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REPORT OCTOBER 2021

CLOSING THE TRILLION DOLLAR GAP TO KEEP 1.5 DEGREES WITHIN REACH

FRANK SCHROEDER & JULIAN HAVERS

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About E3G

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.
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Photovoltaic solar panels on a farm electricity installation in the Karoo, Touwsrivier in the western cape of South Africa.

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1. Executive Summary

The COVID-19 crisis has further reduced confidence amongst emerging and developing countries that the scale of resources needed for shifting their economies towards low-carbon and climate-resilient pathways will be made available.[1] Even major emerging economies are facing important barriers to financing economically viable clean energy projects that would allow them to deliver on the G20 commitment to significantly increase climate action in advance of COP26.

This puts the outcomes of COP26 at risk and undermines the faith in the ability of the Paris Agreement, and by extension the wider multilateral rule-based system, to deliver ambitious climate action. It is not too late to agree at COP26 to a finance package that credibly responds to the IPCC's Code Red warning and sets the direction for a sustainable recovery. But time is running out.

The world must act forcefully to demonstrate to developing countries that finance is available, but commitments by governments to date have been fragmented and, most importantly, have lacked a top-down push by leaders. This explains why there is little confidence that donor countries will close the USD 100 billion climate finance gap, or the recently launched global infrastructure initiative by G7 leaders[2] will address the climate finance needs of the Global South. This must change if we are to build the political dynamics for an ambitious package of climate agreements and commitments at COP26.

An all-hands-on-deck approach, led by G7 countries, but open to other nations, is needed to convincingly show that leaders are willing to unlock trillions in capital at the speed and scale needed for a safe climate and for building back better post-COVID-19.

This report proposes policy changes for Multilateral and Bilateral Development Finance Institutions that would significantly expand their financial firepower to address climate change. Such an outcome would be achieved by leveraging more private capital through improved risk management and capital increases.

The scenarios modelled in the report estimate that a six-fold increase in financing for clean energy in developing countries can be achieved by increasing Multilateral Development Banks (MDBs) lending headroom with existing capital. Financing could even increase by 8 times with an additional and modest capital increase by MDB shareholders.

[1] In order to align their policy pathways to a scenario compatible with the 1.5°C global warming limit, developing countries are estimated to need USD 4 trillion per year up to 2030 in investments to build climate smart infrastructure. Source: The Sustainable Infrastructure Imperative: Financing for Better Growth and Development

[2] The initiative is referred to as Build Back Better World (B3W) and Clean and Green Initiative (CGI)

But in order to shift from "billions to trillions", financing needs to be provided at facility level. The report proposes platforms that would massively scale the issuance of green and sustainable bonds. Such platforms could, on a blended basis, manage large-scale funding flows, especially from institutional investors.

Signalling and implementing these policy propositions ahead of COP26 can build confidence amongst emerging and developing economies that their financial needs will be met.

Recommendations for policy makers

This paper details strategic, feasible policy options that donor countries can deploy and signal before COP26 to build confidence that the finance needed for the implementation of the Paris Agreement is forthcoming. These policies will allow to better harness private capital and leverage the ecosystem of Development Finance Institutions (DFIs), including Multilateral and National Development Banks.
Specifically, this paper proposes:

Ways to unlock new financial firepower from the ecosystem of MDBs and other DFIs[3]

- Changes in institutional **risk management approaches,** such as capital adequacy rules, more use of investment risk mitigation tools (e.g. guarantees) and relaxation of capital offset requirements, without endangering the AAA rating of these institutions. An increased use of de-risking tools **combined with more risk-tolerant capital offsetting would allow a six-fold increase in MDBs financing of renewables in the developing world** from the current USD 7.4 billion to USD 43.5 billion.

- Additional **capital injections.** A deep reform package that would combine full alignment with the Paris Agreement, changes to risk management and a modest capital increase could increase the MDBs financing power in clean energy eight-fold, from the current USD 7.4 billion to USD 59.5 billion.

- As important as this increase may be, however, the reform would fall short of what is needed to close the financing gap. Investment in renewables will need to increase to USD 776 billion a year in this decade to get emerging economies on track to net-zero emissions by 2050[4]. So more efforts are needed to finance their transition.

[3] Different scenarios for these policy recommendations are illustrated in Tables 9 and 10
[4] Vivid Economics analysis based on IEA data

Ways to mobilise finance via new global platforms

- An "**ecosystem approach**" that combines financial resources from multilateral and bilateral financial institutions and deeper partnerships with national development banks and the private sector. This is necessary because, despite their important role, DFIs alone cannot provide the quantum change needed to move from the billions to the trillions to support the energy transition.

- A **transition of DFIs business model** from loan providers to market makers, working on the creation of investment pipelines and making them investible.

- The **introduction of a "wholesale" approach** to risk-sharing through blending that allows developing economies to benefit from the sustainable bond market. This is the only realistic way to mobilise private-sector finance and significantly scale the currently USD 700 billion strong green and sustainability bond market to benefit developing countries that have been bypassed by this market.

- **The creation of new platforms for the mobilisation of climate finance convening DFIs and institutional investors.** These platforms would partner with developing countries, inter alia, to build the pipeline of projects and streamline operating procedures and deal-structuring. In such context, the green and sustainability bond market could be massively scaled up backed by guarantees from bilateral DFIs. This is why a high-level political process such as the G7 global infrastructure initiative[5] should be used to bring in early movers from the world of investment into this new burden-sharing arrangement between public banks and private capital.

Immediate measures to build confidence before COP26

Credibility and trust building depend on the early demonstration of a plan to mobilise the ecosystem of bilateral and multilateral sources and institutional investors to "shift the trillions" in financing. While MDBs will need a lengthy decision-making process at board level to institutionalise reforms, a coalition of the willing bringing together high-level representatives from governments, development banks and investors would be a first step to signal a paradigm shift in the mobilisation of climate finance. Such a meeting could signal initial finance commitments and the willingness to create financing platforms at COP26 that can then be further developed by the G7 global infrastructure initiative.

[5] The G7 Cornwall summit communiqué set out the principles for a new G7 infrastructure initiative, but did not agree on its name. So it is commonly referred to as the "Build Back Better World (B3W) / the Clean and Green Initiative (CGI)".

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2. The state of climate finance

In the run-up to COP26 the global community needs to simultaneously address the recovery from the COVID-19 pandemic and the climate crisis. Continuing, and often increasing, COVID-19 impacts bring new urgency to the call from developing countries to mobilize financial flows at scale to secure a green and just recovery. The COVID-19 pandemic has, moreover, impacted the private sector willingness to invest in developing economies, given the uncertainty around short- and medium-term economic conditions. In addition, sovereign credit ratings have suffered due to the financial stress stemming from reduced tax revenues and increased public expenditure associated with the pandemic. These factors have reduced countries' fiscal space and, at the same time, increased financing costs.

While the scale of the COVID-19 crisis and the recovery challenge are enormous, there is a significant opportunity before and during COP26 to make political decisions that set a robust path to restructuring economies at the pace and scale required by climate science. These would consist of incentivising investments with high socio-economic, environmental and climate multipliers to boost growth, create jobs and reduce poverty.

Mobilising finance at the needed scale and pace will require an all-hands-on-deck approach, forging collaboration between private finance and all development finance actors. Delivering on the promise of USD 100 billion per year in climate finance, made in 2009 and still to be met, is essential to build trust between developed and developing countries,[6] but the package that needs to be mobilised to sustain confidence and enable a global green recovery surpasses by far this amount.

It is both feasible and necessary for Development Finance Institutions (DFIs) to play a larger role during this critical juncture. To meet the challenge, they will need to be able to deploy sufficient public capital but also increase their role as mobilisers of private capital. "Shifting the trillions" of private sector financing will be key to meeting the sustainable investment challenge and the DFI experience in addressing both short and long-term needs, de-risking investments and sending long-term market signals can be a major accelerator. The DFIs financial firepower is crucial to drive a sustainable economic recovery but to play this crucial role, their shareholders will need to agree changes in their business models and additional finance.

This paper will show different scenarios on how to maximize such potential. The research is based on analysis by Vivid Economics using a new bottom-up dataset of MDBs energy portfolios drawing on information from over 800 individual projects coded by ETH Zurich.

[6] Delivering on the USD 100 billion climate finance commitment and transforming climate finance", Independent expert group on climate finance, December 2020

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3. The role of DFIs in driving and supporting a sustainable recovery

While advanced economies were able to spend around 16% on average of their annual GDPs on fiscal stimulus during the COVID-19 crisis, emerging markets were only able to spend less than 5% and lower income countries only about 2%.[7] Developing countries will thus need to rely on Development Finance Institutions (DFIs)[8] for their recovery. Such institutions were created to accelerate development and they are uniquely placed to help countries not only to mitigate the worst effects of the COVID-19 crisis, but also to make the recovery climate-resilient by greening their economies. To illustrate the enormous potential of the DFI system, experts estimate that alongside Multilateral Development Banks (MDBs), national and regional development banks have mobilized **USD 1.5 trillion** in middle income countries since 2018, enabling projects that would not have taken off otherwise.[9]

While DFIs in the broader sense are heterogeneous institutions, ranging from multilateral and bilateral institutions to regional, national and sub-national ones, their development mandate, range of instruments and well-established expertise in supporting infrastructure finance qualify all of them as drivers of the sustainability transition in emerging and developing countries. In the COVID-19 recovery it will be crucial to reinforce their focus beyond the provision of direct finance targeting broader development impacts. This could be achieved by catalysing additional resources, such as domestic or privately held capital, towards the Paris Agreement.

In the case of development banks catalysing private resources, the issue of appropriate risk sharing between the public and private sector becomes very important, as does the design of appropriate corporate governance and financial instruments in this regard. In this context DFIs play the dual role of complementing and catalysing private sector players. Besides their important role in supporting micro-, small and medium-sized enterprises (MSMEs) through the COVID-19 crisis, DFIs have developed innovative financial solutions for MSMEs and sustainable infrastructure projects with terms tailored to the financial profile for low-carbon and climate-resilient investments. [10] These investments typically require longer tenors, lower (or at least not higher) interest rates, flexible amortization and alternative collateral approaches (including non/limited recourse financing).

[7] **https://www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021/**

[8] The use of the term DFI in the paper includes all public finance development institutions, e.g. Multilateral and National Development Banks and bilateral financial institutions, and is not limited to the private sector arms of these institutions.

[9] **https://www.cgdev.org/blog/beyond-numbers-why-world-needs-more-ambitious-mdb-response-covid-19/**

[10] OECD (2020) The role of domestic DFIs in using blended finance for sustainable development and climate action

Based on their public development mandate, many DFIs have taken a lead in low-carbon and climate-resilient investments and have been most successful when government policies and regulations were aligned with such investments.

But there is ample space to improve the way different development finance institutions work together as a system at country and regional level. Promoting greater speed and scale in the creation of project pipelines requires an open ecosystem approach that promotes synergies among different DFIs. Such an approach has the potential to maximise impact by combining the financial support from bilateral and multilateral institutions with that of national development banks and different parts of the private sector. The inclusion of national development banks can not only increase country ownership but also improve private sector buy-in. NDBs' special knowledge and long-standing relationship with the local private sector put them in a privileged position to access local financial markets and understand their investment barriers.[11]

But the best ecosystem approach will only achieve its desired impact if it gets its priorities right and promotes the most catalytic sectors and instruments. The following trends and inflection points are relevant in this context, and many of them took place despite the COVID-19 pandemic.

1. A record USD 501 billion were invested in 2020 in sectors relevant to the energy transition, primarily renewable energy and the electrification of transport and heat. The share of developing country (excluding China) was USD 21 billion leaving enormous potential for growth markets for private investors.
2. The sustainable bond market hit an all-time high in 2020, as companies and governments turned to the debt market to fund green or social objectives. USD 700 billion of green, social and sustainability bonds were issued in 2020, — almost double the amount than in 2019, however, markets remained shallow in several regions of the global economy.
3. According to calculations by Bloomberg, 'green' hydrogen made from solar or wind electricity, will be price-competitive with 'blue' hydrogen derived from fossil-fuel based by 2030 and some observers believe this can even happen sooner. This will unleash a tectonic shift in the electricity, gas and transport markets and provide the opportunity to leapfrog this clean technology in developing economies. Of similar priority are different forms of energy storage, particularly those that will be able to accumulate energy economically over the medium to long term (i.e. going beyond the technical capacity of electrochemical batteries into various forms of thermal, pumped, compressed or gravity-based storage).
4. OECD data shows[12] that the amount of private finance mobilised by guarantees has increased steadily reaching USD 18 billion in 2018, and more than any other

[11] **https://publications.iadb.org/publications/english/document/The-Role-of-National-Development-Banks-in-Intermediating-International-Climate-Finance-to-Scale-Up-Private-Sector-Investments.pdf**

[12] OECD (2021): The role of guarantees in blended finance

financial instrument. DFIs have the potential to significantly increase their role as guarantee providers.

5. Institutional investors continue to show strong interest in sustainable investment assets. A shift of only 3.7% of their assets towards sustainable activities in developing countries would be sufficient to fill the USD 3.7 trillion gap required to reach the Sustainable Development Goals (SDGs) in the Global South.

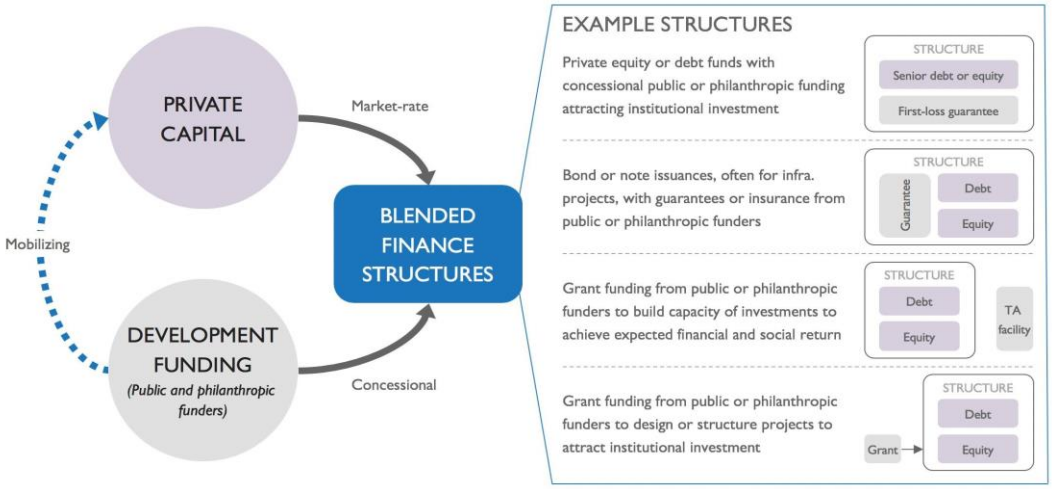
4. Scaling-up innovative risk-sharing and blended finance solutions

Innovative financing vehicles and risk management instruments are essential to incentivise and enable private investments at times of high uncertainty. Commercial investors, businesses and project developers respond to and are constrained by the risk-return profiles of investments. In developing countries, investments with important public good dimensions may rely on solid business models and projected positive returns, but associated risk and uncertainty may deter commercial investors.

In this context it is important to emphasise that low-emission and climate-resilient investments in developing countries not only face higher risks than those in conventional technologies on a purely financial basis, in addition to that perceived or actual political, institutional, technical or regulatory risk are also higher than in developed countries. Without covering these risks, green projects with the participation of the private sector actors will not materialise. The targeted deployment of de-risking instruments by publicly funded institutions is therefore crucial to address information asymmetries and market imperfections or failures, as well as financial viability gaps.

Public support through blended finance approaches can help address these issues by improving investments' risk-return profiles in developing countries and thus attracting private finance. Blended finance instruments include grants, equity and debt instruments, as well as guarantees or insurance, and can be deployed through mechanisms such as funds, syndication, or securitization.

Diagram 1: Blended Finance structure and mechanics[13]



A key issue in blended infrastructure finance is the design of instruments such as guarantees, which involve DFIs assuming enough risk to make the investment attractive for private lenders and investors, but not taking excessive future risk, for the development institution or the government, via contingent liabilities. It is also important to consider the large number of guarantee instruments, as the principal challenge is to move from a "retail" approach in which transactions are processed one-by-one, to a "wholesale" approach in which a "line of guarantees" or an "umbrella guarantee" instrument is on offer to a category of investments.

An example could be if the Multilateral Investment Guarantee Agency (MIGA) offered to provide political risk guarantees to any investment in a country that was based on the policy commitments made by that government in its Nationally Determined Contribution (NDC) to the Paris Agreement (or a similar strategy document). This could provide guarantees at scale, with relatively low transaction costs, while incentivising the adoption of robust NDCs. Such a transformation of MIGA's approach would require strong shareholder support, but could have a very high-impact at low-cost.

Other similar "wholesale" approaches that DFIs should explore include regional green platforms in which MDBs work with local partner financial institutions (e.g. NDBs) to design and deploy innovative blended financial structures and products for adequate de-risking and crowding in of private capital.

4.1 Finance and blended finance from DFIs, donors and international climate funds

Multilateral development banks (MDBs) and other development finance institutions usually act as intermediaries for blended finance by deploying instruments and structuring

[13] Convergence 2020: Research Report: How to mobilize private investment at scale in blended finance

mechanisms. Often they also use their own finance for blending. In this context they support programmatic and sectoral approaches to climate change investments at country level in order to achieve larger and transformational impacts.[14] These approaches demand not only an adequate policy framework that encourages private investment, but also specific incentives to promote and finance these projects. In addition, programmatic or sectoral approaches address the high coordination and transaction costs due to the need to coordinate several actors and to design programmes that demonstrate results that are not easily borne by private sector promoters and financiers.

In short, DFIs have the important role of coordinating and supporting entities that have the capacity to interact with various actors and can provide the technical backstopping for project development and financing.

An example for an innovative ecosystem approach is the Inter-American Development Bank's (IADB), green finance partnership with National Development Banks[15] It supports NDB partners to:

- Develop strategies, plans and internal capacities (financial structuring, financial product development, project identification, environmental and social risk management systems, etc.) to implement and prioritise green investment pathways
- Access financing instruments (loans, guarantees, grants) from IADB resources and international climate funds (donor finance, Green Climate Fund (GCF), Climate Investment Funds (CIFs) etc.) with appropriate terms to develop the required blended financing solutions for clients that pioneer low-carbon investments, helping to manage the higher costs and risks that first movers face.

An innovative and impactful example for crafting a blended financial structure developed with NDBs and local financial actors is the IADB Energy Savings Insurance Programme[16] (see box 1). The key innovation consists in providing an insurance product covering projected energy savings for specifically defined and verifiable Energy Efficiency (EE) measures as agreed upon in a standard contract between small and medium businesses and energy efficiency services and technology providers. Compensation is paid to a firm in the event that the promised financial benefits associated with EE savings are not realised. The participation in the programme of local insurance companies and international reinsurers is secured by the integration of third party verifiers and energy efficiency services and technology providers, as well as dedicated credit lines at adequate conditions to promote a pipeline of EE projects.

[14] **https://publications.iadb.org/en/role-national-development-banks-catalyzing-international-climate-finance**
[15] **https://publications.iadb.org/publications/english/document/Supporting-National-Development-Banks-to-Drive-Investment-in-the-Nationally-Determined-Contributions-of-Brazil-Mexico-and-Chile.pdf**
[16] **https://www.greenfinancelac.org/our-initiatives/financial-mechanisms-for-sustainable-energy/**

Box 1: IADB Energy Savings Insurance Programme (ESI)

ESI is an initiative of the Inter-American Development Bank (IDB) promoting investments in energy efficiency. It was endorsed in 2015 by the Global Innovation Lab for Climate Finance. ESI consists of a set of financial and non-financial instruments aimed at mitigating project risk and generating investor confidence. The programme is implemented in partnership with National Development Banks (NDBs), and with IDB's provision of technical cooperation and adequately termed credit lines. IDB blended financing allows NDBs to provide long-term finance to Local Financial Institutions (LFIs), which subsequently finance eligible projects. The TC programme develops a pipeline of bankable projects, produces a standard performance contract for energy efficiency projects, standardised energy efficiency methodologies to monitor implementation and, as its most innovative feature, third-party insurance to cover the second loss if energy savings are not realised as projected. The ESI Model has been successfully implemented in Colombia, where as of January 2021 over 50 projects have been guaranteed with energy savings insurance. IDB has approved a total of USD 140 million in credit lines with concessional resources from the Green Climate Fund (GCF) and additional USD 100 million co-financing from NDBs in Argentina, El Salvador and Paraguay. The replication prospects in other countries in and outside the LAC region are significant and are in early stages in Chile, Brazil and Peru. Moreover, ESI is being considered for replication outside the region, and is in development phases in Spain, Italy and Portugal, with the support of the European Union.

The ecosystem approach that builds a coalition of DFIs, NDBs and local private actors for scaling up investments in the energy transition can be applied to any country and region, but requires first of all an analysis of the actual demand. The table below gives an overview of the planned targeted investment as calculated by the Climate Policy Initiative.

Table 1: Planned and targeted capacity and investment potential in high-impact countries (source: Climate Policy Initiative/CPI)

HIGH-IMPACT COUNTRY FOCUS	MARKET	KEY SECTORS	ADD'L CAPACITY POTENTIAL (GW)	ADD'L CAPACITY BY 2030 (GW)	PLANNED TARGETED INVESTMENT (bn USD)
India	South Asia	Hydro, Solar, Wind	121.3	109.2	292
South Africa, Mozambique	Southern Africa	Hydro, Wind, Solar	10	12.4	36
Cambodia, Mongolia	East & South-East Asia	Hydro, Wind,	2.8	n/a	4
Kenya, Uganda, Rwanda	East Africa	Geothermal, Wind, Hydro	5.1	7.5	37

Given the steep decline in the cost of clean energy, blended finance needs to shift its focus from the "viability" gap between clean energy and competing fossil fuel technologies, to targeted investment risks and barriers. Table 2 gives an example of key investment barriers in a range of developing countries. Partnerships between private sector and public development financial institutions could accelerate progress towards the development of innovative blended financial structures and products that would ensure adequate risk-sharing and crowding in of private capital.

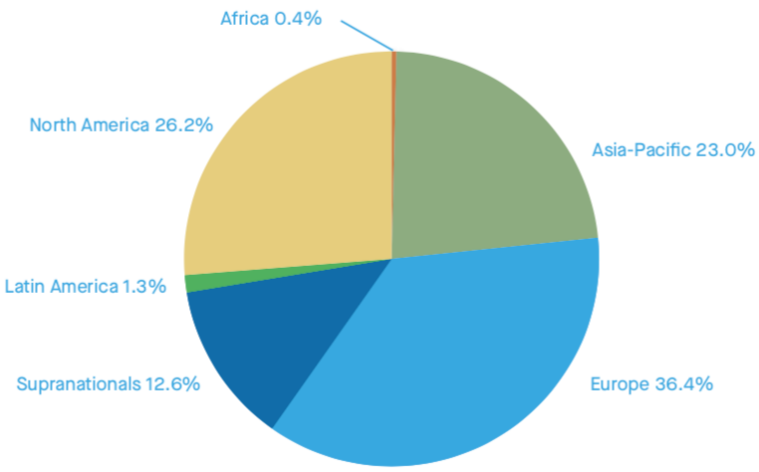
Table 2: Top needs for blended finance in key markets (CPI)

HIGH-IMPACT COUNTRY FOCUS	INVESTMENT POTENTIAL (USD bn)	KEY BARRIERS	GAPS IN COVERAGE BY EXISTING INSTRUMENTS
India	292	Off-taker risk Currency risk Liquidity risk	Not enough focus on these risks to date.
South Africa, Mozambique	36	Off-taker risk Currency risk Access to debt finance	Grant financing has helped cover commercial risks but not much specific focus on off-taker risk and currency risk, which are both increasing, especially in South Africa.
Cambodia, Mongolia	4	Policy/administrative risk Revenue attractiveness	More focus needed in helping early stage businesses in Cambodia and providing tariff support in Mongolia.
Kenya, Uganda, Rwanda	37	Currency risk Access to debt finance Off-taker risk	Some positive developments in Kenya, specifically with access to finance and guarantees that could be applied to other countries.

4.2 Building green capital markets to crowd in private investors' capital

Tapping into capital markets is also critical to mobilise private finance at scale. The development of green and sustainability bonds is important to attract capital from institutional investors as the volume, cost and tenor of these instruments are aligned with investor's expectations and match the required climate ambition. While this market has been growing significantly in recent years, the green bond market in many regions offers enormous growth potential, especially in terms of participation of local institutional investors. While globally over USD 754 billion in green bonds were issued from 2007 to 2019, however, only a small share was issued in Africa and the LAC region (Diagram 2).

Diagram 2: Composition of total green bond issuance by region (2007-2019 (Source CBI)



More focus is needed in these countries to develop critical aspects of the architecture that allows to scale up this market sustainably and rigorously. In terms of technical assistance, support is needed for several public entities in key milestones of the issuance process, including the development of bond frameworks, the identification of eligible portfolios, the bond certification, the provision of Second Party Opinions and the reporting under international standards.

On the investment side, there is large potential to include the design and provision of guarantees for credit enhanced bond issuances. The International Finance Corporation (IFC)'s partial credit guarantee in Indonesia,[17] aimed at managing local currency risk, offers an example. The proceeds address the country's increasing housing deficit which affects almost half of the households. The IFC backed the issuance with a partial credit guarantee to attract international investors and thereby reduced the cost of financing.

Box 2: IFC's Partial Credit Guarantee (PCG) for bonds

The International Finance Corporation (IFC)'s Partial Credit Guarantee (PCG) for bonds is designed with an emphasis on long-term local currency solutions in developing markets. For example, in 2014, the IFC supported the issuance of bonds by a leading Indonesian property company by providing a 20% guarantee for a 500 billion Indonesian rupiah issuance (approximately USD 44 million). These were the first bonds in Indonesia to receive a partial credit guarantee from the IFC. Their success was due to the

[17] http://www.cgif-abmi.org/wp-content/uploads/2019/09/Indonesia-Corporate-Bond-Market-2019.pdf

enhanced bonds' national credit rating obtained thanks to the guarantee. The issuance was oversubscribed and sold to a variety of local investors, including pension funds, banks and insurers. Proceeds were used to support the construction of low-rise houses and relevant facilities in developments across Indonesia. The transaction was the first partial credit guarantee for a local bond issue in Indonesia's capital markets and IFC's first green building investment in the East Asia Pacific region.

DFIs need to build strong project pipelines to mobilise institutional investors at scale for blended finance projects. Responding to their call for opportunities in emerging markets and de-risking services, development cooperation agencies, DFIs and MDBs should embrace the considerable financing capacity of institutional investors expanding the development of project pipelines and scaling up de-risking and portfolio services through matchmaking platforms. Blended finance is one important option in the development cooperation toolbox that can mobilise institutional investors' assets towards developing countries. The use of risk mitigation instruments such as guarantees can support deals. However, more efforts are required to further attract institutional investors at scale in blended finance operations given their limited involvement so far. Finally, the mobilisation of local pension funds and insurance companies also plays an essential role in developing local capital markets and in providing local currency financing.

5 Expanding DFIs financial firepower through recapitalization and balance sheet optimization

This section provides a range of scenarios on options to increase the financial firepower of development finance institutions in order to improve their role as intermediaries in the energy transition. All scenarios are based on the premise that DFIs will increase their ability to mobilise and redirect private capital at scale towards low-carbon and climate-resilient activities.

MDBs are important for private sector mobilisation because they serve as intermediaries between donors and local financial institutions, as well as private investors. The 2019 Joint MDB Report on Climate Finance shows that, on average, MDBs were only able to mobilise less than USD 1 from the private sector for every USD 1 of climate finance they provided. [18]

Substantially greater volumes of private finance are required to complement scarce public resources and achieve climate change objectives. MDBs have the potential to catalyse

[18] **https://publications.iadb.org/en/2019-joint-report-on-multilateral-development-banks-climate-finance**

financing because, in contrast to essential public services, the investments needed to accelerate the sustainability transition have features that make them more attractive to private investments.

Financing the energy transition is the central element to achieve the goals of the Paris Agreement. This is now a well-researched field, so the costs of the transition can be quantified.[19] The following scenarios illustrate the impact of DFIs' financial firepower, using the example of renewable energy investment. For simplicity, the scenarios look only at MDBs, but the same assumptions can be adjusted for all DFIs.

The scenarios focus on:

1) allocating all remaining fossil fuel energy funding into renewable energy (f**ocusing on renewables**),

2) adjusting capital-adequacy ratios and shifting towards financial instruments with higher private capital leverage, such as guarantees (**MDBs as market makers**) and

3) increasing MDBs capital (r**ecapitalization multiplier effects)**.

5.1 Scenario: 'Focusing on renewables'

Our first scenario considers a full shift within MDBs towards financing renewable energy generation, but without structural change in how financing is being provided. This scenario uses historical data to determine what share of renewable and fossil fuel generation in developing countries has been financed by MDBs in the past ~5 years.

Table 3 To reach net-zero, investment in renewables in emerging economies will need to increase four-fold in the next two decades (average annual investment amounts, 2019 billion USD)

	2016-20	2021-30	2031-40	2041-50
Renewables Investment Needs in Emerging Economies	200	776	873	643

Source: Vivid Economics analysis based on IEA data ('Net Zero by 2050' report)

Table 3 gives an example of the growth trajectory needed in emerging countries alone to meet net-zero targets based on data by the International Energy Agency (IEA). MDBs have committed to align their financial flows to the goals of the Paris Agreement (WRI, 2020) and are expected to shift their commitments away from fossil fuel and towards renewables.[20] However, the Paris alignment process continues to leave open questions on which projects may be financed in the future and whether there can be fossil fuel projects in line with the deal. Our calculations conclude that

[19] IEA, (2021): Global Energy Outlook

[20] **https://www.wri.org/insights/insider-multilateral-development-banks-have-made-progress-towards-paris-alignment-still/**

only USD 0.4 billion in fossil fuel financing may still be possible in a Paris-aligned scenario. If MDBs comply with the switch, renewables financing would increase by 28% in the next decade. However, if MDBs switched to renewable generation only, financing could increase by 37% in the next decade. Table 4 shows the different trajectories.

Table 4 To align to the Paris Agreement, MDBs will progressively reduce their commitments to fossil fuel-based generation projects (average annual investment amounts, 2019 billion USD)

	2016-20	2021-30	2031-40	2041-50
Alignment to Paris Targets Scenario				
MDBs financing of fossil fuel generation	2.6	0.5	0.3	0.4
MDBs financing of nuclear generation	0.1	0.1	0.1	0.1
MDBs financing of renewable generation	7.4	9.5	9.7	9.7
Full Support for Renewables Scenario				
MDBs financing of fossil fuel generation	2.6	0.0	0.0	0.0
MDBs financing of nuclear generation	0.1	0.0	0.0	0.0
MDBs financing of renewable generation	7.4	10.1	10.1	10.1

Note: The evolution of MDBs' financing flows in the 'Alignment to Paris Targets' scenario is based on the assumption that total amounts committed will remain at 2016-20 level, and that allocation between nuclear, fossil fuel and renewable technologies will follow global trends towards net-zero.

Source: Vivid Economics based on IEA and ETH Zurich data

For the first scenario (focus on renewables) we can conclude that

- By reallocating historic shares of fossil fuel financing to renewables investment, MDBs could boost their renewables share by around 30% to 40%.
- If MDBs re-orient recent fossil fuel financing (averaging USD 2.6 billion annually between 2016 and 2020) towards a pathway aligned with global net-zero goals, they

could continue to support a small amount of fossil fuel financing (USD 0.5 billion annually to 2030, falling to USD 0.4 billion annually by 2050). This would allow them to boost funding for renewables by USD 2.1 billion by 2030, rising to USD 2.3 billion by 2050, or a 28% increase in the near term over current levels (USD 7.4 annually between 2016 and2020).

- If MDBs choose to fully re-orient all other energy financing to clean energy, they could boost funding by USD 2.7 billion annually, increasing financing by 37% over current levels. However, renewables investment needs in developing countries will almost quadruple in the next decade.

5.2 Scenario: MDBs as market makers

The previous section makes it clear that the current financing patterns of MDBs will not be sufficient to adequately tackle the investment gap to reach net zero objectives. Scaling will need to accelerate fast, and crowding-in private investment through direct and indirect mobilisation will be paramount. Simply redirecting existing energy financing flows will fail to achieve scaling at such a pace, however. MDBs could provide greater support to the transition through existing lending. Many contributions in the literature (BU 2018,[21] ODI 2020[22]) point out that MDBs have significant headroom to expand their financing activities without additional capital contributions or a negative impact on the banks' AAA credit ratings.

This scenario assesses how MDBs could increase their financial firepower while holding their capital base constant. Additionally, this scenario looks at how the MDBs could shift their instrument mix to an approach that has the potential to leverage much larger amounts of private capital. Convergence (2018), for instance, has shown that more 'risk-tolerant' tools are better at catalysing private investment.[23]

[21] **https://www.bu.edu/gdp/files/2018/04/Munir_Gallagher_2018-1.pdf**
[22] **https://odi.org/en/publications/all-hands-on-deck-how-to-scale-up-multilateral-financing-to-face-the-covid-19-crisis/**
[23] 'First loss' debt or equity has a private sector mobilization factor of 1.4, while concessional subordinate debt has a factor of 0.7 (p. 3).
https://assets.ctfassets.net/4cgqlwde6qy0/7BtBKQONUsMqCOsaGSycu4/79c7799b1a2ecf8e72ca4063704cb416/Convergence__Leverage_of_Concessional_Capital__2018.pdf

Diagram 4: Amount mobilised from the private sector, instrument distribution

Guarantee instruments play a particularly important role in mobilising larger amounts of private finance. Already widely used by MDBs, they could be further developed and deployed at larger scale (see diagram 4). Research by the OECD[24] and others shows that guarantees achieve high mobilisation rates partly thanks to being unfunded, which attracts large amounts of underlying commercial finance. At the same time, guarantees can provide tailored risk mitigation to the private sector. However, in practice, there is often a disincentive for MDB staff to issue guarantees due to internal IFI accounting rules treating them in the same way as direct loans. Additionally, guarantees are currently excluded from OECD ODA accounting unless they are called. The use of guarantees could be boosted by reducing the current 1:1 ratio between capital from guarantees and countries' financial envelope, enabling MDBs to provide these instruments in a competitive way that compensates for the higher transaction costs associated with green projects.

[24] OECD (2021) The role of guarantees in blended finance; Convergence (2020) Research Report: How to mobilize private investment at scale in blended finance

Table 5 Estimated instrument-specific leverage ratios (private finance directly mobilised)

Instrument	Private Finance Mobilisation Factor
Loans and Grants	1.00
Equity	1.22
Guarantee	1.33

Note: Mobilisation factors demonstrate the additional private investment achieved for every dollar of public investment. Grants are included with loans when computing the private leverage mobilisation factor due to the methodology adopted by the OECD, on which our analysis is based. The OECD does not identify the amount of private finance specifically mobilised by grants: both grants and loans are classified as forms of 'simple co-financing' (OECD 2020, table A B.3). Furthermore, the distinction between loans and grants can be blurry, as concessional development loans have a significant grant component – at least 45% in the case of least developed countries (ibid, Box. 1.2)

Source: Vivid Economics

MDBs rely overwhelmingly on loans and grants, despite their lower mobilisation factor. This has also been the case in the renewable energy sector, where these instruments accounted for around 80% of the financing over 2016-20. A switch to other financial instruments could lead to greater volumes of private investment (see table 5).

Table 6 shows how, by changing the instrument mix, MDBs can increase their support for renewables in developing countries without re-capitalisation. Such a policy change could unlock an additional 8% in private sector co-investment (around USD 0.8 billion annually to 2030).

Table 6 A change in the instrument mix can increase private financing mobilised by around ~0.8 billion USD

Instrument	UoM	2016-20 Instrument Mix	Alternative Instrument Mix
Loans and Grants		83%	57%
Equity		3%	10%
Guarantees		13%	33%
MDB's Financing for Renewables (2021-30)	**USD billion/yr**	**9.50**	**9.50**
Direct Mobilisation Factor		1.05	1.13
Private Finance Mobilised (Direct Effect)	USD billion/yr	9.99	10.75
Total Financing for Renewables (2021-30)	**USD billion/yr**	**19.49**	**20.25**
Instrument	UoM	2016-20 Instrument Mix	Alternative Instrument Mix
Loans and Grants		83%	34%
Equity		3%	33%
Guarantee		13%	33%
MDB's Financing for Renewables (2021-30)	**USD billion/yr**	**9.50**	**9.50**
Direct Mobilisation Factor		1.05	1.18
Private Finance Mobilised (Direct Effect)	USD billion/yr	9.99	11.23
Total Financing for Renewables (2021-30)	**USD billion/yr**	**19.49**	**20.73**

Source: Vivid Economics analysis

However, MDBs also have significant headroom to provide additional financing by relaxing their capital requirements. Two main changes can be made: First, MDBs 'take an extremely conservative approach to capital adequacy', and their equity-to-loan ratio is between 20% and 60%.[25] As a whole, the main MDBs have an equity-to-loan ratio of around 33%.[26] Based on ODI estimates, it would be possible for MDBs to lower their equity-to-loan ratio from ~33% to ~25% and still maintain an AAA rating.[27]

Second, MDBs are conservative in assessing the risk associated with guarantees, which are equated to loans when assessing the bank's exposure (IADB 2018).[28] This accounting practice makes loans more desirable than guarantees, which are in a 'low supply-and-demand equilibrium'. To incentivise the adoption of guarantees, the World Bank has experimented with accounting only 25% of their face value against its 'financial envelope' (ibid).

Table 7 Modifying the overly restrictive capital requirements of MDBs would increase financing amounts by around 75%

Instrument	UoM	Current Equity-to-Loans Ratio (Risk Tolerance)	Alternative Equity-to-Loans Ratio (Risk Tolerance)
Loans (including Grants) – Portfolio Share		83%	83%
Equity – Portfolio Share		3%	3%
Guarantees – Portfolio Share		13%	13%

[25] Please note that 'loan' includes equity commitments, loans, and guarantees. **https://odi.org/en/publications/all-hands-on-deck-how-to-scale-up-multilateral-financing-to-face-the-covid-19-crisis/**

[26] The 'main MDBs' are the AfDB, AsDB, CAF, EBRD, EIB, IADB, IsDB, and the World Bank Group. As of 2018, their collective equity (including paid-in capital and reserves) amounted to around USD 196.7 billion, while their total loans amounted to around USD 596.0 billion. These results are based on data from ODI (2018).

[27] Vivid Economics analysis based on ODI (2020, pp. 3-4)

[28] **https://publications.iadb.org/en/multilateral-development-banks-risk-mitigation-instruments-infrastructure-investment/**

Loans (Including Grants) – Risk Tolerance		33%	25%
Equity – Risk Tolerance		33%	25%
Guarantees – Risk Tolerance		33%	6%
MDB's Investment in Renewables (2021-30)	**USD billion/yr**	**9.50**	**14.00**
Direct Mobilisation Factor		1.05	1.05
Private Finance Mobilised (Direct Effect)	USD billion/yr	9.99	14.72
Total Investment in Renewables (2021-30)	**USD billion/yr**	**19.49**	**28.72**

Source: Vivid Economics analysis

MDBs could massively increase their financial firepower by lowering the equity to loan ratio from 40% to 25% and reducing the capital requirements associated with guarantees by three quarters (see table 7).

The impact of the proposed policy changes would be even larger if the analysis included the indirect mobilisation of private funds. This could happen, for instance, via demonstration effects through the use of risk-mitigation tools to catalyse new markets or investment approaches such as green bond markets. This assessment estimates a measure of market catalysation based on MDBs experience in promoting indirect investment. According to the 2021 MDBs joint report on private mobilisation:

- Direct mobilisation of private finance refers to financing from private entities which have a formal agreement with the DB participating in the investment; and
- Indirect mobilisation of private finance refers to financing from private entities in connection with an activity financed by an MDB, but in the absence of an agreement between the MDB and the private entity. Indirect mobilisation is harder to estimate and more speculative compared to direct mobilisation, due to the difficulty of attributing private financing to public initiatives in the absence of formal agreements.

Table 8 shows how implementing both policy changes proposed in this section could increase the amounts invested in renewables generation, including indirectly mobilised private finance. The volume of indirect mobilisation is projected based on the estimated

impact of activities by MDBs and DFIs in middle- and low-income countries in 2019.[29] It is worth noting that this estimate may be conservative for projects in low-income countries, with very under-developed capital markets. In such a context, investment by international institutions would play a large role in capital market building, providing much-needed support for private activity and indirectly mobilising significant spent-up resources.

[29] 'Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions', Figure 2.1. **https://www.ifc.org/wps/wcm/connect/8249bfb4-2ad0-498d-8673-90fe196cb411/2021-01-14-MDB-Joint-Report-2019.pdf?MOD=AJPERES&CVID=ns1zGNo/**

Table 8 **Combining changes in instrument mix and capital requirements allows MDBs to almost double the amounts invested in renewables, without requiring additional capital injection**

Instrument	UoM	2016-20 Instrument Mix and Risk Tolerance	Alternative Instrument Mix and Risk Tolerance
Loans (including Grants) – Portfolio Share		83%	57%
Equity – Portfolio Share		3%	10%
Guarantees – Portfolio Share		13%	33%
Loans (Including Grants) – Risk Tolerance		33%	25%
Equity – Risk Tolerance		33%	25%
Guarantees – Risk Tolerance		33%	6%
MDB's Financing of Renewables (2021-30)	**USD billion/yr**	**9.50**	**16.74**
Direct Mobilisation Factor		1.05	1.13
Private Finance Mobilised (Direct Effect)	USD billion/yr	9.99	18.93
Total Direct Financing of Renewables (2021-30)	**USD billion/yr**	**19.49**	**35.67**
Indirect Mobilisation Factor		2.09	2.36
Private Finance Mobilised (Indirect Effect)	USD billion/yr	20.84	39.52
Total Financing of Renewables (Direct + Indirect) (2021-30)	**USD billion/yr**	**40.33**	**75.19**

Note: The indirect mobilisation factor is derived from the 2019 MDBs joint report on the mobilisation of private finance (Figure 2.1). It is computed based on the ratio between 2019 private indirect mobilisation in middle- and low-income countries (43.0 billion USD) and the 2019 private direct mobilisation in middle and low-income countries (20.6 billion USD)

Source: Vivid Economics analysis

The financial firepower of MDBs could be further enhanced if blended finance initiatives were able to leverage more private funding per unit of public investment. While a direct leverage of around 1 is common for projects financed by MDBs, significantly higher ratios have been achieved in mature sectors, such as clean energy in middle-income countries: in this context, blended finance vehicles have been able to reach direct mobilisation ratios of 5.[30,31] While it is not straightforward to determine what leverage MDBs could achieve across their entire portfolio and all the economies they support, any increase in private finance mobilised would significantly facilitate the transition to renewable energy generation. Table 9 shows the change a direct mobilisation factor of 1.6 would produce in the total amounts mobilised in scenario 2 [32]. It also assumes equivalent proportional increases in the effectiveness of indirect market catalysation approaches.

Table 9 The total amounts mobilised by the MDBs greatly depend on how active private investors will be

Instrument	UoM	Alternative Instrument Mix and Risk Tolerance; Baseline Private Mobilisation Factor	Alternative Instrument Mix and Risk Tolerance; 'Aspirational' Private Mobilisation Factor
MDB's Financing of Renewables (2021-30)	USD billion/yr	16.74	16.74

[30] 'Better Finance better Future', p. 21. https://www.blendedfinance.earth/better-finance-better-world

[31] Leverage ratios in low-income countries, with lower quality regulatory regimes, tend to be significantly lower.

[32] Based on the average multiplier for all approved projects of the climate investment funds

Direct Mobilisation Factor		1.13	1.60
Private Finance Mobilised (Direct Effect)	USD billion/yr	19.78	26.79
Total Direct Financing of Renewables (2021-30)	USD billion/yr	36.53	**43.53**
Indirect Mobilisation Factor		2.47	3.34
Private Finance Mobilised (Indirect Effect)	USD billion/yr	41.30	55.91
Total Financing of Renewables (Direct + Indirect) (2021-30)	USD billion/yr	77.82	99.44

Source: Vivid Economics analysis

Scenario 2 shows that it is possible to boost overall direct public and private renewable energy financing to approximately USD 44 billion annually by 2030 by increasing the leverage of private capital from the current 1.1 to 1.6 through Paris alignment and improved risk management. Therefore, these **policy reforms could increase MDB clean energy financing six-fold from the current USD 7.4 billion a year.**

5.3 Scenario: the multiplier effects of recapitalisation

In addition to the policy changes discussed in scenario 2, the firepower of MDBs could be further expanded via recapitalisation.
With the 2016-20 instrument mix discussed under 5.2, and with existing capital adequacy rules, an additional dollar of capital would generate ~3.0 additional dollars of MDBs investment, and directly mobilise ~3.1 dollars of private investment.

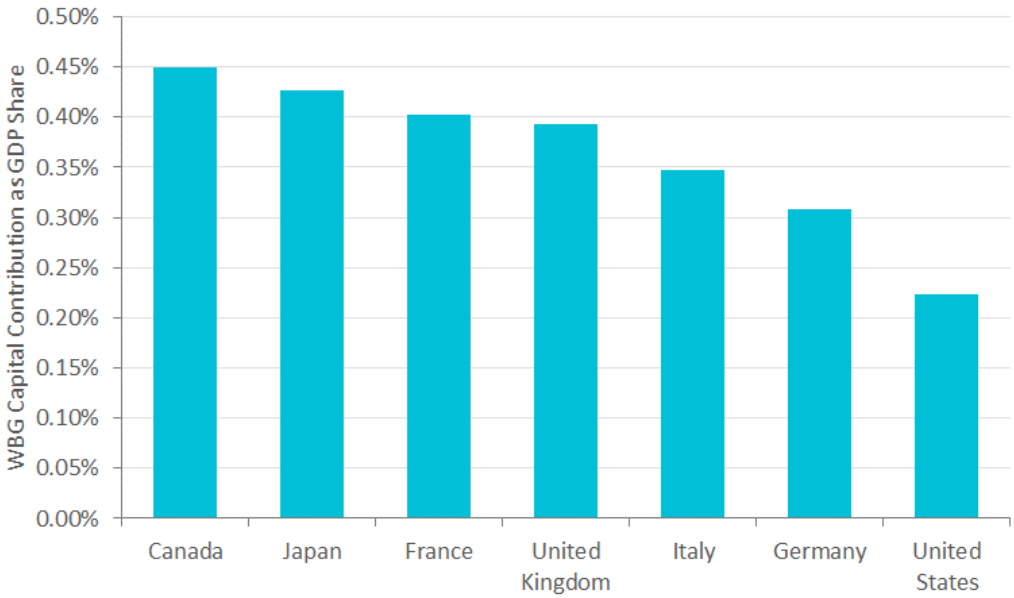
The current level of contributions to the World Bank Group can provide an indication of how much MDBs could be recapitalised. Contributions to the MDBs from G7 countries vary significantly. If we take the IBRD as an example, Canada contributes 0.45% of its GDP, more than double the United States does, at 0.22% of GDP. If all donor countries were to match Canada's contribution to the World Bank, its total capital would increase by ~37%.

Capital increases for MDBs follow a dedicated negotiating process.[33] Initially, the bank management explores, together with shareholding countries in the board, the scope and extent of the additional capital, depending also on the bank's governance structure. Matching up to the contribution of Canada is therefore an illustrative example to show

[33] **https://www.files.ethz.ch/isn/133177/1425485_file_IFI_Briefs_GCI_FINAL.pdf**

how the outlined mobilisation factors could be amplified through additional capital injections.

Diagram 6 Among G7 countries, Canada provides the largest contribution to the capital of the World Bank Group as a share of its GDP



The total equity of the main MDBs[34] amounts to around USD 200 billion. Were the capital available to each MDB to increase proportionally, the overall equity injection would amount to USD 72 billion.

The additional funds could be allocated to renewable energy in line with the current share of energy financing in the MDBs portfolios. Currently, MDBs allocate around 13% of their lending to energy projects, as shown in table 10. If all energy projects financed as a result of recapitalisation were in renewable generation, the increase in equity supporting renewable energy projects would be around USD 9 billion.

[34] They are the AfDB, AsDB, CAF, EBRD, EIB, IADB, IsDB, and the World Bank Group.

Table 10 A recapitalisation of MDBs would increase investment in renewables by up to 3.5 times

Instrument	UoM	Paris Alignment Scenario	MDBs as 'Market Makers' Scenario	Recapitalisation Scenario – Current Leverage	Recapitalization Scenario – 'Aspirational' Leverage
Instrument Mix		Same as 2016-20	Greater role for Equity Investment and Guarantees; Improved leverage & market creation		
Equity-to-Loans Ratio (Risk Tolerance)		33%	6% for Guarantees, 25% for Other Products		
Capital Increase for Renewables Projects		none	none	37	37
MDB's Financing of Renewables (2021-30)	**USD bill/yr**	**9.50**	**16.74**	**22.89**	**22.89**
Direct Mobilisation Factor		1.05	1.13	1.13	1.60
Private Finance Mobilised (Direct Effect)	USD bill/yr	9.99	18.93	25.88	36.62
Total Direct Financing of Renewables (2021-30)	**USD bill/yr**	**19.49**	**35.67**	**48.77**	**59.51**

Indirect Mobilisation Factor		2.19	2.36	2.36	3.34
Private Finance Mobilised (Indirect Effect)	USD bill/yr	20.84	39.52	54.03	76.44
Total Financing of Renewables (Direct + Indirect) (2021-30)	**USD bill/yr**	**40.33**	**75.19**	**102.80**	**135.94**

Source: Vivid Economics analysis

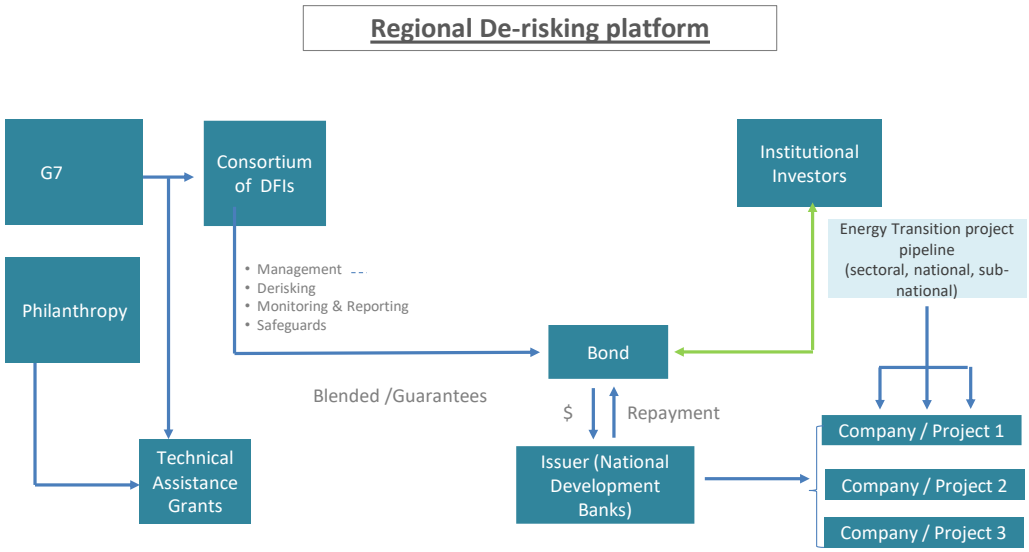
Table 10 shows how Scenario 2 would change if the capital allocated to renewable projects increased by ~37%. It presents results that account for both the current direct mobilisation leverage and the 'aspirational' leverage of 1.6, in line with the analysis performed in Table 9 above. Under these capital increase assumptions, **direct financing for renewables could go up to USD 59.5 billion, representing an eight-fold increase** from the current USD 7.4 billion.

6 Mobilising private capital via dedicated platforms

As the world aspires to a green, equitable recovery from COVID-19, the demand for energy transition capital to decarbonise power systems has never been greater. Historical underfunding in this sector has resulted in developing countries being particularly ill equipped today, given that the pandemic has drained public finances.

Meanwhile, in the world's financial capitals, investor demand for socially responsible assets has been growing swiftly, particularly for clean power assets. This raises the alluring prospect of private capital meeting emerging markets' capital needs through billions, or even trillions of dollars in new deployment. A global energy transition is underway. Its potential to redraw the financial landscape will be most profoundly felt in developing economies, where the bulk of the growth and investment will take place. Despite their important role, MDBs alone cannot provide the quantum change needed to move the billions to trillions in the energy transition — unless they work together with capital markets. That is why a high-level political process such as the G7 Global Infrastructure Initiative should be used to mobilise early movers from the world of investment.

A precise, pragmatic initiative that can increase North-South investment six- or seven-fold by 2030 is needed in order to drive financial flows significantly higher than USD 100 billion a year. This is achievable if the current system of disjointed approaches by individual institutions is replaced with a small set of regional climate finance de-risking platforms, serving as a warehouse facility for green and sustainable bonds issuances. Such platforms could, on a blended basis, manage large-scale funding flows, especially from institutional investors (see diagram below).



Critically, the private sector would provide the majority of funds, with public financing and guarantees carefully deployed to boost the credit enhance issuance by national development banks at country level. Technical assistance grants from public and philanthropic sources would also be needed to create an enabling policy and regulatory environment. The idea of pooling of resources from development banks in G7 countries hinges on the concept that G7 finance ministers have clear jurisdictions over their budgets, enabling coordination at the highest level to build scale and impact into the system from the outset. The same applies to national development banks in the Global South, bringing local knowledge and project pipelines to this new type of development cooperation.

Finance mobilisation platforms would pool the public resources of G7 DFIs around a programmatic or sectoral approach to renewable energy investments. The deployment of established low-carbon technologies such as wind, solar, grid infrastructure and battery storage would take precedence over early stage or high-risk technologies. The development of the de-risking platform would need to be “market-driven”, serving the needs of actual investors, and follow an iterative approach where the concept is already tested and developed around a few demonstration projects. This would allow development banks to scale these projects by involving potential anchor clients from the

world of investment. The first step in getting a platform off the ground would be to introduce G7 donors to a project pipeline that qualifies for grant funding for capacity building and technical assistance capable of bringing it to scale.

The main idea behind a high-level G7 initiative is to lower the cost of capital for the massive deployment of renewable energy in the developing world. What is needed is not just the issuance of debt instruments by tapping institutional investors, but cheap debt at scale. By starting with a pool of cheap debt, the viability gap between emerging and less developed countries can be better bridged.

The question remains over the terms under which institutional investors and taxpayers in G7 countries are prepared to invest in infrastructure development in emerging economies that lack sophisticated capital markets. In these less developed markets with the greatest growth potential there is an obvious need for sovereign guarantees.

The renewable energy transition does not require the frontloading of resources typical in other development contexts. Renewables projects with long-term offtake agreements could be particularly well-suited to meeting institutional investor needs. While precise criteria differ, many funds have a long-term focus on lower-risk, investment-grade assets and a feasible minimum investment volume to justify due diligence procedures. Addressing market fundamentals and creating suitable enabling environments in the power and financial sectors of developing countries is crucial. Too often, investors avoid deploying capital into countries due to concerns over regulatory, sovereign or currency risk. It is important for G7 policymakers to address the risks to renewable energy investment in a systematic and integrated manner, and support the development of an investment-grade policy infrastructure. High-quality policy design and implementation, and apportioning risks/rewards in a fair and transparent manner among all stakeholders should take place alongside the allocation of a small share of the USD 100 billion a year commitment of long-term finance to investment in policy infrastructure through regional de-risking facilities.

The COP26 Private Finance Strategy, authored by Mark Carney, calls on the international community to create development platforms for blended finance based on clear standards for sustainable infrastructure projects in developing economies, supported by technical expertise, investment protections and appropriate risk mitigation by development banks. It is connected to a dedicated pool of “capital in principle” from private investors for proposals that meet these criteria.[35] Similar proposals from Aviva, supported by a coalition of private finance actors and experts, call on the OECD to play a key role in this regard. Given the consensus among financial markets practitioners, the OECD should be invited to bring its research experience on blended finance and guarantees into the de-risking platform, and help to assess the overall effectiveness of the approach.

[35] **https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf**

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With consensus from different actors emerging on the need to create finance mobilisation platforms, all that is needed is political firepower behind the proposal. This initiative is crucially important because a push at G7 leaders' level could immediately activate the balance sheets of their development finance institutions and provide a credible finance offer to the Global South.