial distribution activities.
- MDBs/DFIs should provide mezzanine investments in blended finance structures, leveraging donors and philanthropic Catalytic Capital to create the investable assets that private investors will invest in at scale. MDBs/DFIs should collaborate in their private investment mobilization activities – each is too small to achieve scale, but scale can be achieved through collective action.

2.1 ALIGNING MDBS AND DFIS WITH MODERN CONDITIONS

After 50+ years sourcing, structuring, arranging, and investing in EMDE transactions, MDBs/DFIs have accumulated a unique set of relationships, institutional capacities, comparative advantages, and track records that should be fully harnessed to achieve the SDGs and Paris Agreement objectives. MDBs/DFIs, however, often operate within their own silos from an era when public capital was dominant in developing markets and is largely divorced from today's reality of a much deeper and broader universe of investment actors. MDB/DFI total financing and mobilization continues to be low – gross commitments equal about 3.5% of annual climate and SDG investment needs in EMDEs.

11 The organizations collaborating to write the Action Plan have engaged with MDBs/DFIs to formulate the Action Plan, but have not asked staff or management of the MDBs or DFIs to endorse the Plan. Pillar 2 is drafted to reflect the ambition of the MDBs' "Billion to Trillions" 2015 report, fully aligns with their existing mandates/operations, does not require any capital increases or changes to their foundations documents, does not suggest they take on risks they are not already bearing on their balance sheets, and has been drafted to ensure the MDBs/DFIs can maintain their AAA risk ratings

12 Comprised of around $140 billion of annual gross commitments from the main MDBs and developed-country DFIs, plus $20 billion of private direct mobilization reported by them.

The main MDBs/DFIs were established starting in 1945, well before the SDGs and Paris Agreement launched in 2015, and continue to pursue business models nearly identical to that era. Since then, there have been considerable changes in EMDEs and the global financial system. When the MDBs/DFIs were created, public dollars to EMDEs accounted for around two-thirds of all capital flows. Today, the situation is reversed, with the private sector making up the majority of capital flows.

The SDGs and Paris Agreement have become the north stars of the development community and highlight the imperative to boost private investment amidst the recognition that official development finance resources are not enough. Domestic financial markets in EMDEs have grown significantly in size and sophistication, presenting an opportunity to empower the developing world to chart its own responsible future through deeper financial integration.

This misalignment between the current global environment and the traditional development finance system means that in practice, public and private capital are often at odds, competing for a limited set of transactions instead of leveraging existing capabilities and resources to create a greater collection of investable projects and higher investment flows. In this new global reality, MDBs/DFIs should become catalysts of greater deal flow, larger investable portfolios, and capital mobilization. But as their respective institutional business models were neither constructed nor designed to mobilize private sector financing or to de-risk private investment as a core activity[13], small adjustments to their operations are required. Pillar Two aims to identify a crisp, concise set of MDB/DFI KPIs that would effectively move them away from a past era of public capital dominance and toward today's reality of a much deeper and broader universe of investment actors whose capital is required to address the climate and SDG challenges. The proposals are fully consistent with the July 2022 G20 Independent Review of MDBs' Capital Adequacy Frameworks.

2.2 UPDATING MDB AND DFI PRIORITIES

The proposed adjustments to MDB/DFI priorities distill advice from a number of stakeholders, including a number of large private investor groups dedicated to global impact. They would not require new capital increases, would leverage existing comparative advantages and have been designed to maintain MDB/DFI current risk ratings. These adjustments would create a more integrated public-private approach that can improve the flow of investable projects and investment assets and boost climate and SDG Investment.

MDB and DFI shareholders should establish a small set of strategic Key Performance Indicators that would guide MDB/DFI management to prioritize deeper integration with the private capital required to achieve the SDGs and fully embrace a de-risking partnership with donor governments and philanthropic foundations consistent with their existing risk mandates. This would simultaneously feed growing private sector appetite for EMDE assets while helping to mitigate the risks preventing the private sector from investing in those assets.

13 The Multilateral Investment Guarantee Agency (MIGA) is the only MDB or DFI whose primary business is to de-risk private investment, and it reports $1.7 billion of private direct mobilization to EMDEs. IFC is the most active to mobilize investment, reporting $9 billion of private direct mobilization.

MDB/DFI financial contributions to this more integrated approach would be through three types of financial commitments:

- (i) Originate and arrange higher amounts of financial assets in strong demand by investors, and distribute them to blended finance vehicles and investors.
- (ii) Invest in mezzanine positions in blended finance vehicles (as outlined in Pillars 1 and 3) aligned with existing MDB/DFI risk mandates, thereby creating more investment assets that meet the fiduciary obligations of private sector investors.
- (iii) Originate and arrange financial assets in low demand by investors, but having high financial and developmental additionality, and hold those assets on their balance sheets when they cannot be distributed to blended finance vehicles and investors.

The following MDB/DFI actions and KPIs, would significantly increase the quantity and quality of climate and SDG investment in EMDEs. Each MDB/DFI is unique and KPIs would need to be tailored accordingly, although a few key themes should be consistent for optimal results:

1. **Fully deploy balance sheet capital in development assets.** MDBs can leverage their balance sheet capital four to seven times, depending on their asset mix, and still maintain their existing ratings[14]. In aggregate, however, MDBs currently only invest approximately half of their balance sheet capital in development assets in EMDEs.[15] This is very conservative and much lower than required. Shareholders should require MDBs to deploy at least 90% of their balance sheet capital in development assets, leaving the other 10% and considerable sums of callable capital as a healthy risk reserve. With around $340 billion of aggregate balance sheet capital, and assuming existing development asset profiles, this would allow the MDBs to arrange and hold around $250 billion of gross new commitments annually. That would effectively double the existing amount of development assets on their balance sheets without a negative effect on their AAA credit ratings.
2. **Originate and arrange more total investment.** MDBs/DFIs should arrange significantly higher financing commitments annually, using their structuring expertise to create a broader and deeper universe of investable transactions for private investors. The Action Plan estimates the main MDBs/DFIs could arrange $390 billion of investment assets each year – retaining around $185 billion on their balance sheets and transferring around $205 billion to blended finance vehicles that would crowd in greater private sector participation, allowing the private sector to learn to manage developing country risk over the long term.
3. **Increase private investment mobilization.** MDB/DFIs, donor governments, and philanthropic foundations, working in concert, could collectively increase mobilization from about $45 billion annually across the entire development and climate finance systems, to $286 billion.

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14 The Big 3 Rating Agencies view private sector mandates like IFC (e.g., private sector loans and equity) to be higher risk than public sector mandates like International Bank for Reconstruction and Development (IBRD) (e.g., sovereign loans). Hence MDBs' leverage is constrained at lower leverage for private sector mandates and, overall, by existing ratings.

15 All hands on deck: how to scale up multilateral financing to face the Covid-19 crisis, Overseas Development Institute, April 2020 and Development Finance Institutions: the Need for Bold Action to Invest Better, Overseas Development Institute, April 2021

4. **Invest in mezzanine positions in blended finance vehicles.** MDB/DFI investment in mezzanine positions would maximize the benefit and leverage of donor and philanthropic Catalytic Capital, while allowing MDBs/DFIs to take less risk than donors and philanthropies in riskier junior positions. This would allow for the most efficient capital structure to mobilize private investors at scale.
5. **Increase financial additionality by prioritizing systemically under-supplied types of finance.** Instead of adhering to current practices weighted towards hard currency and senior loans, a more integrated approach would call for the MDBs/DFIs to ensure at least 50% of their capital supports financial assets with high financial additionality, such as equity, local currency loans, and mezzanine investment in blended finance vehicles.
6. **Increase investment to climate.** A reasonable target would be for over 35% of capital to support climate.

2.3 CREATE AND INVEST IN LARGE, BLENDED FINANCE VEHICLES THAT WILL MOBILIZE INVESTMENT AT SCALE TO EMDES

Today, the prevailing development finance system deploys its resources in silos, with different development actors crowding out each other and a larger universe of private sector intermediaries and investors, instead of harnessing each other's complementary strengths towards achieving the SDGs. A more explicit mobilization and de-risking strategy would require MDBs/DFIs and donor governments to use blended finance to apportion risk more effectively, create investable portfolios of transactions for the private sector, and crowd in the strengths of that wider universe.

MDBs/DFIs have a critical role to play in this more explicit strategy, using their capabilities and balance sheets to create investable projects and investment assets. Since Catalytic Capital provided by donor governments is, and will likely continue to be, scarce and limited by prevailing budgets, MDBs/DFIs can make each donor and philanthropic dollar of Catalytic Capital mobilize more private dollars by investing alongside them in mezzanine positions with acceptable risks.

Achieving the $530 billion of total investment envisioned in the Action Plan is estimated to require approximately $45 billion of mezzanine investment annually from MDBs/DFIs, but is well within the combined headroom of their existing balance sheets and would not negatively impact their AAA credit ratings. Without this mezzanine investment, Catalytic Capital from donors and philanthropic foundations would achieve only four times leverage and low levels of private investment mobilization, as opposed to the 14 times leverage and high levels of mobilization envisioned in the Action Plan.

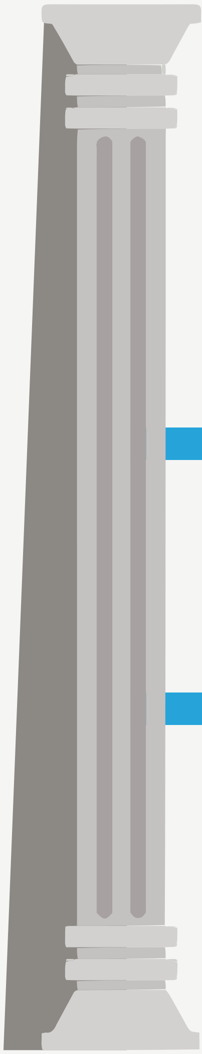
2.4 PROPOSED KPIS FOR MDBS AND DFIS

A small set of KPIs should be implemented by the shareholders of MDBs/DFIs to incentivize these institutions to move towards a more integrated mobilization agenda and de-risking approach alongside donors and the private sector. MDBs/DFIs are heterogeneous and the KPIs would need to be tailored to account for the specifics of each organization, including its particular mandates, policies, strengths, and geographic remit.[16] Table 2.4 summarises the proposed key benchmark KPIs from which organization-specific KPIs can be derived.

Table 2.4: *Proposed KPIs to align governance of MDBs/DFIs with the 2030 climate and SDG investment agenda (benchmarks that could be applied to formulate specific KPIs for each MDB/DFI)*

	OBJECTIVE	METRIC	EXPECTED IMPACT
A	Increase annual business volume commitments	Minimum increase in financial commitments from 2019 levels: i) 50% by 2023 ii) 100% by 2024, and iii) 200% by 2028.	Increase MDB/DFI annual financial commitments from approximately $140 billion per annum currently to (i) $390 billion gross arranged and (ii) $45 billion mezzanine in blended finance vehicles by 2028. These commitments would be beyond their current balance sheet capacity of approximately $250 billion annually – thereby obligating MDBs/DFIs to act as true mobilizers: transferring $205 billion of gross arranged to private investors.
B	Maximize deployment of shareholders' equity in development assets	Minimum 90% of balance sheet capital deployed in development assets	Double annual financial commitments and double portfolio of development assets.
C1	Increase private investment mobilization	Target 1:1 public : private leverage ratio for public sector A-B loans; Target 1:3 public : private leverage ratio for private sector loans	Double financial volume of commitments to public sector investment and mobilize an equal/ comparable amount of private investment;. Quadruple financial volume of commitments to private sector and mobilize three times amount of private investment.
C2		Minimum of 20% of capital deployed in mezzanine investment in blended finance structures	Drive the creation of investable asset portfolios for the private sector, maximizing their participation. Leverage up scarce donor Catalytic Capital. Drive an increase in aggregate climate and SDG investment from around 4% of actual investment needs to 10-12%.
D	Increase commitments to climate	Minimum 35% of capital deployed in climate finance assets	Ensures a healthy percent of capital supports Paris Agreement goals andcontribute to the mobilization of the $210 billion envisioned by the Action Plan.

16 For example, IFC has much greater capacity and likelihood to mobilize private investment compared to IDA.



PILLAR 3:
MAXIMIZE INVESTABLE PIPELINE & IMPACT THROUGH MORE INTEGRATED DEVELOPMENT FINANCE & CLIMATE FINANCE SYSTEMS

OBJECTIVE: Optimal deployment of Catalytic Capital in conjunction with MDB/DFI and private sector investment.

SUMMARY

- Given high country risk in EMDEs, Catalytic Capital that creates fiduciary investment assets for private investors is the most important ingredient to significantly increase climate and SDG investment in EMDEs.
- Catalytic Capital will likely be systemically under-supplied relative to demand; therefore, it should be optimized through collaboration with other sources of risk capital and competitive calls for proposals to fund the best ideas globally.

ACTIONS

- The Action Plan identifies five critical use cases for Catalytic Capital, and how to allocate this limited funding for optimal results based on 15 years of blended finance practices.
- Catalytic Capital should prioritize creating investment assets that are standardized, publicly listed, and traded. This would open up EMDE investment opportunities to virtually all investors, and over time, increase transparency and the supply of capital, decreasing the cost of capital.
- Allocating Catalytic Funding in the Action Plan does not require new institutions. Existing organizations in both the public and philanthropic sectors already have the capability to deploy Catalytic Funding.

3.1 INTEGRATING DEVELOPMENT FINANCE ACTORS AROUND CATALYTIC CAPITAL

To create more integrated development and climate finance systems, the Action Plan brings together providers of Catalytic Funding, MDBs/DFIs, and private investors in a more coordinated effort explicitly designed to simultaneously scale investment appetite on the supply side while increasing the number of investable assets on the demand side. It includes a number of direct and cross-cutting activities to increase the universe of investable projects.

In articulating the “how” of mobilization, there are three intentions in mind:

(i) Increasing SDG and climate investment with strong development and climate impact, high financial additionality, and minimum concessionality

(ii) Maximizing the benefit of a limited amount of Catalytic Capital that has the ability to de-risk investment opportunities to create fiduciary investment assets

(iii) Creating investable projects, investment assets, and portfolios of investment assets to increase the pipeline of deals that attract private capital.

The solutions advocated in Pillar 3 stem from recommendations provided by investors, experts, and leading reports on mobilization and blended finance published in 2021-2022.[17] They also reflect insights from several years' worth of blended finance workshops bringing together multiple public, philanthropic, and private stakeholders. The five use cases described below have been designed based on this corpus of feedback and extensive research of 750 blended finance transactions in Convergence's Historical Deals Database.

The Action Plan proposes that Catalytic Capital be allocated using these five market-tested use cases and designed to be sufficiently flexible in responding to innovations and ideas. Catalytic Capital Facilities should be of a minimum size of $500 million to attract the global institutional capital that is required to achieve the SDGs.

Through the five use cases, the Action Plan identifies how to allocate Catalytic Capital to the most efficient and effective investment structures that create investable projects that would attract private investment. Catalytic Capital Facilities should also mobilize investment from deeper public markets that are considered more transparent by investors, either through public listings or the creation of tradable notes. To date, almost all development finance, blended finance, and mobilization transactions have been completed in private markets – limiting the scope of mobilization significantly. Experts and practitioners agree on the need to increase the number of transactions completed in public markets. Public markets would open up participation to a greater number of prospective private sector investors, broadening the investor base. The Action Plan includes specific actions to increase the percentage of investment transacted in public markets – both in EMDEs and international capital markets — to provide more standardization, transparency, and access for investors.

Table 3.1: *Awarding Catalytic Capital to mobilize private investment through competition: Five use cases*

Use Case	Investment Channel in EMDEs	Main Risk to De-Risk
1	Project-level risk mitigation (project development, credit enhancement, guarantees, insurance, and other risk mitigation approaches) and portfolio-level risk mitigation: Catalyzes loans and equity investments arranged by private sector, MDBs/DFIs, and mobilizes private investment	Improving commercial risk at project or loan-level Transform projects from non-investable to investable
2	Portfolio-level risk mitigation of loans to private sector borrowers: Catalyzes loans arranged by MDBs/DFIs and private sector financial intermediaries and mobilizes private investment	High country risk at portfolio level
3	Portfolio-level risk mitigation of equity investments to private sector projects, companies, and financial institutions: Catalyzes investments arranged by private sector, MDBs/DFIs, and mobilizes private investment	High country risk at portfolio level
4	Portfolio-level risk mitigation of loans to public sector borrowers (sovereign and sub-sovereign): Catalyzes loans arranged by MDBs and mobilizes private investment	High country risk at portfolio level
5	FX risk: Catalyzes loans and equity investments arranged by private sector and MDBs/DFIs and mobilizes private investment	High currency risk at project and portfolio level

17 See footnote 4.

PILLAR 4:
PROVIDE INVESTORS ACCESS TO THE BEST INVESTMENT DATA & MOBILIZATION RESOURCES THROUGH AN INVESTMENT MOBILIZATION HUB

OBJECTIVE: Create a centralized Investment Mobilization Hub for investors that contains the best investment data and mobilization resources.

SUMMARY

- All private investment groups identify poor access to investment data and transaction information in EMDEs as significant barriers to investing in unfamiliar countries.
- This limits investors' ability to understand, assess, benchmark, price, and manage risk, making them unwilling or unable to invest.

ACTIONS

- The Action Plan calls for the creation of a centralized, curated Investment Mobilization Hub to increase investor knowledge and access to data on investing in EMDEs.
- The Hub would be established and curated by a Hub Manager whose main KPI would be to increase private sector investment in EMDEs.

4.1 AVAILABILITY OF BEST INVESTMENT DATA

The transaction-centric work in Pillars 1-3 should be paired with greater transparency, credibility, and availability of EMDE investment data that can begin to shift investors' knowledge and risk perceptions of EMDE markets. The Action Plan recommends an effort focused on the data constraints that inhibit capital allocation in EMDEs.

More than 200 large investors in four investor groups interested in sustainable investing and climate action have written about the critical importance of credible data when evaluating investments in riskier, more opaque markets outside their investing comfort zones. In the absence of reliable data, which is endemic in EMDEs, investors often default to the sovereign risk rating of the countries they are considering investing in, using it as a proxy for country risk and avoiding non-investment grade countries, which amounts to 88% of EMDEs. This reality will not change without greater availability of reliable investment data that investors can use to evaluate and benchmark risk.

As longstanding actors in developing markets with the deepest transaction histories, the development finance community (e.g., donor governments, MDBs/DFIs) has a special duty to aggregate and share reliable data from their experiences, such as the Global Emerging Markets (GEMs) database. Unfortunately, this has not taken place systematically, and has often been held up by confidentiality issues around data anonymity that are eminently solvable in a big data age where millions of companies share massive quantities of data daily. Information repositories like the GEMS database are public goods that should be augmented with other data sets from private sector entities to create the most comprehensive and shareable EMDE investment database possible. Armed with more extensive data, private investors can learn to evaluate and manage EMDE risk for themselves.

4.2 CREATE A CENTRALIZED INVESTMENT MOBILIZATION HUB

The Action Plan recommends the development community deploy some funding to create a comprehensive online gateway (Investment Mobilization Hub) to improve access to the best risk and return data available for investing in EMDEs. This would narrow the gap between perceived high risk and lower actual risk over time, driving down both the risks and cost of capital, and increasing private investment. The project would have three phases:

i SCOPING PHASE

First three months (e.g., indicatively January – March 2023):
Leading OECD DAC members competitively award a third-party manager to scope out the depth and breadth of data and information to aggregate and make available to increase private investor and donor access to the best-quality data.

First six months:
MDB/DFI shareholders mandate to their respective institutions that their transaction histories are a public good, and that sharing this data comprehensively, subject to reasonable confidentiality concerns, is required to achieve total investment and mobilization objectives and reduce the gap between perceived high risk and actual lower risk.

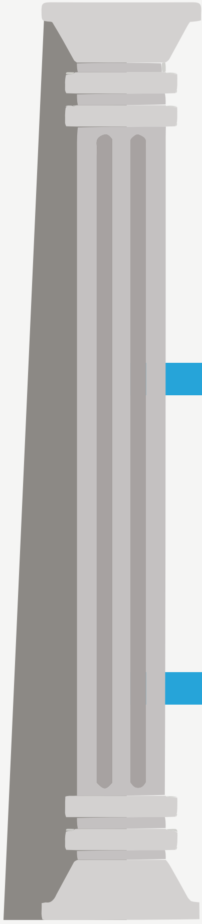
ii DESIGN PHASE

March – June 2023:
Design the website portal (e.g., Hub) and contract with third-party data providers.

iii IMPLEMENTATION PHASE

June 2023 onwards:
Launch and continually curate the Hub (website portal).

Better data reliability and availability would increase confidence in developing country risk profiles, lead to the more efficient and cost-effective allocation of scarce Catalytic Capital, and ultimately crowd in additional private investment willing to bear risks in EMDEs that they understand better.



PILLAR 5:
EMPOWER LOCAL CAPITAL MARKETS & FINANCIAL INTERMEDIARIES IN EMDEs

OBJECTIVE: Improve, deepen, and broaden domestic capital markets and financial intermediation.

SUMMARY

- Large pools of savings have begun to accumulate in EMDEs and can be channeled towards climate and SDG goals through the growing sophistication of local capital markets and financial intermediaries.
- Many SDG and climate investment needs in EMDEs are small transactions of less than $5 million that are best implemented by private-sector actors located in EMDEs.
- To achieve the SDGs and climate goals, it is imperative to improve, deepen, and broaden domestic financial intermediation in EMDEs.

ACTIONS

- The Action Plan calls for an intentional campaign to improve and empower local capital markets and financial intermediaries by increasing their available risk capital and providing significantly higher amounts of local currency financing to curtail the massive and building FX exposure.
- The Action Plan advocates for a minimum percent of MDB/DFI capital to be invested in domestic financial intermediation with Catalytic Capital to mobilize private investment.

Financial assets in EMDEs (ex-China) are estimated at $16 trillion and are expected to grow significantly as working populations on the African continent alone become the largest in the world. However, many climate and SDG projects will continue to be too small for global investors and will be undertaken by corporates, SMEs, and households located in these countries. Those entities require financing in relatively small amounts that are provided most efficiently and sustainably by local financial institutions.

Unfortunately, these institutions suffer from a systemically low level of capitalization and lack wholesale local currency funding. As a result, many governments and private sector institutions have limited capacity to consider and structure investable assets. Explicitly supporting the scaling of domestic financial intermediation would spur these local financial ecosystems to elevate resources and innovation, increasing the supply of local bank and microfinance institution financing to projects, and crowd-in new actors to develop and structure more projects to meet that demand for finance.

Local financial systems have begun the work of self-empowerment to drive more of their savings into real economy investments that advance climate and SDG goals. For example, the World Bank and USAID have established institutional investor consortiums in Kenya, South Africa, as well as other countries. The local consortium work is promising as it drives a deeper integration between global and local investors, allowing them to combine their strengths and mitigate their weaknesses.

Moreover, cross-border hard currency financing remains a considerable risk for EMDEs, a fact that the current global environment of steeply rising interest rates and depreciating local currencies has only reinforced. To enhance sustainability and avoid debt distress, the development finance system should get better at financing the SDGs and Paris Agreement through more sustainable investment, such as equity, mezzanine investment, and local currency debt. Even in 2022 after numerous debt crises in EMDEs, more than 85% of development finance and climate finance flows from public sector development finance and blended finance continues to be in hard currency debt, leaving EMDEs open to considerable currency risk.

The Action Plan recommends driving this kind of change in the following systematic ways:

1. MDB/DFI shareholders can create additional KPIs to incentivize action:
    i. Minimum of 20% of capital deployed in domestic financial intermediation, with fully implemented alignment frameworks of MDB/DFI indirect operations with the Paris Agreement.
    ii. Minimum of 10% of capital deployed to invest in SMEs – most effective way to take SME risk is in partnership with local financial institutions.
    iii. Minimum of 50% of capital deployed in high financial additionality assets – equity, tier 2 financial institution capital, local currency loans, mezzanine investments in blended finance vehicles, and SME risk-sharing would be ranked as high financial additionality – all leading to financing domestic financial intermediation.
    iv. Minimum of 35% capital deployed in low-income countries and least developed countries – the most effective way for MDBs/DFIs to take exposure in these low income countries is through financial institutions
2. The competitive calls for proposals for awarding Catalytic Capital outlined in Pillar 3 should score domestic blended finance vehicles as a priority deployment of funds.

COMPLEMENTARY ACTIONS

While the Action Plan is laser-focused on how blended finance and de-risking can increase the quantity and quality of investment to achieve the climate objectives and SDGs in EMDEs, complimentary areas of support undertaken at the same time are critical to its success. The Action Plan identifies two areas in particular.

COMPLEMENTARY ACTIVITY A: LINK THE SUPPLY OF GLOBAL CAPITAL TO PRIORITY PROJECTS

The increased supply of investment made possible through the Action Plan should be directed to high priority projects, such as:

- i Projects to achieve Nationally Determined Contributions,
- ii Projects identified by Just Energy Transition Partnerships (JETPs),
- iii High priority projects identified by developing country governments and country platforms, and
- iv Projects aligned to Integrated National Finance Frameworks.

The most effective way to connect the Action Plan with these high priority projects is through the allocation of Catalytic Funding through the Catalytic Funding Network and Catalytic Capital Facilities described in Section 3. Providers of Catalytic Funding should ensure all calls for proposals clearly identify how blended finance proposals that invest in those projects should be given priority assessment and funding. Indeed, donor governments and philanthropic foundations should consider governance KPIs that ensure a significant percentage of Catalytic Funding is awarded to blended finance vehicles that invest in those projects.

COMPLEMENTARY ACTIVITY B: IMPROVE INVESTMENT CLIMATE IN EMDES

The Action Plan identifies how Catalytic Funding and blended finance can increase the universe of commercially investable projects and create fiduciary investment assets optimally by intentionally addressing high country risk in EMDEs. But sustainable finance and investment in the long-term requires improvements to investment climates, enabling environments, and country risk ratings in EMDEs.

The development community has an existing industry to improve the investment climate and enabling environment in EMDEs that the Action Plan should support. For example, a significant part of IMF, World Bank, and bilateral donor activity and funding is allocated to this activity.

In principle, donor governments and philanthropic foundations should disproportionately allocate their scarce Catalytic Funding to blended finance vehicles in countries striving to improve the openness and transparency of their investment climates. This is best addressed at the governance level of the Catalytic Funding Network described in Pillar 3. The Catalytic Funding Network could review this topic to determine the most effective way to ensure Catalytic Funding advantages and corelates to investment climate improvements.

CONCLUSION

The fundamentals of the global economy have changed significantly since the prevailing development finance architecture was first created through the Bretton Woods system in the 1940s. This Action Plan recognizes the need to adapt to those changing fundamentals and harness new resources, actors, and innovations to establish a new status quo consistent with present market realities. Today, public and private sector investment in EMDEs often occur in silos where they crowd out each other rather than reinforce each other's comparative advantages. If the world seeks to chart a more sustainable climate and SDG pathway, this must change. With development assistance budgets limited and global debt levels approaching all-time highs, SDG and climate goals cannot be achieved through public sector investment alone.

This Action Plan calls for a strategic mobilization and de-risking strategy to crowd in innovation and private sector resources. Opportunely, there has never been such strong engagement and appetite from private investors to invest in faster-growing EMDEs. Private sector stakeholders have recently displayed a tremendous ambition to engage and allocate their investment capital to purpose investments like Environmental, Social and Governance (ESG), green finance, climate finance, sustainable investment and impact investment. Therefore, ESG and similar mandates have become windows through which meaningful mobilization of the private sector to EMDEs can occur. However, the perceived and actual risks of investing in most EMDEs are often beyond the fiduciary and regulatory risk limits of most private sector investors. In at least four separate reports, investors have signaled that creating investable assets under these themes would propel more investors to consider shifting more allocations to EMDEs.

In order to capture this opportunity, a deeper, more strategic collaboration between public, private , and philanthropic sectors is needed to shift the international system towards a mobilization footing and achieve the required scale. This deeper collaboration would simultaneously address the two enduring constraints to greater long-term capital flows to EMDEs: increasing the number of investable projects as well as the supply of investment willing and able to invest. This strategy would not remove all risk in EMDEs for private investors, nor should it. Rather, it will allow private investors to collaborate to a greater degree with the development finance system to manage risk more effectively, bundle and standardize projects into portfolios that reduce risk further, and ultimately unlock scale-level flows of investment, estimated in the Action Plan at $530 billion annually. Moreover, the Action Plan would do this all through a relatively minor re-directing of existing resources towards more efficient collaboration with the private sector rather than requiring new budgetary appropriations.

All activities identified in the Action Plan can be implemented in the short term, and could lead to $530 billion of annual climate and SDG investment (around 10-12% of annual investment needs in EMDEs). Ambition beyond this level of investment would require

- i Higher funding into development finance and climate finance organizations and
- ii Other improvements that could only be implemented in the medium-term.

The Action Plan focuses exclusively on what is possible within eh existing system that can be fully realized in the short term (12 months), and has not addressed any of those possible medium-term enhancements.