

Impact investment perspectives and opportunities to support the social agenda

GSG input paper to the G20 Sustainable Finance Working Group (SFWG)

March 2023

Key messages



Public money and philanthropy alone will never be enough to bridge the \$4Tn+ annual financing gap needed to achieve the SDGs. We urgently need to scale private impact capital mobilization in support of a just transition to net zero that leaves no one behind.



Impact investment vehicles are called to play a key role in scaling funding to tackle social as well as environmental issues. It is a **fast growing market, yet to achieve its full potential.**



We see the greatest promise in mechanisms and **solutions that link financial returns to the achievement of pre-agreed sustainability outcomes**, aligning incentives in a virtuous manner, including outcomes-based commissioning in the public sector and sustainability-linked issuances in the bonds market, globally.



To achieve scale, with integrity and transparency, **adequate policy environments and incentives are essential, as well as** convergence towards globally accepted standards and frameworks for impact and **sustainability disclosure and reporting.** There are several precedents and ongoing efforts that must be amplified and supported.



The G20 is called to play a key role in scaling sustainable and impact finance in support of the SDGs and a just transition, including through leadership, international coordination and high level political support.



Background

The G20 Sustainable Finance Working Group (SFWG) *Presidency and Co-Chairs Note on Agenda Priorities* issued ahead of its first meeting (2-3 February 2023) highlighted impact investment (through which investors and businesses seek to intentionally deliver measurable, positive impacts alongside financial returns) as an “area that deserves more attention for this year’s SFWG work on non-climate SDGs”. The SFWG also acknowledged the criticality of (social) impact investment as an enabler of sustainable development as well as a means to help achieve the SDGs, given its “potential to support the financing of social sectors in countries where government’s fiscal capacity is often constrained”.

However, the group also pointed out that whilst there has been growing activity by institutional investors in OECD countries, impact investment “has not been widespread among investors based in developing countries”. Therefore, the SFWG manifested its intention to “focus on the financial instruments in use or development for social impact investments” as well as on “improvements needed in terms of impact measurement, disclosure and government incentives” - the latter understood as key enablers for scaling impact capital deployment, with integrity.

This brief input paper to the SFWG prepared by The Global Steering Group for Impact Investment (GSG) intends to discuss i) the latest impact investment figures and trends, ii) select impact finance vehicles that are proving most effective in addressing key social issue areas, including those directly related to SDGs 1 (No poverty), 3 (Health), 4 (Education), 5 (Gender Equality) and 10 (Reduced Inequalities), and iii) key policy levers and developments in the “impact transparency” and data space to help scale flows of private capital in support of the SDGs, globally.

A growing market - yet to achieve its full potential

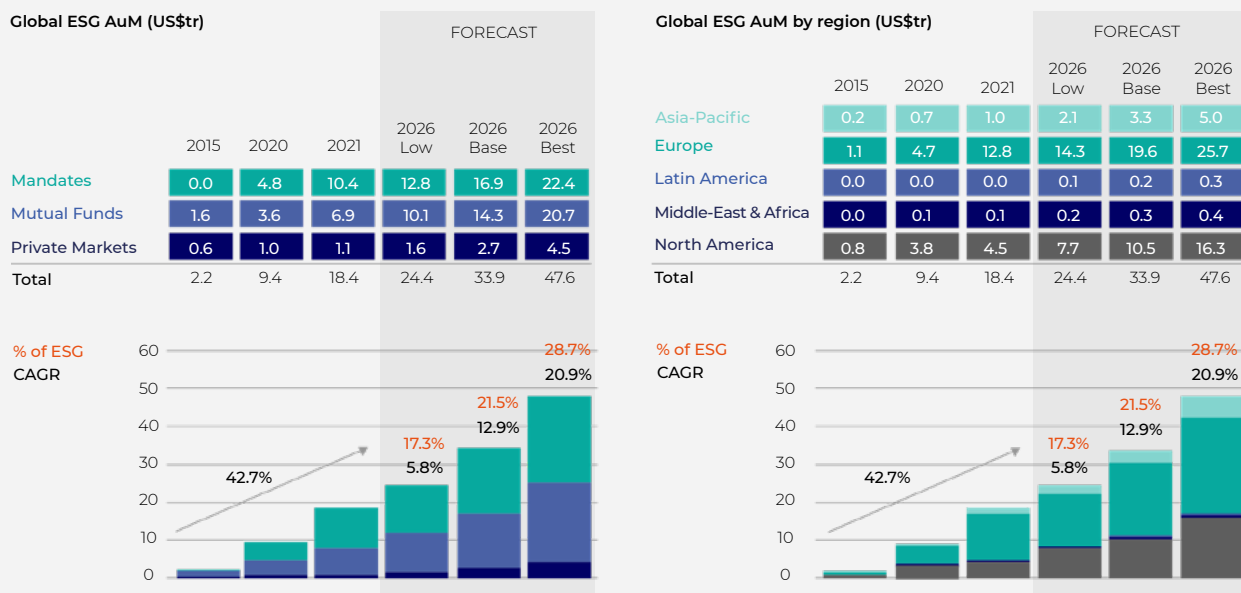
According to the latest global [market sizing survey](#) by the Global Impact Investing Network (GIIN), as of December 2021 almost 3,500 organizations managed \$1.16Tn in impact investing assets worldwide - notably surpassing the \$1Tn mark for the first time. This estimate (bounded by a strict definition of impact, based on intentionality, measurement and reporting) is likely to be the baseline of a growing impact market, which is however far from reaching its full potential. Whilst encouraging, impact assets under management (AUM) are only a fraction of total assets professionally managed globally, and roughly 3% of AUM bound by at least one ESG criterion - which in 2022 were estimated to surpass \$35Tn ([Bloomberg Intelligence](#)).

However, it is in the path from “Investment 1.0” (only seeking maximum financial return, optimizing for risk), to “ESG” (typically minimizing harm and/or targeting activities with a positive environmental, social or governance intent, though not measuring outcomes and impact), to “Impact” and “Impact 2.0” where the main challenge (and opportunity) lies - Figure 1.



According to [PwC](#), asset and wealth managers globally (which account for a large part but not all of the ESG investment market) are expected to increase their ESG-related AUM to US\$33.9tn by 2026, from US\$18.4tn in 2021 (see figure 2 below), as this asset class “is set to grow much faster than the AWM [asset and wealth management] market as a whole”.

FIGURE 2 AWM growth in ESG investments (PwC)



Source: PwC Global ESG and AWM Market Research Centre analysis, Lipper, Preqin, ESG Global

Hence we see the potential for impact investment not to grow incrementally, as it did over the past decade, but exponentially, as greater impact transparency requirements permeate ESG investing, shifting its focus from intention to actual measurement of impact results. This is essential to help bridge the ≈\$4Tn+ [annual financing gap](#) to achieve the SDGs in developing countries.

This potential will not be achieved without coordinated action from a wide range of stakeholders, policy and industry reform, and greater availability of standardized impact data. Nor it is guaranteed that (impact) capital will reach regions, sectors and issue areas where it is needed the most - in fact the right hand side of Figure 2 (above) shows that despite high expected global growth, only 1,4% of global ESG AUM are expected to be deployed in key regions for development and achieving the SDGs, including Latin America and MEA by 2026.



What works: demonstration and next frontiers to ignite scale

In the “impact path” described above, a subset of “Impact 2.0” instruments are proving the most effective at delivering social and environmental outcomes at scale, with integrity, by tying financial performance of investments to the effective achievement of pre-defined social, environmental and sustainability results. Convergence towards such mechanisms, from ESG and also from “Impact 1.0” (which “only” measures, manages and reports on impact, though not directly linking it to financial results) should be the guiding star for all investment activity, including from both private investors and the public sector.

Within the array of “Impact 2.0” finance vehicles lie a range of outcomes-based financing mechanisms, from performance-based loans to [alternative results-based public sector commissioning](#) schemes and sustainability-linked bonds, which are proving most effective to deliver greatest social, environmental and sustainability outcomes, at scale, with integrity and transparency, alongside financial returns.

Results-Based Financing (RBF) is defined as any program where the principal sets financial or other incentives for an agent to deliver predefined outputs or outcomes and rewards the achievement of these results upon verification. This is an evolution from traditional interventions that fund inputs (e.g. hours of training in a labor market development program), to focus on the achievement of measurable outcomes (e.g. job placements, retention and increased wages / income).

This type of approach seeks to help improve the effectiveness of delivery systems and specific interventions. Amongst other benefits, such vehicles can i) generate cost-savings by ensuring funds are (at least partly) only spent if results are achieved; ii) help attract private capital to fund social and environmental outcomes and therefore promote public-private partnerships; and iii) help promote stronger performance management, enabling constant improvement of programs. RBF has proven to work across a variety of social issues, including education, labor market development, gender equality and health.

TOWARDS OUTCOMES-BASED COMMISSIONING IN THE PUBLIC SECTOR

To truly embrace and deliver greater impact, governments worldwide should consider adopting contracting mechanisms which link payments directly to the achievement of outcomes with service users. From the relatively complex (but hugely impactful) Social Impact Bond (SIB) model introduced in 2010, to other forms of Performance-Based Transfers (PBT) and Performance-Based Contracts (PBC), RBF instruments involve a transfer of funds from a funder to a service provider, with payment entirely or partially based on performance. The widespread adoption of outcomes-based commissioning in the public sector should be underpinned by progress on sustainability disclosure and transparency in government reporting (see more in the following section).

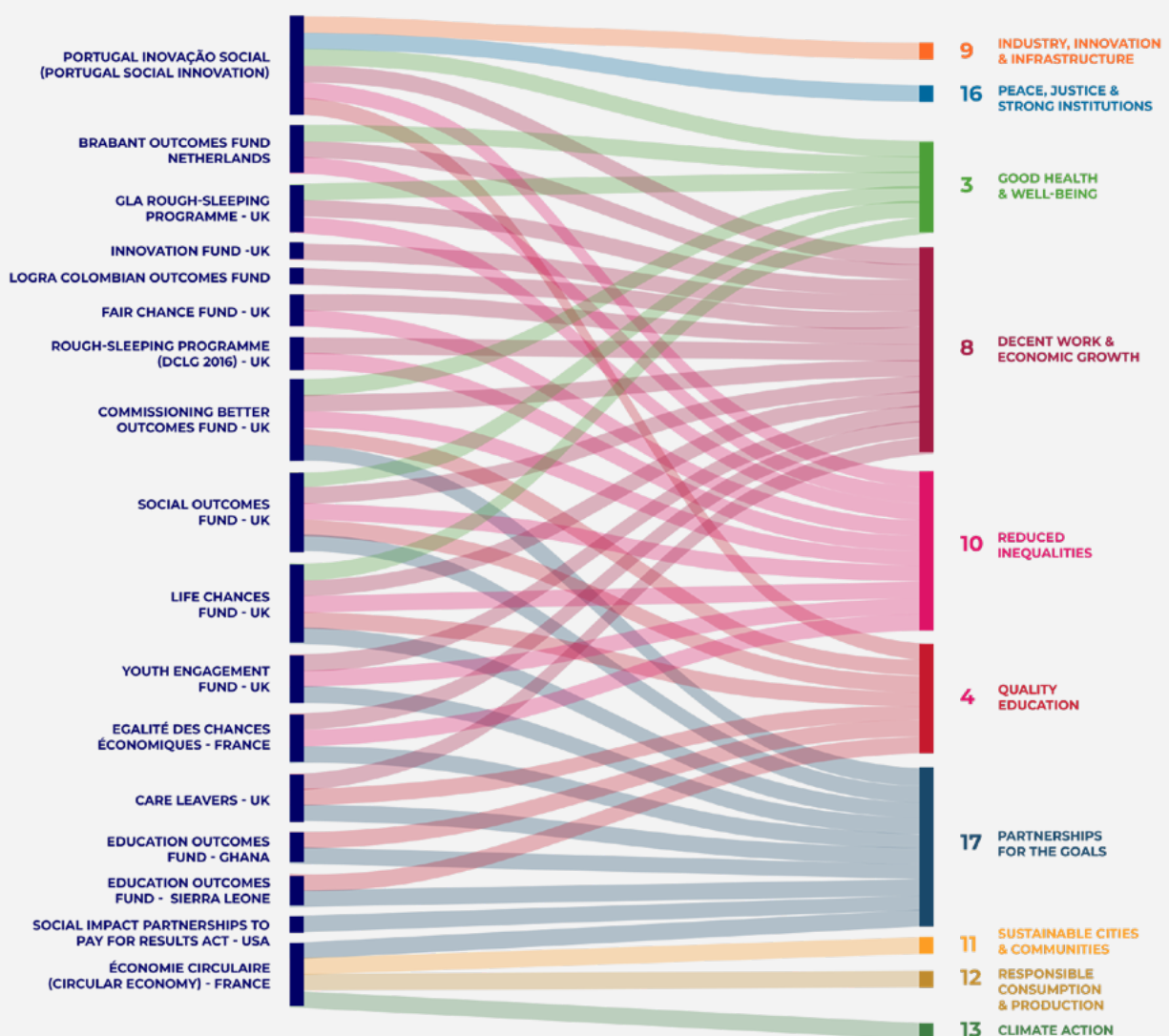
For instance, as part of the [Maternal and Child Health program](#) implemented since 2008 in Rwanda, a national scheme was established to support primary health centers through direct unrestricted payments, involving 166 facilities randomly assigned to two groups – one receiving RBF funding, another receiving traditional input funding. Outcomes measured included prenatal care visits and institutional deliveries, quality of prenatal care, and child preventive care visits and immunization. The incentive effect of the outcomes payments was isolated from the resource effect by increasing the control group's budgets in line with the average outcomes payments made to the treatment group. Facilities in the intervention group recorded a 23% increase in number of institutional deliveries, a 56% increase in preventative care visits by children younger than 23 months of age, and a 132% increase in preventative care visits by children between 24 and 59 months of age.

In the UK, a recent, comprehensive study commissioned by [Big Society Capital](#) evaluated the impact created by the UK social outcome contracts (SOC) market after 10 years of implementation of such deals, concluding that “outcomes from 72 SOCs generated £1.42bn of value, whilst corresponding payments from commissioners on those SOCs were £139m” - meaning that per every £1 that government spent, a further (and staggering) £10.20 was created in social, economic and fiscal value, including nearly £3 in direct savings to, or costs avoided by, government.

[Go Lab](#) notes one particularly relevant tool to boost outcome payments - Outcomes Funds (OFs), which pool funding to financially reward the successful delivery of social outcomes. As in other RBF schemes, the disbursement of funding is contingent on results. OFs typically intend to issue multiple separate outcomes-based contracts, either directly with service providers, and/or by co-funding outcomes in contracts issued by other commissioners. OFs are not investment funds, as there is no expectation of repayment. However, they are keen to enable and leverage (private) impact investment.

Between January 2011 and November 2021, [17 OFs](#) were launched worldwide - 9 of these were in the UK, with others in Europe, Asia, North and Latin America, and sub-Saharan Africa. These funds have varied significantly in terms of the amount of outcomes funding available: the smallest OF by value of announced outcomes funding is the Netherlands' Brabant Outcomes Fund (US\$1.15 million), while the largest is the UK's Life Chances Fund (US\$109.6 million). Additionally, OFs can be single- or multi-issue, and have focused mainly on SDGs 3 (Health), 4 (Education), 8 (Employment) and 10 (Inequality) - see Figure 3 below.

FIGURE 3 Outcomes Funds & targeted SDGs ([GoLab](#))



Source: GO Lab INDIGO outcomes fund dataset (November 2021)

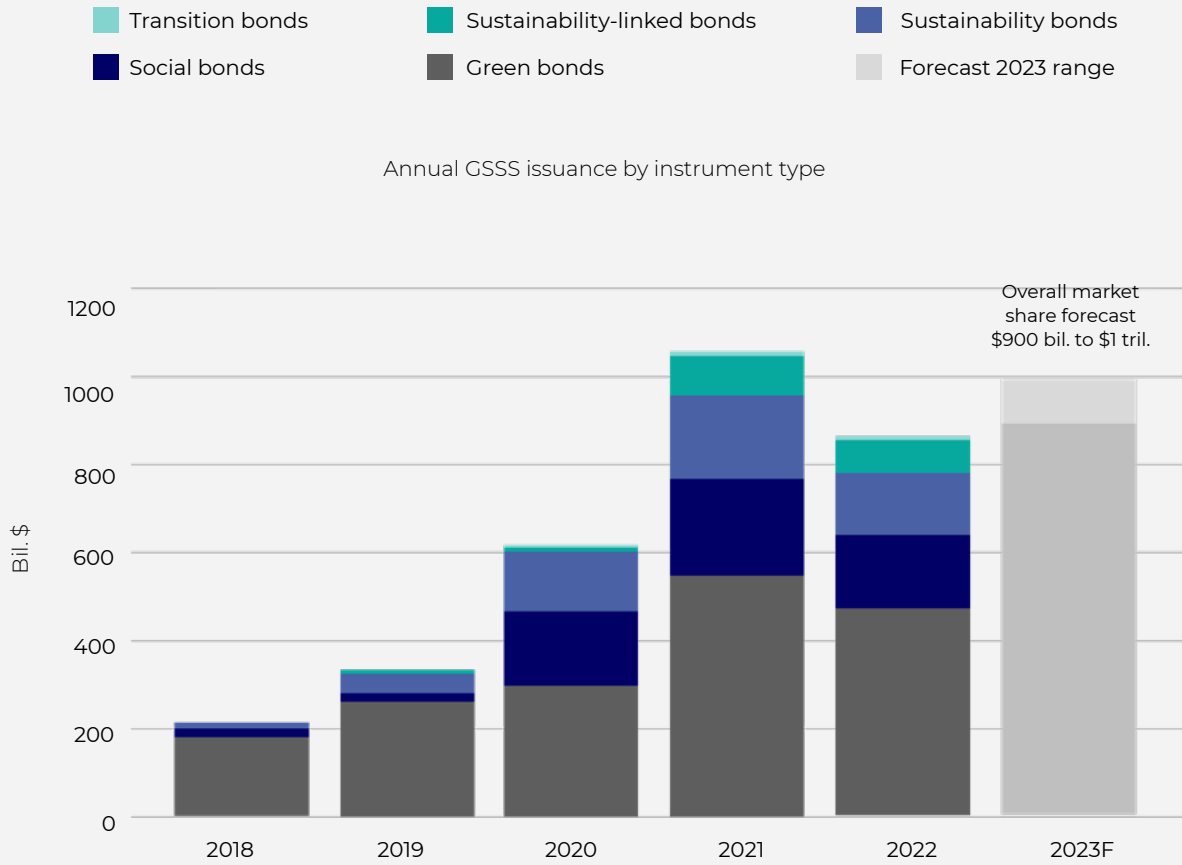
A powerful example of better outcome delivery in education is that of the [Education Outcomes Fund \(EOF\)](#). Founded in 2018 as an independent trust fund and financially and administratively hosted by UNICEF since 2020, the EOF brings together governments, donors and investors across the Middle East and Africa to pool resources and work towards improving outcomes in learning, skill development and employment, by tying funding to measurable results. EOF is directly helping to achieve SDG 4, strengthening education systems and transforming the lives of 10 million children and youth from underserved populations, while improving the effectiveness of education expenditure.

IMPACT IN THE GLOBAL BONDS MARKET

Over the past decade the global bond market has seen increasing participation of green, social, sustainable and, more recently, also sustainability-linked (GSSS) issuances, which surpassed \$1Tn in 2021, from just above \$200bn in 2018 (see Figure 4 below) and less than \$10bn in 2012 ([World Bank](#)).

Relating the bond market back to the approaches to sustainability and impact described in the “impact path” above we see that: i) “use of proceeds” green, social and sustainable issuances that pursue thematic intent but lack outcomes and impact measurement, management and reporting frameworks fall under ESG investment, ii) issuances that do measure and report on impact metrics belong to the family of “impact 1.0” instruments, and iii) sustainability-linked bond (SLB) issuances, in which financial performance is linked to / partly contingent on the achievement of pre-agreed impact metrics, present greatest potential for capital to be deployed with transparency, integrity and effectiveness. SLBs are a state-of-the-art “Impact 2.0” means of accelerating much impact capital mobilization in the global bonds market, either by private or public sector issuers, to help tackle pressing social and environmental issues. As discussed in further detail below, globally accepted sustainability and impact standards and reporting frameworks are key enablers to the evolution towards real impact in the bond market.

FIGURE 3 Growth in the Global GSSS bonds market ([S&P Global Ratings](#))



Note: Excludes structured finance issuance. f--S&P Global Ratings forecast. GSSSB-Green, social, sustainability, sustainability-linked bonds
Sources: Environmental Finance Bond Database, S&P Global Ratings.

Global GSSS bonds issuance was hit as adverse conditions affected the global markets in 2022. However, such purpose-driven issuances proved relatively more resilient than the broader market: by Q3 2022, issuances excluding GSSS bonds were down 27% YTD, while sustainable bonds were down by “just” 17% YTD ([Moody’s](#)). GSSS bonds are progressively broadening its share of the global bond market, growing from 4% in 2018 to an expected 14-16% in 2023 ([S&P Global Ratings forecast](#)). This trend is expected to consolidate and grow in the near future as demand for GSSS bonds continues to be strong, though not fully met by supply ([OECD](#)). This “mismatch” has resulted in a significant portion of the sustainable bonds issued being oversubscribed which, in turn, has resulted in a borrowing cost advantage for issuers - called “greenium” for those issuing green bonds ([Caramichael and Rapp](#); FED).

As per the breakdown by asset type shown in Figure 4, instruments targeting social issues (including education, poverty, health, inequality and gender) continue to lag behind with respect to sustainable bonds targeting climate objectives: in 2021, over 85% of SLBs were linked to environmental KPIs (S&P Global Ratings), and green bonds remained the leading category with more than 50% of the share of GSSS bonds (S&P Global Ratings). Strengthening social bonds issuances will therefore be key in the coming years to help tackle key SDGs, including in education and health, both areas severely affected by the covid pandemic.

Relevant precedents are encouraging: the California Health Facilities Financing Authority's 2019 social bond (one of the largest ever social bonds issued from a municipal issuer) raised a total of \$500m to fund the "No Place Like Home" program, whose aim was to finance permanent supportive housing for persons experiencing mental illness who are homeless or at risk of homelessness ([Raymond James](#)). Also in 2019, the Caisse Française de Financement Local (CAFFIL) issued a €1bn social bond whose proceeds were earmarked to be loaned to public hospitals in France ([Environmental Finance](#)). This was "the first covered bond fully dedicated to financing public healthcare in a groundbreaking deal that offered diversification to the social and covered bond markets, and set a benchmark for healthcare bonds" ([International Financing Review](#)).

Social and affordable housing has also been amongst the issues most widely addressed by thematic bonds, partly driven by growing interest of financial institutions, which also seek to foster a cross-cutting gender lens in this capital intensive area. [JPMorgan Chase](#)'s inaugural \$1bn social bond issued in 2021 allocated all its proceeds to finance the creation, rehabilitation or preservation of affordable housing projects across the US. Simultaneously, the co-managers for the bond offering consisted solely of Minority and Women-Owned Business Enterprise and Service-Disabled Veteran-Owned Business firms. In the same year, in the UK, [NatWest](#)'s €1bn affordable housing social bond targeted its proceeds to a pool of loans for not-for-profit, registered UK-based housing associations which undertake social rent, affordable rent, supported housing and shared property schemes. In Ecuador, the world's first sovereign social bond raised \$400m to boost the "Casa para Todos" (Housing for Everyone) program, which seeks to provide access to decent and affordable housing for more than 24,000 medium- or low-income families. The program aims to mobilize over \$1,3bn in further private investments in Ecuador's housing sector ([IDB](#)).

Finally, there have been a number of interesting issuances targeting several SDGs or social issues areas, including: i) the 2022 €1bn social bond from [CaixaBank](#) aimed at financing "activities and projects that contribute to combating poverty, promote education and welfare as well as economic and social development in the most disadvantaged areas of Spain", by using its proceeds to fund loans to families, self-employed workers and SMEs in the country, ii) Bancolombia's \$185 million sustainable bond, issued in 2019, the first of its kind by a private company in Colombia, aimed at financing green and social initiatives with the potential to contribute to up to 10 SDGs with projects addressing housing, sanita-

tion, sustainable construction, energy efficiency and clean manufacturing ([IDB Invest](#)), and iii) the [African Development Bank](#) \$58 and \$135 million bonds, issued in 2019, targeting projects in water supply, sanitation, healthcare, housing, financial development, information and communications technology, agriculture and food security, rural electrification and education in some of the poorest areas of Africa, and iv) the first Social Gender Bond in Mexico, issued by the Bank of México, raising MX\$3bn (roughly \$142m) pesos to provide financing for women entrepreneurs in the food sector and rural areas ([IDB](#)).



Key levers for scaling impact investment

The different financial instruments discussed in the previous sections of this paper, critical to help deliver the SDGs, need an enabling environment to be deployed at scale, sustainably, and with integrity.

In particular, the G20 Sustainable Finance Roadmap highlights that, for impact investment instruments to flourish and private capital to be mobilized at scale for impact (Focus Area 1), the availability of consistent, comparable and reliable decision-useful data (Focus Area 2), and the establishment of adequate policy incentives (Focus Area 4) is mission critical.

▲ Impact Transparency and Integrity

Today, market participants operate with incomplete information, as comparable, consistent data necessary to make informed investment decisions is simply not available. In the journey towards greater transparency, harmonized, global disclosure standards and better data are critically needed.

Transparency on the impact of practices and performance for businesses and investors, including voluntary and mandatory disclosures covering impacts throughout the value chain, will provide the data necessary to understand impact risks and opportunities and to track progress towards achieving the SDGs.

Impact disclosure is a central part of the broader impact measurement and management (IMM) practice, which is embedded at the very heart of impact investment. Notably, 96% of the world's top 250 companies published "sustainability reports" in 2022 ([KPMG](#)). However, more reporting will not necessarily lead to insight, comparability and action. **Harmonization** of accounting methods and reporting standards is therefore critical to produce comparable, consistent and reliable information on impact that will allow for private capital mobilization at scale in support of positive social and environmental change.

Leading global efforts such as the establishment of the [International Sustainability Standards Board \(ISSB\)](#) with the mandate of setting a “*comprehensive global baseline of sustainability-related disclosure standards*”, and the progress made by the [US Securities and Exchange Commission \(SEC\)](#) and the [European Financial Reporting Advisory Group \(EFRAG\)](#) to advance the impact transparency agenda in the USA and the EU, respectively, must be recognized and supported as foundational steps in the right direction.

Going further, to drive the necessary shift in investment markets towards “impact 2.0”, a full integration of financial and sustainability disclosures should be seen as the destination, in which companies and investors are mandated to account for their impact on all stakeholders, including customers, suppliers, employees, local communities and the environment, even if those impacts do not visibly affect enterprise value. To facilitate this integration, the International Foundation for Valuing Impacts (IFVI), a spinoff from the Impact-Weighted Accounts (IWA) project at Harvard Business School, is making substantive progress in setting globally-relevant valuation coefficients to measure social impacts in monetary terms. These developments will be crucial to enable comparability of financial and sustainability-related information, which is in turn essential to guide investment decisions under a sustainable finance lens.

Moreover, greater impact transparency and integrity can also help to catalyze impact investment by shedding light on the perceived risks and barriers for investing in certain areas, specially in emerging markets. On a positive note, in recent years, access to, and dissemination of, reliable, consistent data is improving, with more and more private capital seeking positive impact flowing to markets building on the successful implementation of the marketed strategy, data and performance of earlier funds. In this regard, beyond efforts from standard setters, regulators, governments and academia, MDBs and DFIs have a significant role to play. As key actors with relevant, market-specific track-record, MDBs and DFIs are uniquely placed to provide transparent information and data, with appropriate analysis and context, to allow others, including private investors and rating agencies, to assess the risks and level of opportunity of relevant investments in emerging markets. For this to happen, these institutions will need to be enabled by their shareholders to, for example, grant open access to [GEMs](#)³ database to non-member institutions.

Regarding transparency and sustainability reporting in public sector accounting, efforts by the International Public Sector Accounting Standards Board (IPSASB), which [recently announced an initiative](#) to commence “the scoping of three potential public sector specific sustainability reporting projects

³ The Global Emerging Markets (GEMs) Risk Database Consortium, established in 2009, is one of the world's largest credit risk databases for emerging markets. It pools (anonymised) data on credit defaults, recovery rates and credit ratings on its members' loans. Its member institutions are 24 MDBs and DFIs.

pending securing the resources needed to begin guidance development”, must be acknowledged. This promising initiative can be a crucial step to enhance impact transparency and accountability in government activities, following decades of a status quo in which the public sector only disclosed information on expenditure by policy area (say, millions of dollars spent in education or health, expressed in absolute terms and as a percentage of GDP), but rarely measured and reported the actual impact of such expenditures (e.g. improvement in education attainment and school drop-out rates, improvements in specific health outcomes as a result of investment in prevention). Progress in this direction is key to enhance governments’ accountability for the long-term impacts of their intervention as well as to enable better-informed decision-making and continued policy improvement.

▲ Impact Policy Tools

Recognizing that public budgets alone will never be enough to address the most pressing social and environmental issues of our time, and understanding the role of private capital in helping drive solutions at scale, governments are called to build multi-actor and multi-sectoral partnerships to foster “impact economies” worldwide, enabling the acceleration of investment flows where it can have the most positive impact.

Positively, a growing number of governments have taken steps to catalyze impact investment through direct action, by actively participating in the impact finance market (i.e., through public investment or outcomes-based commissioning of services); by establishing organizations, initiatives and systems that enable and educate on impact (acting as market builders or facilitators); and/or by passing regulation and legislation that creates a conducive environment for impact investment.

As investors, different governments have established impact **wholesale funds** (also known as “funds of funds”) to provide catalytic financing to funds, other intermediaries and social enterprises, whilst seeking to leverage additional capital. Impact capital wholesalers build confidence in the market and intermediary capacity, engage key stakeholders, and provide a center for sharing data and knowledge. In the UK, [Big Society Capital](#) (the first domestic impact wholesaler to be established globally) has committed £865m, and £2.8bn with co-investors, since its inception in 2012. In Japan, [a wholesale fund](#) was established based on a law (2016) which allowed the national government to use the funds in dormant bank accounts to support non-profit organizations and social enterprises. This move funneled approximately \$500M annually to invest for impact. Finally, [Portugal Social Innovation](#) that capitalized 125 million EUR (70 million EUR for grants and 55 million EUR to invest), 85% from European Structural and Investment Funds and 15% from the Portuguese government, manages a series of financing instruments to support the development of social innovation projects, including a wholesale fund with debt and equity financing vehicles.

As mentioned before, the increasing adoption of **outcomes-based commissioning** by governments is the single greatest step that governments can take to embrace and drive impact, by evolving from input- and activity-based expenditure and strategies to incentivizing the achievement of outcomes. Also, there is increasing acknowledgement of the importance of incorporating **impact drivers into public procurement** (typically guided by standard parameters of price, quality and other procurement conditions, not impact created). With government purchases accounting for, on average, between 12% and 20% of GDP globally ([OECD](#); [World Bank](#)), the potential to drive impact across value chains through public procurement must not be underestimated. Emerging examples of national regulation incorporating sustainable public procurement considerations can act as powerful precedents to scale the adoption of these practices across jurisdictions ([UNEP](#)).

Access to impact capital can be further supported by the public sector, including by funding programs to boost impactful businesses either specifically (e.g. impact funds) or indirectly (e.g. via dedicated funds for high-impact industry sectors or SMEs). For example, in South Africa, the national government established funds whose capital is invested exclusively for impact: one is the [Jobs Fund](#), set up in 2011 with ca. \$1.3bn, which co-finances projects alongside private, public and non-governmental organizations that contribute directly to enhanced employment creation.

When acting as market builders, some governments have opted to establish dedicated **central government units** to support the development of the impact ecosystem and to mainstream impact policy tools across government agencies. For example in Brazil, the federal government issued a **national strategy** in 2018 to align all efforts related to advancing impact investment in the public and private sectors at both national and/or local levels. Led by and hosted at the Ministry of Industry, Foreign Trade & Services Brazil's national impact strategy [ENIMPACTO](#), lays out a 10-year impact investment plan and has over 25 organizations signed up to commit to achieving its targets. Additionally, by implementing **educational and capacity building programs**, governments have attracted new players to the market and increased the overall awareness on impact investment among public officials and financial actors. Technical assistance and capacity building, including through incubation and acceleration programs, help impact businesses to grow and contribute to creating a pipeline of investable opportunities for capital looking for impact.

Finally, governments can also promote impact investment by issuing specific **regulation and legislation**. As per the transparency discussion above, government adoption and mandating of **non-financial reporting standards** will be a most impactful step in the path to impact. Moreover, specific regulations on legal form of companies such as those introduced by or under discussion in Colombia, Israel, Peru and 16 EU member countries allow for the establishment of “profit-with-purpose”, **impact businesses** that break the dichotomy between traditional non-profit and profit-only companies, allowing the public sector and the wider market to identify and support these businesses specifically. In this regard, the Government of India has created the [Social Venture Fund](#), a legal structure for ven-

ture funds that invest in impact businesses, within the Alternative Investment Funds regulations by the Securities and Exchange Board of India (SEBI). These funds are dedicated to pool capital to invest in a pre-decided social impact policy. Finally, governments in mature impact investment markets (eg. UK, USA, EU, Australia) as well as in developing markets (eg. South Korea, South Africa, among others) are increasingly addressing the issue of fiduciary duty reform to allow for mainstream investment to flow towards impact, by creating enabling legal conditions for asset managers to include impact considerations in their investment decisions. Responsible, sustainable or impact investing approaches are often wrongly perceived to be incompatible with the **fiduciary duty** of, for example, pension fund trustees to act in the best interest of their scheme members. This interpretation has been increasingly questioned, however, as it may leave pension funds exposed to risk over the long term and prevent them from capitalizing on the opportunities offered by responsible, sustainable and impact investments. Ensuring that national definitions and legal frameworks on fiduciary duty are not a barrier but, in turn, encourage investors to consider the impact of investments on society and the environment has the potential to unlock over \$ 60 trillion of pension assets globally ([OECD](#)).



The envisioned role of the G20

This input paper portrayed the current state and trends in the growing global impact investment market in support of the SDGs and a just transition to net zero, discussing key levers for scale and offering an overview of illustrative case studies and best practice, globally.

Both the public and private sectors are called to increase cooperation efforts, joining forces to adapt and align policies, regulations and incentives, creating powerful, virtuous synergies to catalyze and scale capital mobilization to sustainability-aligned investments.

To amplify ongoing momentum, coordinated and committed action is needed to channel mainstream and ESG investments towards impact, as per the aspirational “impact path” we introduced in this note. The G20, as the leading forum for international economic cooperation, has a crucial role to play in supporting a much needed paradigm shift in the world of investment and finance, crucial to leverage private capital at scale to bridge the \$4Tn+ annual SDG funding gap.

We identify the following opportunities for action that the G20 can take to foster collective progress in the path to impact. These actions, relevant to and aligned with the G20 Sustainable Finance Roadmap, could be further explored and developed through the SFWG over the next G20 presidencies.

OPPORTUNITIES FOR ACTION

Leadership and agenda setting: G20 can call governments, international organizations and private sector leaders to align efforts and build partnerships to mobilize capital at scale for impact. In emerging markets, where investment needs are higher but financial and political risks and contexts are typically perceived as suboptimal to attract private investment, the funding gap is already particularly large and is expected to grow in the coming years. Efforts should focus on attracting new sources of impact capital to invest in communities whose livelihoods are threatened by the transition to Net Zero (e.g. focusing on countries and regions with large carbon footprints and where there already is active international support for the transition), as well as in communities whose livelihoods are threatened by physical and other impacts of climate change (most notably in lower-income countries with a relatively low carbon footprint).

Technical Assistance and Capacity Building: In emerging markets, impact investment is still in its infancy. For it to scale with integrity, governments, businesses and investors will need to become familiar with best-in-class financing practices and instruments, adapting them to local contexts and realities. The G20 can add value by calling international organizations and donor agencies to enhance and align their capacity building and technical assistance programs on sustainable finance, specially in the Global South, going beyond rhetoric and intention to embrace an ecosystem-specific and much needed action-driven approach. Additionally, an agreed classification and harmonized disclosures of relevant technical assistance and capacity building programs could contribute to the alignment, coordination and increased efficiency of such efforts.

RELEVANT FOCUS AREA & ACTION (G20 SF Roadmap)

FOCUS AREA 1 ACTION 5

FOCUS AREA 5 ACTION 19

Knowledge Sharing and Collaboration: The G20 can contribute to increased awareness, among government officials and IFIs, on the potential of impact investment to help address specific social issues. Having senior champions in governments and donor organizations is key to promoting the adoption of impact investment instruments, particularly results- and outcomes-based financing mechanisms in government commissioning.

**FOCUS AREA 4
ACTION 15 & 16**

Political Support: Global efforts to advance the impact transparency agenda should be supported by governments and international organizations alike. The voice and insights of emerging markets and SME stakeholders should be appropriately represented to ensure globally relevant and applicable sustainability reporting standards. This should not be limited to private-sector aimed efforts (ISSB, SEC, EFRAG) but also, importantly, to initiatives aimed at improving government sustainability reporting, transparency and accountability (IPSASB).

**FOCUS AREA 2
ACTION 6 & 9**

International Coordination: the G20 is well placed to encourage ongoing work to increase the interoperability and consistency among Impact Measurement and Management (IMM) frameworks, including the work of the [Impact Management Platform](#). This will provide investors with relevant, comparable and reliable data to allocate their investments to where they can have the most impact.

**FOCUS AREA 2
ACTION 8**

International Coordination (2): Develop a series of guiding principles for greater alignment in the development of frameworks for sustainability-linked bonds issuance (SLB). SLBs constitute one of the most promising impact investment instruments to leverage private capital at scale for public good.

**FOCUS AREA 5
ACTION 18**