To whom it may concern,

The Blended Finance Taskforce submits its key messages covering the themes of domestic public resources, domestic and international private business and finance, and capacity building from its recent publications as Inputs for an Elements Paper on Financing for Development. In so doing, it answers the question posed by the Co-facilitators, noting that country platforms, regulatory reforms, local currency guarantees, and green accountability mechanisms are among the most effective financing policy reforms and solutions that the fourth International Conference on Financing for Development should deliver. The remainder of this document highlights the key messages from these 3 publications.

1. **Mobilising Domestic Capital to Drive Climate-Positive Growth – (pages 2-6):** which shows that scaling domestic investment for climate will be critical to tackle the $1.8 trillion financing gap each year for climate in Emerging Markets and Developing Economies (EMDEs). It estimates that there is around $17 trillion of domestic private capital under management in EMDEs, which could triple to $45 trillion by 2040. The widespread recognition of the imperative for climate action, coupled with growing investment opportunities, creates powerful momentum for co-ordinated action to successfully strengthen financial markets. Implementing this action agenda over the next 24 months could help capture significant opportunities for long-lasting climate-positive growth that creates jobs and help deliver the sustainable development goals.
2. **Better Guarantees, Better Finance –(pages 7-10):** which calls for bigger and better guarantees that can help unlock $2.4 trillion a year in emerging markets for climate. To narrow the climate finance funding gap, leaders should commit to scaling existing guarantee products and creating new green guarantee facilities which can mobilise private capital in developing countries to accelerate the transition to net zero. A smarter use of public capital in guarantee products which address credit and currency risks, are streamlined to reduce transaction costs and which are structurally linked to project development can help meet the 5x scale up in climate finance which is needed in emerging markets for sustainable and inclusive growth.
3. **Better Accountability, Better Finance (pages 11-15):** calls for stronger accountability and transparency in climate finance to unlock the trillions of dollars needed to help the world achieve climate-positive growth and development goals. “Green Accountability” could save more than $100bn a year across public climate finance flows and avoid 3GT of annual GHG emissions, by improving the current system in which some 75% of committed funds remain unspent or undeployed. The report proposes new “Green Accountability” practices that give domestic institutions, local communities and civil society groups a central role in climate finance disbursement, thereby improving transparency, ensuring funding responds to needs on the ground and building trust at all levels of international climate finance. The five-point blueprint for a robust and efficient climate finance system includes improving transparency through open and real-time data monitoring channels and providing direct access to climate finance for local projects, giving local communities and civil society better access to climate finance and more decision-making power in planning and delivery. **The analysis finds that every dollar invested in Green Accountability could unlock up to 12 dollars that are currently wasted, ensuring that capital is deployed efficiently and equitably**. This clearly indicates the potential of pricing Green Accountability measures into projects and financing mechanisms.

Sincerely,

The Blended Finance Taskforce

MOBILISING DOMESTIC CAPITAL TO DRIVE **CLIMATE-POSITIVE GROWTH**

ACTION AGENDA

SYSTEMIQ

BLENDED FINANCE TASKFORCE

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EXECUTIVE SUMMARY

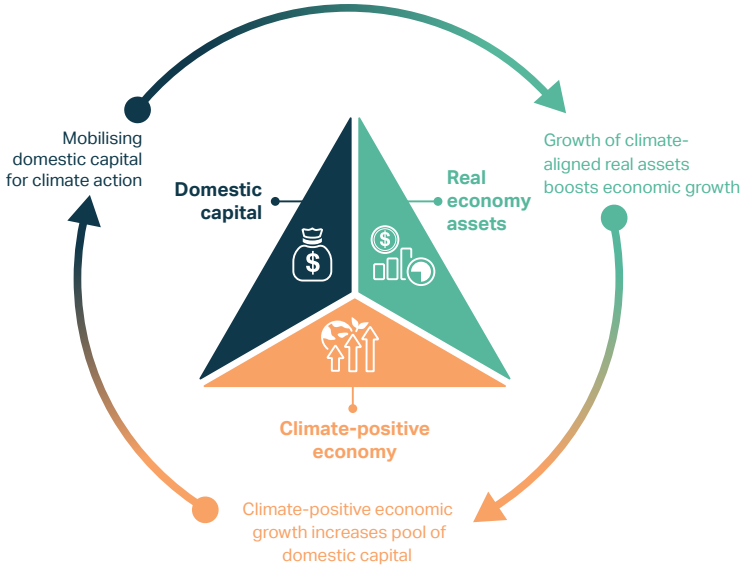
Mobilising private domestic capital at scale can act as a super-lever for long-lasting development and contribute to closing the climate financing gap

Emerging Markets and Developing Economies (EMDEs) are home to some of the best climate investment opportunities in the world. Mobilising domestic capital into these opportunities is key to driving sustainable and inclusive growth. Positive economic and technological tipping points are increasingly making climate-positive solutions in EMDEs commercially attractive. Domestic investors should be best placed to capture these investment opportunities.

Yet only a fraction of the $17 trillion AUM in EMDEs is invested in climate action. With an estimated ~$1.8 trillion finance gap for climate in EMDEs, mobilising growing pools of domestic savings is a priority. The good news is that investments into projects like renewable energy, transmission infrastructure, green industry and regenerative agriculture tend to drive economic growth and new jobs. This economic growth in turn increases the available pool of domestic capital, creating a self-reinforcing "virtuous" cycle that could be a positive tipping point or "super lever" for long-lasting sustainable development.

Exhibit 1:

Unlocking domestic capital for climate action can trigger positive tipping points for growth in EMDEs



Mobilising a growing pool of domestic capital could ultimately halve the existing climate investment gap. The existing ~$17 trillion of bank savings, insurance and pension assets in EMDEs could nearly triple by 2040. We estimate that these domestic capital pools could increase by about $1.5 trillion a year to $45 trillion in 2040, linked to measures to grow and deepen national financial markets and underlying economic growth, which could be increased if domestic capital is invested in climate-aligned infrastructure and other assets. Based on this growth forecast, if approximately 20% of annual private domestic capital flows are invested in climate-aligned assets and firms by 2030, that translates into domestic capital investments of $900 billion per year. This would effectively halve the ~$1.8 trillion annual investment gap for climate action in EMDEs as well as generate significant economic value.

Currently, three key barriers prevent domestic capital from being invested at speed and scale into climate action, which puts the brakes on the virtuous growth cycle. First, the domestic enabling environment does not yet create sufficient market incentives to develop and invest in climate-positive assets, especially where liquidity and exits are an issue. This barrier includes a lack of capacity amongst key institutions to develop and invest in alternative asset classes. Many African pension funds like the Botswana Public Officers Pension Fund invest abroad, saying it would like to invest more locally, but options are limited: it had so much trouble finding private-equity managers that it had to run a programme to create them. In Nigeria, pension funds put just 0.5% of their assets into infrastructure. That is partly because fund managers find it hard to assess the prospects of greenfield projects with unproven cash flows.

Second, domestic financial markets in many EMDEs tend to be relatively small and financial regulation is not yet fit-for-purpose to encourage investment into climate-related projects, especially if the capital markets are not deep. The limited size and depth of some local markets also increases reliance on foreign private and public capital. For example, the main investment of African pension funds is in government securities; Uganda's National Social Security Fund already owns a third of the shares traded freely on the local stock exchange, where only 16 companies are listed: 78% of the fund's investment is in bonds – mostly government debt.

Third, limited availability, affordability and access to the right type of catalytic capital – especially local currency de-risking mechanisms and early-stage financing to develop projects – means that projects with solid business cases may remain unfunded due to high actual and perceived risks that affect their risk profile and increase transaction costs. This is a challenge for all investors, but is more acute for domestic finance given most de-risking products are designed to unlock international capital and are in hard currency.

To overcome existing barriers, governments, regulators and the private sector, supported by the international community, should co-create national action plans that build on three closely connected essential levers. Deepening financial markets and growing climate-positive assets requires collaboration between the public and private sector locally and regionally. And nationally-led action plans that develop economic policy and financial regulation in close connection, building upon a nuanced understanding of local financial markets and supported by catalytic finance where possible. Such coordinated plans can mobilise existing domestic capital, grow domestic assets, and contribute to the advancement of local financial infrastructure.

National action plans for accelerating climate-positive growth through domestic capital can be based on three essential levers:

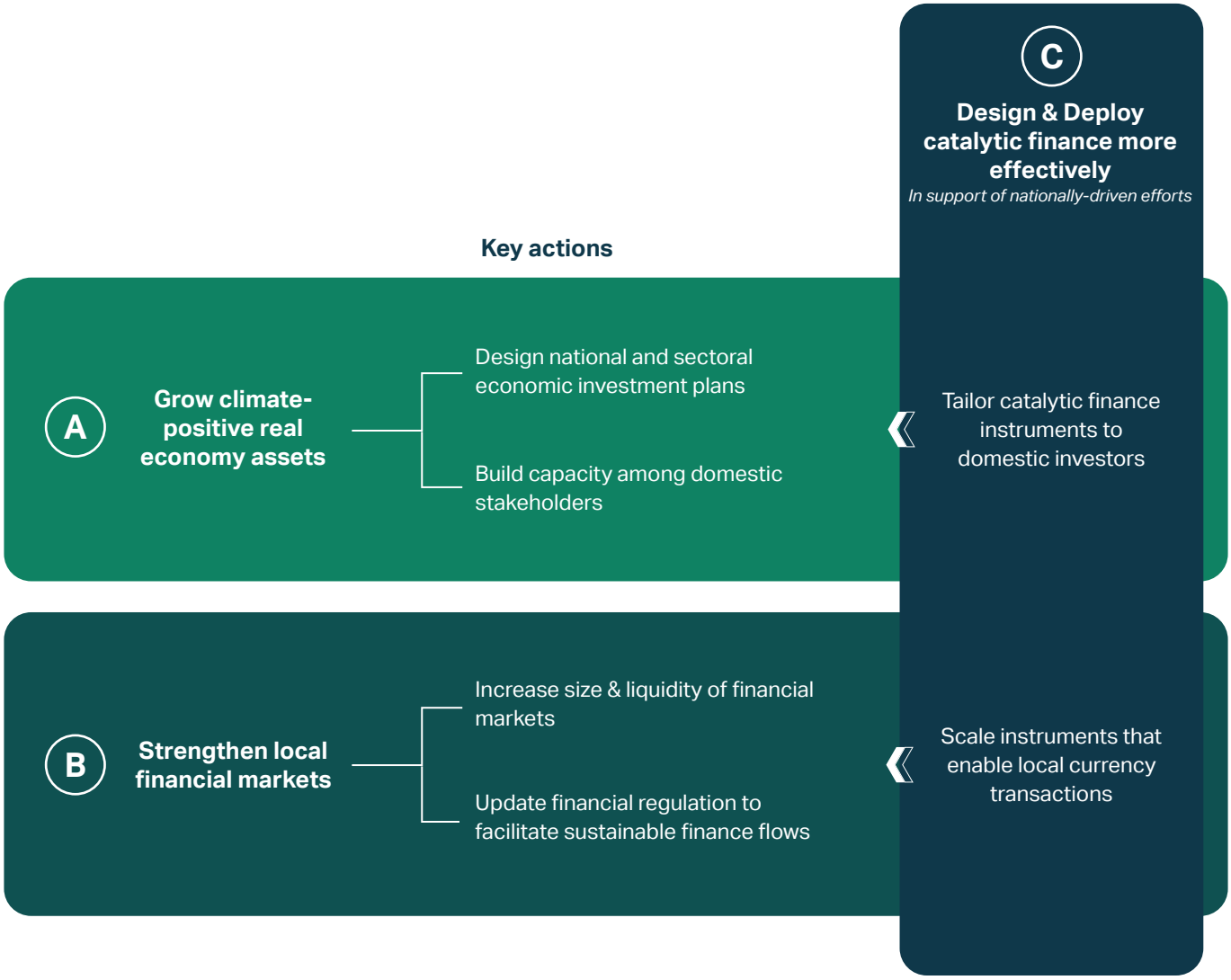
1. **Grow climate-positive assets**, by designing and implementing national and sectoral economic investment plans, implementing policies to support robust project pipelines and enhancing the capacity of domestic stakeholders, especially local pension funds..
2. **Strengthen local financial markets** by growing their size and liquidity and updating financial regulation to enable investments which contribute to climate-positive growth.

3. **Design & deploy catalytic capital more effectively** in support of nationally-driven efforts by scaling local currency solutions and tailoring catalytic blended finance mechanisms to mobilise domestic capital and stimulate the development of local financial markets.

Exhibit 2 summarises the three essential levers with key objectives connected to each lever. To effectively deliver this agenda, these three levers should be developed in an integrated manner. Local financial market strategies should be developed in support of climate investment plans and country financing platforms. It should be done in close collaboration with a country's private sector and with the support of the international community, complementing efforts led by country governments. Collaboration between governments, industry, investors, regulators, development banks and credit rating agencies will be crucial to growing and unlocking domestic capital for climate-positive growth.

Exhibit 2:

Action Agenda for mobilising domestic capital



Real world examples show that implementing these levers is inherently feasible; this action agenda is about scaling and replicating them in a systematic way. Countries from South Africa to Brazil and Barbados have developed fully-costed, national investment plans and developed "country platforms" to *grow the pipeline of climate positive assets* while creating jobs and raising profile with investors. By driving climate-positive growth, these plans also identify ways of paying for the growing costs of climate change, including investments in resilience and adaptation. Chile and Colombia have implemented ambitious regulatory changes to *strengthen their local financial markets* by allowing pension funds to invest in national infrastructure and other real economy sectors. Guarantee platforms from Nigeria to Pakistan have used *catalytic capital more effectively* to tackle early stage and currency risk including local currency guarantee to attract domestic investors into infrastructure. There are many more examples which need to be replicated and scaled across countries. Inspired by existing solutions, the agenda laid out in this paper offers a collaborative approach to accelerate action.

BLENDED FINANCE TASKFORCE

BETTER GUARANTEES, BETTER FINANCE

Mobilising capital for climate through fit-for-purpose guarantees

2023

KEY MESSAGES

Mobilising capital for climate action is one of the most important levers to drive sustainable and inclusive growth while preventing catastrophic warming and protecting critical ecosystems. Much of this capital is needed for investment in low-carbon power systems, resilient infrastructure, regenerative agriculture and nature-based solutions in the Global South. Estimates vary, but at least $2.4 trillion is needed each year by 2030 for climate action in Emerging Markets and Developing Economies excluding China (EMDEs).[1] Less than 20% of that is flowing in climate finance to EMDEs today. Capital from philanthropy and donor governments (directly or via development banks, climate funds and other intermediaries) will be insufficient to close this gap.

The good news is that much of this capital can come from the private sector into opportunities that are – or soon will be – commercially attractive as technology tipping points make these investments viable. The bad news is that capital is not yet moving fast enough or at the scale required. The current financial system architecture does not result in the risk-return models that put climate action at the heart of capital allocation. Achieving a 5x scale up in climate finance in the short term requires addressing two key barriers to unlock private capital:

1. **Project pipeline:** Real economy investment opportunities in EMDEs are still poorly understood by the private sector. Project preparation facilities are too small, hard to access and largely disconnected from follow-on funding and de-risking mechanisms. Project finance volumes in low- and middle-income countries have dropped from $91 billion in 2019 to less than $60 billion in 2022.[2]

2. **Cost of capital:** Financing is either unavailable, not easily accessible or unaffordable. International investors are often unfamiliar with EMDE stakeholders and don't have physical presence in these markets. This increases the perception of political and counterparty risk, even though data on adjusted risk-returns and actual default rates in EMDEs suggest that risks are often lower than investors might imagine.

These barriers are exacerbated by geopolitical, macroeconomic and exogenous risks including supply chain disruption, conflict, health crises and natural disasters. Exchange rate risk is especially costly to manage for foreign investors – specifically when revenues are in local currency and financing is foreign currency- denominated. Rising interest rates add to debt service obligations and can pull capital back to developed economies.

Scaling private capital in EMDEs will depend on overcoming the barriers of pipeline and risk, and driving changes to the financial system architecture. Dedicated action is required to support project development for green and transition-aligned assets while reducing the cost of capital with better risk-sharing solutions. Blended finance instruments that use public capital to unlock private capital can help, often by tackling certain investment risks through guarantees, first-loss structures, currency hedging and technical assistance for project preparation (Exhibit 1).

Recent progress to reform the international finance system is already helping accelerate private capital mobilisation for climate by creating a greater institutional focus. This includes calls for a transformational increase in the amount of public capital committed to climate combined with a push for a more catalytic use of that capital to unlock multiples of additional investment in EMDEs. These reforms are often focused on multilateral development banks (MDBs) like the World Bank. As the main "blenders" of public and private capital, MDBs play a critical role in the international financial system, channelling donor funds into development and providing invaluable knowledge, capacity building and policy support in EMDEs. But they are only part of the solution. Reimagining the way public capital is used (including funds flowing through the MDBs) to unlock private capital for climate requires a broader look at the product offering and following principles for fit-for-purpose climate finance.

On average, MDBs mobilise less than 30 cents of private capital for every public dollar spent on climate (a mobilisation ratio of 0.3 to 1). Analysis of other public finance organisations indicates a similar trend – even the private sector focused development finance institutions (DFIs) often record mobilisation ratios which are less than 1:1.[3]

Low mobilisation ratios for catalytic capital (including public funds flowing through MDBs) are often linked to the type of financial instrument used. While mobilisation ratios across different pools of public capital are often difficult to measure and compare, risk-sharing mechanisms which can mobilise private capital for climate tend to be under-utilised. Guarantees are one example of a proven catalytic instrument that reduce an investor's exposure to risks and can unlock private capital in EMDEs for low carbon infrastructure and other climate solutions. Guarantees can mobilise five times more private capital than other instruments like loans, yet they make up only 4% of MDB commitments (compared to ~70% of MDB climate portfolios being loans – a critically important instrument, but one with low mobilisation ratios).

Even with full implementation of suggested MDB reforms, a $1.5 trillion finance gap may remain. If reforms over the next five years lead to a tripling in climate finance from MDBs and DFIs, and if mobilisation ratios increase to $1.50 of private capital for every public dollar on average, we estimate there will still be a climate finance gap of $1.5 trillion a year in EMDEs. This means that reforms to the MDBs are crucial – but more will be needed to capture the full investment opportunities in EMDEs.

To meet the scale and urgency of the challenge, this paper advocates for a massive increase in the use of catalytic guarantees to mobilise private capital for climate. We propose three recommendations to achieve that goal:

1. **Include a climate mobilisation mandate** for public capital (with appropriate safeguards)
2. **Scale and accelerate access** to guarantees at existing institutions
3. **Develop new global green guarantee platforms** targeting higher mobilisation, lower transaction costs and a structural link to project preparation

This paper lays out recommendations to tackle barriers to access guarantees, explores the benefits of different guarantee structures and offers a set of design principles for better climate finance instruments including streamlining governance, allowing more flexibility in product structuring, better accountability and closer connection to national planning, local investors and pipeline development.

The paper includes a worked example, demonstrating what a fit-for-purpose green guarantee facility could look like. We estimate that a new global green guarantee facility designed using the principles set out in this paper could mobilise at least $30 billion of private capital for climate in EMDEs with a $1 billion grant funding commitment. These mechanisms can be applied both within energy as well as natural capital sectors including nature, food and agriculture sectors.

The impact of these recommendations would be significant – not least because they could be implemented relatively quickly. Developing new green guarantee facilities could take longer but can offer a blueprint for what fit-for-purpose climate finance vehicles in EMDEs should look like – helping drive broader reforms to tackle barriers to access de-risking products. This agenda is urgent. The instruments are available. Our priority must be scale and speed.

BETTER ACCOUNTABILITY, BETTER FINANCE

Consultation paper
Investing in Green Accountability
for people and planet

SEPTEMBER 2023

GLOBAL PARTNERSHIP FOR SOCIAL ACCOUNTABILITY

TRANSPARENCY & ACCOUNTABILITY INITIATIVE

BLENDED FINANCE TASKFORCE

SYSTEMIQ

KEY MESSAGES

Green Accountability is an approach to achieving transparent, inclusive and representative decision-making across the lifecycle of climate finance commitments. It embeds the principles of being demand-driven, transparent, market-building, responsive and accessible in all levels of governance. By meaningfully integrating the right stakeholders in decision-making, Green Accountability ensures better design of climate finance, leading to higher-quality, longer-lasting outcomes. By improving the quality of available data, Green Accountability can lower perceived country and counterparty risks, bringing down the cost of capital to unlock additional investment. And by shifting the focus from supply of climate finance to demand, this approach supports a more efficient and responsive set of solutions.

Preliminary analysis indicates that a climate finance system which meaningfully integrates **Green Accountability could save more than $100 billion a year and avoid 3 gigatons (GT) of annual GHG emissions** by ensuring:

I. **Capital committed reaches the end user:** Today, 75% of committed climate funds are not deployed on time, delaying their impact and reflecting a high perception of risk, a limited pipeline and a lack of data.

II. **Capital is deployed in an efficient and equitable way:** Concessional resources are often allocated to programs which the private sector could invest; public capital typically mobilized less than $1 of private finance for every dollar committed; and critical areas like adaptation are chronically underinvested.

III. **Capital deployed achieves intended outcomes and impact:** When poorly designed, programs can create new problems or exacerbate existing issues; one in six adaptation projects are at risk of maladaptation due to a lack of Green Accountability—increasing vulnerabilities to climate change, rather than reducing them.

Systematically integrating Green Accountability principles will help tackle critical issues which underpin an inefficient and inequitable financial system. Although global climate has increased substantially over the past decade, it is still far from the $2.4 trillion per year needed for climate action in emerging markets and developing economies. Our analysis finds that $1 spent on Green Accountability could unlock up to $12 that is currently wasted and ensure capital is deployed efficiently and equitably.

Allocating just 5-10% of funds to ensure programs are designed and executed on the basis of Green Accountability principles would significantly improve the efficiency of climate finance, avoiding significant costs and wasted funds. This generally would not be new spend but rather a better use of funds already allocated to activities like stakeholder engagement and consultation.

Investing in Green Accountability will drive better climate finance outcomes for people and planet while using capital more efficiently. Equipping climate finance providers with an understanding of what Green Accountability means and which partnerships can help achieve it will be fundamental to realizing the benefits. Citizens and civil society will play a crucial role in co-creating systems for accountable climate finance that shift decision-making from a top-down model to a more inclusive approach and ensure it does not reinforce existing inequalities, ignore the interests of certain groups or give rise to unintended adverse consequences—in other words, that it does not solve one problem while creating another.

Emerging best practice demonstrates the impact of Green Accountability at work. Drawing on learnings from climate projects and the broader development finance community, and applying a systems-thinking approach, we have identified examples of Green Accountability mechanisms that could be replicated across the climate finance ecosystem. These include:

1. **Governance mechanisms which integrate local decision-makers** to improve the upfront design of climate finance based on the demands of local stakeholders, ensuring meaningful agency in program design and implementation.

2. **Open, transparent, comprehensive real-time data transparency channels** to track and monitor climate projects (from upstream to downstream level) that are accessible to civil society and citizens.

3. **Multiple advocacy channels for civil society and citizens** to participate in all parts of climate finance, from planning to independent monitoring and reporting, including involvement and oversight of government accountability actors.

4. **Direct access to climate finance for local stakeholders** to play an active role in implementation.

5. **Empowerment of local intermediaries** to reach the most affected communities with lower transaction costs and more meaningful engagement; local intermediaries can provide the coordinating function for planning and delivery of financed projects on the ground.

The trillions that should be spent on climate action in the next decade offer a unique opportunity for not just bigger, but also better climate finance flows. The system should build on what is working and be honest about what is not, to help transition to solutions that are demand-driven, equitable and based on systems thinking. This paper outlines proven Green Accountability mechanisms that could be replicated across the system, drawing on learnings from other development spheres. The time is now to shift agency from the providers to the beneficiaries, to create a more fit-for-purpose climate finance system.

Green Accountability is an approach to achieving transparent, inclusive and representative decision-making across the lifecycle of climate finance commitments. It builds systems embedding the principles of being **demand-driven, transparent, market-building, responsive** and **accessible** across all levels of governance and engagement in climate finance.

Currently the climate finance system is not working – it is inefficient, insufficient and unfair.

Less than
$1
of private capital is mobilized from every dollar of public capital

Around
75%
of committed climate finance is not disbursed to projects

Less than
10%
of climate finance goes to adaptation

Systematically integrating Green Accountability principles can help tackle these critical issues by:

1. Unlocking additional capital in the system by **ensuring capital committed reaches the end user.**
2. Unlocking more capital for the most critical sectors, geographies and beneficiaries by **ensuring capital deployed is used in the most efficient and equitable way.**
3. Improving the outcomes of capital deployed by **ensuring it does not have unintended negative consequences.**

Green Accountability could:

Save more than
$100bn
across all public finance

Reduce by
~20-45%
of climate finance wastage

Avoid
$27-58bn
maladaptation costs by 2030

Mitigate
3GT CO2e
a year from avoided inefficiencies

Save
$3-$12
of climate finance for every $1 spent on Green Accountability

TRANSPARENT

Clarity on the sources of climate finance, in what form, with what conditions; spending should be transparent with mechanisms to account for, communicate and challenge results.

ACCESSIBLE

Processes to access climate finance should be simplified, with streamlined decision-making and standardization across providers to **reduce prohibitive transaction** costs which bias certain groups and exclude others from accessing climate finance.

DEMAND-DRIVEN

Decisions on the design & deployment of climate finance should be made by the end-user (in partnership with the capital provider), responding to the needs of those most affected by climate change, ensuring solutions are fit-for-purpose.

RESPONSIVE

Climate finance should be flexible enough with **effective feedback loops** to adapt to changing needs and/or tackle poor outcomes to avoid unintended consequences across the life-cycle of the program.

MARKET-BUILDING

Deployment mechanisms should be domestic where possible to **build institutional capacity** and collective expertise across end-users and ensure climate finance is deployed systemically to avoid siloed solutions.

BEST PRACTICES OF GREEN ACCOUNTABILITY MECHANISMS

1. **Governance mechanisms** which integrate local decision-makers to improve the upfront design of climate finance based on the demands of local stakeholders to ensure meaningful agency in programme design and implementation.
2. Open, transparent, real-time, and comprehensive **data transparency channels** to track and monitor climate projects (from upstream to downstream level) that are accessible to civil society and citizens.
3. **Multiple channels for civil society and citizens** to have an enhanced role in advocacy and independent monitoring & reporting.
4. **Direct access for local stakeholders** to access climate finance and play an active role in implementation.
5. **Empowering local intermediaries** to effectively reach the most affected communities by being the coordinating function for planning and delivery of financed projects on the ground.