FFD4

BUSINESS STEERING COMMITTEE

Preliminary Recommendations for 4th International Conference on Financing for Development

"Unlocking Private Finance & Investment for Sustainable Development"

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Action Area 1: Effective mobilization of private finance & investments for sustainable development

DRIVERS:

i) Making blended finance work at scale

Key recommendations:

- **Enhance the alignment of blended finance with sustainable development impact by advancing outcome based blended finance.** The success of blended finance should be measured by how efficiently public capital is deployed to deliver positive impact outcomes and is additional to what would have taken place without blended finance.

- **Advance the standardization of blended finance structures.** A starting point would be the development of templates based on existing instruments, products and approaches with a proven track record of effective private capital mobilization and sustainable development impact. MDBs, DFIs, vertical climate funds and shareholder governments should work together and with commercial private sector financial institutions to standardise blended finance structures to achieve scale and replicability, drawing on good practice already underway.

- **Establish a process that brings together policymakers, regulators, rating agencies, donors, investors and development finance institutions to have a regular and open dialogue to ensure that prudential regulation pertaining to is fit for purpose and existing challenges are addressed.** Existing regulation should be reviewed to minimize unintended consequences that adversely affect the implementation of blended finance instruments. While some of the regulatory challenges can be addressed through smart structuring, there is a clear need to build a broader platform for a general discussion how to improve the regulation of blended finance among all stakeholders.

- **Enhance transparency of blended finance transactions by providing quality disaggregated data, including from the GEMs database as well as other developmental impact data.** Transparency should be strengthened further across multiple areas, including country level information, project level track records and sustainable development impact of blended finance transactions. This will support the assessment of tangible outcomes of blended finance projects, including financial and sustainable development additionality. It also provides crucial information to market actors, thereby acting as an enabler of additional transactions.

- **Shareholders of MDBs and DFIs should establish a Private Capital Mobilization (PCM) target, aiming for each dollar of public capital to mobilize five dollars of private capital (a PCM ratio of 5:1) by 2030.** This target should serve as a key internal performance indicator to assess their effectiveness in attracting private investment across various mobilization approaches in support of long-term sustainable development. MDBs/DFIs should also work to update their approaches to measuring PCM to ensure that the most catalytic uses are prioritised.

- **Increase the availability of catalytic concessionary capital especially in the form of first-loss capital, and develop aggregation platforms that can diversify risk and attract institutional investors by pooling in multiple projects in a country and across countries**. Large, consolidated pools of catalytic capital should be set up and seeded by national governments, MDBs, DFIs, foundations, philanthropies, and related actors to increase their aggregate risk appetite and deployment. Moreover, increase the amount of capital available for credit enhancement mechanisms such as guarantees and insurance using both concessionary and non-concessionary funds.

- **Increase the volumes of equity deployed by MDBs and DFIs (either on-balance sheet or via off-balance sheet mechanisms) and targeted towards catalytic instruments.** Moreover, MDBs and DFIs should match others' catalytic equity commitments, provide guarantees to providers of equity, use sovereign lending to enable local currency green banks/institutions to offer equity, and set a target for true private sector senior equity mobilized.

- **Grow the universe of bankable projects by expanding the provision of technical assistance**, including by leveraging expertise from actors at the country level and the private sector. Development organizations should expand capacity building in areas that can facilitate investment, such as local financial and capital market development.

  Expand the use of originate-to-distribute and securitization models both by individual MDBs and DFIs and by working together as a system to create an emerging market asset class which can bring in new institutional investors to emerging markets at scale, and free up MDB/DFI capital for additional lending. This can be done through pooled assets approaches, co-investment/syndication, and originate-to-refinance models.

ii) Encouraging long-term finance and investment

Key recommendations:

- **Call on the Bank for International Settlements (BIS) to amend the Basel III framework and establish a mechanism to end the automatic increase in regulatory capital charges for existing assets in instances of sovereign downgrades.** The BIS should also introduce a scaling factor to provide enhanced capital treatment for critical sustainable infrastructure projects that meet recognised international standards, such as those under the OECD Blue Dot Network, could also have significant potential to accelerate the supply of sustainable finance to developing economies. Finally, greater regulatory capital relief for projects benefiting from MDB guarantees should also be encouraged by engaging with the Basel Committee and the national and regional regulators.

- **Regulators should take steps to identify and tackle unintended consequences of financial regulation that impede the flow of capital to long-term investments in developing countries.** This could entail creating a study group to analyse appropriate risk weightings in developing countries and for infrastructure investments. As part of this effort, consideration should be given to calibrating risk accurately by adjusting capital requirements and allowing for carve-outs in the short-term; adjusting the risk weights for infrastructure in Basel III, including by creating a distinct investment category under Pillar I, as well as considering carve-outs and haircuts under supervisory requirements in Pillar II; and incorporating guarantees and other multilateral risk-sharing mechanisms into regulation. For Solvency II, consideration could be given to a review and revision of financial regulatory and prudential frameworks to prioritize actual risk factors over distinctions based on per capita income or OECD/non-OECD classifications.

Action Area 2: Levelling the playing field for private investment in developing countries

DRIVERS

i) Harmonization, coordination and cooperation at all levels

Key recommendations:

- **Promote a whole-of-government approach on sustainable finance, including in developing countries.** Sustainable finance policy needs to be part of a wider set of economic and financial policies and tools that together create enabling conditions for economic transformation. Connecting sustainable finance policy reform with broader fiscal and regulatory tools, including industrial, sectoral and permitting policies, can create the 'right' incentives for sustainable technologies, business models and economic activities, and maximise investment opportunities.

- **Foster better harmonization of sustainable finance policies across regions to effectively align financing with sustainable development.** Interoperability of regulatory frameworks is a key action to ensure that actors interested in financing sustainable development can do so across jurisdictions with minimal friction in terms of the contents of the different s projects. This approach can encourage long-term finance and investment by establishing the definitions and levels of ambition, while enhancing accountability and transparency as well as reporting of financial stocks and flows.

- **Use country platforms and national transition plans to translate developing countries' sustainable development priorities into investment opportunities for the private sector.** To channel private investment flows toward developing countries, it would be useful to have roadmaps with projects and plans for sustainable development that go beyond Nationally Determined Contributions. For example, these could build on the model used in existing Just Energy Transition Platforms.

- **Create robust, coherent policy ecosystems that provide the needed clarity, predictability and confidence to private investors.** Such frameworks should include: (i) clear national climate and sustainable development targets (with broad based political support); (ii) robust investment protection laws; (iii) sound permitting and regulatory processes for major infrastructure projects; (iv) strong offtake markets for energy investments; and (v) appropriate fiscal incentives for sustainable infrastructure. Such plans should be embed financing plans and investment roadmaps at the centre of all Nationally Determined Contributions to be submitted in 2025. Financing partners should be engaged to link financing needs with potential sources.

ii) Tackling currency risks

Key recommendations:

- **Take a portfolio approach to currency risk management that takes advantage of diversification.** Establishing a portfolio of many currencies (including G10 currencies), that could be jointly managed by a few MDBs/DFIs, is much more efficient and cost-effective than hedging currencies individually. Doing so would not only lower the risk but could result in a positive return from the portfolio under many circumstances. This is even after factoring in potential devaluations by taking advantage of the high interest rates in developing countries, i.e., flipping it from being a cost to a gain.

- **Grow the volume of local currency financing available to developing countries, projects, and companies** by a) IFIs issuing local bonds, b) IFIs offering cross-currency swaps. For example, by using onshore treasuries to do local currency bond issuances, partnering with local commercial banks to on-lend their excess deposits, including by scaling subsidies for currency platforms for frontier markets and working with governments to improve local currency debt management practices.

iii) Scaling up innovative instruments and platforms

Key recommendations:

- **Realize the potential of sovereign SDG bonds issuances**. Bonds that are anchored in achieving sustainable development priorities can mobilize additional capital for SDG-aligned outcomes in developing countries from potentially a wider investor base and help reduce perceived risks over time.

- **Align use-of-proceeds bonds and loans with sustainable finance taxonomies.** One model is the European Union, which recognizes green and sustainability bonds or loans as taxonomy-aligned if issuers can demonstrate that the proceeds are used to finance activities or assets covered in the European Taxonomy for Environmentally Sustainable Economic Activities. In addition, link benchmarking targets in sustainability-linked bonds and loans to companies' science-based targets and transition plans, as well as country development priorities.

iv) Climate, nature-based solutions, and infrastructure

Key recommendations:

- **Incentivise the transition to net-zero emissions economies across all financial flows.** Policymakers are urged to enact economy-wide public policies and forward-looking approaches to transition finance address nature, water and biodiversity-related challenges contributing to and stemming from the climate crisis, mandate climate-related disclosures across the financial system, and facilitate further private investment into climate mitigation, resilience and adaptation activities in developing countries.

- **Triple public and private annual nature-based solutions funding to $542 billion by 2030 while addressing the systemic barriers, such as public subsidies for harmful activities and insufficient private sector incentives**. Addressing the disconnect between climate and nature pledges and the persistence of fossil fuel subsidies is essential to reversing the current flow of $7 trillion annually toward nature-negative activities.

- **Advance innovative instruments, including biodiversity credits, green bonds, and blended finance mechanisms, to unlock private capital for nature-based solutions.** Implementing these financial shifts will enable transformative change, ensuring alignment with global biodiversity and climate targets.

- **Encourage financial supervisory entities and central banks to integrate natural capital considerations into financial stability assessments.** Policymakers are encouraged to develop standards, taxonomies, and disclosure requirements on nature risks, opportunities, transition plans, impacts, and dependencies.

Action Area 3: Maximizing impact of private finance & investments

DRIVERS

i) Enhancing accountability and transparency through a harmonized approach to measurement and disclosures

Key recommendations:

- **Advance globally recognized standards for corporate disclosure and impact management.** These should include coordinated transition pathways and due diligence frameworks to steer real economy sectors towards sustainable consumption and production. Legislative efforts should incentivize sectoral transitions and impact management across asset classes in line with the SDGs to align banking, investment and insurance with real world impact. Recognizing both financial and impact materiality and ensuring that there is transparency to enable the availability of decision-useful, reliable and comparable data across sectors and value chains is crucial to ensure economies are on pathways towards sustainable development.

- **Develop and implement sustainable finance policies and regulations that ensure investors can confidently set and pursue commitments to achieve positive sustainability outcomes across all asset classes in line with their duties and obligations.** ESG integration alone is insufficient to fully mitigate risks and achieve global sustainability goals. To maximize the impact of private finance and investments, including enhancing accountability and transparency, governments should seek to not only enable more financing for developing countries, but also to address the key factors that are preventing better sustainability outcomes in investments.

- **Reconcile the conflicting objectives of interoperability and country-specificity of taxonomies, to promote both international capital flow and alignment with local sustainable development priorities.** Globally harmonised taxonomies linking industry activities to the SDGs can help manage and monitor SDG-aligned investments, with support mechanisms and policies to financially incentivize them. This could be done through the interplay of country-, regional- and global-level taxonomies.

Action Area 4: Financial inclusion

DRIVER

i) Aligning trade and trade finance with sustainable development and bridging SME financing gap

Key recommendations:

- **Accelerate the alignment of international trade and linked finance with global development and environment goals**. By leveraging and building on existing initiatives, such as the ICC Principles for Sustainable Trade and Finance, that support sustainable development by providing an industry taxonomy to assess the environmental sustainability of a trade finance transaction.

- **Create enhanced support mechanisms that increase the capacity of financial institutions to provide trade finance to MSMEs, including by improving credit risk assessments, reducing transaction costs, and leveraging digital solutions to streamline processes.** Fiscal incentives and innovative financial instruments to help bridge the important short-term investment gap for SMEs should be explored.

- **Revitalize the global partnership on trade cooperation for sustainable development, by fostering multilateral dialogue and collaboration to address shared challenges.** Emphasise the need to overcome unilateral approaches and uncoordinated national interventions and prioritise building a fair, inclusive, and rules-based trading system that supports equitable growth, prosperity and a sustainable future for all nations.

- **Reform the World Trade Organization to ensure it continues to serve the needs of businesses and ensures international cooperation and sustainable development.** Reaffirm the common purpose of the WTO, agree on a coherent and holistic vision for WTO reform based on the organisation's foundational principles, and deliver on a work programme for WTO reform covering all three pillars of the organisation.