

The BlueOrchard

IMPACT SUMMIT

WHITE PAPER

2018

About BlueOrchard

Having been founded in the course of the Millennium Development Goals by initiative of the UN as the world's first commercial manager of microfinance debt investments, BlueOrchard has never lost sight of the world's most pressing social and environmental challenges and the investment needs in developing countries. Since its inception nearly 20 years ago it has been BlueOrchard's vision and mission to reduce poverty globally and foster inclusive and climate-smart growth, while providing attractive returns for investors. With its investments, BlueOrchard has proven that financial returns and social and environmental impact can go hand in hand.

Today, BlueOrchard's funds address 13 out of the 17 UN Sustainable Development Goals and provide investors around the world with premium investment solutions, including credit, private equity, and sustainable infrastructure. Being an expert in innovative blended finance mandates, the firm is a trusted partner of leading global development finance institutions. With a major global presence and offices on four continents, BlueOrchard has invested to date more than USD 5bn across 80 emerging and frontier markets, enabling tangible social and environmental impact.

For additional information, please visit: blueorchard.com

FOREWORD

“Ours can be the first generation to end poverty — and the last generation to address climate change before it is too late.”

(UN General Secretary Ban Ki-moon)

2015 was a historic year that set the world on a path towards sustainable development. In September, the United Nations initiated the Sustainable Development Goals (SDGs) with the aim to end poverty, foster peace and prosperity, and protect the planet. Three months later, representatives of 196 state parties adopted by consensus the Paris Agreement with the goal to keep the increase in global average temperature well below 2°C above pre-industrial levels. These two conventions represent milestones that many would have thought unachievable. At the same time, they impose an obligation upon all of us to contribute to making the world a better place.

BlueOrchard has taken the responsibility to actively contribute to achieving the ambitious goals set out in the SDGs and the Paris Agreement. Since BlueOrchard’s inception, nearly 20 years ago, it has been our vision and mission to reduce poverty globally and foster inclusive and climate-smart growth. We firmly believe that the private sector has both the responsibility and the strength to make a positive impact in this world. We also believe that the best way to tackle the global challenges

of our time is through enhanced cooperation among the various stakeholders.

We have therefore initiated the “BlueOrchard Impact Summit”, a platform where global leaders, key decision makers from the private and the public sphere, and academics can come together and find ways to unlock the resources required to make sustained prosperity a reality for all. The high attendance of prominent leaders at the summit indicates that the need to tackle the global challenges of the SDGs and the Paris Agreement has reached the awareness of key decision makers. The summit demonstrated in a remarkable manner that there is a collective willingness to contribute to achieving these social and environmental goals, and good intentions, partnership, and friendship can help make them a reality.

We are only at the beginning of a long journey which we started with the summit. This white paper continues this journey by entering us into a vital debate and exchange among all stakeholders to identify solutions to end poverty, foster peace and prosperity, and protect the planet. It reflects on identified areas where we can work together to achieve these aims.

If we all walk this path together, we will be able to make an impact in this world.

Thank you all for your valuable support and contribution.



A handwritten signature in black ink, appearing to read 'P. Fanconi'.

Peter A. Fanconi



A handwritten signature in black ink, appearing to read 'P. Scheurle'.

Patrick Scheurle



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EXECUTIVE SUMMARY

The BlueOrchard Impact Summit 2018 was centered around the key topic “Closing the Gap”. The main objectives of the summit were to:

- give attention to the pressing global social and environmental challenges of our time: poverty, rising inequalities and the consequences of climate change;
- raise awareness about the alarming investment gap for achieving the UN Sustainable Development Goals (SDGs) in developing countries;
- provide a platform for all stakeholders to share best practices and success stories;
- discuss how to mobilize and upscale the resources required to achieve SDGs;
- start a debate and enhance cooperation.

This white paper synthesizes the experience, expertise, and contributions of the summit’s speakers and attendees and reflects on identified areas where we can work together to contribute to closing the SDGs’ \$2.5 trillion investment gap in developing countries. It was written for all participants of the summit as well as for everyone who is interested in closing the SDGs investment gap.

Closing the Gap

Participants highlighted that all stakeholders are accountable for driving the 2030 Agenda forward. There was a general agreement among the participants that ending poverty, reducing inequalities, and fighting climate change can only be achieved by addressing interrelated factors, including inclusive growth, education, food security, health, and access to basic services and infrastructure. Speakers also noted that poverty and climate change will produce migration flows, creating an additional challenge. It was recognized that the private sector is increasingly making commitments to invest with a purpose and is playing a critical role in bringing additional resources to help developing countries achieve the SDGs and their climate commitments. However, participants agreed that the speed of mobilizing private sector investments must be increased. A key point of discussion was the need to efficiently use public and private resources. Furthermore, impact investing has been recognized as the fastest growing asset class today and as an effective tool to “close the gap”. Throughout the summit it was underscored that people must be at the center of our efforts. Specific key take-aways include:



OPPORTUNITIES: The consequences of poverty, inequality and climate change present enormous challenges for developing countries but they also offer immense investment opportunities.



PARTNERSHIPS: Realizing these opportunities requires the cooperation of all players and an increased partnership between the private and public sectors.



BLENDED FINANCE 2.0: Blended finance has the ability to leverage the strengths and expertise of the private and the public sectors. The SDGs investment gap, however, can only be bridged if private actors significantly increase their contribution. In order to do so, blended finance vehicles need to be further improved to ensure inclusiveness of all investors, as well as replicability and standardization of best practices.



SUB-NATIONAL LEVEL: More emphasis has to be put on the sub-national level and the role of local and regional authorities that play a key role in implementing the SDGs.



INVESTABLE PROJECT PIPELINES: As important as catalyzing and mobilizing investments is creating pipelines of investable projects by mapping concrete opportunities in different sectors and identifying investment ready projects to be financed.



PRODUCTS: There is increasing demand for impact investments. In order to unlock private and institutional money, the private sector has to build more investable products along the SDGs goals and provide investment opportunities which meet investors’ needs, particularly with regards to liquidity, risk/return expectations, investment fields, and simplicity.



EMPOWERMENT: Sustainable development, reducing inequalities and ending poverty require the empowerment of disadvantaged groups, in particular women, rural and poor parts of the population.



EDUCATION: The impact investing industry has been able to generate respectable returns but needs to further demonstrate that there is no trade-off between impact and returns by building additional track records across different asset classes and investment areas.



PRINCIPLES: In order to prevent “green-washing” and “SDG-washing”, the impact investing industry has to develop and agree on principles of impact investing, including impact measurement.

1 INTRODUCTION

The BlueOrchard Impact Summit 2018, held in Pontresina, Switzerland, on October 3-4, 2018, was centered around the key topic “Closing the Gap”. The summit was a by invitation only event that facilitated a dialogue among nearly 120 participants who represented more than 70 organizations. Participants included representatives from the public and private sector, international organizations, start-ups, academia, and the media. Other stakeholders included opinion leaders, policymakers, and millennials. More than 70% of the participants represented the private sector. The main objectives of the summit were to:

- give attention to the pressing global social and environmental challenges of our time: poverty, rising inequalities and the consequences of climate change;
- raise awareness about the alarming investment gap for achieving SDGs in developing countries;
- provide a platform for all stakeholders to share best practices and success stories;
- discuss how to mobilize and upscale the resources required to achieve SDGs;
- start a debate and enhance cooperation.

A combination of speeches, presentations, and panel discussions covered the following topics: inequality, climate change and the role of public and private actors. A line-up of prominent speakers addressed the audience of the summit, contributing actively to in-depth discussions on the issues addressed during the two days. Keynote speeches were given by Burkhard Varnholt (CIO Switzerland, Credit Suisse), Tadashi Maeda (Governor and Representative Director, Japan Bank for International Cooperation), Boris Collardi (Partner, Pictet Group), and Hernando de Soto (Economist & President, Institute for Liberty and Democracy).

The audience was encouraged to participate in the discussions, and to share their opinions and expectations through a digital polling tool. Participants could interact with start-ups from École polytechnique fédérale de Lausanne (EPFL) that presented their innovative projects in the area of sustainable development during the breaks. Furthermore, participants could enjoy the photo exhibition “Affected – the human face of climate change”, which was exhibited at the UN headquarters by the critically acclaimed photographers Mathias Braschler and Monika Fischer.

Every session started with an introduction of the focus topic (facts and figures) by the moderator, followed by “Individual



Airtimes”, in which first the session’s speakers presented their view and second, the participants explored the topic further during a panel discussion. The panel discussions concluded with a Q&A, which allowed the audience a chance to interact with speakers in more depth.

“It is still the beginning, and that’s why this is also a conference in the position of necessity, where we need to collaborate, not compete.”

Burkhard Varnholt (CIO Switzerland, Credit Suisse)

The summit opened with the session “Inequality”, which gave an overview of different aspects of inequality in developing countries. It explained why especially poverty is one of the largest global challenges today. The speakers were the renowned Peruvian economist and President of the Institute for Liberty and Democracy, Hernando de Soto, the CEO of the leading Armenian microfinance company FINCA Armenia, Hrachya Tokhmakhyan, and the Vice-Chairman of BlueOrchard, Ernst A. Brugger. They discussed tools and measures to alleviate poverty and the role microfinance, impact investments and property rights play in reducing inequality and poverty.

The second session, “Climate Change”, addressed the consequences of climate change for developing countries. It discussed mitigation and adaption measures, financing needs as well as approaches across sectors and technologies. BlueOrchard’s CEO, Patrick Scheurle, opened the stage by sharing new alarming research results. The speakers of this session included Director of Western Europe at IFC (World Bank Group), Stephanie J. Miller, Co-Founder of Partners Group, Urs Wietlisbach, and the Executive Director of R20 Regions of Climate Action, Christophe Nuttall. During the panel discussion, the participants discussed key investment risks and barriers to climate finance growth as well as instruments, innovative financial products, and solutions to scale up climate financing in developing countries.

Sessions 3 and 4 focused on the investment side of addressing sustainable development challenges. They explored public and private approaches to close the SDGs investment gap. The third session, “Public Investors”, addressed the complementary role of public and private finance. The speakers were the Governor and Representative Director of Japan Bank for International Cooperation, Tadashi Maeda, member of the Management Board of DEG (KfW Group), Monika Beck, and the Head of Operations of the Economic

The BlueOrchard
IMPACT SUMMIT
Speakers



Dana Barsky
COO & Head of Ext. Partnerships IAF
Credit Suisse



Monika Beck
Member of the Management
Board of DEG



Peter A. Fanconi
Chairman BlueOrchard Finance



Ivo Germann
Head of Operations, Economic
Cooperation & Development at SECO



Murray Grant
Managing Director
at CDC Group



Omar S. Qandeel
Founder & CEO
Summit Financial Services



Patrick Scheurle
CEO BlueOrchard Finance



Hernando de Soto
Economist

Development Cooperation Directorate at the Swiss State Secretariat for Economic Affairs, Ivo Germann. They discussed together with the moderator, BlueOrchard's Chief Investment Officer, Maria Teresa Zappia, how public funds can be used to unlock private investment addressing the SDGs and the potential of blended finance to scale up private sector investments.

"The little people, we have to help them. They are at the bottom of the problem."

Hernando de Soto (Economist & President, Institute for Liberty and Democracy)

The fourth session, "Private Investors", built on these discussions by exploring the main drivers and incentives of private investors for impact investments in developing countries. The session's speakers were the Chief Operating Officer and Head of External Partnerships for the Impact Advisory and Finance (IAF) Department of Credit Suisse, Dana Barsky, the Head of Group Wealth Management of UniCredit, Marco Bizzozero, and the founder and CEO of Summit Financial Services, Omar S. Qandael. Along with the moderator, BlueOrchard's Chairman, Peter Fanconi, the speakers discussed the following key

topics: Which are the barriers for the private sector when investing in developing countries, how these can be overcome, and what are their expectations for the public sector to facilitate impact investments.

"Wealth without values is only money."

Boris Collardi (Partner, Pictet Group)

The summit concluded with a call to intensify dialogue and cooperation between public and private actors, and to continuously keep the goal of helping people in need at the forefront of impact investing.

This white paper synthesizes the experience, expertise, and contributions of the BlueOrchard Impact Summit speakers and attendees. It was written for all participants of the summit as well as for everyone who is interested in closing the SDGs investment gap. It begins with outlines of the core content and the key questions of each session by the respective session moderators. It follows with contributions of selected speakers and opinion leaders from the public and private sector, and their views on how to "close the gap." It concludes by summarizing the summit's key messages and take-aways.



Marco Bizzozero
Head of Group Wealth Management
UniCredit



Ernst A. Brugger
Vice-Chairman
BlueOrchard Finance



Boris F. J. Collardi
Partner Pictet Group



Tadashi Maeda
Governor and Representative
Director JBIC



Stephanie Miller
Director Western Europe
International Finance Corporation



Christophe Nuttall
Executive Director of the R20
Regions of Climate Action



Hrachya Tokhmakhyan
CEO FINCA Armenia



Urs Wietlisbach
Co-Founder
of Partners Group



Maria Teresa Zappia
Chief Investment Officer
BlueOrchard Finance

2 SETTING THE STAGE

2.1 Towards the End of Poverty?

Ernst A. Brugger, Vice-Chairman, BlueOrchard Finance

“The world’s next great leap forward: Towards the end of poverty” - was the headline of the Economist in June 2013, when the United Nations convened to replace the Millennium Development Goals with the Sustainable Development Goals (SDGs), a global call for action to promote prosperity while protecting the planet.¹ The Economist’s headline referred to the extraordinary progress made between 1990 and 2010, during which nearly 1 billion people around the world escaped from extreme poverty.

However, this headline was arguably optimistic. Data demonstrates that there is still a long way to go towards the end poverty. Almost 2 billion of the global population lives on \$3 or less per day and nearly half of the world’s population (over 45%) lives on less than \$6 per day.² The facts are staggering: roughly 100

million people around the world are homeless;³ 1,6 billion lack adequate housing;⁴ 815 million are undernourished;⁵ 2,6 billion have no access to piped water;⁶ 1,7 billion have no access to a bank account;⁷ and 99% of maternal deaths occur in developing countries.⁸ Furthermore, it becomes increasingly difficult to fight poverty in areas, where armed conflicts harm economic growth. Poor regions are more affected by climate change and natural disasters. Lack of education and access to healthcare are conducive to poverty. According to the World Bank, 27 out of the 28 poorest countries in the world are in Sub-Saharan Africa.⁹ Other studies show that poverty is concentrated in rural areas and that the poor most likely work in agriculture. Furthermore, there is a gender gap in education among the poor: poor women on average receive less schooling than poor men. Disturbingly,

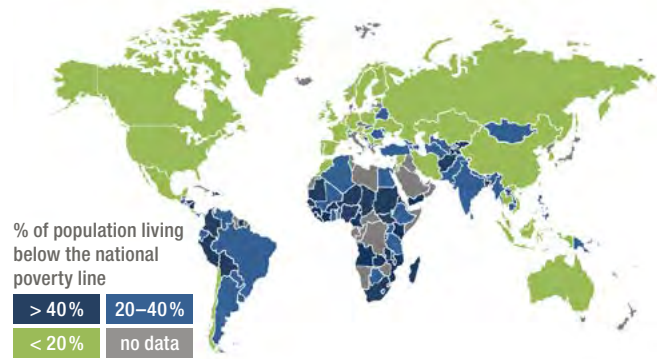


poverty rates are the highest among children.¹⁰ According to the UN, 167 million children will live in extreme poverty by 2030 if this problem is not addressed immediately.¹¹

Why is there no discernable end to poverty in sight? What are the main reasons explaining this unacceptable poverty pattern in times of globalization, technical progress, transparency, and access to information? These reasons include a widespread lack of access to crucial infrastructure like water, housing and energy, education, and basic health services. Another reason is limited access to credits, or access only with devastating pricing and conditions. Landowners tend to have no property rights and therefore no collateral. Women and children have often restricted rights and only limited access to public services.

The UN notably named the first of the 17 SDGs “End poverty in all its forms everywhere”.¹² If we truly want to successfully and sustainably eradicate poverty, we have to intersectionally address its social, economic and environmental factors. Far more financial resources need to be mobilized – but even more decisive is fair access for all to infrastructure, public services and legal security including property rights. The core strategy has to be therefore inclusiveness for all. That’s not the same as equality for all – but it is a dramatic call for creating open access for everybody to rights, education, infrastructure and markets. According to Nelson Mandela, *“poverty is not an accident, it is man-made and it can be overcome and eradicated by the actions of human beings.”*¹³

People Living in Poverty by Geography¹⁴



2.2 Substantial Investments Needed to Meet Global Climate Targets by 2030

Patrick Scheurle, Chief Executive Officer, BlueOrchard Finance

The most important aspects to consider when discussing climate change are exposure, vulnerability and adaptive capacity. While climate change is a global challenge, its consequences will affect developing countries first and to a greater extent than developed ones. These countries are not only physically more exposed to climate change effects, they also have the least resources to face it. Their low adaptive capacity makes them most vulnerable to the consequences of climate change, which will harm them at social, economic, and environmental levels. Emerging markets suffer eight times more in terms of the average share of population affected, and five times more in terms of direct damage as a share of GDP, compared to developed markets.¹⁵ The number of climate-related catastrophes such as droughts, floods, and extreme heat has actually doubled in low- and middle-income countries since 1990.¹⁶ This development

is extremely alarming due to the high dependency of developing countries on tourism and agriculture. In Africa, for instance, more than 50% of workers are employed in the agriculture sector.¹⁷ The negative consequences of climate change on agriculture will not only affect the income of people living in those countries but also their health by, for example, reducing food availability. According to the Food and Agriculture Organization of the United Nation, out of 27 countries with increasing undernourishment rates, the vast majority are in Africa followed by Asia, Latin America and the Caribbean.¹⁸

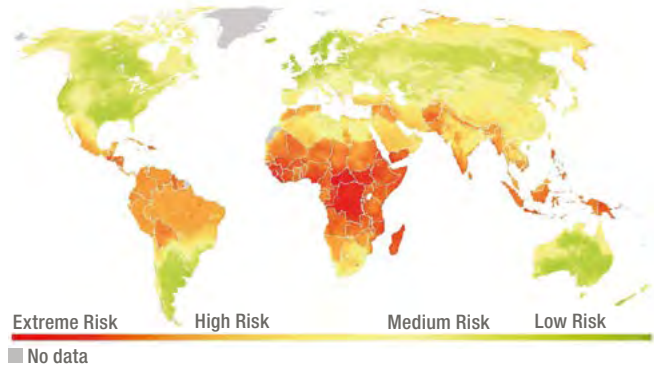
When applying the lens of adaptive capacity to the micro-level, it becomes clear that the most vulnerable to climate change are also the poorest. They have the least resources to adapt to and to cope with the consequences of climate change. Not

only they live and work in climate-sensitive areas, they also have little or no reserves or insurance, and lack the means to secure alternative livelihoods. As a consequence, poor people are at a higher risk of resorting to desperate coping strategies such as removing their children from school, reducing food consumption, or even migration. According to the World Bank, climate change could push over 100 million people back into poverty by 2030.¹⁹ Climate change thus increasingly threatens the poor and poses a serious risk to the current efforts in place to alleviate poverty and foster sustainable growth in developing countries.

Substantial investments in technology, capacity building, and infrastructure are necessary to reduce the vulnerability of developing countries and enable them to adapt and cope with the effects of climate change. Therefore, we have to significantly upscale public and especially private investments in the area of climate finance. In the last few years we have seen many international initiatives calling for more public and private investments – and the amount of international climate finance has indeed increased. Recent estimates show that climate finance flows have reached \$437 billion in 2015, however, they dropped by 12% to \$383 billion in 2016. Although these amounts may sound like a lot, they fall far too short considering the amount required to adapt to and mitigate climate change. According to estimates, investments of about \$90 trillion only in new infrastructure – most of it in developing and middle-income countries – will be required until 2030.²⁰ Obviously, the longer we wait the more expensive it becomes to tackle climate change. Therefore, we have to speed up the current pace of investments. Looking at the global assets under management, totaling almost \$80 trillion in 2017,²¹ the private sector has an enormous potential to accelerate investments and significantly contribute to the mobilization of the sums required

to tackle one of the biggest challenges of our time. In order to incentivize the private sector to take on responsibility, we have to put the right incentives and policies in place, help private investors to better understand, assess and manage climate-projects, and develop innovative financial tools. Moreover, the private sector needs to understand that investing in our climate represents huge opportunities and that there is a range of asset classes and investment vehicles already available.

Climate Change Vulnerability Index 2017²²



2.3 Making Efficient Use of Public and Private Resources

Maria Teresa Zappia, Chief Investment Officer, BlueOrchard Finance

Public Private Partnerships (PPPs) have been a successful business model for many years. Blended Finance has effectively re-focused PPPs for the achievement of the UN Sustainable Development Goals (SDGs) with the objective of scaling-up PPP initiatives in order to expand impact investing in emerging and frontier markets. The market for blended finance has grown significantly over the past 10+ years. More than USD 100 billion has been mobilized by blended finance to-date.²³

Public investors have increased the level of private capital mobilization, and this capital mobilization has been mapped against the SDG Agenda 2030. However, there is still significant room for improvement in regards to efficient use of public and private resources. Both public and private investors have a responsibility to ensure that every penny used for the achievement of the SDGs can catalyse additional investments, expertise and develop a set of best practices that other investors can learn from.

Some public investors have oriented their business model around the so-called mobilization imperative and state that a dollar mobilized is like a dollar invested. In order for blended finance to become mainstream, all actors in the blended finance value chain²⁴ (e.g. public investors, commercial investors, donors and fund managers) need to adjust their financing mechanisms (e.g. blended finance funds) and instruments (e.g. equity capital and grants). They have to commit to jointly achieving their financial, social and environmental returns to contribute to the common goals (i.e. SDGs).

Public investors can build the right foundations to develop markets by focusing on conducive regulations for the private sector and supporting institutional capacity building. Building on the complementarity and strengths of public and private investors can enhance the power of blended finance and make this “the panacea” for the achievements of the SDGs. As some public investors mentioned, “baby steps of public investors could lead to giant strides of private investors”.

The management of public sector resources is crucial to ensure that subsidies and concessional capital is used only when and where it is required. Every blending has a form of subsidy. It is important to calibrate overtime the blending required in the respective market or asset class. Public funds should also be deployed in a time-bound matter so that concessional capital is phased-out as reasonable track-record is built and private flows are unlocked. Public resources should then be dedi-

cated to other markets and other more challenging investment causes (e.g. climate finance).

Blended finance structures should result in building a track-record, sharing knowledge of concrete examples, and enhancing transparency and making data available in order to proactively lead private sector investors in PPPs for the People and the Planet. Blended Finance 2.0 requires the private sector to increase its role in blended finance and lead the public sector with its investments and expertise in order to improve efficiency of resources. Blended Finance 2.0 is a game changer only if it is recognized as common business sense and good investment practice. At the end of the day all investors benefit from the achievement of the SDGs (e.g. job creation, investments in real sector, and increase in taxable income) and blended finance can be the powerful weapon beyond the rhetoric of SDG-washing.

Allocations of private capital invested wisely in a diversified manner in emerging and frontier markets can make the difference in bridging the financing gap for the 2030 Agenda and in scaling-up successful finance instruments. Ultimately, blended finance should be a function of each market development stage and should be calibrated as the market develops.



2.4 Scaling up Private Sector Investments to Achieve the SDGs

Peter A. Fanconi, Chairman, BlueOrchard Finance

On 25 September 2015, after over two years of intensive public consultation and engagement with civil society and other stakeholders around the world, the United Nations General Assembly adopted the historic resolution “Transforming our World: the 2030 Agenda for Sustainable Development”. With this, the UN initiated the 17 Sustainable Development Goals (SDGs) which build upon the achievements of the Millennium Development Goals. With adopting the SDGs, the Heads of State and Governments resolved to take action for people and the planet by ending poverty, promoting peace and equality, protecting the environment, and fostering sustainable and in-

clusive economic growth by 2030. It was the first time in history that this many global leaders committed to take common action to implement such a broad and universal agenda.²⁵

In order to achieve these ambitious goals, the UN called for a global partnership between governments, the private sector, and civil society. Right from the start, the UN held the private sector accountable for achieving the SDGs, calling for “all businesses to apply their creativity and innovation to solving sustainable development challenges.”²⁶ Indeed, the role of the private sector in achieving the SDGs cannot be underestimated. Leveraging private companies’ expertise, experience, innovation potential, and resources is key to deliver on the SDGs. But there is also a clear imperative for the private sector to take responsibility for the society and the environment they do business in. At the same time, the SDGs present significant investment opportunities for private companies in sectors such as infrastructure, food and agriculture, energy, health, and climate change mitigation and adaptation.²⁷

According to the UN Conference on Trade and Development (UNCTAD) it will take annual investments between US\$5 to \$7 trillion across sectors and industries to achieve the SDGs globally. However, at current levels of participation developing countries face an annual investment gap of \$2.5 trillion.²⁸ Public and philanthropic sources, though fundamental, can only fill a part of the overall finance required to meet the SDGs. There is a broad consensus that bridging the investment gap in developing countries can only be achieved in close cooperation



and with the support of the private sector to further mobilize and increase investments. The private sector has therefore to increase its contribution from the current \$0.9 to \$1.8 trillion per year in order to close the gap.²⁹

There are, however, numerous barriers that hinder the scaling up of private sector investments, especially in developing countries. These include policies, regulatory and market barriers, inadequate risk-return ratios, lack of bankable projects, lack of market knowledge, region and country-related barriers, limited offering of financial instruments, and lack of information and transparency, amongst others. Nonetheless, the rapidly growing impact investing industry has shown how to successfully invest in developing countries and achieve both financial returns while contributing to sustainable, environmentally friendly and inclusive development. Unlike conventional investing or philanthropy, in impact investing returns and impact are equally important, as the investment strategy intends to generate a measurable social and/or environmental impact alongside positive, risk-adjusted returns. Since 2014, this industry grew by 280%, accounting for more than \$228 billion assets under management (AuM) in 2017.³⁰

Currently, more than 50% of the AuM goes to developing countries. Impact investment managers engaged in these regions have recognized the immense potential for investors in emerging markets to do good and earn money doing so. For example, some microfinance funds have been able to generate an annual return in US\$ of more than 4% over the past 20 years. They have also survived global financial, economic and currency crises broadly unscathed and exhibit default rates averaging less than 1%.³¹ Emerging markets see more growth than developed markets and the overwhelming majority of their population is under the age of 30.³² At the same time they lack the necessary infrastructure, basic ser-

Scale up Private Sector Investments



VICES, and financial resources to meet the SDGs and cope with the consequences of climate change. Impact investing presents thus a promising tool to close the SDGs investment gap in developing countries.

However, considering that the global AuM amounted to almost \$80 trillion in 2017, impact investing today represents an almost negligible proportion of less than 1% of global AuM.³³ Considering the enormous needs in developing countries it is obvious that at its current rate, impact investing will not be able to bridge the investment gap. To successfully scale up private investments for the achievement of the SDGs we have to further identify expectations of private investors and capabilities of public actors. Innovative financing instruments and products need to be created. Furthermore, cooperation across sectors and stakeholder groups are needed to create networks and platforms in order to implement the necessary measures and structures for creating a favorable investment climate.



3 GUEST CONTRIBUTIONS

3.1 Activating the Potential of Women in Emerging Markets

**Tadashi Maeda, Governor and Representative Director,
Japan Bank for International Cooperation**



Throughout my career, I have worked with governments and companies in emerging countries, and met many talented women actively working there. However, this does not show the whole picture of the world. According to various statistics, the gender gap still remains widespread in terms of every aspect, including labor force participation rate, unemployment rate or remuneration. I would not reiterate here the fundamental importance of gender equality or factors underlying such gaps, but it is worth pointing out that the gap is especially wide in emerging countries. Activating the power of women could vitalize economic activities in the market but it also strengthens competitiveness of the economy by providing diversified value to the market. Emerging countries with a larger gap have larger room for improvement by such activation.

In the era of internet, mobile communications, artificial intelligence, or Internet of Things, emerging countries have the opportunity to jump over their disadvantage in traditional technology and to install the most advanced ones, and thus could

catch up with the developed countries. If they fail to do so, on the other hand, they will lag further behind the front runners. The same is true for gender equality. Emerging countries need to pay serious attention to the importance of activating power of women. Having said this, there is no simple solution to the issue of gender inequality. Each factor is interrelated, and each small step to improve a tiny portion of this complex issue needs funding to implement it. Among the 17 UN Sustainable Development Goals (SDGs), gender equality may require relatively larger role to be played by the government. However, there still is big room that could be taken by the private players, and one good example is micro-financing. Japan Bank for International Cooperation (JBIC) is an investor in the Japan ASEAN Women Empowerment Fund, a micro-finance fund managed by BlueOrchard focusing especially on, as the name of the fund shows, the empowerment of women. JBIC, a state-owned financial institution of Japan, provided mezzanine tranche of the fund and mobilized funds from Japanese institutional investors, who were not familiar with the sector.

As this case shows, public investors could play a unique role when private investors are not prepared to take the risk of the product. This is the case in every impact investment, or more generally, in every new product private investors are not familiar with. Public investors like JBIC are also required to be a spearhead in showing the right direction of investment. We also need to be innovative. Even existing products may have room for improvement. In case of microfinancing, for example, if microfinance institutions (MFIs) could collect detailed data on their clients and use such big data for risk analysis, they could charge more appropriate interest rates to the clients. This may enable more stable operations for MFIs, induce more investors, and thus help more people in need access to microfinancing.

Each of the SDGs is a difficult goal to achieve. That is why the SDGs are set as long-term goals. They will be achieved only when every player, including governments, public investors and private investors, become serious, proactive and innovative.

3.2 Tackling Global Warming by Creating Markets for Climate Business

Stephanie J. Miller, Director of Western Europe, IFC, World Bank Group

Climate change presents enormous challenges, but it also offers immense investment opportunities in climate-smart industries. A recent report from IFC found that the Paris Agreement—which aims to stabilize the climate before the end of this century—offers nearly \$23 trillion in investment potential to help mitigate climate change in 21 large emerging markets by 2030.³⁴ The global community must seize those opportunities because the threat of climate change looms large. The greatest impact of climate change will be felt by the developing countries, endangering millions of livelihoods and wreaking havoc on economies, according to a key U.N. report released in early October.³⁵

Several governments have already made progress in creating markets for climate business, including small and large emerging markets. For example, Costa Rica has set an ambitious target to be the first carbon-neutral economy by 2021 – with 100 percent renewable energy by 2030.³⁶ India, according to some estimates, is on track to exceed its target of reducing greenhouse-gas emissions intensity by up to 35 percent by 2030.³⁷

The private sector has not lagged behind when it comes to climate-related investments. More than 2,000 companies have made commitments to invest in low-carbon solutions.³⁸ Businesses are increasingly finding that new technologies can reduce greenhouse-gas emissions and generate healthy financial returns in sectors like renewable energy—while creating jobs and making cities cleaner, healthier, and more resilient. Globally, investments in climate business solutions now amount to more than \$1 trillion a year.³⁹

Since 2005, IFC has developed expertise in creating markets for climate business, developing innovative partnerships and financing products. For example, our Excellence in Design for Greater Efficiencies, or EDGE, certification is a green-building standard for over 140 countries.⁴⁰ Our green bonds make it easier for investors to enter the climate business. We have also led by investing \$8.4 billion in climate-related programs, including \$4.5 billion mobilized from others. As part of our efforts to encourage private sector investment, we have identified five key climate sectors where businesses can focus their investments for the greatest impact—clean energy, green buildings, sustainable agribusiness, smart cities, and green finance.



In the clean energy sector, for example, an IFC study noted \$6 trillion in investment potential in wind and solar power segments alone.⁴¹ Most of the increasing demand for renewable energy in emerging markets is led by China and India. According to Bloomberg New Energy Finance, in 2016 China added 34.5 GW of solar power while India added 4.1 GW – together accounting for more than 50 percent of new global solar capacity.

Despite gains in the clean energy sector, challenges such as uncertainty over grid access and high cost of financing limit expansion of wind and solar power projects. IFC urges governments to set clear policies to boost the momentum for clean energy.

IFC will continue to strengthen its partnership with businesses to seize the investment opportunity in climate business in emerging markets. The private sector has an essential role to play in the climate business—as a provider of expertise, financing, and cutting-edge technology.

3.3 Taking the Sub-national Level in Emerging Markets into Account

Christophe Nuttall, Executive Director, R20 Regions of Climate Action

The Paris Climate Agreement and the 2030 Agenda for Sustainable Development both emphasize the key role of sub-national governments. In 1992, thanks to the First Rio Summit in Brazil, where the three conventions (Biodiversity, Desertification and Climate Change) emerged, a number of local authorities from industrialized countries gathered to decide to work on the Local Agenda 21, a comprehensive plan of action to be taken globally, nationally and locally in every area in which humans impact the environment. At the same time, most of those cities started to develop the concept of decentralized cooperation, in which a city from the global North would pair with a city from the global South to provide assistance. It was only in the late 1990 that sub-national authorities organized themselves (major regional sub-national organizations merged to create UCLG - United Cities and Local Governments) in order to be heard within the multilateral system. At the same time, the United Nations and the Bretton Woods organizations started to realize that rapid urbanization was underway, putting pressure on availability and quality of adequate living spaces. However, none of these multilateral organizations adapted their cooperation modalities to be able to work directly with sub-national authorities.

For the 15th Conference of the Parties to the UN Framework Convention on Climate Change in Copenhagen in 2009, the UN Development Programme published a report announcing that sub-national authorities have the capabilities to implement up to 70 % of mitigation and 90 % of adaptation solutions to climate change due to their work on local scales.⁴² Indeed, decisions about public transport, waste management, energy efficient street lighting and other sustainable infrastructure are generally made at the local level. Social and environmental impacts of climate change are felt on the local level first and where the greatest opportunities exist to create employment, to stimulate the economy and from the investor point of view to manage project risk. A bottom-up, sub-national approach to accelerating the deployment of low carbon and climate resilient infrastructure project was affirmed as essential to achieving the climate goals, first at the original 2015 Paris Agreement, and then at the 2017 One Planet Summit organized by French President Macron.

Climate funds at the sub-national level have enormous potential for achieving the goals of the Paris Agreement and the UN Sustainable Development Goals (SDGs). Investments of \$ trillions in sub-national low carbon and climate resilient infrastructure with high socioeconomic and environmental impacts will have to be increased in order to meet the objectives of the Paris Agreement and the SDGs. There is a significant demand for these projects – specifically “mid-size projects (\$5-50 million) – among governments and investors at a sub-national level. Despite this, comparatively few are actually being implemented. The main reasons for this are as follows:

- Lack of “bankable” projects (designed and implemented to meet the needs of investors and key stakeholders);
- Lack of appropriate funding and investment for development vehicles to de-risk and subsequently to invest in projects (vehicles that “blend” capital, matching the risk and return that can be expected at each stage in the project development and investment value chain, with the expectations of different categories of funding and investment capital);
- No certification process at fund-level to assure continuous commitment to deliver sustainability objectives, and to focus capital on the highest-impact investment opportunities.

An innovative solution with a complete value chain including blended finance is necessary to secure the adequate deal flow of sub-national low carbon and climate resilient infrastructure.



In order to holistically take the sub-national level into account in emerging markets, it is necessary to:

- Develop sub-national capacity building in pro-green policies, clean technologies and innovative financial engineering;
- Identify the proper portfolio of infrastructure projects, through bottom-up approaches directly with sub-national governments through their respective networks or associations of cities and or regions;
- Conduct feasibility studies to make sure proposed infrastructure projects become bankable by meeting the investors' requirements. It is necessary to ensure that these projects are not driven by political considerations, technology, or financial interests. In addition, technical assistance platforms need to be set up;

- Measure, report and verify the projects' environmental, social and economic impacts using third party SDG certification bodies;

- Develop dedicated blended finance structures that allow both public finance institutions (such as sovereign funds, development finance institutions and multi-lateral development banks) and private investors (such as philanthropies, family offices, pensions funds and private banks) to invest according to their respective interest and risk taking profiles.

Through the Sub-national Climate Fund Africa (SnCF), Blue-Orchard and R20's partnership aims to create different solutions to address the challenges outlined above in order to meet the objectives of the Paris Climate Agreement and the SDGs.

3.4 How Wealth Management Can Help Mobilize Private Capital for Public Good

Marco Bizzozero, Head of Group Wealth Management, UniCredit

We believe that powerful initiatives from the private sector are necessary to address the funding gaps of the United Nations Sustainable Development Goals (SDGs). We are convinced that the banking sector has a responsibility to contribute to reaching these goals for a number of reasons. First, the decisions and actions of banks can have a significant impact on economies and societies of multiple scales, in ways that other industries cannot. Second, banks can only prosper and succeed in healthy and positive environments. Therefore, as a leading wealth manager, we recognize the need to help our clients find the right opportunities to invest with a social impact. Through this, we support the achievement of the SDGs.

Private wealth has substantial potential to help in contributing to a greater public good. This is supported by various key trends in the wealth market at the moment. Global wealth reached 280 trillion dollars in 2017, growing at the fastest pace since 2012.⁴³ This represents a vast pool of private capital that could be mobilized for social impact.

Furthermore, the ongoing significant wealth transfer to major demographic groups like millennials and women has brought the topic of social responsibility and discussions around the purpose of wealth increasingly to the forefront within wealth management. In fact, as more and more investors have recog-



nized that investing for impact does not mean achieving lower returns, sustainable and impact investing assets under professional management grew by 25 per cent to 23 trillion US dollars between 2014 and 2016.⁴⁴

We also believe that by supporting our clients in investing with a social impact, we can connect to their broader interests. In many cases, the topics of philanthropy and impact investing act as a unifying force for families dealing with the topic of wealth transfer between the older and younger generations. The investors in the younger generations often see impact investing as a holistic opportunity to make a real impact and generate profit at the same time.

However, while we see this important trend of private wealth investors having a stronger interest in investing for public good, a number of obstacles to investing in this area remain. These obstacles include a lack of information and transparency about the need to invest with a social impact, and about what investment opportunities are available to private wealth investors in this space. As this is still a relatively new area of investment, there is also confusion about the various sustainable investment approaches one can take from exclusion to the integration of environmental, social and governance (ESG) factors in the investment strategy, and impact investment.

Looking at impact investing more specifically, there are often difficulties with measuring the impact achieved in a tangible way, in addition to a lack of investment opportunities with an established track record as well as concerns about capacity and about “green / impact washing”. All of these factors together create a gap between private wealth and social impact investing, which the wealth management industry can help close.

We understand that wealth management is more than just managing wealth. We believe that it is the responsibility of wealth managers to inspire and empower their clients to do more with their wealth and social impact investing is one way of doing so. In many cases, private investors are better equipped to overcome the barriers to entry when it comes to impact investment. For example, private wealth investors share the same long-term investment horizon as the SDGs. The same does not apply to many other investors who may have a much shorter investment horizon due to their specific investment needs. Private wealth investors also tend to have fewer constraints and limitations to their investment decisions and portfolios than some other investors (i.e. institutions).

As sustainable and impact investing are new, wealth managers have an important role to play in educating clients about the opportunities available in order to help truly mobilize private wealth for the public good and close the gap that currently exists in funding the projects and businesses that can have a significant social impact. It is also increasingly important that the investment processes offered to clients take ESG factors into account and provide greater transparency on impact aspects.

Today these kinds of wealth advisory services and investment products may still be considered an “optional extra” offered to some clients, but we are certain that tomorrow they will be a “must”. The significant trends in our sector mean that the discussions around the broader purpose of wealth will only grow and gain importance. The purpose of wealth, and responsibility that comes with wealth, is becoming a critical topic in our industry. It represents an opportunity for wealth managers to build meaningful long-term relationships with their clients because in order to do well we need to do good.

4 CONCLUSION: CLOSING THE GAP

Key messages

The summit provided a diverse range of stakeholders with the opportunity to advance the discussion on how to achieve the Sustainable Development Goals (SDGs). It further provided a platform to help identify key measures and solutions to contribute to closing the SDGs' \$2.5 trillion investment gap in developing countries. Participants highlighted that all stakeholders are accountable for driving the 2030 Agenda forward. The need to forge partnerships between the public and the private sector was emphasized.

There was a general agreement among the participants that ending poverty and reducing inequalities requires a multi-dimensional approach, and can only be achieved by addressing interrelated factors, including inclusive growth, education, food security, health, and access to basic services and infrastructure. There was also a strong call for urgent action to fight climate change. Many participants highlighted that developing countries are most vulnerable to the consequences of climate change, and that sustainable and inclusive infrastructure is one of the most important sectors to invest in.

Speakers also noted that poverty and climate change will produce migration flows, creating an additional challenge. There was also a wide-ranging consensus that greening our lives and economy presents a tremendous investment opportunity. It was recognized that the private sector is increasingly making commitments to invest with a purpose and is playing a critical role in bringing additional resources to help developing countries achieve the SDGs and their climate commitments.

However, participants agreed that the speed of mobilizing private sector investments must be increased. A key point of discussion was the need to efficiently use public and private resources and strengthen the complementarity between private and public investors by further leveraging private sector resources (capital and expertise) with various de-risking measures. Furthermore, impact investing has been recognized as the fastest growing asset class today and as an effective tool to "close the gap". Throughout the summit it was underscored that people must be at the center of our efforts.

Digital Polling Results Provided the Following Insights:

Meeting the SDGs by 2030: How do you see the glass?



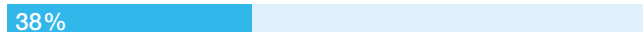
Half full

Which is the most important poverty driver?



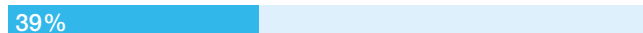
Lack of education

Financial inclusion, what does it take?



Better infrastructure

Which climate investment sector is of particular interest to you?



Renewable energy

What do you require to increase your impact investments in emerging markets?



Innovative blended finance products

What is your institution's exposure to impact investing?



Engaged and plans to increase

How can public sector investors optimize their offering to attract private sector investments?



First loss capital at market rates

What are your return expectations for blended finance deals over a 5+ year investment period?



More than 3.0% p.a. + LIBOR

Specific recommendations



OPPORTUNITIES: The consequences of poverty, inequality and climate change present enormous challenges for developing countries but they also offer immense investment opportunities. There is a huge potential for investors in emerging markets to do good and earn money doing so. Emerging markets see more growth than developed markets and the overwhelming majority of their population is under the age of 30. At the same time, they lack the necessary infrastructure, basic services, and financial resources to meet the SDGs and cope with the consequences of climate change.



PARTNERSHIPS: Realizing these opportunities requires the cooperation of all players and an increased partnership between the private and public sectors. Private and public sector investors have to better understand their respective needs and obligations. The complexity of investing in developing countries in particular requires a closer cooperation. All stakeholders have to join hands and share their knowledge, expertise, and exchange best practices. The mobilization imperative requires all parties to focus on unlocking capital that would otherwise not be channeled to achieving the SDGs.



BLENDED FINANCE 2.0: Blended finance has the ability to leverage the strengths and expertise of the private and the public sectors and presents therefore a key financing instrument to catalyze investments towards the SDGs. The SDGs investment gap, however, can only be bridged if private actors significantly increase their contribution. In order to do so, blended finance vehicles need to be further improved to ensure inclusiveness of all investors, as well as replicability and standardization of best practices. As every blending has a form subsidy, it is important to calibrate overtime the blending required in the respective market or asset class. Priority should be given to innovation and high-risk markets where private capital might not otherwise flow to. Public funds should also be deployed in a time-bound matter so that concessional capital is phased-out as reasonable track-record is built and private flows are unlocked. Local commercial and public investors should also play a major role in Blended Finance 2.0.



SUB-NATIONAL LEVEL: More emphasis has to be put on the sub-national level and the role of local and regional authorities that play a key role in implementing the SDGs. They have significant bottom-up functions as they are the ones engaging and knowing best the needs of local communities and small businesses. Local and regional authorities hold, for instance, 70 to 80 % of climate change adaptation and mitigation solutions through middle class low carbon and climate resilient infrastructure, such as water and sanitation, waste optimization, renewable energy, clean transport, and energy efficiency projects. They should be at the center of our considerations and supported with technical advice, capacity building and enhanced cooperation.



INVESTABLE PROJECT PIPELINES: One of the big challenges is the lack of investable projects at scale in certain sectors. As important as catalyzing and mobilizing investments is, is thus creating pipelines of investable projects by mapping concrete opportunities in different sectors and identifying investment ready projects to be financed. Technical assistance funding - mainly in the form of grants - will be crucial to accelerate the pipeline of investment opportunities across sectors and markets and support innovative investment solutions to achieve the SDGs.



PRODUCTS: There is increasing demand for impact investments, highly influenced by Millennials and women. There is also a strong demand from institutional and private investors. In order to unlock the private and institutional money, the private sector has to build more investable products along the SDGs goals and provide investment opportunities which meet their needs, particularly with regards to liquidity, risk/return expectations, investment fields, and simplicity. They have to provide opportunities to everyone, who wants to invest with impact, to actually invest with impact. Close partnerships amongst the major players are key to creating a wide range of attractive investment opportunities where impact is at the forefront.



EMPOWERMENT: Sustainable development, reducing inequalities and ending poverty require the empowerment of disadvantaged groups, in particular women, rural and poor parts of the population. Gender inequality means that women are excluded from the labor market, have less power, money, protection from violence and access to education and healthcare. An important element in mitigating poverty is by taking advantage of the potential of women and ensuring that they are fully participating in their country's economies. Gender lens investing is central to achieving a better gender balance. Another essential element is the enforcement of property rights. Land and housing rights provide not only for the rural but also urban poor an asset as well as means of livelihood and shelter. Fighting poverty and inequality therefore also includes empowering the poor to take up their rights and potentials.



EDUCATION: The private sector needs to gain further knowledge about investment needs as well as investment opportunities in emerging and frontier countries and about the difference between ESG, responsible and impact investing. The impact investing industry has been able to generate respectable returns but needs to further demonstrate that there is no trade-off between impact and returns by building additional track records across different asset classes and investment areas. Impact management and measurement are a central pillar of this knowledge sharing exercise.



PRINCIPLES: In order to prevent "green-washing" and "SDG-washing", the impact investing industry has to develop and agree on principles of impact investing, including impact measurement.

APPENDIX

Endnotes

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