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Country Platforms Action Plan

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Summary

The scale of investments to achieve net zero consistent with 1.5 degrees is estimated to be between $100-150 trillion over the next three decades. The need is greatest in emerging and developing countries, which will require two-thirds of total investment,[1] including total annual transition financing needs rising to $1 trillion by the latter half of this decade. At the same time, over $130 trillion of private sector capital through the Glasgow Financial Alliance for Net Zero (GFANZ) is now committed to align its activities with net zero, and is increasingly targeting Paris-aligned lending and investments.

The challenge is to match this enormous finance with viable projects in emerging markets and developing countries (EM&DCs). There are a number of longstanding issues, including unfavourable domestic policy environments, blended financing instruments that are either too small scale or which mobilise only limited private capital, and a lack of investable projects connected to robust long-term decarbonisation strategies.

Bridging the financing gap in EM&DCs requires a radical change to the international financial architecture. Specifically, it requires building new country platforms which deploy blended finance at scale, leveraging private finance at significant multiples and connecting stand alone private finance with NDCs. These 'Country Platforms' would provide a single focal point to channel technical assistance and public and private finance to support the delivery of Paris-aligned NDCs in EM&DCs.[2] They would coordinate and scale all elements including, critically, standalone private finance to major EMs for all aspects of transition finance including the wind-down of stranded assets. Country platforms could help mobiliser $1 trillion per annum of new private capital flows by middle of the decade.

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1 Based on research to be published by Race to Zero and GFANZ with analysis by Vivid Economics

2 Meaning: consistent with articles 2.1a-c of the Paris Agreement, including pursuing efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels, and increasing the ability to adapt to the adverse impact of climate change and foster climate resilience.

Background: barriers to financing climate action in EM&DCs

Investing in EM&DCs can provide high returns relative to more developed markets, but the overall risk/return profile often does not meet investor expectations. Mobilising private investments into climate adaption and resilience sectors (such as agriculture, forests, resilient infrastructure) also faces additional challenges, given the nascent nature of many of these industries and, more broadly, the lack of reliable revenue streams.

To scale up investment, investors need:

1. Strong institutions, governance and reliable macroeconomic management.
2. Policy stability, commitment to low-carbon solutions and contract enforceability: Low-carbon projects are particularly vulnerable to policy risk, such as the ability to predict and rely on stable tariffs, due to declining input costs and a reliance on government subsidies.
3. Increased market access, a viable commercial partner and ability to scale. Technical skills to engage with investors and execute commercial agreements are important.
4. Depth in local financial markets. Local bank markets that can provide financial services, such as currency, interest rate swaps, access to listed markets, and even support for a robust green bond markets are important for international investors.
5. Currency stability. Mismatches between the currency denomination of a project's costs and the denomination of its revenues presents extra costs and risks where instruments needed to hedge those risks are lacking.
6. Accurate performance data and benchmarks: a lack of data is hindering accurate risk-pricing and leading to risk misperception.

A number of these barriers can be overcome with the right toolkit of public support. But, to date, attempts to mobilise private climate finance into developing countries has been piecemeal, and have not achieved the scale required to effectively respond to the challenge of financing developing countries' climate plans. This needs to be matched by a coordinated response from the private sector.

Proposal: an enhanced model of country platforms

This new model of country platforms builds on recent efforts. First, the World Bank has advocated country-led and country-owned platform models since 2017, reaffirming this commitment in the Joint MDB Statement issued at COP26, and the G20 Finance Ministers endorsed a Reference Framework for Effective Country Platforms in early 2020.[3] Second, the private-sector led CFLI is focused on piloting this type of coordinated, country platform activity by convening leading private sector financial institutions and corporates, alongside governments and development finance, to catalyse new private financing activity and long-term enabling environment strengthening select markets and priority sectors.[4] These approaches can be combined and linked to NDC commitments in country platforms that supercharge climate finance flows. With over $130 trillion of private finance focused on achieving net zero, country platforms must integrate Paris-aligned NDCs to attract capital at scale. Projects that are consistent with long term country strategies that are certified as Paris aligned are more likely to attract private capital and less likely to be subject to project risks, including changes in regulation.

Specific country platforms will need to be owned and developed from the outset by beneficiary governments (supported by bilateral donors, MDBs, DFIs and private sector coalitions) to deliver appropriate tailored solutions dependent on the specific beneficiary country needs.

Country platforms could deliver $1 trillion per annum of new private capital flows to EMDs by middle of the decade. These will:

- **Combine ambitious NDCs and tailored projects to help achieve them.** For example, financing projects across the value chain that support projects such as coal phase out, steel decarbonisation, renewable power, and reforestation. With private finance focused on achieving net zero, country platforms must integrate Paris-aligned NDCs to attract capital at scale. Projects that are consistent with long term country strategies that are certified as Paris aligned are more likely to attract private capital and less likely to be subject to project risks, including changes in regulation.
- **Address both upstream and downstream barriers to investment:** Developing a pipeline of projects may require barriers across the investment chain to be overcome, including upstream[5] – such as the regulatory environment or other underlying factors that discourage investment – and downstream[6], including connecting projects to investors through appropriate financing structures.

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3 Defined as "voluntary country-level mechanisms, set out by governments and designed to foster collaboration among development partners, based on a shared strategic vision and priorities."

4 https://www.gov.uk/government/news/joint-statement-by-government-of-india-uk-government-and-the-cfli-on-mobilising-climate-finance-in-india

5 The IFC define 'upstream' activities as those that 'occur before the traditional investment cycle and are necessary precursors to an investment,' and interventions are targeted 'at creating the conditions for a private sector investment that otherwise would not have occurred if left to market forces alone.' https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/upstream/faqs

6 As defined by the IFC, the downstream stage covers (iv) project structuring, (v) transaction support, and (vi) post-implementation support. https://ieg.worldbankgroup.org/sites/default/files/Data/Evaluation/files/IFCClientEngagement.pdf

- **Access capital at scale from the private sector:** Leverage GFANZ members to make clear commitments from private capital to finance net zero aligned projects in emerging and developing economies. Coordinate efforts across initiatives such as Mike Bloomberg's Climate Finance Leadership Initiative (CFLI), HRH's Sustainable Markets Initiative (SMI) and President Macron's One Planet Lab to ensure a single focal point for action.
- **Coordinate financing and certify Paris-alignment:** Provide a forum to coordinate public/private finance, including bringing in the expertise of key institutions, particularly MDBs, to develop bespoke blended finance structures and certify Paris alignment of projects. This includes country-led governance (and external support, as appropriate) to oversee, steer, and coordinate donor/private sector activity in line with development and decarbonisation strategies,
- **Utilise innovative financing structures:** Providing access to structures such as voluntary carbon markets, which have the potential to scale to $150 bn per year of new investments, with vast majority flowing to emerging and developing economies. Connecting these to platforms where projects are demonstrably aligned to, both Paris and local development priorities will help ensure high integrity.

In practice, governance models will need to be tailored to country specificities, and draw on relevant existing initiatives and institutions that are active in this space (see Annex 1 for a list of some of these key initiatives that could be included). Specific lead institution(s), for example MDBs, could be designated to support beneficiary governments with coordination of platforms.

Scale blended finance through MDBs

As a key component of work on country platforms, MDBs should identify and scale up solutions to mobilise private capital.

MDBs are uniquely placed to de-risk projects and mobilise private finance, but thus far the results have been modest with only $8bn directly mobilised in 2019, just 11% of total climate finance contributed and directly mobilised from advanced to developing economies. Actual investments will, of course, depend on the specific projects and the overall investment environment within the recipient countries, including the credibility of NDCs, but these conditions are more likely to develop if the sufficient financing capacity is in place.

MDBs should identify and be prepared to dramatically scale up blended finance vehicles, instruments and facilities that overcome these issues and support significant mobilisation of private capital. Potential candidates include the IFC's Managed Co-Lending Portfolio Program and the AFD's Room2Run Synthetic Securitisation Program, as well as platforms like the Global Infrastructure Facility.

Consideration should be given to the development of new first loss structures that reduce macro risks.

MDBs should focus on:

- **Leveraging private finance:** Access to concessional resources will help mobilise private finance through blended structures. Concerns about the effectiveness of the existing architecture – including overuse of blend for pre-investment activities versus underwriting higher-risk but potentially higher-impact post-investment losses – are hampering action. MDBs should review: whether fewer but larger and more coordinated blending pools would be more effective; how to improve adherence to the blended finance principles[7]; and how MDBs can more effectively access and coordinate with organisations designed to pool and leverage private capital (i.e. GCF Private Sector Window, EFSD+ and the CIFs).

- **Scaling sector "platforms" and investment funds:** groups (such as infrastructure finance and development organisations) focused on specific sectors have the capital and expertise required to take on early stage risk. MDBs should partner with these firms to develop commercially focused low-carbon "sector" solutions, or "platforms". Development finance has previously been used in backing and creating such sector platforms (e.g. CDC's investments in Globaleq, GridWorks and Ayana). MDBs could also target mobilisation of large pools of currently underutilised capital such as domestic pension and insurance funds into these vehicles – building their exposure to this new asset classes.
- **Wholesaling bankable projects:** by preparing, originating and structuring them before selling them onto institutional investors, thereby preserving balance sheet capacity of MDBs.
- **Issuing green MDB bonds and supporting green bond issuances in developing markets.** MDBs should use their expertise to provide technical assistance to developing countries issue green bonds. This could include support on pipeline development, transparent governance and outcome tracking. MDBs could consider the development of an investment vehicle that pools investments across a number of Green Bonds, making it more feasible for private sector investors to participate, as well as de-risking exposure to single country risks. In the longer term, any agreements by shareholders to provide additional capital to the MDBs could also support increased mobilisation.

Objectives and suggested actions

There is now a unique need and opportunity to reorganise public and private sector cooperation to support green recovery and climate action in EM&DCs. The actions proposed here should be further refined and delivered through willing bilateral and multilateral donors and private sector coalitions:

At COP26

- Secure high-level support from key partners to develop this concept further post-COP, including setting up an action-oriented working group to deliver platforms in 2022, and reinvigorating work on country platforms at the G20 level, building on existing work under the Saudi Presidency (G20 Reference Framework for Effective Country Platforms).

2022

- Key partners develop and begin implementing country platforms in pilot countries, with secretariat led by an institution appropriate for that country to be discussed across the IFIs in partnership with the country concerned.
- G20 defines effective country platforms using the most effective high multiplier blended finance vehicles and an updated G20 Reference Framework to showcase best practice for working with the private sector.
- Initiate pilots in key emerging markets to prove the concept and begin the large scale flow of finance.

7 See, for example, principles outlined on pg. 8 of the DFI Working Group on Blended Concessional Finance for Private Sector Projects https://www.ifc.org/wps/wcm/connect/73a2918d-5c46-42ef-af31-5199adea17c0/DFI+Blended+Concessional+Finance+Working+Group+Joint+Report+%28October+2019%29+v1.3+Report+.pdf?MOD=AJPERES&CVID=mUEEcSN

Annex 1

Examples of existing initatives covering key elements of country platforms

While no one platform or initiative covers all of the proposed scope, some elements of country platforms already exist in a form that could be learned from and built upon. For example:

Technical assistance in project preparation

Climate Finance Accelerator (CFA): The CFA supports emerging markets to turn their NDCs into a pipeline of bankable projects, through capacity building for project developers. This supports them to understand how to structure their programmes to attract private and public sources of finance, and helps match them with investors. The CFA currently operates in South Africa, Nigeria, Turkey, Peru, Mexico, and Colombia.

Global Infrastructure Facility: The Global Infrastructure Facility (GIF), a G20 initiative, is a global collaboration platform that brings together donors, development finance institutions, country governments, with input from private sector investors and financiers, to build bankable pipelines of infrastructure projects that attract private financing. It works with multiple MDBs to explicitly focus on private capital mobilization, focused on providing technical assistance and project prep for large infrastructure projects.

Private sector coordination with local governments to address barriers to private capital mobilisation

Climate Finance Leadership Initiative (CFLI) Country partnerships: Partnering with country governments and multilateral DFIs, CFLI country partnerships bring together local and international financial institutions to identify and address sector-specific barriers to private finance mobilisation. This includes targeting regulatory reforms to enable private capital mobilisation over the longer-term. The first CFLI Partnership (India) was launched in September 2021.

Multilateral donor coordination to support climate finance

Taskforce on Access to Climate Finance: Co-chaired by the UK and Fiji, the Taskforce on Access to Climate Finance aims to address barriers to access, constraints on delivery and insufficient coherence in donors' offers by developing a new approach to climate financing, which will align support behind the national climate action plans of developing country partners and match those commitments with a coordinated offer from bilateral and multilateral partners.

NDC design and implementation

NDC partnership: The NDC Partnership works directly with national governments, international institutions, civil society, researchers, and the private sector to help developing countries deliver NDC goals by turning them into action plans, integrating them into all parts of government and co-ordinating donors to provide support The NDC Partnership is co-chaired by Jamaica and the UK, and has more than 180 members, including developed and developing countries,MDBs and UN bodies.

Packaging sustainable infrastructure projects for private sector investors

Fast Infra: The goal of Fast Infra ('Finance to Accelerate the Sustainable Transition – Infrastructure') is to significantly scale up private sector investment in developing world sustainable infrastructure, including through sustainable infrastructure labelling and targeted financial interventions. Participants include banks, asset managers, multi-lateral development banks, national development banks and NGOs.