Impact Taskforce highlights the urgent need for Development Finance Institutions to mobilise more private sector capital in low income countries

- The global ESG market grew by 15% in 2022 to $35 trillion with over $1 trillion intentionally invested for positive impact
- Private finance flows into Emerging Markets and Developing Economies (EMDEs), however, has decreased by 22%
- Only 10% of all private sector capital mobilised by Development Finance Institutions (DFIs) in 2021 reached low income countries
- The annual funding gap for achieving the Sustainable Development Goals (SDGs) and climate goals in EMDEs has increased to at least $4 trillion
- Significant progress towards impact transparency, including the formation of the International Sustainability Standards Board (ISSB), chaired by Impact Taskforce member Emmanuel Faber, and the release of their first two standards. The welcome creation of the Taskforce for Inequality and Social Related Finance Disclosure builds on the momentum of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD).
- From insight to action - the Impact Taskforce is working with the Global Steering Group for Impact Investment and partners to develop and support the G7 Impact Investment Initiative in Global Health (Triple I), the Just Transition Finance Challenge and the International Foundation for the Valuation of Impacts.

LONDON, 7 December, 2023. The Impact Taskforce (ITF), the independent, industry-led taskforce supported by the UK G7 Presidency, today releases *State of Play 2023*. The update assesses the progress made since the Taskforce made its first recommendations in the 2021 flagship report *Time to Deliver*.

In the update, the ITF argues for greater impact transparency and a transformation in the supply of opportunities to invest for impact. There are a series of practical recommendations on how Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) can be empowered to maximise their potential to mobilise private investment for impact in emerging economies. This includes the creation of new regional pools of catalytic capital.

"The urgency of the situation means that 2024 has to be a pivotal year for change in the way that investment flows. Public investment matters but it will never be enough. We need a concerted effort to make it easier and more compelling for private investors to narrow the unacceptable SDG funding gap. Impact transparency is important and tracking in the right direction, but needs to move faster. Much more needs to be done to help institutional investors get comfortable with the opportunity to combine acceptable risk-adjusted return with positive impact in sub-investment grade countries. We set out a change agenda that will help DFIs and MDBs be more effective in their critical near-term role." **says Right Hon. Nick Hurd, former UK Government Minister and the Chair of the Impact Taskforce (ITF) and The Global Steering Group for Impact Investment (GSG)**

Core findings and recommendations include:

- Achieving the SDG and climate goals is increasingly at risk. 2024 has to be a pivotal year in finding more effective ways to mobilise private capital for positive impact. The $4 trillion annual SDG funding gap in emerging economies is a small percentage of the estimated $98 trillion of global institutional capital under management. The G7 and G20 should lead efforts to align public and private stakeholders behind a visible, common framework for private capital mobilisation. As a starting point the Paris Summit Roadmap, the G20 Sustainable Finance Roadmap, and other emerging similar efforts need to be more closely aligned.

- Companies and investors accounting for their impact needs to be a clear destination. There has been significant progress since 2021 on impact transparency, and the creation of the global sustainability reporting baseline. Over 150 sustainability disclosure measures are now in place across 35 countries. There now needs to be a collective effort to maximise the interoperability of standards, improve the balance between climate-related and social impact reporting, and include stakeholders from emerging economies in the standard-setting processes.

- Impact valuation and accounting have advanced rapidly, with the Impact Taskforce supporting the creation of the International Foundation for Valuing Impacts (IFVI). Evidence from the Harvard Business School's Impact Weighted Accounts Initiative (IWAI) suggests growing adoption of impact accounting across 18 sectors and 22 countries. There needs to be continued support for the development of methodologies that will enable mainstream impact valuation and accounting.

- Private capital is flowing out of, instead of into, emerging economies. It is time for urgent, short-term focus on realising the potential of DFIs and Multilateral Development Banks (MDBs) to mobilise private capital. Shareholders need to clarify DFIs' and MDBs' mandates in a transparent way. There is a strong case for reallocating budgets to create new regional pools of catalytic capital, which can help adjust risk profiles for institutional investors, especially in sub-investment grade markets. Also:

    - The publication of the GEMs database, which contains historic data of DFI deals, should be accelerated.
    - Greater priority should be given to national and regional players in emerging economies, such as pension schemes, who have deep local knowledge and for whom foreign exchange is less of a barrier.
    - There needs to be an improved shared understanding of what works in areas such as concessional capital, affordable finance for smaller companies and pipeline development.
    - The current fragmented approach needs coordination to scale what works and discontinue what does not.

- Next Frontier: There is compelling evidence for the value of scaling-up outcome partnerships. These partnerships bring together impact investors and institutions that finance social impact projects. By paying for specific outcomes, not activities, private capital can be mobilised to achieve better social, climate-related, and environmental outcomes. The latest evidence from the UK shows that outcome-based contracting has been successful in delivering over a 10x return on public investment. There is also now an evidence base that the models can be adapted successfully for emerging economies.

"It is clear from our experience in Nigeria and other African markets that-more catalytic capital will be critical to start mobilising institutional capital into high impact opportunities . It is a precious resource. We need to be sure that it is deployed in the smartest way" **says Ibukun Awosika, former Chair, First Bank of Nigeria and Vice-Chair, The Global Steering Group for Impact Investment (GSG)**

"A significant barrier to investment in emerging economies is lack of data and reporting standards. Emerging economies must be involved in the data and standard-setting process. The need is urgent, and in 2024 the GSG will spearhead an ambitious initiative to eliminate this barrier." **says Sir Ronald Cohen, Chair, International Foundation for Valuing Impacts and President, The Global Steering Group for Impact Investment (GSG)**

ENDS

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About the Impact Task Force
The Impact Taskforce is run by the Global Steering Group for Impact Investment and founded with the support of the UK Presidency of the G7 in 2021. It focuses on the critical question of how to accelerate the volume and effectiveness of private capital looking to make a positive impact on the Sustainable Development Goals , especially in emerging markets and developing economies . It brings together leaders from the worlds of private investment , enterprise, development finance, public policy , standard setting and multilateral institutions. This forum of global leaders is connected to the GSG network of impact partnerships in over 40 countries around the world, nearly half of which are in emerging markets and developing economies. The Taskforce argues for impact transparency and a transformation in the supply of opportunities to invest for impact. It looks to turn differentiated insight into coalitions of practical action.

Case studies
In addition to examining the current state of the market, State of Play 2023 delivers a practical toolkit for policymakers, regulators, standard setters, DFIs and investors. This comprises examples of successful initiatives implemented with the aid of the 2021 report. Case studies include the ***Ci-Gaba Fund of Funds in Ghana,*** a blended finance vehicle mobilising capital from local pension schemes for smaller companies, the ***Bank of Zambia's Credit Risk Guarantee Scheme*** delivering affordable credit for smaller companies in the agricultural supply, and the ***EBRDs risk sharing finance facility*** enabling ***Turkey's Industrial Development Bank*** to issue local currency loans.

The update also details, with examples, the enormous potential of outcome partnerships. Evidence from the UK, the first adopter of these instruments, shows for every £1 spent, over £10 of public value was created. Success stories include ***Colombia's Empleando Futuro SIB***, a Social Impact Bond providing training vulnerable, unemployed individuals in major cities, ***Nigeria's SDG Outcomes Fund,*** which rewards people with low-incomes for recycling waste, and the ***World Bank's Multi-Donor Trust Fund*** currently financing a wide range of social impact projects across Africa, Asia and Latin America.