
An Innovative IFI Operating Model for the 21st Century: A roadmap

June, 2023



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TABLE OF CONTENTS

| | |
|--|-----------|
| Table of Contents | 2 |
| An Innovative IFI Operating Model for the 21st Century (Discussion Paper) | 3 |
| Capital Mobilization Roadmap | 21 |
| Additional Resources | 40 |
| 1. Allied Climate Partners: Anchoring and Scaling Local Investment Managers | |
| 2. Climate Policy Initiative: Risk-Sharing Guarantee Facility to Address Cost of Capital for Renewable Energy | |
| 3. Concito: MDB “Commitment to Catalyse” | |
| 4. Intellidex: Opportunities for IFIs to Support the Scaling of Transition Finance | |
| 5. iTrust: Greenmap Guarantee Facility | |
| 6. Private Infrastructure Development Group: GuarantCo Local Currency Credit Solutions | |
| 7. Private Infrastructure Development Group: InfraCo Project Development Risk Capital | |
| 8. Sustainability-linked Sovereign Debt Hub: Sustainability-Linked Sovereign Debt | |
| 9. TCX: Creating Currency Risk Markets to Mitigate Currency Risk at Scale | |

An Innovative IFI Operating Model for the 21st Century

June, 2023



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While this paper is based on the discussions between participants during the 9th meeting of the San Giorgio Group, CPI takes full responsibility for all assumptions made in its recapping of these discussions. Comments are not attributed as discussions take place under Chatham House Rules.



ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, the United Kingdom, and the United States.

ABOUT SAN GIORGIO GROUP

The San Giorgio Group convenes climate finance leaders who are actively engaged in accelerating the transition to more sustainable, lower-emission economies. Bringing together key stakeholders across the public and private sectors, the Group leverages diverse viewpoints and frank discussion to assess and prioritize critical issues that require our collective effort to address in the near term.



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RELATED CPI WORKS

Capital Mobilization Roadmap

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KEY TAKEAWAYS

Last year saw major contributions to the international finance reform agenda, including [Finance for Climate Action](#) (the “Songwe-Stern report”), the [Bridgetown Agenda](#), and the [Independent Review](#) of Multilateral Development Banks’ Capital Adequacy Frameworks submitted to the G20 finance ministers.

2023 will be a critical period for implementing reforms to meet the scale and urgency of the climate crisis while also addressing the other crises facing developing countries – food and energy price inflation, debt sustainability, among others – as well as development priorities as targeted in the Sustainable Development Goals. The emerging markets and developing economies (EMDEs) most impacted by the rising cost of capital and the sovereign debt crisis are also some of the most vulnerable to climate impacts, making it difficult for them to find the financial and fiscal stability needed to make climate and transition investments.

International pressure and a leadership change at the World Bank have created an opportunity to reassess international financial institutions’ approach to climate, which needs to lead to a dramatic increase in the volume of finance that the international financial system deploys to meet climate finance needs. As shareholders look to reform the international financial architecture, it is important to consider not only where the additional capital will come from, but also *how* capital can be effectively spent for maximum climate and development impact.

This paper lays out key products and processes that need to be introduced, reformed, and/or scaled to effectively deploy existing and the needed new volumes of climate finance to EMDEs. The paper focuses on the multilateral development banks (MDBs), recognizing that the institutions differ in mandate, strategy, and geography and some recommendations may only apply to a subset of MDBs. This is also notwithstanding the critical roles of other institutions such as the International Monetary Fund (IMF) and other public development banks (PDBs). It builds on seminal reports such as the “Songwe-Stern report” by zeroing in on the specific models that can be adopted and scaled with urgency.

This paper elaborates a set of discussions convened by CPI in March 2023 under the San Giorgio Group.

We divide the actions into three categories:

- **Increased focus on the scale of country sector platforms**, moving away from the current project-by-project approach to more program-based funding facilities to drive systemic shifts. This implies focusing on the needs-based funding, which effectively uses international and domestic resources to improve the quality of finance, support shifts that incentivize domestic private capital, and advocate for the integration of key national and subnational financial institutions to pursue the domestic climate agenda.
- **Deployment at scale of risk-sharing instruments to catalyze private capital** and to address cost of capital, including through expanded and new guarantee products, mechanisms to address exchange rate risks and increase local currency finance, and project preparation facilities.
- **A business model overhaul** of the World Bank and other MDBs that repositions them as “mobilizers in chief,” including the standardization of multiple processes, balance sheet optimization through a new “originate-to-distribute” model, eligibility for concessional finance, cross-country data-sharing, and a response that meets the needs of the current polycrises.

SCALING UP COUNTRY SECTOR PLATFORMS

MDB finance needs to move away from a project-by-project approach, which can be ad-hoc in operation, towards a coordinated and collaborative country sector platform approach that results in a more cohesive vision with long-term impacts. A successful country sector platform relies on combining ambition and support to create transformational change. Scaling these up would include expanding and supporting country sector-led platforms such as the Just Energy Transition Partnerships (JETPs) and V20 Climate Prosperity Plans¹. The integration of domestic financial institutions, particularly finance ministries and national development banks, into country sector platforms at an early stage is key to ensure a balanced platform.

Financing country sector platforms can start by focusing on the quality of finance to ensure systemic outcomes. The emerging new directions being led by global South initiatives targeting better quality of finance need to be considered. For example, the South African JET Investment Plan² specifies several funding principles as basis for financing its JETP. A proposed Just Term Sheet³, to support standardized financing of

¹ Climate Prosperity Plans (<https://www.v-20.org/climate-prosperity-plans>)

² South Africa Just Energy Transition Investment Plan, 2023-27 (<https://www.thepresidency.gov.za/content/south-africa%27s-just-energy-transition-investment-plan-jet-ip-2023-2027>)

³ Rabia Transitions (<https://www.rabiitransitions.org/showcases/>)

just transition efforts, offers practical focus to place people and planet at the center of negotiating finance for just and equitable transitions. These approaches have a common focus on needs-based finance, systemic impacts, going beyond project-by-project funding, and building fiscal and social resilience through risk sharing arrangements that collectively deliver a just and equitable transition. Just Term Sheets could outline the investment pricing, identify the risk sharing approaches and instruments needed, and identify the partners engaged. Platforms such as the JETPs and the V20 Climate Prosperity Plans⁴ bring together many stakeholders such as communities, trade unions, financiers, investors, and policymakers, which make them a useful basis for engaging on the quality of finance needed by multiple stakeholders at the country level and on effective risk-sharing.

MDBs play a key role to support countries in making policy adjustments that encourage climate investments, from both domestic and international financial institutions. Financial support for capacity building and reform efforts via direct grants and policy-based lending can unlock the potential for significant private investment. For example, grants to support renewable energy auction design have mobilized many times the initial investments. MDB support for capacity building in EMDEs, throughout all parts of the climate finance process, is critical for capital mobilization.

Domestic financial players, including financial regulators, national and subnational development banks, pension funds, insurance companies, and local banks need to be brought in early to investment platforms. Between 2011 and 2022, 76% of all climate finance flows were raised and spent domestically⁵, and domestic financing can account for around 50% of needed climate financing in emerging market and developing economies (EMDEs)⁶, but activating this capital through capacity building and risk sharing is critical. EMDEs with more sophisticated domestic capital markets are likely to require less subsidy to mobilize capital, especially for projects with strong revenue profiles, reserving subsidy for less developed countries. To mobilize the domestic capital needed, MDBs will need better coordination and data sharing with domestic financial players like central banks and local PDBs, but there is little data on current spending levels, few systems in place to track domestic spending levels from either private or public sources, and scant information on the real economy impact of domestic or international financing. Better coordination

⁴ V20 (<https://www.v-20.org/climate-prosperity-plans>)

⁵ CPI, Global Landscape of Climate Finance: A Decade of Data, 2022 (<https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/>)

⁶ Finance for Climate Action, 2022. (<https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf>)

with central banks, ministries of finance, and local PDBs can help fill in current knowledge gaps and create effective platforms for data and best practice sharing.

Any change at the country level will require the integration of domestic finance ministries and key national public financial institutions to push the climate agenda.

There are opportunities to engage with finance ministries through the [Coalition of Finance Ministers for Climate Action](#), which aims to bring together fiscal and economic policymakers to lead a global climate response. Because ministries and other financial institutions can move slowly when it comes to reform, MDBs must engage them early and often to create lasting partnerships for country action.

RISK-SHARING INSTRUMENTS TO CATALYZE PRIVATE CAPITAL

The cost of capital in EMDEs makes otherwise bankable projects unviable for private investors⁷, pointing to a key role for MDBs to mobilize private investment by sharing risks such as credit risk, off-taker risk, political risk, and liquidity risk. Yet the IMF found that MDBs crowd in private finance on average only about 1.2 times the resources they commit themselves.⁸ Moving to a program-based approach, with an emphasis on guarantees, local currency, and other instruments, would require internal incentive changes at MDBs, in particular their private sector arms, but could bring in greater volumes of private finance by helping private financial institutions overcome real and perceived risks and other barriers to investment.

MDBs need to deploy financial mechanisms and instruments that can raise and leverage capital at the scale and speed needed while addressing some of the critical barriers that exist in the current system. Some of these require long term reform, especially of MDB risk appetite and business models, so that MDBs themselves can issue more guarantees, issue more loans in local currency and/or facilitate local currency lending using off-shore guarantees, and support earlier stage project development. In the short term a variety of initiatives are ready to be introduced or to be scaled; this section highlights some of those.

To mobilize the volumes of private finance needed and reduce cost of capital, guarantees will need to be deployed at a greater scale. An OECD evaluation found

⁷ Finance for Climate Action, 2022. (<https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf>)

⁸ IMF, Global Financial Stability Report, 2022. (<https://www.imf.org/en/Publications/GFSR/Issues/2022/10/11/global-financial-stability-report-october-2022>)

that guarantees leveraged 26% of all mobilized private finance between 2018-2020, and were a preferred blended finance tool of private investors.⁹ MDBs both need to deliver more guarantees from their own balance sheets as well as collaborate with existing guarantee providers to deploy more guarantees. We recommend scaling, reforming, and/or creating the following initiatives:

- “Greening” the Multilateral Investment Guarantee Agency ([MIGA](#)), which specializes in political risk guarantees to incentivize foreign direct investment in EMDEs, needs to scale significantly and increase guarantees for green projects, as well as increase the efficiency of its processes to mobilize the amount of private finance needed. Additionally, the introduction of a complete payment protection product, even if synthetically, e.g., by combining MIGA’s existing credit enhancement product for failure of a (sub-)sovereign to pay with a liquidity facility that covers the failure of a (sub-)sovereign to pay on time, would do more to attract private investments to EMDEs and riskier sectors.
- [GuarantCo](#), part of the Private Infrastructure Development Group (PIDG), provides guarantees to banks and bond investors to develop capital market projects based on local currency.
- The [Green Guarantee Company](#) is the world’s first credit guarantor dedicated to climate solutions in the developing world.
- [iTrust](#) is a pre-funded guarantee scheme for all projects in a given tender, offered by [Greenmap](#), which assists governments in the design and execution of renewable energy procurement programs.
- [Climate Policy Initiative](#) (CPI) has proposed a debt credit guarantee for renewables and other climate projects in emerging markets, based on callable capital.
- The Global Revenue Guarantee (GREG) proposal of [FAST-Infra](#) would assure timely payments on behalf of (sub-) sovereign off-takers through a mix of public and private finance.

Borrowers have identified exchange rates as a risk throughout all levels of a project, from preparation through operation, but primarily for financing capital expenditures (capex). A recent study found that approximately 60% of foreign currency debt issued by firms is USD denominated, and an additional 23% are Euro denominated.¹⁰

⁹ OECD, Private Finance Mobilized by Official Development Interventions, 2023. (<https://www.oecd.org/dac/2023-private-finance-odfi.pdf>)

¹⁰ Schclarek, Alfredo, & Xu, Jiajun. Exchange rate and balance of payment crisis risks in the global financial architecture, 2022. (<https://www.sciencedirect.com/science/article/pii/S1042443122000580#b9>)

MDBs need to support solutions that increase investment projects with local currency denominated loans instead of hard currency loans, or a mix of the two. Solutions to support include:

- Scaling up the [Currency Exchange Fund](#) (TCX), a co-funded pool that works in EMDEs to provide financial instruments, mainly swaps and forward contracts, that enable investors to provide borrowers with financing in domestic currency while shifting the currency risk to TCX. This will likely require that TCX's commercial pricing be associated with some form of an independent concessional financing pool as demonstrated by pairing market-rate solutions offered by TCX with the private sector local currency financing window under IDA.
- Explore other proposals such as Just Environment Transition - Foreign exchange Investment Trust ("JET-FIT") to use SDR-backed guarantees to further reduce hedging costs in JETP countries. Build domestic capital markets to become sources of finance for climate action through capacity building, which will in turn increase the risk management capacity of borrowers.
- Guaranteeing domestic capital to mobilize investment in local currency and developing local green financial sectors by supporting e.g., local bond issuances and municipal creditworthiness.

Project preparation facilities and developer platforms that support the creation of bankable, investment-ready projects in EMDEs will be critical to increasing climate investments. Private financiers are often limited in the amount of capital they can deploy because they are unable to find projects that meet their investment criteria, meanwhile, project sponsors struggle to secure funding due to high project development risks. Global estimates of project preparation financing needs range from 5% to 10% of total investment cost, although this will vary by region.¹¹ Yet MDBs themselves don't typically invest in project preparation for the same reasons as private investors. Project preparation facilities and developer platforms can address these risks by supporting the development of bankable climate projects in EMDEs and assisting in attracting private financing. Project preparation facilities like PID, GIF, and the Gap Fund that need support to scale include the following:

- The [Private Infrastructure Development Group](#) (PIDG) Technical Assistance program provides support to aid project development and enable transactions

¹¹ ODI, Clean energy project preparation facilities, 2018. (<https://cdn.odi.org/media/documents/12504.pdf>)

across the project lifecycle, providing over USD 51mn to 262 technical assistance grants as of the end of 2021.

- The [Global Infrastructure Facility](#) (GIF), a G20 Initiative and housed at the World Bank, was created to address the shortage of bankable infrastructure projects and works to build pipelines of infrastructure projects that have the potential to attract private financing.
- The [City Climate Finance Gap Fund](#), housed at the World Bank and the European Investment Bank, helps cities in EMDEs turn low carbon, climate resilient ideas into strategies and finance-ready projects.

BUSINESS MODEL OVERHAUL

To execute the above recommendations, MDBs need to overhaul their business models via standardization, balance sheet optimization, eligibility for concessional finance, and greater transparency.

STANDARDIZATION

Greater product and system standardization throughout MDB processes can create greater uptake and impact.

- The standardization of [Key Performance Indicators \(KPIs\)](#) for public financial institutions can drive action and coordination from MDBs, particularly when KPIs move beyond financial flows to measure real economy or on-the-ground impacts. This can also include re-envisioning qualitative or quantitative sustainability targets to better connect climate and development finance mobilization, and support country-level Sustainable Development Goal (SDG) targets.
 - MDB targets for private sector mobilization could incentivize greater public to private funding ratios for financing activities.
 - Country level KPIs should be impact oriented, such as energy access, and set standards across domestic DFIs that are driven by country needs, bridging across the climate action and development agendas. The proposed country sector approach, above, will support linking finance to impact metrics.
- The uptake of [investment standardization initiatives to define climate-friendly investments](#), like resilient investments or sustainable infrastructure, can establish

an asset class, as has happened for green bonds. [FAST-Infra](#) has established a globally applicable labeling system for sustainable infrastructure assets. Similarly, the [Coalition for Climate Resilient Investment](#) (CCRI) is working to more efficiently integrate physical climate risks into investment decision-making through standardization.

- Standardized and streamlined tools could help reduce the transaction costs by creating off-the-shelf blended finance instruments, allowing EMDEs to avoid the current model of bespoke blended finance vehicles. Replicating or scaling existing structures offers EMDEs both flexibility in their use and faster access to capital.¹²
- [Mobilizing Institutional Capital Through Listed Product Structures](#) (MOBILIST) supports the listing of products such as trusts and private equity funds on global and local public exchanges through a fairly standardized process, with an aim of building momentum for EMDE investment opportunities at scale.
- [Sustainability-linked sovereign debt](#) is a performance-based financial instrument that commits its issuer to achieving certain predefined and forward-looking sustainability targets, including climate and nature risks in sovereign debt markets.¹³

BALANCE SHEET OPTIMIZATION

Originate-to-distribute models should be adopted to significantly increase private sector mobilization. The current “originate-to-hold” model, where an MDB makes a loan on their own account and holds it until the loan's end date not only ties up capital for extended periods of time, but also does not fully leverage the origination and de-risking capabilities of MDBs. Instead, an “originate-to-distribute” model creates (debt) portfolios for future private capital re-financing, i.e., an MDB provides a larger loan than it would hold for its own account and then “sells down” most of it by securitizing or bundling loans and selling them to the private sector. This will mobilize private sector investment upstream and recycle capital to increase MDB lending capacity. Most MDBs do this to optimize their balance sheets and manage exposure limits, etc., but few examples exist for pro-actively using originate-to-distribute as an operating business model. While these securitizations will need pre-agreed underwriting criteria and market-oriented pricing, as well as enough residual

¹² CPI, 2018. Blended Finance in Clean Energy: Experiences and Opportunities. (<https://www.climatepolicyinitiative.org/wp-content/uploads/2018/01/Blended-Finance-in-Clean-Energy-Experiences-and-Opportunities.pdf>)

¹³ Nature Finance, 2023. Sustainability-linked Sovereign Debt Hub. (<https://www.naturefinance.net/making-change/sovereign-debt/sustainability-linked-sovereign-debt-hub/>)

assets on MDB balance sheets to ensure they maintain a viable economic model, the new model would leverage MDBs' abilities (particularly those oriented to private sector financing) to originate and structure for risk-sharing.

VOLUME & ELIGIBILITY FOR CONCESSIONAL FINANCE

Concessional finance is scarce; therefore the volume of concessional finance needs to increase, be more flexible in how it can be utilized to address risks, and the eligibility and access to it needs to be reformed for enhanced efficacy. Blended finance fund managers report that securing public finance takes longer and is more laborious than private capital.

- Concessional finance efficiency: Reverse auctions of concessional capital (e.g., first loss capital) to fund managers could maximize the impacts of public money and bring greater transparency to public financing while reducing transaction times and costs.
- Climate risks: Not only should all projects be screened for climate risks, but all projects receiving concessional funding must be resilient. In addition, vulnerability should be a criterion for receiving adaptation finance, ensuring that countries with more vulnerability receive more funding.
- Rewarding ambition: Countries with more ambitious climate action plans and evidence of progress should be eligible for more concessional climate finance and better pricing. Single borrower exposure limits within MDBs may need to be re-examined to fully realize the potential financial increase.

DATA SHARING AND TRANSPARENCY

The standardization of data collection and data-sharing platforms can assist countries in creating viable climate plans based on sectoral and regionally applicable data and private investors in understanding performance of investments.

- **For performance**, the [Global Emerging Markets](#) (GEMS) risk database consortium pools credit default data from MDB and DFI investments. Making this data publicly available and GEMS an independent legal entity is critical for expanding private sector financing, particularly on "originate-to-distribute" models outlined below, as it builds investor understanding and strengthens the risk assessment of MDB assets. However, data on performance, for example

blended finance or individual project investments, are not readily available and therefore introduce barriers for market development.

- **For adaptation**, common databases of climate data and scenarios would reduce transaction costs for project developers, countries, and cities to prepare funding applications and demonstrate that their projects address climate risk.
- **Across sectors and regions**, coordinating transparent and standardized tracking and sharing of (ideally) project-based climate finance data would provide a greater understanding into global climate finance flows and trends.

MDBs and PDBs could replicate their counter-cyclical crisis response to address the climate crisis. The way MDBs currently deploy their resources needs to evolve to mirror their crisis response toolkit, particularly to provide more flexible instruments, higher risk tolerance, and faster decisions.^{14,15} The World Bank's roadmap has stated the institution only has funding for approximately one mid-sized crisis per decade, which is inadequate for the current environment of polycrises.¹⁶ The MDB successes during the Covid-19 pandemic (and in the past for the Asian financial crisis), need to be institutionalized for regular action over the status-quo of business operations.

BEYOND MDB REFORM

The recommendations above are intended to focus on the roles and responsibilities of MDBs within the context of the current MDB reform agenda.

Further capacity building, both within EMDEs and MDBs themselves to support the instruments or overhauls, is necessary to develop each idea into a working model. None of the recommendations are guaranteed to work within the current context, none will be able to solve the climate crisis alone, and many may not work at all without the broader proposed long-term reforms to the financing models of the IFIs. Some ideas, such as using insurance to mobilize capital, are underutilized in this context and deserve further thought. Others, such as guarantees, FX risk hedging, project preparation models, and standardization, have the potential to be operationalized and scaled in the near term.

¹⁴ Professor Stephany Griffith-Jones, Comments to UNCTAD, 2022. (https://unctad.org/system/files/non-official-document/tbd_efd5_presentation_session3_griffithjones_en.pdf)

¹⁵ https://unfccc.int/sites/default/files/resource/Finance_VisionSummary_V2.pdf

¹⁶ World Bank Roadmap, 2022.

(<https://documents1.worldbank.org/curated/en/099845101112322078/pdf/SECBOS0f51975e0e809b7605d7b690ebd20.pdf>)

There are additional, critical actors and actions that need to take place to support the broader agenda of international financial architecture reform. These include:

- The IMF and other public development banks, and their global and/or domestic responsibilities for facilitating climate finance and mobilizing private capital;
- Global frameworks such as the International Sustainability Standards Board (ISSB) and future reforms to banking and insurance regulation, which when adopted by country regulators need to ensure they don't hinder financial flows to developing economies; and
- Developed economy governments, particularly those in the G7 and/or in the European Union, which need to support climate investments with real economy impacts. For example, fiduciary regulation of pension funds must enable, not restrict, increased investment into emerging economies where actual risk is more than priced in.

All key policy actors in the global financial system will need to recognize their critical role in truly unlocking the scale and quality of sustainable finance required in coming decades. No one organization can deliver change alone - new leadership at the World Bank will need to be met with renewed leadership across the board and the willingness to work as a system.

The last several years have been rife with concurrent crises, including the climate crisis, and have laid bare the need to reform the international financial architecture. This paper contributes to that discussion by highlighting the specific models and operational changes that can be adopted and scaled with the speed required to address the current global needs.

ANNEX I: TECHNICAL BRIEFS

Below are a sampling of promising initiatives, submitted by the originators of the project or idea. CPI has not validated the information in them, and all ideas are solely the purview of the listed organization.

| Organization | Idea | Description |
|--|--------------------------------------|--|
| Allied Climate Partners | Allied Climate Partners PPF Facility | Project preparation facility for expanding the pipeline of bankable, climate-related projects in the Global South |
| Climate Policy Initiative (CPI) | Debt credit guarantee facility | Debt credit guarantee facility to address cost of capital for renewables and other climate projects in emerging markets, based on callable capital |
| Greenmap | iTrust | Facility to provide customised, programmed-based guarantees to promote private sector investment in renewable energy (RE) generation |
| Intellidex | JETP | Approaches to address blockages in mobilizing financing from the global North for JET, particularly for social justice elements |
| NatureFinance | Sustainability-linked sovereign debt | Sustainability-linked sovereign debt (SLSD) is a performance-based financial instrument that commits its issuer to achieving certain predefined and forward-looking sustainability targets |
| Public Infrastructure Development Group (PIDG) | GuarantCo | Local currency credit solutions unlock the potential of local capital markets and help close the infrastructure funding gap in lower income countries |
| Public Infrastructure | InfraCo | Delivering infrastructure financing through investing risk capital via equity or de-risking |

| | | |
|--------------------------|-------------|--|
| Development Group (PIDG) | | via debt, creating a pipeline of bankable and sustainable investments and to mobilize capital from others at scale |
| TCX | TCX Squared | Creating Currency Risk Markets to Mitigate Currency Risk at Scale |

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Capital Mobilization Roadmap

Discussion Draft

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RELATED CPI WORKS

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INTRODUCTION

This roadmap seeks to build on the discussion paper, [An Innovative IFI Operating Model for the 21st Century](#), by describing pathways for implementing some of the most promising risk-sharing instruments and business models described briefly in the paper, with a focus on mobilizing private capital. This is not meant to be a comprehensive document. Rather, it will isolate 4 high-impact instruments and initiatives that address:

- **Credit risk** with increased and purposeful guarantees
- **Currency risk** at scale by creating markets, with more funding to existing initiatives, guarantees, and blending to improve affordability
- **Development risk** by scaling project development business models and tailoring models to attract earlier investment
- **Mis-aligned MDB incentives** by standardizing mobilization targets, underwriting criteria, and asset classes

These reforms are most appropriate for the private sector arms of MDBs as well as DFIs that directly lend to the private sector, municipalities, and via financial intermediaries. While some are well established and in need of scaling, others are relatively undeveloped and not guaranteed to work, but do have significant potential. Our focus is on short run reduction of risk and cost of capital, to accelerate private investments that target both climate and broader development priorities. Many of these initiatives will facilitate capital mobilization for both infrastructure development and to support businesses where climate impacts are crucial. In order to focus on the above opportunities, and given the excellent work done by many in the field, we are not addressing sovereign lending, policy reform technical assistance, and business models related to those. This is not to say that they are not important – they are arguably more important in the long run for private capital mobilization by building better enabling environments.

As this roadmap developed, we encountered a wide variety of key operational questions. As such, the roadmap outlines questions that need to be answered for each instrument or initiative and suggests key events and convenings to agree on either basic frameworks or more detailed approaches for scale up. Another key aspect is determining both the decision makers and the supporting actors for each initiative or instrument, and determining who needs to be included in the discussions, in what capacity, and at what stage. While 2024 political milestones like the Brazil G20 meetings and the 80th Bretton Woods Anniversary will be critical for shaping conversation and supporting momentum for fundamental long-term reforms, they are not included as their political context at the moment is too uncertain.

We believe that these initiatives are achievable in the next 18-24 months based on existing track records and consultations with key stakeholders. However, it will require significant capacity and unparalleled collaboration among public and private finance institutions, shareholders, advocacy and civil society organizations, donors, philanthropies, and external experts. The goals and political milestones listed here are intended to be picked up by MDBs, government shareholders, developing country clients, and advocacy groups that are best situated to make concrete progress in these areas, with CPI and many other field builders, as well as private sector stakeholders, providing technical expertise and helping to connect relevant initiatives.

This is a draft for consultation. CPI welcomes feedback on this roadmap to framework@cpiglobal.org.

1. ADDRESS CREDIT RISK WITH INCREASED AND PURPOSEFUL GUARANTEES

SHORT TERM REFORM

A credit guarantee facility with standardized contracts and agreed criteria to accelerate both the creation of the guarantee and the payment in case of default, and requiring only the estimated default rate to be used as capital to seed the guarantees. The facility could be jointly capitalized by MDBs.

What it builds on and existing impact: There are a number of successful institutions with a track record of guarantee issuance, such as PIDG's GuarantCo, MIGA, and SIDA. Green Guarantee Company and Greenmap are recent initiatives.

Decision makers: MDBs to provide capital for guarantees at expected default rate.

Who else needs to support: Donors could provide grants for set-up costs and fees, project sponsors (e.g., developers, municipalities).

Impact potential: Mobilization potential at least 6x lending¹, some papers suggest 25x or more². A USD 10 bn facility could mobilize USD 25 -100 bn. Standardizing and coordinating guarantees across institutions and across countries would lower the transaction costs.

Key questions:

- Where will this facility be housed? Would it be more straightforward to develop it through an increase in MIGA's range of risks covered (beyond political risks), or does it need to be operationalized outside of MIGA and/or the MDBs to ringfence?
- Can existing products, including those offered by MIGA, be repurposed or enhanced to create interim synthetic solutions?
- Is it possible for MDBs to capitalize the guarantee facility directly, similar to how they capitalized TCX at the outset?
- How would the facility be capitalized?
 - Can a facility outside the MDBs, or within MIGA, use MDBs' callable capital as a backing for some of the guarantees to increase liquidity?
 - Is donor capital necessary for facility development and launch? Should donor capital be used to provide guarantees directly to PDBs in emerging markets and developing economies? Are there any early lessons learned from the IF-CAP efforts to provide guarantees to ADB?

¹ Blended Finance Taskforce, Better Guarantees Better Finance Consultation Paper, 2023, Exhibit 5

² CPI discussion paper, June 2023, Cost of Capital for Renewable Energy in Developing Economies

- What is the default rate on a global level that should be used in instrument calculations? How do geographic and technology variations need to be considered?

LONG TERM REFORM

Change capital allocation rules to incentivize guarantees under existing structures:

- 1) MDB internal risk weightings,
- 2) Overseas Development Assistance accounting rules, and
- 3) clarification of key bank regulatory regimes vis-à-vis participating in co-financing with MDBs and other public finance institutions.

What it builds on and existing impact: Current MDB and ODA rules require capital to be set aside at higher-than-expected default rates, typically indistinguishable from a loan of the same value. Changing the accounting rules would allow for guarantees to be based on estimated default rates, rather than requiring the full amount of the guarantee to be held, which could allow for guarantees to be used over loans. Commercial bank regulations are often silent on how to treat public risk sharing in capital adequacy and therefore banks take a risk-averse stance. Clarifying capital adequacy rules when investing alongside MDBs and other public finance institutions could free up commercial capital.

Decision makers: MDB shareholders, financial sector regulators, MDB leadership, OECD Development Assistance Committee.

Who else needs to support: G7, Lower-income and Middle-income country governments, developing country public and private financial institutions and project developers.

Key questions:

- Can an MDB use a probabilistic approach (like MIGA does) to guarantees and estimated default rates in house, or do guarantees need to be ringfenced?
- How much capital could be freed by changing the ODA accounting rules?
- How can increased guarantees be complemented by partnerships with domestic and international finance institutions and project sponsors to make sure they are utilized?

CREDIT RISK ROADMAP

| | Summit for a New Financial Pact | Africa Climate Action Summit | Finance In Common Summit | India G20 Summit | 2023 Annual Meetings | COP28 | 2024 Spring Meetings | 2024 Annual Meetings |
|-------------------------------------|---|---|--|---|--|--|---|------------------------------------|
| | June | September | September | September | October | November | April | October |
| Credit guarantee facility | Convene with MDBs, PDBs, and V20 governments to discuss basic facility organization | Feedback on guarantee potential and design in Africa | Convene interested PDBs to agree on basic needs and best practices for guarantee instruments | MDB Expert Group highlights need for more guarantees as a short- & medium-term solution | Facility announced with support of two or more MDBs Convening to agree on basic facility organization Expanded financing for PIDG announced | Donors announced for facility set up costs Convening to stress test and discuss facility organization with developed and developing country governments, MDBs, PDBs, and private sector stakeholders | Update on facility & mention of importance Convening to fully flesh out and agree upon detailed facility organization | Credit guarantee facility launched |
| New capital allocation rules | Convene with MDBs and PDBs to discuss changes to guarantee risk weightings | Call for changes to the guarantee system to increase climate finance to EMDEs | Convene with MDBs and PDBs to agree on basic tenets of guarantee risk weighting changes | MDB risk weighting evaluation announced ODA rules & regulatory clarifications included in reform discussions | Convening to discuss MDB risk weighting changes, effects on global climate finance Convening to agree on basic ODA rule and regulatory clarifications changes | ODA rules & regulatory clarifications included in direct discussions with WB shareholders as necessary change Convening with governments, MDBs, and PDBs to agree upon final MDB risk weighting changes | MDB risk weighting launched ODA rules changes announced Convening with governments, MDBs, PDBs, and private sector to discuss regulatory clarifications | |

2. ADDRESS CURRENCY RISK WITH MORE FUNDING TO EXISTING INITIATIVES, GUARANTEES, AND GREATER USE OF LOCAL CURRENCY

SHORT TERM REFORM

- 1) Scale up the market creation capacity of TCX by adding capital and increasing the scale and scope of its blending program to improve affordability, and
- 2) Explore other proposals such as Just Environment Transition - Foreign exchange Investment Trust ("JET-FIT") to use SDR-backed guarantees to further reduce hedging costs in JETP countries.

What it builds on and existing impact: TCX has created long-term price hedges for a wide range of currencies and can scale significantly with additional investment, including concessional investment that allows below-risk rates.³ An additional \$5b investment would allow TCX to reach \$60b in hedging capacity by 2025. The JET-FIT concept seeks to leverage IMF's capabilities to guarantee SDR exchange rates in the long run.

Decision makers: MDB leadership & shareholders, TCX leadership, Government Investors, IMF, JETP countries.

Who else needs to support: Domestic and commercial banks, and institutional investors.

Key questions:

- How can affordability of currency hedging be improved while supporting the creation of markets?
- What are the capacity needs of countries, for example for better currency risk management?
- Is the JET-FIT proposal technically viable, including its assumptions on short and long term risk premia?
- What is the role of IMF?

LONG TERM REFORM

Increase use of guarantees and capacity for local currency lending as well as MDB direct currency lending

³ For example, the EU Market Creation Facility – Pricing Component program blends capital to increase affordability. <https://www.tcxfund.com/projects-initiatives/eu-market-creation-pricing-facility/#:~:text=TCX%20has%20established%20a%20program,local%20currency%20in%20development%20finance.>

What it builds on and existing impact: One example of an initiative under development is the Rwanda Green Investment Facility, spearheaded by FONERWA in partnership with other local DFIs, which proposes a Green Guarantee Facility to reduce interest rates and encourage the local currency market by guaranteeing local financial institution green lending.

Decision makers: DFIs, MDBs, EMDE country governments, donor countries.

Who else needs to support: Local financial institutions, IMF.

Key questions:

- Would guarantee funds depend on local currency being available through local banks? What is the role of intermediary lending between MDBs and PDBs?
- What are ways MDBs and local governments can support efforts to increase direct loans in local currencies?
- What would be the optimal way to approach direct currency lending by MDBs? What are the implications for others, e.g., credit rating agencies?
- What are the capacity needs of countries, for example for better risk management?
- What is the role of IMF?

CURRENCY RISK ROADMAP

| | Summit for a New Financial Pact | Africa Climate Action Summit | Finance In Common Summit | India G20 Summit | 2023 Annual Meetings | COP28 | 2024 Spring Meetings | 2024 Annual Meetings |
|---|---|--|---|--|---|---|--|--|
| | June | September | September | September | October | November | April | October |
| TCX expansion & JET FIT | Convene TCX, TCX investors, and borrower representatives to discuss potential changes and expansion | Agree on basic tenets of foreign exchange risks and climate finance impacts to gather support for short- and medium-term FX and local currency solutions | PDB discussion on how to best support TCX expansion and local currency lending and guarantees | Expert working group supports TCX expansion as a short-term solution to currency risks and assesses potential for SDR exchange rate guarantees | MDBs announce additional investments in TCX; IMF issues statement on SDR guarantees | TCX announces new government capital that will allow below risk rates to more climate projects; JET FIT program announced | TCX releases impact report for climate investments since COP28 | JET FIT facility launched |
| Local currency guarantees and capacity for local lending | Convene developing country governments, PDBs, and MDBs to discuss using guarantees to hedge local currency lending and increased local currency lending from MDBs | | | Expert working group recommends further work on the use of local currency guarantees and recommends local currency lending. | Convening to agree on details of local currency guarantee instruments Convening to discuss direct local currency lending from MDBs | Pilot guarantee instrument announced with support of 1 MDB and 1 developing country government. | Pilot facility launched Announcement on direct currency lending | Pilot facility replicated for 2 or more additional EMDE countries Launch of direct currency lending instruments |

3. ADDRESS DEVELOPMENT RISK BY SCALING PROJECT DEVELOPMENT MODELS AND TAILORING MODELS TO ATTRACT EARLIER INVESTMENT

SHORT TERM REFORM

Increase funding for existing project development models and platforms to scale proven, working programs and increase the amount of bankable, investment-ready projects in EMDEs. Improve efficiency of existing models through standardization and data sharing.

What it builds on and existing impact: There is a strong track record of existing project development facilities, funds, and advisory services, including the Global Infrastructure Facility (GIF), regional clean energy facilities like Southeast Asia Clean Energy Facility (SEACEF), now being replicated in other geographies by Allied Climate Partners, Gap Fund, and Climate Investor One's Development Fund. The SOURCE platform provides standardized infrastructure project preparation management software to countries. Fast-INFRA provides a sustainable infrastructure label towards creation of a standardized asset class.

Decision makers: Donors, philanthropies, MDBs/DFIs.

Who else needs to support: Private sector financial institutions and developing country-based project developers.

Impact potential: Project development is typically 2-5% of total project cost on average, and on the higher end of this range in EMDEs, so leverage can be 20-50x early-stage investments.

Key questions:

- How much funding could potentially be deployed by existing facilities?
- How much concessional funding will be required to scale up the existing models?
- What limits the availability of grant funding for project development?

- Which communities, regions, or technologies are underserved by project development facilities? Could the existing organizations expand to these areas?
- What improvements on ease of access for both project developers and private investors will reduce frictions in the system?
- How can PPFs better align with investors, and what platforms exist to facilitate those conversations?
-
- How can MDBs invest directly in the GIF or other project development facilities, similar to how they invest in TCX or other equity platforms?

LONG TERM REFORM

Improve impact and dramatically scale up MDB and DFI support for project development

What it builds on and existing impact: MDBs currently fund some early stage project preparation activities, mostly via grants and technical assistance. More sustainable financing models need to be adopted.

Decision makers: Donors, Philanthropies, MDBs, shareholders, borrowers.

Who else needs to support: Domestic and international public and private sector financial institutions

Impact potential: Project development models with returnable grants and investments, and lower transaction costs, can reduce reliance on grants, allowing for longer term sustainability and better targeting of scarce grant capital. Early investment in project development can also create significant bankable assets for private sector investment.

Key questions:

- How can the MDBs support broader coordination and increased effectiveness of their existing project preparation services?
- What is the increase in MDB risk by investing in project development directly, rather than relying on grants, and how can that be mitigated by the capital adequacy framework reforms?
- What kinds of funds (grant, concessional equity/debt, commercial) are needed for which technologies in which geographies?
- How can we better coordinate and construct a continuum of support between pure grant (or returnable grant) models and investment or returnable capital financing models, based on differing development risks?

DEVELOPMENT RISK ROADMAP

| | Summit for a New Financial Pact | Africa Climate Action Summit | Finance In Common Summit | India G20 Summit | 2023 Annual Meetings | COP28 | 2024 Spring Meetings | 2024 Annual Meetings |
|--|--|--|--|---|---|---|--|---|
| | June | September | September | September | October | November | April | October |
| Scaling existing project preparation models | Convening with existing project development models to share best practices | Collective call from group of African nations for MDBs, donors, and private capital to support project pipelines | Convening with PDBs to discuss early domestic financing in PPFs and finance accessibility challenges Existing project development models to announce plans for increased cooperation and data sharing | | Project development facility success stories shared with MDB shareholders | Funding announcements from philanthropies and donors, MDBs, and private funds to scale up existing models Convening of project development facilities and PDBs to discuss access to financing improvements | | |
| MDB project development reforms | MDBs discuss potential for increased project development investments | | Project development facilities and PDBs discuss improved collaboration and how PDBs can better support project development | Expert working group issues recommendations on MDB project development investment | Announcement of initial MDB commitments to invest in project development | | MDBs make pilot investments in project development | Announcement of MDB early investments in project development facilities and project preparation |

4. ADDRESS MIS-ALIGNED MDB INCENTIVES BY STANDARDIZING MOBILIZATION TARGETS, UNDERWRITING CRITERIA, AND ASSET CLASSES

SHORT TERM REFORM

Align staff performance and institutional targets to better incentivize private sector mobilization and total investment volumes, rather than institutional volumes.

What it builds on & existing impact: In 2021, MDBs climate finance mobilization for LMICs was only \$13B against \$51B of climate finance. \$10B of the \$51B was for private borrowers, but there is no reporting on private capital mobilization per borrower type (e.g., public vs private).

Decision makers: MDB leadership & shareholders.

Who else needs to support: MDB operations.

Key questions:

- What are the right metrics for measuring effective mobilization and real economy impacts?
- Should they be included in the KPIs for executive compensation?
- How can the KPIs be standardized across the MDBs in a manner that accounts for regional differences?
- Can inter-MDB cooperation regarding mobilization be included as a KPI?
- What is the appropriate level of reporting?

LONG TERM REFORM

Standardize underwriting criteria and asset classes to allow “originate-to-distribute” models to be implemented.

Purpose: Originate-to-distribute models could crowd in significant private sector investment upstream and better leverage MDB capital.

What it builds on and existing impact: A relatively new idea that builds on the success of MDBs being able to source new deals and de-risk transactions (particularly for private financing) and the potential for these MDBs to effectively bundle diversified projects into attractive portfolios through securitization or other similar means by using pre-agreed underwriting criteria.

Decision makers: MDB leadership and shareholders.

Who else needs to support: Private sector financial institutions.

Key questions:

- How should originate-to-distribute models adjust to different MDB types, particularly between sovereign and private MDB arms?
- How can the model be standardized to facilitate ease of use?
- How will the securitization of the loans impact the financial models of the MDBs themselves?
- What is the market appetite for such securitizations, and does it change by region?

MDB INCENTIVE ROADMAP

| | Summit for a New Financial Pact | Africa Climate Action Summit | Finance In Common Summit | India G20 Summit | 2023 Annual Meetings | COP28 | 2024 Spring Meetings | 2024 Annual Meetings |
|--|--|---|--|--|--|--|--|--|
| | June | September | September | September | October | November | April | October |
| Mobilization targets | Convening of MDBs to agree on need for and basic outline of new KPIs | Call for MDBs to create standardized KPIs that focus on capital mobilization and support EMDE SDG goals | Convening of PDBs to discuss KPI standardization | MDB expert group makes a statement in support of standardized, mobilization-focused KPIs | Announcement of new KPIs, promise to implement by July 1 (start of new FY) | Convening of MDBs, donor governments, and CSOs to agree upon new KPI framework | Final KPIs announced, along with approach to measure and report progress against KPIs | Initial KPI results shared |
| Underwriting criteria and asset classes | Convening of high-level experts to discuss “originate-to-distribute” idea and agree on basic framework | | Convening of MDBs and financial actors to discuss changes needed to the system to broadly support an “originate-to-distribute” model | MDB expert group calls for MDBs to cooperate on data sharing and standardization of criteria | Underwriting criteria and asset classes discussed as part of reform package and with shareholders Coordinated MDB pilot of originate-to-distribute model announced at Marrakesh | Private sector institutions state support for “originate-to-distribute” model with capital estimates | MDB shareholders express support for “originate-to-distribute” Announcement of underwriting criteria and asset class evaluation and standardization | Full scale implementation announced for July 1, 2025, in line with new fiscal year |

climatepolicyinitiative.org

Additional Resources

This section contains short publications from contributing experts:

1. **Allied Climate Partners:** Anchoring and Scaling Local Investment Managers
2. **Climate Policy Initiative:** Risk-Sharing Guarantee Facility to Address Cost of Capital for Renewable Energy
3. **Concito:** MDB “Commitment to Catalyse”
4. **Intellidex:** Opportunities for IFIs to Support the Scaling of Transition Finance
5. **iTrust:** Greenmap Guarantee Facility
6. **Private Infrastructure Development Group:** GuarantCo Local Currency Credit Solutions
7. **Private Infrastructure Development Group:** InfraCo Project Development Risk Capital
8. **Sustainability-linked Sovereign Debt Hub:** Sustainability-Linked Sovereign Debt
9. **TCX:** Creating Currency Risk Markets to Mitigate Currency Risk at Scale



Allied Climate Partners – Project Preparation Facility

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Concept summary

Allied Climate Partners (ACP) is a \$825 million investment platform, backed by \$235 million in philanthropy, with a mission to increase the number of bankable, climate-related projects and businesses in the Global South¹.

ACP selects regional investment managers in the Global South. Each manager deploys an innovative investment model, designed to address a financing gap at the early stages of the development process for climate-related projects and asset-oriented businesses.

Without this capital, many projects and businesses struggle to reach financial close and completion. ACP is focused on projects and businesses in sustainable energy (e.g., utility-scale and distributed renewables, storage), industrial and productive use (e.g., green manufacturing, cold storage, irrigation), and green urban development (e.g., electric transport, water and waste, efficiency and cooling).

By providing targeted, risk-tolerant capital and expertise to select regional investment managers, ACP induces government, non-governmental organizations, and private-sector investors to participate where they would not otherwise. ACP is building on the early success of a model its investors helped to establish in Southeast Asia (the [Southeast Asia Clean Energy Facility](#)) and execute this model across the Caribbean and Central America, Africa, and India.

Track record to date

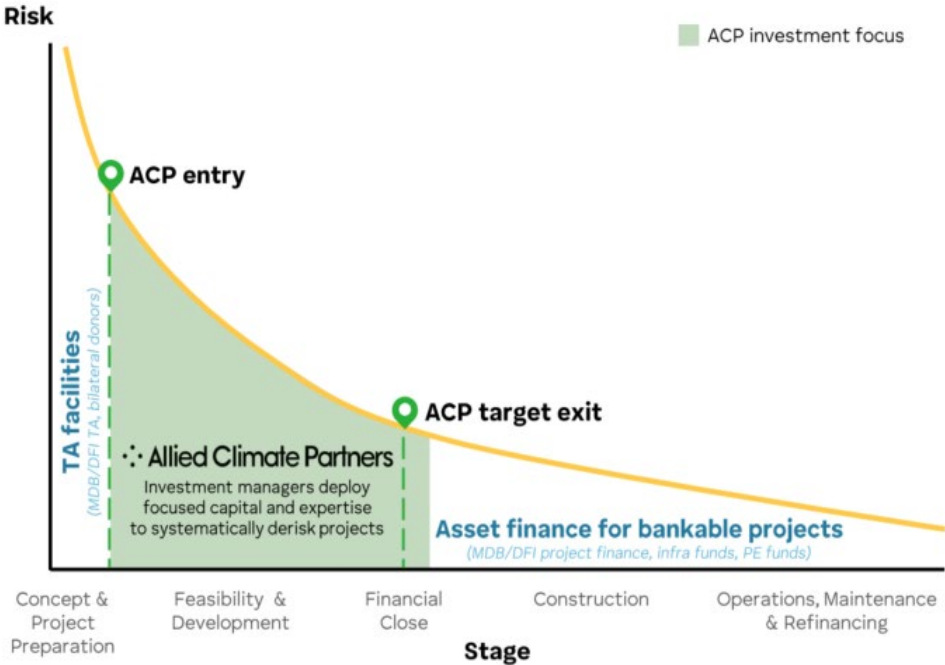
The effectiveness of the ACP model has been demonstrated by the Southeast Asia Clean Energy Facility (SEACEF). This fund, focused on Vietnam, Indonesia, and the Philippines, is accelerating the low-carbon transition in Southeast Asia and is supported by leading international foundations (including the Sea Change Foundation, Children's Investment Fund Foundation, Sequoia Climate Foundation, and Packard Foundation) as well as impact investors and corporates, including Microsoft. SEACEF's initial \$22.5 million facility has made nine early-stage investments to innovative, high-impact, clean

¹ For the purposes of this memo, we use the term Global South to refer to emerging and developing economies, with a particular focus on Southeast Asia, India, the Caribbean and Central America, and Africa.. As is described in detail, Allied Climate Partners' regional managers will select individual countries in which to invest.

energy projects and scalable businesses in its first 2.5 years. These nine investments have catalyzed more than 20x the initial funding in third-party, private-sector capital, already achieved one successful [exit](#), and spurred development of potentially billions of dollars' worth of climate assets.

Instrument mechanics

A crucial bottleneck impeding the flow of climate-related capital in the Global South is a lack of bankable projects. In infrastructure, the earliest stages of project development are the riskiest. These risks are heightened in the Global South, where the enabling policy or regulatory environment is often underdeveloped, and projects can take a longer time to reach completion. Yet early-stage development represents the smallest portion of the overall funding need for a project. Of the total cost of a completed project, approximately 95% is needed to build the project, and as little as 5% is spent during the development period for items like land acquisition, engineering studies, technical analysis, modeling, permitting, and environmental impact assessment. While 5% of the capital can unlock 95%, this early-stage capital is the hardest to raise because public and private funders are unwilling to accept the risk.

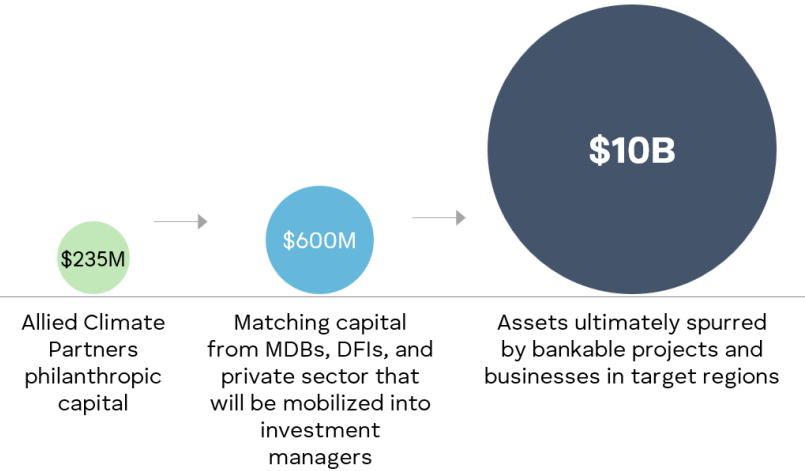


ACP's regional investment managers focus on this early stage of development when risk capital has significant additionality, and provides tranching, milestone-based investments and hands-on management support to systematically derisk investments. ACP's managers seek to exit at financial close, crowding in asset investors, and recycle proceeds to create even more bankable projects.

In each regional manager's fund, ACP provides philanthropic capital representing 25% of the capital in the form of junior equity. The philanthropic capital encourages the remaining 75% of the capital, which is provided by DFIs, governments, foundations, and

other private and public sector investors, in the form of senior equity. By focusing on this high-leverage intervention, ACP catalyzes funds at scale. Over time, ACP hopes to prove out this model, encourage greater private sector involvement, and lessen or eliminate the need for philanthropic capital.

As ACP's regional investment projects mature and reach financial close, the projects are expected to raise approximately \$10B from asset financiers to construct the projects (a ~12x multiplier on the \$825M).² ACP investment managers will seek to exit investments at financial close to DFIs, governments, infrastructure funds, corporate developers, and other public and private sector investors. The combined multiplier on the philanthropic capital is expected to be 40x ($\$10B / \$235M = 40x$).



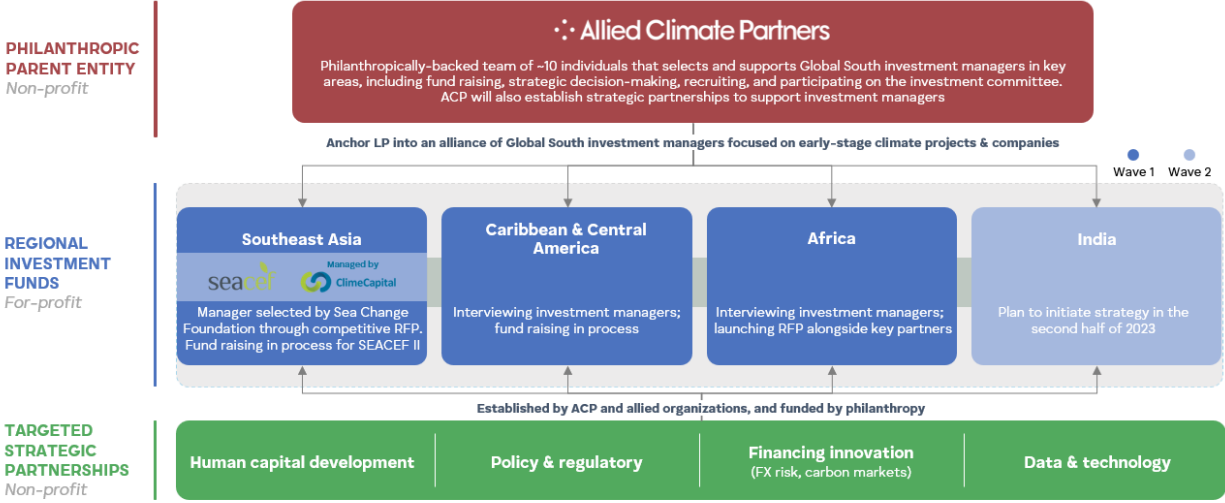
Scale-up pathway

ACP is taking a staged approach to expansion – first scaling up SEACEF II, the existing fund manager in Southeast Asia, while in parallel, progressing through diligence and a Request for Proposal process to select its managers in Africa and the Caribbean. In the second half of 2023, ACP will advance its strategy development and market exploration for India as the fourth target geography.

ACP is raising \$235 million of junior equity from philanthropic organizations and is working with major MDBs, DFIs, private, and corporate investors who will participate as senior equity.

² Calculations do not include recycling

ACP: Anchoring and Scaling Local Investment Managers



Note: Three Cairns Group and Sea Change Foundation are founding philanthropic anchors of ACP. ACP will become an independent 501(c)3 nonprofit entity with a for-profit investment subsidiary.

MDB “Commitment to Catalyse”

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Concept summary

MDBs have a critical role to play in catalyzing private finance and in supporting the large necessary public investments in climate and development in emerging and developing economies. The catalytic part will require action in a range of areas that can meaningfully be incorporated into a “Commitment to Catalyse” by MDBs. Such a Commitment would include a set of catalytic actions accompanied by KPIs that would incentivize MDBs to take the necessary action both externally and internally.

Context

To get to “the trillions” of investment and finance needed, MDBs must fully embrace their central catalytic role within the international ecosystem of actors that support investments in country and sector transitions.

Catalyzing private investment and finance requires a holistic approach including simultaneous action in many areas. MDBs are uniquely positioned to provide a wide range of catalytic functions to support this, covering both real economy sectors, the financial sector and macroeconomic issues. Examples include:

- Diagnostics of investment needs and investment readiness.
- Investment-enabling policy and regulation in multiple sectors
- Investment planning, market design and pipeline development
- Local financial sector and capital market development
- Provision of risk mitigation instruments addressing both macro and project level risks, thereby enabling pipelines of investments and their financing from domestic and international sources.
- Provision of vehicles and channels connecting private finance with investments through co-investment, re-financing of MDB portfolios etc., including with the use of blended finance.
- Convening country/sector platforms that bring together both national and international public, private and institutional actors around comprehensive, coherent action to catalyse investment in country/sector transitions.
- Engaging in international discussions about “upstream” international barriers to international investment and finance flows.

A reorientation of MDB operating models toward these catalytic functions will entail an increased focus on and resource allocation for:

- A. Provision of technical assistance and investments in human and institutional capacity, which will cover both real economy sectors, finance and macroeconomic dimensions. These “soft investments” are often underappreciated and underfunded.

- B. Supply of targeted risk mitigation and blended finance solutions, which will have to be scaled up and standardized to increase coverage and accessibility while reducing transaction costs.

As part of this reorientation, resources will have to be mobilised including from donors and philanthropy for the scale-up investments in human and institutional capacity as well as for injections of seed capital for risk mitigation and blended finance instruments.

Instrument mechanics: Developing commitments to catalytic functions and associated KPIs

With support from an informal group of experts having first-hand experience from the MDB world, MDBs co-develop a taxonomy of catalytic functions that may be included in a Commitment to Catalyse.

Associated KPIs would be outcome and impact oriented and specific enough to drive adjustments to the operating model and internal incentives of the MDBs. KPIs should look beyond the MDB's own financing and instruments and include the contribution to the overall investment trajectory of countries and sectors, thereby incentivizing MDBs to act as a system and take responsibility for the wider ecosystem and their role in it.

On the basis of this common framework of catalytic functions and associated KPIs, the management of each MDB develops its Commitment to Catalyse and processes it through its governance structure with a view to publishing the CoC in late 2023.

The approach may be extended to other public financial institutions such as bilateral development finance institutions, national development banks and central banks, taking advantage of the *Finance in Common* framework.

Cases/Examples

An [OECD Policy Brief](#) outlines practical steps in moving development banks toward a mobilization focus and showcases the Development Bank of Southern Africa (DBSA) as a first mover in making the transition. Among the featured steps were an explicit mobilization mandate; integration of mobilization in performance indicators and KPI, and the build-out of dedicated bank capacity.

The [Global Infrastructure Facility](#) is a cooperation across MDBs focusing on mobilizing private investment for infrastructure in partnership with governments, private sector and others. Significant resources are deployed to support investment pipeline development.

The [Climate Investment Funds TA Facility](#) finances MDB support for investment-enabling policy and regulatory environments as well as human and institutional capacity.

The [Sustainable Renewables Risk Mitigation Initiative \(SRMI\)](#) enables scaled up solar and wind energy investments by providing integrated packages of support for investment planning, regulation, pipeline development and risk mitigation.

Risk-Sharing Guarantee Facility to address cost of capital for renewables in developing economies

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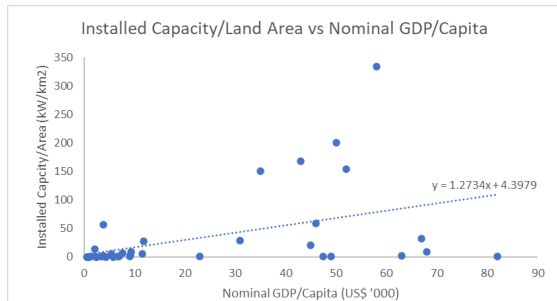
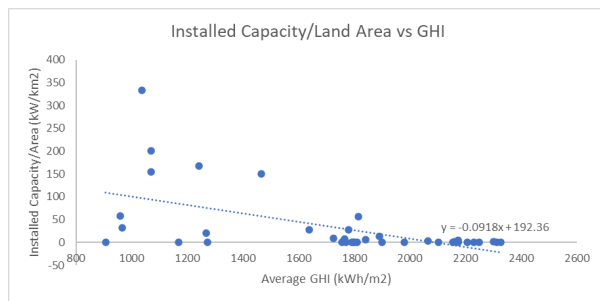
Vikram Widge, Senior Advisor
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Concept summary

In conjunction with the International Solar Alliance (ISA), CPI conducted a market readiness analysis of 40+ ISA member countries and found that the relatively high cost of capital in developing countries is a significant barrier to mobilizing funding for renewable energy projects. A Risk Sharing Guarantee Facility could help reduce these costs and catalyze investments.

Context & Barriers

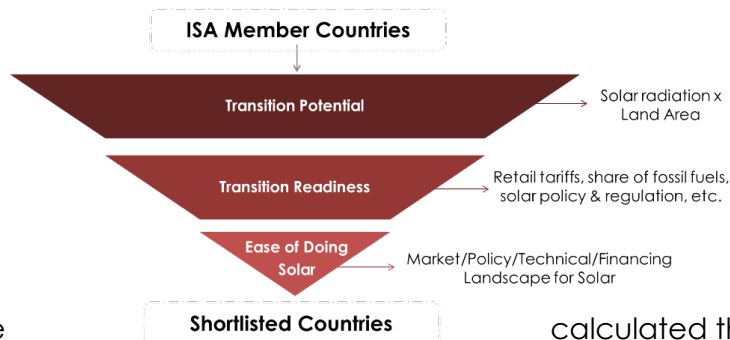
In our research of over 40 developed & developing countries, we found that countries with higher GDP per capita had higher solar installed capacities, but countries with lower



solar installed capacity (and lower GDP per capita) had higher average GHI (an indicator of solar potential).

Risk vs. Return

We believe climate investments have been skewed towards high-income countries as lower-income countries entail higher risk, or perceived risk. To study the relationship between risk and return for climate projects, we created a “Climate Investment Risk Score,” and ranked countries on this parameter. To calculate this score, we considered the sovereign credit risk, political risk, and off-taker risk.



As a next step, we calculated the required rate of return from a climate project in these shortlisted countries. We used the capital asset pricing model and adjusted it for expected climate investment risk in the country.

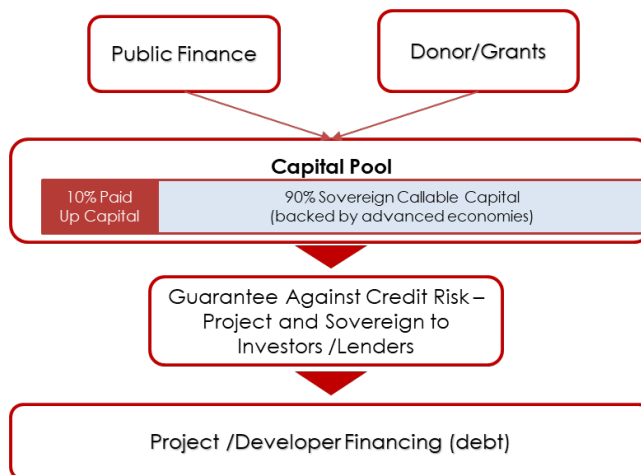
The results indicate that, evaluation of climate projects in line with other commercial projects escalates return requirements, restricting capital flow to emerging markets & hindering global decarbonization.

Proposed Risk-Sharing Facility



There is a need for an unbundled risk mitigation facility to reduce risk premiums for climate projects in emerging markets.

Further to this, our recommendation is to transfer the political risk to existing institutions like MIGA and the foreign exchange risk to TCX or a similar facility and establish an entity to manage the credit risk – sovereign & off-taker – by providing a partial guarantee. The following graphic illustrates the instrument mechanics.



To execute the solar targets announced by governments in the shortlisted set of countries, a total of ~US\$175 billion of capital will be needed, of which 70% or ~US\$120 billion would be debt. With an average default rate of ~11%, and guarantee coverage of 50%, a US\$6.6 billion Guarantee Facility is proposed – capitalized at 10% with the balance as callable capital. This results in a (direct) leverage of 250x for the total capital mobilized.

The Facility's Potential: Impact of Credit Guarantee on Risk Premium

Assuming that the Guarantor would be a supranational agency with a AAA rating, sovereign credit risk and off-taker risk scores were recalibrated, keeping political risk score the same. With this, we arrived at the enhanced climate investment risk score, which was then used in the regression to recalculate the climate investment risk premiums.

For the sample set of countries, the average reduction in risk premium is ~6% and the average improvement in rating is 5-6 notches – the impact is more for the riskier countries and they would benefit more.

Opportunities for IFIs to support the scaling of financing for the transition

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This note is a summary of Intellidex's key findings in its reports, commissioned by the African Climate Foundation (ACF), on financing and scaling strategies to support the just energy transition (JET). The findings presented in this document focus on the barriers and opportunities underpinning capital flows from the global North to the global South to drive JET initiatives in South Africa but are broadly applicable across EMs. The research included a large number of interviews with asset managers, asset consultants and regulators in the global north. We present an analysis of the existing barriers that impede the mobilisation of resources between the two regions, as well as recommendations on how to overcome them. Additionally, the document offers an overview of the challenges and opportunities related to financing the social justice aspects of JET and the actions required to address these issues.

Context

South Africa needs to unlock an enormous amount of financing to fund its just energy transition, sourced domestically and internationally, with estimates ranging from R4tn to R6.5tn (~\$220bn-\$465bn). Funding for the social justice elements alone come to about R2.5tn (~\$137bn), according to the World Bank.

The highly complex process that will unfold over the next three decades will require concerted efforts from all stakeholders in the financial ecosystem to maximise the probability for South Africa to transition successfully to a net zero economy.

Financing is required at scale, continually, in a way never seen before and the country will not be able to rely on the public sector.

Blockages for mobilising flows from North to South

A significant proportion of the funding needed for the just transition in South Africa, and the global South more broadly, needs to be mobilised from the global North. Several key blockages exist, particularly for mobilising private financing, including:

ESG and sustainable investing practices

- A rather perverse outcome of how ESG and broader sustainable investing practices are being applied is that it often results in financial flows being diverted away from the very markets that need to improve ESG metrics. This trend is at risk of accelerating as regulators across the globe are taking steps to implement legislative parameters on ESG integration, albeit at varying degrees of stringency and at different paces. Some of the most progressive markets (Europe) have already introduced prescriptive reporting requirements as well as limits on exposure to carbon-intensive jurisdictions, both at the corporate and sovereign levels. **This system imposes limitations on institutional investors' ability to allocate capital to emerging and frontier markets.** These markets are not only competing based on macroeconomic fundamentals but also on carbon intensity. With limited portfolio allocation

available for carbon intensive investments, only the best-in-class products will be able to attract much-needed institutional financing.

- Another way in which the wider adoption of ESG integration is having negative implications for emerging and frontier markets is through **exclusion criteria in the investment selection process**. Ratings and scores produced by various ESG agencies and disclosure bodies are used to screen out JET counterparties such as Eskom and Sasol, given their high carbon footprints. Yet the transition that needs to occur is precisely at such firms, ones that need to shift their infrastructure into sustainable business models. In addition to the exclusions related to climate aspects (ie, inability to allocate capital to carbon-intensive corporations and sovereigns), institutional investors' ESG allocation strategies risk diverting capital flows from emerging and frontier markets because these jurisdictions often do not have robust data and tend to score poorly on ESG metrics as currently constructed. This tends to materialise through screening that excludes regions based on their performance on criteria such as corruption, policy uncertainty and energy security. A typical example in South Africa is the Renewable Energy Independent Producers' Procurement Programme, which has suffered significantly from policy uncertainty.
- The **EU taxonomy for sustainable activities** is also considered a blockage because several pools of capital will be unable to participate in funding transition projects due to the taxonomy reporting requirements.

Liquidity, deal size and FX risks

- **Liquidity** is a major issue that emerged across all engagements with market stakeholders. To mobilise private capital at scale, JET instruments must be liquid.
- A lack of pooled-risk green bond markets is seen as problematic for funding renewable energy projects and other sustainable finance instruments (including social bonds and sustainability-linked loans). These will have to be adopted on a much larger scale to enable the funding of the just element of the transition. Banks in the future will play a key role in providing liquidity and will do so better with more standardised instruments.
- From a **deal size** perspective, structuring RE assets becomes an essential element that can either accelerate or stifle the rate at which scale can be achieved. The extensive due diligence process for offshore investors in particular requires large deal sizes (at least \$250m), which means projects need to be aggregated into portfolios to bolster the appeal of investing. This will also help diversify risks.
- **FX risk** is a concern for all investors given the volatility of the rand, the hefty component of imported capital goods likely required (given limited onshore production capacity) and the way that this could sway the tight margins seen in many projects – especially when adding other risks such as capital goods inflation. At the same time, foreign investors are reluctant to take on exposure to the rand given the currency volatility and underlying macro risks and therefore any funding from foreign financiers will likely be in hard currency. This leaves the local market exposed to currency risks, which is problematic.

Systems level approaches

Advocacy related to rethinking existing ESG integration practices

- Emerging and frontier markets are struggling to attract capital flows for transition purposes due to the way in which investors are integrating ESG into their investment decision-making processes. **This is a systemic risk to the global transition.**
- Philanthropic funders with a climate mandate need to provide **evidence-based research to regulators and industry bodies in developed markets to demonstrate the adverse implications of some of the existing ESG practices. They need to advocate for changes to these practices to enable emerging and frontier markets to access capital more easily from developed market capital allocators.** It will be difficult for any one country to undertake this type of advocacy and further work is required to map the full ecosystem of causal factors, but we think this is a crucial unblocking point not just for JET financing but for all EM financing from developed markets.

Designing investment instruments that can unlock financing at scale

- Constraints related to liquidity, concentration risk, FX risks and lacklustre demand can all be eliminated through **product development.** Stronger adoption of sustainable finance instruments listed on exchanges is needed to grow the market and increase liquidity.
- To achieve this, **local capital markets need more robust engagement with transactors to obtain clarity on what is crippling appetite for faster adoption and widespread utilisation of these instruments.** At the same time, banks need to think about how these instruments can be pooled into funds to improve the risk profile for institutional investors, including liquidity and credit risks.
- Development funders have a role to play from **a liquidity and FX risk perspective.** For example, **multilaterals can create fund structures that will help overcome the issues related to deal size and investment due diligence costs.** Developing a renewable energy fund, for example, will de-risk the investment from a portfolio diversification perspective. To enhance the appeal for commercial capital, development funders can provide first-loss capital, guarantees or FX hedges. While recognising that financing at scale hinges upon standardising these credit instruments, it is crucial that they are also flexible and able to take into account the needs and market infrastructure capacity on a local level.
- While this function has traditionally been fulfilled by multilateral development funders, **philanthropists can also act in a similar capacity for funds developed by commercial asset managers.** For example, grant funding can be applied as catalytic capital through the provision of guarantees, FX hedging or first-loss capital. Utilising these tools will bolster the appeal of the fund for commercial investors and help blend in these additional sources of capital.

Building capital market infrastructure

- Considering the relative newness of sustainable finance for the mainstream market, an iterative process is required to ensure that a balance is found between making instruments accessible to the institutional market and achieving sustainability objectives.

- An alternative (and perhaps controversial) option is for development funders (local DFIs, MDBs or philanthropists) to engage with transactors to encourage issuers to adopt these instruments. **Given the costs associated with listing a transition bond, including compliance with all the listing criteria as well as obtaining third party assurance, there is an opportunity for development funders and philanthropists with a climate mandate to provide technical assistance to help develop this market.** There might also be an opportunity to collaborate with heavy emitters and hard-to-abate organisations in the private sector to help advance the transition agenda. Some actors of size in the system (like Eskom) will have to grab the bull by the horns in terms of market development even if the first mover may have questionable financial incentives to do so (where philanthropies etc can support).
- A collaborative effort could unlock the necessary resources to develop the transition bond market and potentially overcome the financial disincentives undermining the mobilisation of capital from the global North to the global South.

Opportunities and barriers for financing the social justice elements of the JET

| Opportunity | Barriers to overcome | Actions required from IFIs |
|--|--|---|
| ESG investing: The easiest starting point for getting investors and funders to start planning for JET issues is to incorporate JET dimensions into existing ESG strategies. We recommend the adoption of the Impact Investing Institute's Just Transition Framework to structure new investments and reporting on their effects (Spengler et al., 2021). The framework addresses both environmental and social dimensions of the transition. | ESG investing as currently practised is very risk oriented and tends not to seek out opportunities to actively promote ESG outcomes. Subsequently, capital is being diverted from certain markets (for example carbon-intensive economies such as South Africa). This bias will need to be overcome to enable capital to flow to new areas where it is needed. | A redesign of ESG strategy (or a rebalancing that focuses on opportunities as well as risks) is the onus on all corporate, banking and other financial actor boards. Asset managers and financiers must take the lead in designing new investment vehicles and proactively identifying JET-aligned ESG investing opportunities. Involving philanthropists would be useful due to their potential provision of catalytic, first-loss capital in blended structures for new investment vehicles without proven track records. Foundations will also need to integrate JET considerations into their organisational strategies/missions. |
| Place-based impact investing: These are investments aimed at yielding appropriate risk-adjusted financial returns as well as generating positive local impact, while also addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development (Impact Investing Institute et al., 2021). The aim is to address structural constraints to economic growth and regional development, chiefly access to finance, to reverse the long-term decline of, in particular, | Fiduciary duty; lack of pipeline; aggregation of smaller opportunities for larger investors; not enough local investors. | As community trusts become active investors (for example in other energy utilities), they can consider more localised roles in PBII. They can do so, for example, via support to small businesses that will have been beneficiaries of grant-based support offered under IPPs' or trusts' enterprise development and socioeconomic development interventions (which could be seen as preparing for investment-readiness). Larger financial institutions must also reconsider their lending policies which tend to discriminate against smaller, black-owned and/or more remote business |

| | | |
|---|--|--|
| <p>small towns that once hosted significant industries (Impact Investing Institute et al., 2021).</p> | | <p>owners. Finally, there is a role for philanthropy in coordination: that is, originating and publicising deals/investees; matching investors to investees.</p> |
| <p>JET funds: The establishment of private debt and/or private equity funds for JET-promoting businesses can help to get funds to flow into economic activity that maximises green and social outcomes. These could be capitalised using blended structures.</p> | <p>Communities in transition will need solutions that are designed from the ground up and community objectives might not align with commercial investor objectives. Blended structures require multi-stakeholder coordination which can be difficult to manage.</p> | <p>Asset managers will need to work on developing this market, for example by consolidating private equity/venture capital investors and investors in existing business incubators; adopting a JET lens and then working towards investment readiness for inclusion in JET funds. Marketing of the funds globally (where JET is increasingly an area of interest for investors) and locally (where significant advocacy will be required).</p> |
| <p>Transition bonds: These instruments can be used to support hard-to-abate sectors to transition from carbon-intensive to net zero over the next three decades. It allows organisations to continue accessing funding despite performing poorly on climate metrics, granted that an issuer has strategically embedded a pathway to net zero.</p> | <p>The transition finance market is still nascent and issuers are hesitant to utilise these given the lack of an evidence base as well as risks associated with greenwashing. Mixing social and environmental KPIs in a single instrument might not be feasible and thinking around how transition bonds can include social KPIs must be developed.</p> | <p>There is limited movement in the development of standards for transition instruments, largely due to the conceptual differences between transition (process) and other types of bonds (eg, green and outcome-focused bonds) and fears about greenwashing. The onus will lie on companies to develop convincing, actionable and measurable plans that demonstrate how they intend to become better corporate citizens. The same applies to banks and other investors in relation to their investees and companies in their portfolios.</p> |
| <p>Market-based products for renewable energy: The market for financial products to finance renewable energy projects is small but the rapid expected growth of solar represents an opportunity for financial institutions to develop more, better products, and to specifically develop products for the mass market. The bulk of the population is currently not conceived of as a target market for solar energy and this is a large missed opportunity for banks and the mass rollout of cheaper, cleaner solar energy.</p> | <p>The stringent financing terms by commercial banks' asset managers for small-scale renewable energy projects/ developers. Small-scale solar is still seen to suffer from risky and/or untested business models particularly where this is outside familiar contexts such as installations in residential complexes or large businesses. Pilot projects and innovative first-movers from financial institutions are required.</p> | <p>Banks must take the lead in designing more inclusive financial products for low(er)-income consumers and for small Energy Saving Companies (ESCOs) to enable broader participation in the new solar sector. In relation to community renewable energy projects, foundations have a key role to play in funding demonstration projects to prove (or disprove) sustainable business models for renewable energy SMMEs. Finally, academia must be involved in robust research testing alternative models.</p> |

iTrust – Greenmap guarantee facility

Contacts

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Concept summary

The [iTrust](#) is an international cross-border non-profit entity designed by [Greenmap](#) to enable governments in developing countries to provide customised programmed-based guarantees to promote private sector investment in renewable energy (RE) generation, within a framework of transparency and competitiveness. The iTrust guarantee package is specially customised for eligible RE auction programmes and includes (i) a cost-free revolving energy payment guarantee for all awarded projects covering delays or non-payment by the offtaker, and (ii) an optional early termination payment guarantee to cover the offtaker or host government default upon the termination of a PPA following the occurrence of certain country-level triggering events. The early termination payment guarantee fees will result from the iTrust funding costs on a pass-through basis.

Context & barriers the instrument addresses

RE generation costs depend on the amount of capital needed and the weighted average cost of capital. Developing countries have more complex and risky political, economic and regulatory environments which increase the cost of capital and deter long-term private investments. As a result, clean energy investment grows at a slower pace and higher prices, widening the gap with developed nations.

The iTrust guarantees will cover the risks affecting projects' bankability in the developing world including offtaker liquidity and typical country-level risks such as (i) local currency inconvertibility, (ii) hard-currency transferability, (iii) expropriation, (iv) change of law and (v) non-compliance with an arbitral award. The iTrust guarantees will be embedded in auction programmes and automatically granted to awarded projects, allowing to price them in the offer submission. This integrated and program-based feature is key to deploying renewables at scale and reaching a just energy transition.

Climate & socioeconomic impact, track record to date.

The iTrust's objective is to support at least 10-12 developing countries in its first 10 years of operations (2024 to 2033), allowing a total of US\$ 10-15 billion¹ of new-built RE capacity enough to supply clean energy for approximately 90 million people. The cumulative CO₂ equivalent emission reductions could range from 120-150 million tons

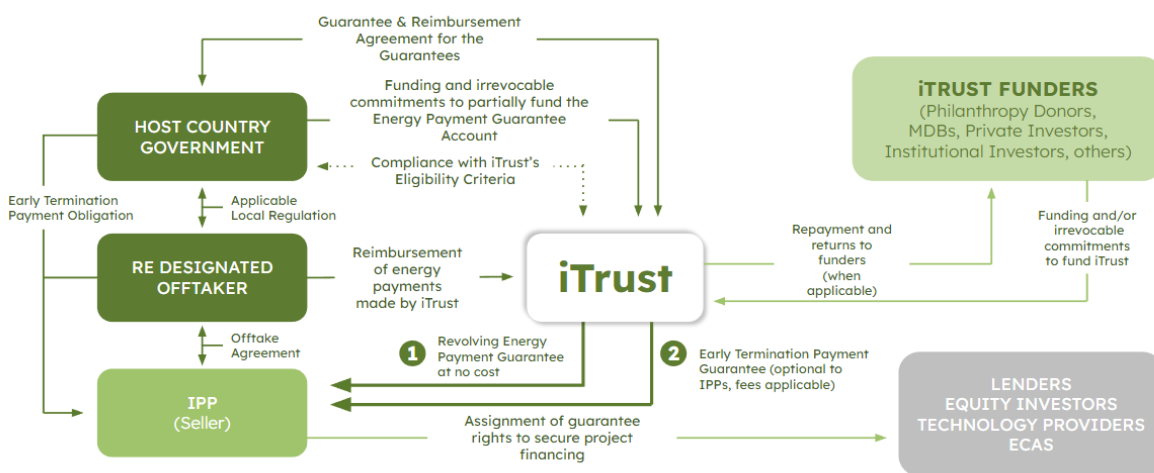
¹ Investment and emission estimations depend on the mix of wind, solar pv and other technologies.

over this period. Over the 20-year expected lifetime of the mobilised projects, the amount of avoided emissions may range from 350 to 400 million tons.

A similar guarantee scheme was implemented under the [RenovAr](#) Programme in Argentina by the current members of the iTrust team -which served as an inspiration for the iTrust- mobilising over US\$ 7 billion of private investment in a very challenging market.

Instrument mechanics

The iTrust will unlock funds from philanthropic foundations, MDBs and/or private/institutional investors to channel them into energy payment and early termination payment guarantees. Host countries will partially fund the iTrust to skinning in the game.



Scale-up pathway. Team. Mobilisation Potential. What is needed to make it happen?

The iTrust is designed by Greenmap's [team](#) in collaboration with [Clifford Chance](#) and [John Pickett](#) (former partner at Linklaters Intl.). Greenmap's team has blended experience in the public and private sectors, with an internationally recognised track record. Greenmap's [Board of Advisors](#) is composed of experienced international leaders with extensive backgrounds in RE and climate mitigation strategies.

The implementation of the iTrust will provide the following benefits to host countries: (i) reducing the cost and accelerating the implementation of RE auctions; (ii) lowering the host country market risks, increasing attractiveness and unlocking investment; (iii) improving energy security, affordability and independence, reducing generation costs and dependence on volatile imported fossil fuels; and (iv) curbing carbon emissions.

The iTrust is working with key stakeholders to validate its final design and conclude its incorporation in a jurisdiction with good international standing and reputation as a stable economy with a reliable legal framework. At the same time, the iTrust is engaging potential donors and funders to support its guaranteed accounts.

GuarantCo – Local currency credit solutions

Philippe Valahu, Chief Executive Officer
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Summary

PIDG's guarantee arm (GuarantCo) provides a variety of long term guarantee and contingent credit solutions in both hard and local currencies to unlock private sector funding from the capital markets into sustainable infrastructure projects throughout Africa and Asia. Guarantees help unlock significant lending capacity to critical infrastructure projects that usually require long term funding that is often unavailable, as well as build capacity in local markets. GuarantCo is rated AA- by Fitch and A1 by Moody's. GuarantCo is headquartered in London with branches in Nairobi and Singapore.

Track record

Since 2005, GuarantCo has closed guarantees totalling USD1.5 billion in 22 countries, which has mobilised USD 5 billion of private sector investment.



Supporting smallholder farmers

GuarantCo

Pran

100% guarantee of an onshore Taka denominated 2.1bn (\$25m) bond by Pran to increase production capacity of processed goods in Bangladesh.

Direct impact on people

SDG assessment 2.3 - Increase agricultural productivity and incomes of small-scale food producers

Expected impact 8.6k smallholder farmers are expected to benefit. They are likely to be low income and live in rural areas. The largest impact will be felt by previously unemployed farmers and women.

Direct impact on planet

SDG assessment 8.8 - Achieve full and productive employment and decent work for all women and men.

Expected impact The company will create 780 new jobs - 33% will be taken up by women.

Bangladesh
LDC and FCAS

Total commitment:
\$25m

Provide greater income generation for 8.6k smallholder farmers and create 780 new jobs of which 33% will be occupied by women.



Facilitating renewable energy access

GuarantCo

Bboxx

Provide a KES 1.2 bn (\$10.6m equivalent) partial guarantee (75%) to SBM bank with a 5-year tenor to provide 84k solar home system units in Kenya.

Direct impact on people

SDG assessment 7.1 + 7.2 - Access to affordable and reliable renewable energy.

Expected impact 451k consumers are expected to benefit. Over 50% will be first time users and 9% will be below the international poverty line.

Direct impact on planet

SDG assessment 13 - Climate change mitigation.

Expected impact Avoid/reduce greenhouse gas emissions through the displacement of non-traditional fuels.

Market transformation

Challenge: Historically investments in the off-grid SHS sector have been made in hard currency which can expose companies to significant exchange risks.

Challenge: Enabling better matching of currency of funding with operations and collections through mobilising local currency from a Kenyan Bank.

Outcome: Replication of local currency loans to SHS businesses from domestic banks.

Mobilisation Mobilised \$14.1m (KES 1.6bn) from SBM Bank. This will be Bboxx's first LCY transaction and one the first loans provided by a Kenyan bank to a company in the solar home system sector.

Climate risk

Transition: Low - This aligned.

Physical: Risks considered and where possible mitigated.

Gender 40% of the Kenyan workforce will be women.

Kenya
Low and Middle-Income Countries (LMIC) and Fragile and Conflict-Affected States (FCAS)

Total commitment:
\$10.6m

Increase access of reliable electricity to 451k consumers to improve quality of life and avoid/reduce greenhouse gas emissions through the displacement of non-traditional fuels.

In Q2 2022, IntraCo Africa invested US\$1.5m to deliver an additional 199k solar home unit across Kenya (32%), DRC (25%), Rwanda (17%), Togo (12%), Nigeria (9%) and Burkina Faso (5%) in the next two years.

Instrument mechanics

GuarantCo provides credit solutions as required for a particular project including full and partial credit guarantees, tenor extension guarantees, liquidity extension guarantees, EPC contractor guarantees, and portfolio guarantees. Other solutions are provided depending on individual project requirements. The basic forms of guarantees provided by GuarantCo cover up to 100% of principal and interest over a loan or a bond issued by a private sector entity of between USD5m and up to USD50m equivalent in tenors of up to 20 years.

Most critically, GuarantCo's guarantees can be denominated in local currency (guarantees denominated in local currencies constitute the majority of GuarantCo's portfolio) and in some circumstances hard currency, thereby building capacity in local markets by unlocking long term sources of capital from local providers including domestic as well as international banks and institutional investors.

Liquidity Extension Guarantee ('LEG')

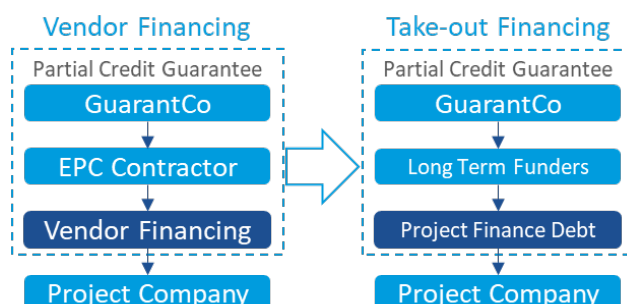
Commercial banks are often limited to a maximum tenor for the loans they provide, or impose high rates of interest, with the result that infrastructure projects may be rendered unviable and abandoned by sponsors. The LEG allows the debt to be structured as if it would amortise over a long tenor with a specified transfer date that meets bank requirements. If, at that date, the project is still performing the bank has the option to transfer the loan to GuarantCo or keep it on its books for the remaining tenor.

Portfolio Guarantee

Designed to mitigate concentration risk, the Portfolio Guarantee allows the lender to target larger transactions, as GuarantCo provides a guarantee against new and existing infrastructure exposures and allows the counterparty (lender or guarantor) to release capital for other loans. The guarantee is structured to cover exposures to corporates, projects or financial institutions involved in facilitating infrastructure and is usually provided on a second loss basis.

EPC Contactor Guarantee

These allow EPC contractors to provide vendor finance in geographies they would not normally consider. With this solution, GuarantCo issues a payment guarantee in favour of the EPC contractor that assures payment once work has been completed, thereby allowing construction to start as well enabling the project to procure long term debt. Reducing uncertainty in this way can help reduce project execution times. GuarantCo has previously combined this solution with a guarantee on the take-out financing to provide a holistic solution for the project in question.

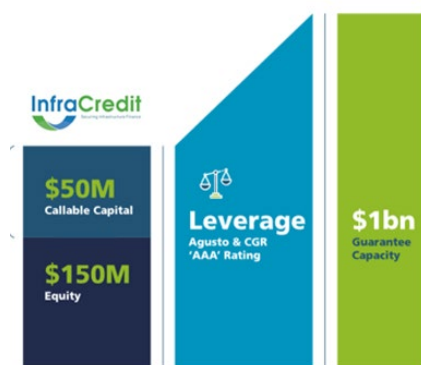


Framework Guarantee

Similar in many respects to the Portfolio Guarantee described above, the Framework Guarantee enables the lender (or guarantor) to originate more and larger transactions in a growing – but perhaps untested – sector. For example, GuarantCo has provided such a guarantee over 10 years to Axis Bank, enabling it to originate loans to the EV sector in India at a faster pace. Axis Bank will benefit from a partial guarantee.

In-country Credit Enhancement Facilities

Building local capacity and tapping into domestic institutional investors to fund infrastructure assets forms a key part of PIDG's strategy to achieve impact at scale. By establishing Credit Enhancement Facilities in certain countries (e.g. InfraCredit in Nigeria, InfraZamin in Pakistan, and Kenya to be launched shortly), local entities are set up onshore to provide a sustainable conduit for mobilizing long-term, local currency debt financing for infrastructure through the issuance of credit guarantees in-country. They also have the benefit of developing local capital markets, which in turn provides long term access for investors to finance infrastructure on the ground.



Credit Enhancement Facilities also provide leverage effect for investor capital – every dollar invested into PIDG can be then leveraged through PIDG's investment into a Credit Enhancement Facility (alongside equity from other co-investors), an entity that itself can typically leverage 3-10 times and deliver multiple transactions with sustainable developmental impact. This multiplier effect is an extremely efficient use of investor capital to achieve impact at scale.

Future development plans

The role that guarantees can provide in mobilizing domestic and international pools of capital as well as in building local capacity is evident, both from studies as well as the on-the-ground experience in GuarantCo and in-country in InfraCredit and InfraZamin. Continuing to build GuarantCo's portfolio and establishing more in-country credit enhancement facilities in target markets lie are key pillars of PIDG's strategic ambition. Realising this will involve working with key local partners as well as the associated requirement for both people and capital. We will be working closely with existing stakeholders and new counterparties to bring this about.

InfraCo - PIDG project development arm

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Concept summary

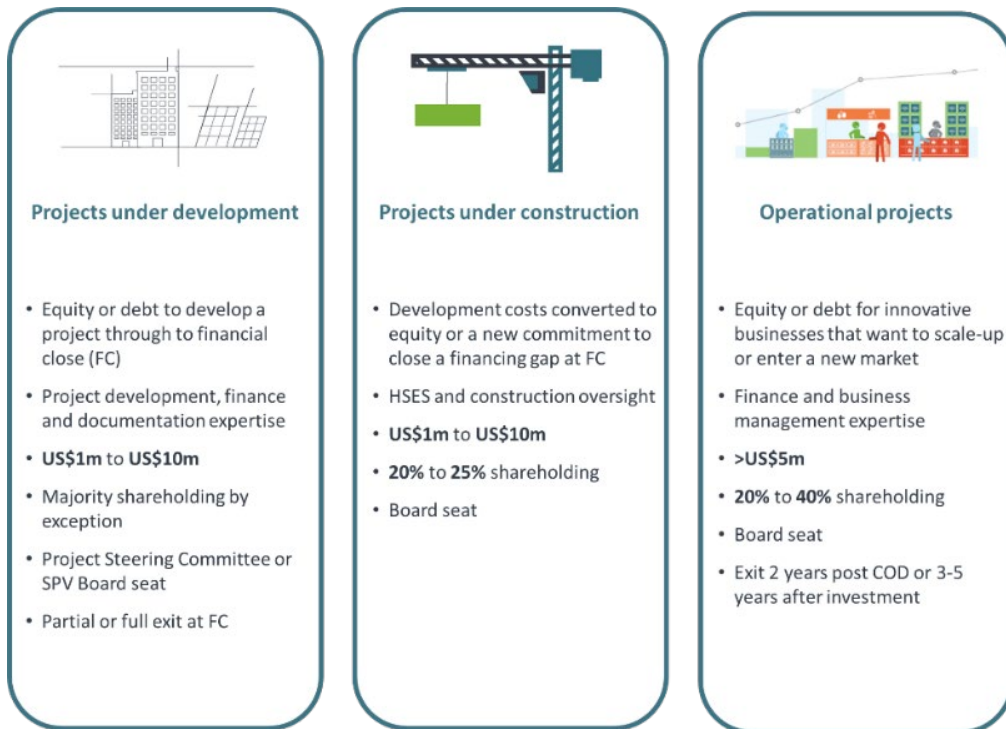
There is broad consensus around what the multiple challenges to unlock private finance for the climate and development agenda are. The specific challenges of investing in infrastructure in emerging markets and developing countries are well recognised; the combination of weak ecosystems, challenging policy and macro-economic environments, combined with additional perceived risks generate a chronic lack of bankable project pipeline, lack of investment in infrastructure by commercial and institutional domestic investors, and lack of the scale, diversification and aggregation needed to attract large flows of private finance in operational – de-risked – assets.

Yet currently, only a small proportion of ODA, or the catalytic capital available within DFIs, MDB or philanthropic institutions is deployed to support the mitigation of early stage development risk; and if private finance is to be mobilized at the scale required to meet the scale of the infrastructure gap in developing markets as well as to address the effects of climate change.

PIDG's success in de-risking projects in some of the most challenging jurisdictions is anchored on six key drivers: Distinct focus and track-record in infrastructure, exclusively in emerging markets and developing countries; Access to the appropriate type of capital to tackle high-risk project development, deployed mainly as equity through InfraCo and quasi equity or returnable grant through PIDG TA; Ability to deploy capital over the life cycle of an infrastructure project and across the capital structure by means of grants, equity, debt or guarantees, including those denominated in local currencies; Use of blended finance tools that have proven successful in de-risking and mobilising private sector at scale, both in PIDG itself and at project level; Experience in mobilising domestic investors and building local capacity, including through locally based credit enhancement facilities in Nigeria and Pakistan, with more planned; Well-developed climate approach with focus on Paris aligned deals, climate mitigation and increasing climate risk and resilience.

Track record & instrument mechanics

PIDG addresses a gap in the international development architecture, which is critical to the achievement of the UN SDGs, delivering pioneering infrastructure through three business lines that deploy a unique set of capabilities. The development arms (InfraCo Africa and InfraCo Asia) both co-develop and invest risk capital in the form of equity, or debt with the intention of de-risking projects during the crucial development stage, thereby creating a pipeline of bankable and sustainable investments and to mobilize capital from others at scale.



Successfully developing infrastructure requires risk capital, patience, and expertise. PIDG's development arms are unique in providing all three.

PIDG development arm has been investing equity at the Financial Close of its projects for several years, to close a financing gap or give confidence to new funders entering at the construction phase. It also means we can ensure that our projects are built and operated as intended: keeping the promises made to partners, local communities, and other stakeholders. We can also invest into innovative infrastructure-related businesses that need support to scale-up, pilot products or enter new markets and so ultimately demonstrate the commercial viability of planned growth.

Successful exits: developing markets to attract private investors

Building the markets for private investment in renewables in Pakistan and Vietnam

Market transformation pathway

- Attracting private investors where they did not previously go is a key signal of building markets
- InfraCo provide early stage high risk project development capital which is vital to create a sizeable pipeline of bankable projects for investment by the private sector, unlocking future flows of private investment and ultimately transforming markets
- Successful exits to private investors is the ultimate test of the viability of the investment and the sign of a market that is starting to function.
- Here we highlight two examples from InfraCoAsia in Pakistan and Vietnam.
- It is significant that a few years after these investment PIDG evolved its role in the two countries.
- In Pakistan PIDG established Zamin Pakistan—a local credit enhancement guaranteee. In Vietnam work is advanced to launch the first commercially issued local currency certified green bond.

Gul Ahmed and Metro Wind Power, Pakistan

- InfraCoAsia achieved its first exit from a utility scale renewable energy project in 2017, selling its stakes in the Gul Ahmed and Metro Wind Power projects to private sector company Daelim Energy.
- InfraCoAsia supported Pakistan's Government's attempt to harness the country's largely untapped wind power resource by bringing to financial close and construction two significant projects that together contribute 100MW renewable energy generation capacity and benefit approximately 700,000 people with improved access to electricity.
- Having worked to support the development of the two ground breaking projects through to operation, InfraCoAsia exited in favour of the private sector, recycling public funds into the early stage development of new infrastructure. Gul Ahmed and Metro Wind Baelim Energy's first projects in Pakistan, bringing key energy and infrastructure expertise to the country.

Coc San Hydro Power, Vietnam

- InfraCoAsia was approached to develop the 29.7MW project when it ran into difficulties in 2011, investing US\$7.5m at the development stage.
- As the majority stakeholder, InfraCoAsia worked with the project's Vietnamese and international backers to ensure that it met stringent environmental standards and was structured to attract further private sector capital to achieve financial close. Coc San began delivering clean and affordable power to the people of Lao Cai province in 2016, under the direction of Nhu Quỳnh Trà—one of the first women to take a lead role in Vietnam's renewable energy sector.
- In November 2018 InfraCoAsia divested its share in the project to Tokyo Electric Power Company Holdings, Inc (TEPCO), making its first hydropower investment outside Japan.

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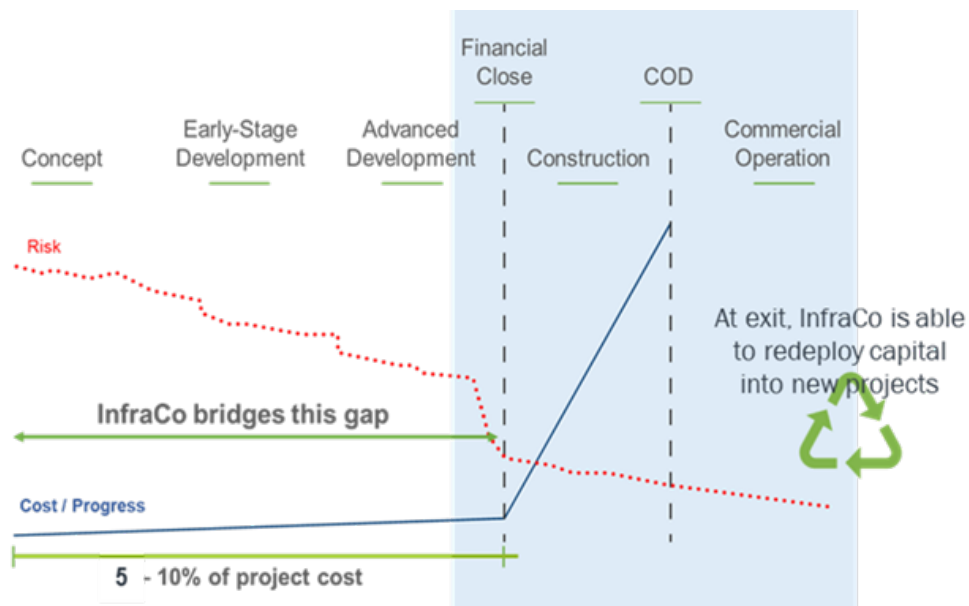
The Private Infrastructure Development Group

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Through our investment team, we support those businesses that enable Africa's and Asia's economies to emerge from the COVID-19 crisis in a stronger position. With a focus on developing local capital markets, generating more local jobs, broadening, and deepening local supply chains and capabilities, whilst always championing green growth that supports climate resilience and drives down carbon emissions. Safeguarding workforces, customers, suppliers, and partners is also a critical consideration when selecting investments: we will prioritise investments that seek to engage and empower women and those with disabilities.

Future development plans



Achieving the scale and pace required entails matching risk and cost of capital for the distinct phases of infrastructure development of early-stage project design, development, construction, and operation.

Risks are generally higher at the earlier stage of projects, although the development stage capital is a relatively small proportion of total project costs (usually between 5% and 10% for limited recourse transactions). Given this combination, re-focusing scarce patient catalytic capital and blended finance solutions towards the development stage and associated equity investments can unlock a greater pipeline of bankable projects and large sums of private capital at later stages.

As we launch the new PIDG strategy in June (covering the period 2023-2030), we aim to grow our deployment of capital by doubling our yearly commitments by 2030 (from the 2022 basis). We will introduce more defined Group investment approaches for selected countries, while still responding to market evolution across the regions in our mandate. This will result in combinations of impact objectives, sectors, geography and PIDG solutions / products that will help us prioritise our origination efforts, and coordinate government and market engagement. We will keep these under review so we can stay flexible as the market evolves.

Technical Annex: Sustainability-Linked Sovereign Debt

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Concept Summary

Low-income countries are suffering from a triple crisis of unsustainable debt burdens, escalating costs of climate change mitigation and adaptation, and adverse economic impacts of climate shocks and biodiversity loss. Countries increasingly cannot afford to address nature- and climate-related imperatives due to mounting debt service bills and reduced access to financing amid high market interest rates and constrained development funding. According to the World Bank, [almost 60% of low-income countries](#) are at high risk of or already in debt distress, with most of their external debt owed to private creditors. Of particular concern are the 58 countries of the Vulnerable Twenty (V20) whose economies and 1.5 billion people are especially exposed to climate change while facing [\\$435 billion in debt payments by 2028](#).

Sustainability-linked sovereign debt (SLSD) is a performance-based financial instrument that commits its issuer to achieving certain predefined and forward-looking sustainability targets. Unlike labelled use-of-proceed (UoP) debt instruments (e.g., green, social or blue bonds), SLSD is not project-based, and the issuance proceeds can be used for general budgetary purposes, meaning they need not necessarily be directed towards specific projects. Sustainability performance targets (SPTs) set out the overarching goals that the issuer seeks to achieve, which may already be specified in existing climate or nature conservation policies, or pledges such as the Paris Agreement's Nationally Determined Contributions (NDCs). The targets should be ambitious and represent a material improvement in sustainability performance beyond "business as usual." Progress towards achieving these targets is assessed through select key performance indicators (KPIs), which are relevant, material, quantifiable, externally verifiable metrics that can be benchmarked reliably. Finally, measurement, reporting, and verification (MRV) comprise the data and processes whereby performance is tracked and validated by investors and third parties.

Sustainability-linked sovereign financing can help to address the triple crisis. Sustainability-linked bonds (SLBs) and debt-for-nature conversions/swaps (DNSs) enhance the credibility of countries' international commitments by embedding material financial incentives to achieve sustainability targets, along with key performance indicators to assess progress. They lower the cost of borrowing by mitigating long-term sources of sovereign default risk and by appealing to the growing base of ESG-oriented (environmental, social, governance) investors.

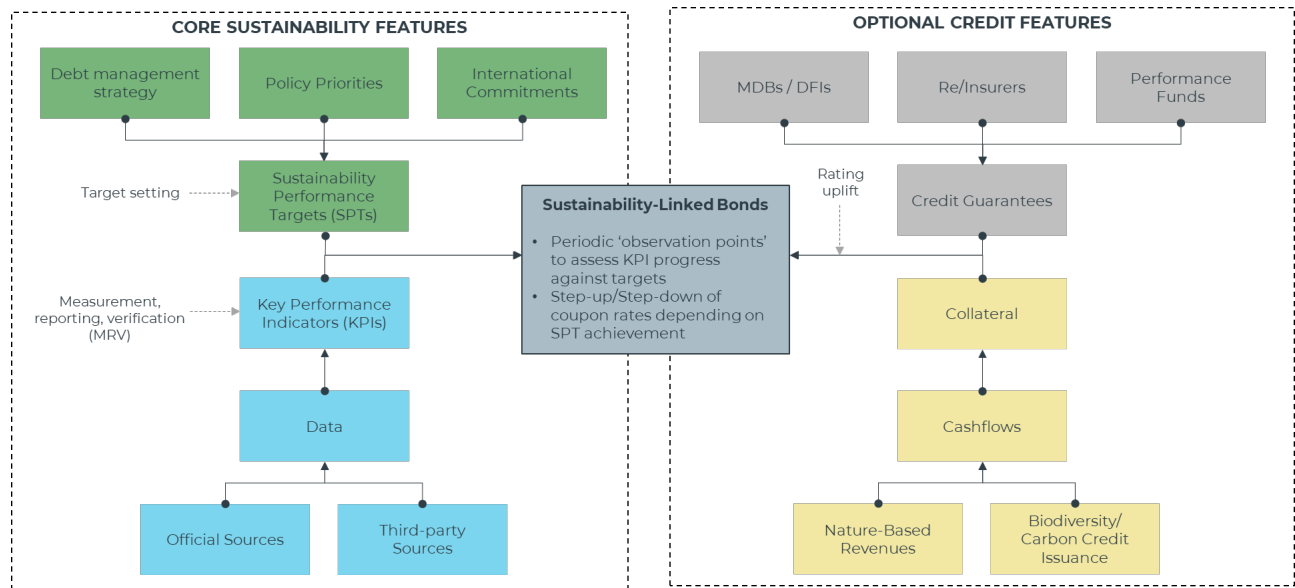
Track Record to Date

The SLSD market is still in its infancy. The inaugural SLB was issued by Chile in March 2022 with a US\$2 billion 20-year offering, followed shortly thereafter by Uruguay in October 2022 with a US\$1.5 billion SLB maturing in 2034. DNS transactions date back to the 1980s, but regained prominence in 2018 with the US\$15m Seychelles DNS, followed in 2021 by the US\$364m Belize DNS, and in 2022 by US\$150m Barbados refinancing operation. In May 2023, Ecuador announced US\$656m DNS that aims to channel at least US\$12m per annum into conservation of the Galapagos Islands.

From the starting point of a mere US\$3.5 billion at the end of 2022, the issuance of SLBs from emerging market and developing economy sovereigns has the potential to reach between US\$250 billion and US\$400 billion by 2030, according to [NatureFinance estimates](#). Coming off a low base, the volume of issuance has the potential to grow approximately 100-fold over this period, driven by an anticipated easing of the demand and supply constraints. Under a baseline scenario, every sovereign with market access presently can be expected to issue at least two bonds during the seven-year forecast horizon. This performance would mirror the trajectory of the sovereign ESG debt issuance more broadly, which grew from under US\$1 billion in 2016 to over US\$120 billion of green, social, sustainable, and sustainability-linked (GSSS) bonds five years later.

Instrument Mechanics

Sustainability-linked sovereign financing can take many forms, but certain core building blocks and add-ons are sketched out below.



Source: SSDH

Scaling pathways

There are at least seven critical pathways to scaling the SLSD market. Modestly scaled deals, including refinancing of the whole debt stock of smaller sovereigns, have been effective in delivering proof of concept and policy engagement. Developing a self-sustaining market for SLSD instruments requires unblocking supply- and demand-side constraints, in particular:

1. **Credit enhancement** stimulates demand for SLSD, and by extension, lowers the borrowing costs of SLSD by de-risking transactions and crowding in private investors to multiply the impact of public funds.
2. **Climate/nature/disaster risk finance** initiatives can incorporate SLSD in their arrangements to strengthen the credibility of commitments and crowd-in private finance.
3. **Standardization** creates a common denominator for market participants to measure and evaluate performance, promote best practices and build trust between the contractual parties.
4. **Capacity building** covers the variety of efforts to make up for shortfall in technical and human capacity needed to structure and launch SLSDs on the issuer side, as well as campaigns to raise awareness and address misconceptions on the investor side.
5. **Enabling regulation and market development** encompasses rules set by financial and monetary authorities that can hinder or support market uptake and liquidity, as well as direct policy interventions to stimulate demand for SLSD instruments.
6. **Fiscal rules and frameworks** can encourage (or hinder) the adoption of SLSD instruments by sovereigns, and so impact the extent to which these instruments can be accommodated within longer-term budget plans and public financial management strategies.
7. **Nature market linkages** both expand the range of KPIs and SPTs available for SLSDs, and connect nature-based revenues that can support performance in pursuit of nature-related goals.



TCX Squared – Creating Currency Risk Markets to Mitigate Currency Risk at Scale

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Unhedged currency risk undermines any serious efforts to deliver SDGs and tackle climate change.

Most low and lower middle-income countries lack deep pools of domestic savings that can help finance the levels of investment spending needed for them to meet the sustainable development goals, mitigate emissions to limit global warming, and adapt to be resilient to the rising risks from climate change. Meeting these goals will require very large amounts of external funding. Without serious institutional reform, and with most external lending to these economies denominated in hard currencies, additional external debt inflows will likely triple the unhedged currency risks borne by these economies from \$2 trillion to \$6 trillion by 2030¹.

This unhedged currency exposure increases economic uncertainty, raises risk premiums for credit and investment, and has been [the most frequent trigger](#) for past and ongoing debt crises faced by developing economies. Unless proactively addressed by hedging at scale and other risk mitigating measures, this currency risk overhang will undermine any serious efforts to deliver the SDGs or climate mitigation and adaptation goals.

The unbearable level of currency risk is the results directly from policy and market failures.

[More than 80% of lending to these economies from MDBs and DFIs is dollar denominated](#). This shifts the exposure to and responsibility for managing currency risk away from sophisticated treasuries of international institutions on to capacity constrained DMOs and central banks of poor economies which also cannot rely on the benefits of diversification that characterize most MDB and DFI portfolios. This practice defies the logic and spirit of the [responsible lending principles](#) that DFIs & MDBs have repeatedly committed to.

The FX market is the largest market in the world registering a daily turnover of \$6.6 trillion, but is very highly concentrated in dollars, euros and a handful of other currencies belonging to rich developed economies. Over 100 low-income economies together [account for less than 0.2% of all currency trading](#), offering little prospect for hedging. It is possible to get a price for a 10-year hedge only for eleven

¹ Authors' calculations based on part of the SDG funding gap being plugged, but mostly in hard currencies

developing economies, all of which are large, and none a low-income country. At a 3-year duration, the private market exists for around 20 developing economies.

The [Bridgetown initiative](#) has showcased that development and climate goals will fall short of the necessary financing if the international community fails to tackle currency risk at scale. However, the problem of currency risk in the financing of low-income countries has been recognized years ago in academic circles under the colorful heading “original sin”. Low-income countries are penalized for not being able to borrow in their own currencies, something mostly only rich economies can do.

To address this, a group of development banks and financial institutions set up TCX in 2007 to allow these lenders to provide (synthetic) local currency loans and hedge the resulting currency risk where no commercial markets existed. Since then, TCX has been offering currency hedges in more than 100 low and lower middle-income countries having executed more than 6,000 hedging transactions worth more than \$11 billion.

In the process, TCX has also demonstrated that by offering transparent and risk sensitive pricing, warehousing, risk pooling, and term-transformation functions, it can catalyze the creation and deepening of currency risk markets by attracting private risk capital. This is significant, but not yet significant enough and needs to be scaled up at great speed, to address the trillions of dollars in additional currency risk that will accompany required growth of development and climate finance absent institutional reform.

A Package of Policy Reforms to Lift Currency Risk from the Shoulders of Low-Income Borrowers

The forthcoming [Summit for a New Global Financial Pact](#) should discuss and agree on a policy reform package which include a new mandate for MDBs and DFIs to provide local currency loans, a gradual shift of donor support away from lowering funding costs in foreign hard currency loans towards lowering the costs of local currency lending, a scaling up of currency hedging markets and scaling the role of TCX as effective and crisis-tested currency risk market creation instrument.

Mitigating currency risk is a prerequisite for both climate resiliency and scaling up finance. That is why in the ongoing [discussions on MDB reform](#), DFIs and MDBs as well as other public lenders should be asked to offer lending in local currency as the default option rather than the current practice of dollar lending, unless the lending is ringfenced for FX generating projects. Yes, this can result in a higher upfront interest burden for borrowers. But, these upfront costs will eventually be more than offset by positive effects on credit risk margins because of more stable cash flows on the micro level, improved risk transparency, better investment decisions, and the overall benefits of operating in a more stable macroeconomic environment with a lower frequency of debt distress and currency shocks.

Nevertheless, cash strapped borrowers in fragile economies may need donor financial support to defray the higher upfront costs of local currency borrowing. Blending support may prove catalytic for the private sector involvement necessary to deepen currency risk markets.

TCX Squared – a business model, governance, and track record to scale up massively.

Through centralization at TCX, currency risk in frontier and emerging markets is pooled, and benefits from scale effects in terms of diversification, market creation networks, and operations. TCX has performed robustly through tumultuous times that include the Global Financial Crisis, the taper tantrum, the Covid crisis and ongoing Fed tightening. It has generated modest profits while continuing to create and deepen currency risk markets, share knowledge, and build currency risk management capacity in an ever-expanding set of countries.²

TCX is perhaps best thought of as a remarkably successful pilot project that must now be scaled up. It has accumulated experience and expertise, earned credibility with donors, counterparties and rating agencies, and demonstrated a consistent track record driven by strong governance and a competent management. TCX is ready to scale, but organic growth alone through accumulated earnings, gradual addition of new shareholders, and new commitments from existing shareholders will not be able to plug the trillion-dollar hedging gap.

Scaling up TCX's capacity can happen gradually to accommodate growing hedging demand grows because of more responsible lending practices by DFIs and MDBs. To begin with, some US\$ 5 billion should be added in some combination of paid-in equity capital, convertible debt and callable capital. This would allow TCX to reach an interim 2025 target of about US\$60 billion in hedging capacity, an ambitious, but achievable 12-fold increase over the current \$5 billion. Over the medium-term, as demand for currency risk grows, additional capital will be needed. Donor support could also take the form of SDR allocations and / or access to IMF SDR liquidity. As the market reaches critical size and expands in scope, it will also attract institutional investors who should find it attractive to build sizeable, diversified portfolios. This crowding in of private risk capital may eventually enable a further increase in TCX leverage in creating & deepening currency risk markets, making a \$1 trillion market for hedging low-income and lower middle income countries' currencies achievable in the foreseeable future.

² Despite operating as a pioneer institution in risky frontier markets, TCX has been assigned a [solid A rating by S&P](#) and [A1 by Moody's](#) earning praise from both for its 1) strong governance, 2) arms-length valuation overseen by a pricing committee of independent emerging market experts, 3) prudent risk management, 4) high levels of transparency, 5) hedging offsets, 6) unique mandate, 7) strong liquidity 8) robust support from shareholders, and 9) consistent track record. It also has minimal overheads and very low operating costs.

Learn more at

[climatepolicyinitiative.org](https://www.climatepolicyinitiative.org)

<https://www.climatepolicyinitiative.org/publication/an-innovative-ifi-operating-model-for-the-21st-century/>

