The **Impact Taskforce**

State of Play 2023
WE ARE GRATEFUL TO OUR SPONSORS FOR THEIR FINANCIAL SUPPORT FOR THE IMPACT TASKFORCE

WE ALSO THANK OUR GSG FUNDERS FOR ALL THEIR ONGOING FINANCIAL SUPPORT
INDEX

FOREWORD 2

ABOUT THE ITF 3

EXECUTIVE SUMMARY 4

1 CONTEXT – SIGNIFICANT SHIFTS SINCE 2021 9

2 PROGRESS UPDATE: IMPACT TRANSPARENCY 13

3 PROGRESS UPDATE: CAPITAL MOBILIZATION FOR A JUST TRANSITION 22

4 NEXT FRONTIERS 34

5 THE WAY FORWARD 37

ACKNOWLEDGEMENTS 39

ABBREVIATIONS AND ACRONYMS 40

ANNEX A: Success Stories in Mobilizing Domestic Pools of Capital for Impact 42

ANNEX B: Input Papers to the ITF (2023) 46
Foreword

A pivotal moment

The Impact Taskforce (ITF) was set up to provide valuable insight and foster practical action in response to the 2021 UK G7 Presidency’s mandate to accelerate the volume and effectiveness of private investment seeking to make a positive social and environmental impact, especially in emerging markets and developing economies (EMDEs).

This report takes stock of progress made on our original recommendations to the UK G7 Presidency put forward in Time to Deliver: Mobilizing private capital at scale for people and planet. Our work continues to be organized around the two core themes of impact transparency and capital mobilization in support of a Just Transition.

There is much to applaud, notably the first milestones achieved by the International Financial Reporting Standards (IFRS) Foundation’s International Sustainability Standards Board (ISSB), and evidence of momentum on the road to Impact Transparency. Furthermore, coalitions of action have emerged as a result of our report. Our call to support the development of credible methodology to put a monetary value on impact has been met by the creation of the International Foundation for Valuing Impacts (IFVI), which has 10 ITF Steering Committee (SteerCo) members on its Board.1 In addition, our call to develop a framework defining investment in a Just Transition was met by the Just Transition Finance Challenge, launched by our UK partner, the Impact Investment Institute (III), with the participation of five ITF partner institutions.2

However, we recognize that significant shifts in geopolitics and macroeconomics since 2021 have increased public debt levels, pushed up the cost of capital, and reduced private sector appetite for risk. In an increasingly unstable context, barriers to the flow of private investment for impact in EMDEs have risen rather than fallen. Although demand for reform in the financial system has grown since 2021, the pace of change must accelerate given the urgency of today’s context. Our concern about the dangerous gap between rhetoric and delivery has deepened, which reinforces the relevance of our original message in Time to Deliver. If we want to see real change, 2024 needs to be pivotal.

The “Progress Update” sections in this report track progress against our core legacy recommendations on impact transparency and capital mobilization. Where necessary, we have updated our calls to action for different stakeholders.

We have added a “Next Frontier” section designed to deliver insight into the emerging opportunities that we think are ready for acceleration. In this report we table outcome partnerships, which we believe integrate the two key components of our central premise:

1. The opportunity to mobilize private capital into impact-linked investment products.
2. The need for creative public-private partnerships to enable efficient allocation of resources into areas of high impact.

Our analysis has benefited from extensive consultation and invaluable input from key ITF stakeholders, including ITF SteerCo members, the Global Steering Group for Impact Investment (GSG)’s global network of National Advisory Boards (NABs) spanning more than 40 countries, and work by leading organizations in relevant fields,3 many of which prepared technical input papers specifically for this report. We are extremely grateful for the contributions of the following organizations: Bridges Outcomes Partnerships; Social Value International (SVI); IFVI; Value Balancing Alliance (VBA); Impact Management Platform (IMP); III; Systemiq; Blended Finance Taskforce; Convergence; and Collaborative for Frontier Finance (CFF). Links to their input papers are available in Annex B.

The concluding section of this report outlines the way forward for the ITF, highlighting the key initiatives we are committed to supporting to achieve our mission and goals.

In the context of today’s relentlessly challenging global environment, we renew our commitment to bringing insight and practical action to our core mission of making a positive impact at scale on the Sustainable Development Goals (SDGs) and climate goals, especially in EMDEs.

The Rt. Hon. Nick Hurd Chair, GSG and ITF

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1 Ibukun Awosika; Dolika Banda; Clara Barby; Sir Ronald Cohen; Sacri Dubourg; Roger Ferguson; Robert Herz; Nick Hurd; Myung Soo Kang; Ken Shibusawa.

2 Bridges Fund Management; British International Investment; Courageous Capital; Just Climate; LeapFrog Investment.

About the ITF

The ITF is a private-sector-led, global, independent initiative created in 2021 with the support of the UK Presidency of the G7. Chaired by The Rt. Hon. Nick Hurd, and coordinated by the GSG, the ITF brings together leaders from the worlds of private investment, enterprise, development finance, public policy, regulation, standard setting, credit rating, and multilateral institutions. This forum of global leaders is connected to the GSG network which is supporting impact partnerships in over 40 countries, nearly half of which are classified as emerging markets and developing economies (EMDEs). These partnerships involve entrepreneurs, investors, intermediaries, and policy makers working together to create favorable local conditions for increasing investment flow with a measurable and positive social or environmental impact.

The ITF was established to bring differentiated insight on two core questions of our time, “How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact?” and, “How do we make sure this mobilization has a real impact and reaches the people and places that need it most?”

ITF’s flagship report Time to Deliver was submitted to the G7 Presidency in December 2021. Since then, the ITF has focused on turning insight into action by supporting initiatives such as the International Foundation for Valuing Impacts (IFVI) and the Just Transition Finance Challenge. The ITF and GSG are also implementation partners for the Japanese G7 Impact Investment Initiative in Global Health (‘Triple I’ for GH).
Executive summary

The Impact Taskforce (ITF) was created in 2021 under the auspices of the UK G7 Presidency to shed light on a critical question for our time, “How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact, especially in emerging markets and developing economies (EMDEs)?”

Our report Time to Deliver (2021) answered this question, maintaining that system inertia was best challenged through a roadmap to full Impact Transparency, underpinned by mandatory accounting for impact. We argued that this needed to go hand in hand with an increase in appropriate opportunities for institutional investors to invest for impact, especially in support of a Just Transition that integrates social and environmental goals.

With the invaluable help of our members and leading partner organizations, we have assessed progress against our original recommendations, updating and renewing our calls to action. Our key messages for 2024 are summarized below:

The year 2024 must be pivotal.

The geopolitical and global macroeconomic landscape has changed significantly in the past two years. Public sector debt has risen and private sector appetite for risk has arguably fallen. Against that backdrop, the funding gap for achieving the Sustainable Development Goals (SDGs) and climate goals in EMDEs has increased. Governments must respond to growing pressure for a greater demonstration of the impact of the significant public resources still being deployed toward achieving the SDGs and climate goals. However, our premise remains that there will never be enough public money to close an annual funding gap of at least $4 trillion in EMDEs. Therefore, 2024 needs to be a pivotal year in terms of finding more effective ways to mobilize incremental percentages of the estimated $270 trillion of global financial wealth, with the goal of delivering real impact to where it is most needed.

Alignment behind a common roadmap is essential.

The financing challenge has generated plenty of dialogue and initiatives across different forums over the past 18-24 months. Given the challenge of implementation for both private and public actors, the roadmap and next steps need to be more clearly defined. In the critical year ahead, we encourage the G7 and G20 to take the lead in urging alignment behind a common framework for private capital mobilization to support the SDGs and climate goals through actionable pathways and KPIs that EMDEs and private investors can rely on. As a starting point, efforts should be made to more closely align the Paris Summit Roadmap, the G20 Sustainable Finance Roadmap, and other emerging similar efforts.

Accountability for Impact needs to be a clear destination.

We believe that we are moving towards a world in which impact is likely to become an increasingly important factor in optimizing cost of capital and financial return. We continue to advocate for systemic change in investment decision-making to ensure that impact is taken into account in every business and investment decision as a “third lens” alongside risk and return. A shift toward full impact transparency (underpinned by complete, comparable, and reliable information) through mandatory accounting for impact in both the private and public sectors will allow for meaningful comparison by empowered investors, consumers, policymakers, and wider stakeholders. The aim to reach full impact transparency is in line with the value shift we and others expect from the significant intergenerational transfer of wealth that is underway.

We have made significant strides on the path to Impact Transparency, but there is still a long way to go.

The creation of the global reporting baseline we called for in late 2021 is underway. The IFRS Foundation’s International Sustainability Standards Board (ISSB) has been set up and has already, in under two years, released its first two standards on general sustainability and climate-related disclosures, which have been endorsed by the International Organization of Securities Commissions (IOSCO), welcomed by the G7 and the G20, and will be increasingly adopted from 2024 (including by Brazil, G20 President in 2024 and Latin America’s largest economy). Other standard setters are showing leadership, especially in the European Union (EU), with
adoption of the European Sustainability Reporting Standards (ESRS) disclosure requirements, and in the USA, where the Securities and Exchange Commission (SEC) is shortly expected to announce climate-related disclosure requirements.

We are mindful of implementation challenges faced by corporates, and recognize the need for language, scope, and timeframes to be harmonized as far as possible. To this end, we welcome the efforts of the Impact Management Platform (IMP) to coordinate interoperability of standards and reporting frameworks, and the IFRS’s work on jurisdictional adoption.

We join others in calling for a collective effort to maximize the interoperability of standards, and we will continue to take the lead in stressing the need to build adoption and implementation capacity among SMEs and in EMDEs, and to be inclusive of these stakeholders in the standard-setting processes themselves. This will be important in helping to tackle one of the barriers most frequently cited by the ESG investment industry as a reason for their lack of appetite for EMDEs risk, namely the lack of data and incomplete information.

In 2024 the Global Steering Group for Impact Investment (GSG) will spearhead an ambitious initiative to this avail, targeting key EMDE jurisdictions, working in partnership with the United Nations Development Programme (UNDP) and the ISSB, among others. We also continue to insist on the importance of assurance in standards to underpin integrity, and we renew our call for disclosures to account for impacts that affect all stakeholders, not just enterprise value. Finally, we reiterate our view that climate disclosures must be viewed as a starting point, stressing the need to integrate critical social and human dimensions into sustainability and impact reporting. As such, we welcome and support the initiative to create a Taskforce on Inequality and Social-related Financial Disclosures (TISFD), which has the potential to build on the momentum and success of the Task Force on Climate-related Financial Disclosures (TCFD, now part of ISSB) and the Taskforce on Nature-related Financial Disclosures (TNFD).

Impact valuation has advanced rapidly, and impact accounting is underway.

We remain firm in our belief that the ability to put credible monetary value on impact, thereby enabling the integration of financial and sustainability reporting, is a game changer. Progress in the field of impact valuation and accounting since our original report has been remarkable. With our support, the International Foundation for Valuing Impacts (IFVI) has been set up, in partnership with the Value Balancing Alliance (VBA), to develop and implement impact accounting methodologies. Action is underway, with evidence from the Harvard Business School Impact Weighted Accounts Initiative (IWAI) suggesting growing adoption of impact accounting across 18 sectors and 22 countries.

Achieving greater impact transparency in public sector accounting is also critical.

Our case for requiring greater accountability for impact extends beyond the private sector; we should expect and demand greater accountability from governments regarding the social and environmental impact of their expenditure, as per our recommendation in 2021. In this regard, we welcome the announcement by the International Public Sector Standards Board (IPSASB) in June 2023 on the development of public-sector-specific sustainability reporting standards, starting with climate-related disclosures.

The Impact Transparency agenda will transform the information available to increasingly empowered investors and other stakeholders. If delivered in the inclusive way we call for, it will help reduce the data barrier that is cited as an impediment to flows of investment into EMDEs. We continue to argue that the long-term Impact Transparency agenda needs to be complemented by urgent interventions to increase the supply of appropriate opportunities to invest for impact, especially in the EMDEs that lack investment grade status. Barriers have risen since 2021 and therefore more urgent and ambitious intervention is required to meet this clear need and opportunity.

Evidence of growing demand for investments that deliver positive impact.

Over the last two decades we have seen a shift in approach from multinational companies across many sectors who understand that stakeholder pressure requires them to contribute to sustainable development in the communities in which they operate. At the same time we have seen a structural shift in the institutional investment market: the global Environmental,
Social, and Governance (ESG) market, which takes social and environmental factors into account in decision-making processes, has grown significantly over the past years and recently reached $35 trillion.\(^4\) Within that spectrum of ambition, the segment of capital intentionally invested for positive impact has risen to over $1 trillion.\(^4\) In addition, in 2023, the green, social, sustainability and sustainability-linked bond market reached the $4 trillion mark.\(^5\) In the private markets, fundraising has slowed but managers continue to raise institutional capital for impact, with recent examples including: Just Climate ($1.5 billion), LeapFrog (nearing $1 billion), KKR ($2.8 billion at the close of their second impact fund), and Allianz Global Investors, FMO Investment Management and the MacArthur Foundation, who recently launched a $1.1 billion SDG Loan Fund.

A Just Transition requires investment in people and communities.

In the near future, finance for the energy transition will be a primary driver of private capital mobilization in EMDEs. As we argued in 2021, climate-led investment strategies need to be socially inclusive. We fully support the initiative of our partner, the Impact Investment Institute, in launching the Just Transition Finance Challenge, which has brought together a coalition of over 23 investment institutions, with over $5 trillion assets under management (AUM), to develop a Just Transition Investment Framework that delivers social and environmental benefits and is committed to engaging Community Voice.

However, private investment is flowing out of, instead of into, EMDEs.

Since our previous report, the funding gaps for EMDEs have widened and international institutional capital has retreated. According to the Organization for Economic Cooperation and Development (OECD), private finance flows into EMDEs, excluding China, have decreased by 22% compared to 2019. The macroeconomic landscape in terms of inflation, interest rates, debt profiles, and foreign exchange (FX) risk has had a clear effect on investment flow and risk appetite. There is some evidence that ESG screening approaches and concerns about reputational risk are leading the $35 trillion ESG investment sector to reduce exposure to emerging markets.\(^6\) Some countries have been shut out of capital markets and the cost of capital has risen, decreasing the benefits of reduced costs in clean energy technology. Not enough has been done to break down the barriers we identified to the flow of institutional investment to EMDEs where it can have the most positive impact on SDGs and the climate goals. Catalytic, risk-adjusting tools such as guarantees and blended finance structures continue to be under deployed despite evidence of their effectiveness. Development Finance Institutions (DFIs) are mobilizing private capital at a rate that represents just 1% of the EMDE SDGs and climate funding gap. A more streamlined response to address the escalating problem is urgently needed.

It is time for urgent, short-term focus on realizing the potential of DFIs and MDBs, especially if they are to have more money to deploy.

We have chosen to focus on the underdeveloped potential of DFIs and MDBs to encourage private investment flow for impact, especially given the apparent political support for recapitalization, which will give them greater firepower.

To address the lack of progress in mobilizing capital at scale to EMDEs, we have updated our 2021 recommendations, outlined in the “Progress update” section.
OUR KEY RECOMMENDATIONS ARE AS FOLLOWS:

FOR GOVERNMENT DONORS/SHAREHOLDERS

1. Coordinated action to clarify mandates of DFIs and identify where they expect higher mobilization ratios in a transparent way.

2. Recognize that in the short to medium term, risk mitigation and credit enhancement are required as means to the end of helping institutional investors reconcile private EMDEs’ risk with their risk and capital charge frameworks. In time the degree of risk mitigation required should taper with better data to support decision making.

3. Following from 2) - Increase the supply of catalytic capital for sub-investment grade EMDEs. We specifically recommend the creation of new, regional catalytic capital facilities that would complement mezzanine finance from the DFIs and MDBs to transform mobilization of investment from the private sector. These can be created by repurposing existing budgets and tapping new sources of funding and catalytic tools.

4. Accelerate publication of the GEMs database and fast track the process to find a more affordable solution to hedging FX risk, in particular for markets that lack access to FX derivatives.

5. Enable greater use of guarantees where appropriate, given evidence of their cost effectiveness and impact.

6. Encourage collaboration and ambition in finding better solutions to the issue of access to affordable finance for job-creating small and medium enterprises (SMEs) in EMDEs. We argue that this should be on the agenda of the G7 and G20 given the dangerous consequences of failure to provide economic opportunity for fast-growing populations of young people.

FOR DFIs AND MDBs

7. Give greater priority to models of smart impact partnership with national and regional players in EMDEs who have deep local knowledge and for whom FX risk is less of a barrier, including fast-growing domestic pension funds, National Public Development Banks, regional development institutions such as the African Development Bank (AfDB), and emerging domestic impact fund managers. In this context, we encourage prioritizing better solutions for increased access to affordable finance for job-creating SMEs (a critical issue in most EMDEs), as well as for narrowing the gap between providers of institutional capital and local capital providers.

8. Create the space for more effective collaboration to develop a better shared understanding of “what works.” We would prioritize:

- Fostering dialogue (including through platforms like Finance in Common) with other DFIs, PDBs and philanthropic sources of catalytic capital to share learnings on successes and failures in the use of catalytic and concessional finance across a growing spectrum of tools and contexts in order to ensure this precious resource is allocated in the most efficient way possible. This dialogue should aim to surface actionable blueprints and pathways for vehicles to deploy capital into high-impact areas.

- Taking stock of what we have learned from trying to help SMEs access growth capital by working through different deal typologies to surface actionable pathways and blueprints.

- Reviewing the efficacy of a fragmented system for pipeline development with a view to scaling what works and discontinuing what does not.
Next Frontiers: a compelling case for scaling outcome partnerships

The ITF likes to identify “next frontiers” in anticipation of future needs and opportunities. In 2021 we focused on impact accounting and the need for a new investment framework for a Just Transition that integrated social and environmental goals. In this report we throw a spotlight on the opportunity to scale outcome partnerships, which strategically bring together impact investors, philanthropic and/or government outcome payers, and other stakeholders, to mobilize private capital to help governments spend taxpayers’ money more efficiently in order to achieve better social, climate-related, and environmental outcomes. The latest evidence from the UK, pioneers in this field over the past decade, shows that outcome-based contracting has been successful in delivering a 10X+ return on public investment. There is also now an evidence base that the models can be adapted successfully for EMDEs.

From insight to action: the ITF’s commitment

As an action-oriented forum that seeks to turn insight into practical action, the ITF, in collaboration with GSG’s network of over 40 national members and wider partners, will focus on driving the following initiatives across our two main workstreams in the coming 12-18 months:

**IMPACT TRANSPARENCY**

1. Supporting the GSG in its UK government-backed initiative to double down on efforts to build capacity among and promote greater inclusivity of stakeholders from emerging markets in the main global sustainability disclosure standard-setting processes.

2. Advancing our vision for Impact Accounting through continued support for the IFVI-VBA consortium that is developing and testing impact valuation methodology with partners and early adopters.

**CAPITAL MOBILIZATION**

3. Renewing our support for the Just Transition Finance Challenge. The aim is to align over 50% of the estimated $2.8 trillion invested globally in sustainable climate funds to Just Transition Criteria.

4. Supporting the G7 Impact Investment Initiative for Global Health (Triple I) as an official implementation partner.

5. Supporting mission-aligned initiatives within the ITF and GSG networks, especially initiatives from EMDE countries, such as the development of new vehicles and blueprints to mobilize domestic pools of capital in local currency.

6. Contributing to a better shared understanding of “what works” in terms of deploying catalytic and concessional capital to mobilize institutional capital for impact in EMDEs, including better access to finance for SMEs.

7. Continue to advocate for and contribute to the implementation of our recommendations on outcomes partnerships.
CONTEXT – SIGNIFICANT SHIFTS SINCE 2021

Our initial question has become even more critical.

In 2021, we warned about the glaring gap between rhetoric and delivery on the SDGs and climate goals. We are now two years closer to 2030, a key year of accountability, and remain off track. The task has arguably become more challenging. Interconnected shifts in geopolitics, macroeconomics, public policy, and trade have shaped a political context that is more fragmented, volatile, and competitive. Today’s context is one of significantly higher inflation, interest rates, and levels of debt. On the other hand, devastating extreme weather events have brought home the human and financial cost of climate change, and increased the pressure for climate action on mitigation, adaptation, and resilience. The voice of frustration from the so-called Global South is growing louder and becoming more unified. It is also increasingly clear that we will not achieve our collective climate goals if rich countries that have prospered from fossil fuels do not help rapidly growing EMDEs find a low-carbon development model.

Finance has become a bottleneck at a time when public balance sheets are more stretched than ever. Governments still have significant resources and powerful toolboxes to deploy in support of the SDGs and climate goals, and they need to be more accountable for the impact and prioritization of their spending. However, we need to confront the reality that there will never be enough public money. We are, therefore, at a pivotal point in terms of finding a better solution to the question of how to mobilize private capital for impact at scale, and to ensure it flows to where it is most needed. The numbers pose a serious challenge, with an estimated annual investment gap of $3.9 trillion in EMDEs. Just when private capital needs to be flowing into EMDEs, it is flowing out.7 Hence the question we were asked to explore by the G7 Presidency in 2021, “How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact?” has become more critical than ever. A greater sense of urgency is required from both the public and private sector to reach a more comprehensive solution.

Acceptance of the need for financial system reform is growing, but this reform must extend beyond DFIs and MDBs.

Since 2021, there has been growing consensus about the need to overhaul the financial system to enhance its effectiveness, not least for the Global South, with a focus on reforming international, public finance institutions. The Paris Summit for a new Global Financial Pact in June 2023 convened approximately 100 government representatives, which represented an important landmark. In that context, we have lent our voice to the call for MDBs and DFIs to have clearer mandates and the financial capacity to “de-risk” (re-risk) assets to mobilize private capital at a larger scale, especially into higher-risk, higher-impact markets.

However, we argue that the private sector also needs to be challenged in this regard. Perspectives on risk tolerance should be reevaluated in light of the growing systemic risk associated with climate instability, loss of critical natural systems, and the consequences of growing inequality. The wealth management sector in particular needs to evaluate whether screening out risk and “doing less harm” is good enough. An ESG industry making claims about social responsibility should engage with the growing reputational risk of not investing in

$3.9 trillion estimated annual investment gap in EMDEs

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EMDEs, where the impact upside is greatest and which offer both opportunity and diversification. We note a UNCTAD survey of the largest public pension funds and sovereign wealth funds which suggested that an active, impact investment approach was one of the most favored ESG strategies, despite allocations to emerging markets from those investors remaining small. There is leadership to build on. We welcome evidence of asset owners collaborating to evaluate how their money can help EMDEs transition to low-carbon economies, such as the joint initiative by 12 UK pension funds with £400 billion of assets convened by the Church of England Pensions Board. This leadership is not restricted to developed economies. The Kenya Pension Funds Investment Consortium (KEPFIC), supported by the World Bank/IFC Joint Capital Market Program (J-CAP), has brought together 24 member funds and $5 billion of assets to take a new approach to investing in infrastructure and to diversify beyond traditional investments in sovereign instruments. The good news is that we have a decent understanding of the barriers to private investment flows into EMDEs. There is also growing consensus on what action is required to reduce these barriers and adjust risk profiles. Furthermore, we have demonstration effects and evidence of what does work. The creation of new tools or institutions does not seem to be a priority.

First of all, we must comprehend the factors that have prevented our progress toward a tipping point of behavioral transformation. It is probable that the answer lies in the weight of system inertia, institutional unreadiness, and bureaucracy in both the public and private sectors. We must acknowledge the need for change in the way that resources are allocated in a global economy facing this level of systemic risk. The finance and investment sectors - arguably our most powerful economic system - takes decisions on the allocation of almost $270 trillion of global financial wealth, which is expected to grow to almost $330 trillion in 2027 (excluding the value of real assets in private hands that is expected to reach over $340 trillion by 2027). Within this, the value of private institutional capital is estimated at $98 trillion, of which almost 50% represents pension funds in OECD countries.

Collectively, over decades, we have created this system of accumulated wealth allocation and we therefore have the ability, and imperative, to change it and to redefine the parameters of business and investment success. The technology-empowered generations due to inherit this wealth over the next 25 years will almost certainly demand it.

A change agenda needs to be actionable and go with the grain of human nature.

The urgency of today's context requires a change agenda that is actionable and goes with the grain of human behavior and societal shifts.

We argue that the key, systemic shift is to a future in which measurement of social and environmental impact is integrated into economic activity and decision-making so that all economic costs and benefits are considered when allocating resources. In this future, companies and investors will be transparent about and accountable for their impact in a meaningful way, and it will be the norm and expectation for investment decisions to be taken through the triple lens of risk, return, and impact.

As the evidence for alternative approaches grows and the negative consequences of business as usual become increasingly apparent, perceptions of fiduciary duty will evolve. Asset owners will demand more positive impact, recognizing its growing contribution to risk-adjusted returns. In response, the market will reassess company valuations, favoring those that deliver the best impacts and profits.

To help engineer this shift, we proposed two levers of change:

$98 trillion
of private institutional capital with potential to be allocated
IMPACT TRANSPARENCY

We addressed the problem of companies’ historic failure to account for their social and environmental impact meaningfully, because what is not measured consistently is not managed or valued by markets. It is difficult to make change if you do not know what to change. We presented a roadmap for long-term systemic change aimed at transforming the quality and transparency of information available to investors on the impact of their decisions. We were one of the first to argue that this process needs to be genuinely inclusive and understand the different context and needs for SMEs and EMDEs. The destination we pointed to demands mandatory accounting for impact by businesses and investors. We also called for cooperation in developing a credible methodology to put a monetary value on impacts. The ability to make meaningful comparisons between the economic, social, and environmental value companies create or destroy will transform our ability to hold leadership to account. Moreover, putting a monetary value on impacts through robust methodology will have profound implications for corporate branding, cost of capital, and enterprise value. The further we go down this road to impact transparency, the faster behavior will change.

CAPITAL MOBILIZATION

We tackled the challenge of the perceived lack of high-impact investment opportunities that meet the risk-adjusted return expectations of major institutional investors. There is an urgent need to build a track record that demonstrates the ability to combine positive impact with satisfactory returns. We argued for short-term interventions that would transform the supply side and help catalyze these opportunities, which included subordinated capital, guarantees, insurance, securitization, local currency financing, among other existing tools. In EMDEs, where the impact and risk are greatest, new models of public-private collaboration need to develop into blueprints to enable different types of capital to collaborate, blend, and deploy for impact, capitalizing on the development of Integrated National Financing Frameworks (INFFs) and adding to the demonstration effect. Given the primacy of climate finance mobilization, we were also early advocates of converting the principles of a Just Transition into a practical framework for the deployment and implementation of public and private investment. We made it clear that the framework needed to integrate social and environmental objectives, as well as community participation, to make sure that people and places were not left behind in the challenging transition to Net Zero.

The two agendas are linked by the need for the new world of sustainability disclosure and impact transparency to meet the data and information needs of investors in a way that is useful, actionable and understands local context. This will help address one of the most cited barriers to the flow of institutional investment for impact, especially in EMDEs.

Our call to action recognized the heavy drag of system inertia as a barrier to the structural transformation of the global socio-economic system. However, we also identified three powerful tailwinds of change pushing our impact agenda forward. The first is a shift in the social values and expectations of the private sector’s most important stakeholders: consumers, talent, investors, and policy makers. We expect this shift to accelerate over the next 25 years as we see the biggest intergenerational transfer of wealth in our history. An estimated $100 trillion will be transferred from the baby boomer generation to people born after 1980, whose different values and priorities are likely to reshape what corporate and investment success look like. The second tailwind is the growing realization that while the transition to Net Zero carries systemic risk, it also presents one of the biggest wealth creation opportunities in our history. Over 90% of the global economy is committed to achieving Net Zero, with all it entails, across nearly all economic systems. The third tailwind is the potential of the huge leaps in technology, including artificial intelligence (AI), to create new, profitable opportunities for investment at scale in global, fast-growing markets that can leapfrog legacy systems in key sectors such as...
Over the next 25 years an estimated $100 trillion will be transferred to people born after 1980.

Over 90% of the global economy is committed to Net Zero.

New technology generates more efficient ways of delivering and measuring outcomes.
2 PROGRESS UPDATE: IMPACT TRANSPARENCY

Under the Chairmanship of Douglas L. Peterson, President and CEO of S&P Global, and through extensive engagement of a technical working group comprised of 20 leading global experts, in December 2021 the ITF called for, “mandatory accounting for impact as a destination,” defining accounting as the way in which “entities make sense of and act upon financial and non-financial disclosures, in a way that can be audited and assured.” Our journey has been marked by two key milestones. Firstly, the establishment of the ISSB (chaired and co-chaired by original members of the ITF SteerCo, Emmanuel Faber and Jindong Hua, respectively) and its mission to set a global baseline of harmonized sustainability disclosure standards. Secondly, the progress toward robust methodologies for (monetary) impact valuation. These advancements are paving the way for the integration of financial and impact reporting.

At the same time, we highlighted the urgent need for a “build” on the ISSB baseline for companies and entities to report on and be accountable for their impact on all stakeholders (conscious that the ISSB’s seminal work concentrated solely on risks affecting enterprise value); and we insisted upon the need to incorporate social and environmental impacts in public sector accounting and reporting, which is currently largely limited to the disclosure of government spending data.

The building blocks of our envisioned destination of mandatory impact accounting by all actors, private and public, as illustrated in Figure 1 below, are: a) the global baseline of sustainability disclosure standards; b) the “build” on this baseline to include impacts on all stakeholders; c) progress on impact valuation; and d) increased impact transparency in public sector accounting. These building blocks must be underpinned by: i) integrity (assurance and auditing); ii) harmonization of standards and comparability of information; and iii) reporting requirements to be mandated across jurisdictions.

The following sections provide a brief overview of significant developments across key areas in the last two years, highlighting both achievements and ongoing challenges. Our assessment and recommendations were informed by technical input papers from leading global organizations in their capacity as knowledge partners of the ITF. Notably, the IMP submitted a position paper on the need to build on the notion of materiality to account for impact(s) on all stakeholders, including because impacts give rise to entity-specific and systemic risks and opportunities; IFVI, together with VBA, contributed a technical note on developments in the field of monetary valuation of impacts; SVI reflected on the need, opportunity, and challenges to urgently advance sustainability and impact reporting in public sector accounting. These papers can be found in Annex B.

a. Establishing a global reporting baseline for sustainability-related financial information

Two years after we issued our original recommendations, we are encouraged by the progress made by the IFRS-ISSB, and welcome the launch of its first set of standards, S1 and S2, on general sustainability and climate-related disclosures, respectively. These are effective for annual reporting periods beginning on or after January 1, 2024, as well as the agenda priorities under consideration for the next two years, which include capacity building and other initiatives to promote the jurisdictional adoption of the standards.

We also appreciate the efforts of other leading standard setters in key jurisdictions, such as the European Commission, which adopted the European Sustainability Reporting Standards (ESRS) in July 2023, and the United States’ Securities and Exchange Commission (SEC), expected to release climate-related disclosure requirements in the coming months, which aim to be consistent with the ISSB standards to reduce the burden on reporting entities while substantially increasing current levels of disclosure.

The adoption of ISSB standards is expected to accelerate thanks to their endorsement by the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB), the commitment and support of the G7 (expressed in its Hiroshima Leaders’ Communiqué in May 2023), and pledges from key global jurisdictions. For instance, Brazil, a G20 member that has mandated the use of IFRS Accounting Standards since 2010, has recently announced through its capital markets authority CVM that ISSB-IFRS Sustainability Disclosure Standards (SDS) will be incorporated into its regulatory framework. This represents a significant breakthrough as it establishes a roadmap for transitioning from voluntary implementation,
starting in 2024, to mandatory implementation on January 1, 2026 – a true milestone for Latin America’s largest economy, home to some of the world’s most valuable natural assets.

The above, coupled with progress made by other countries that are advancing their own national standard-setting efforts in line with the work of the ISSB (see further details and examples below), could represent a significant step toward our vision for disclosure of sustainability-related information to be mandated across jurisdictions in the coming years. Work by organizations like CDP, which is launching a series of Principles for High-Quality Mandatory Disclosure, can help deliver our vision by supporting governments and regulators to address key gaps in existing regulation.

In fact, according to the SDG Investors’ Sustainable Finance Regulation Platform, a total of 154 mandatory and voluntary sustainability disclosure measures (including policies, regulations, and frameworks) had been officially adopted by governments across the 35 countries covered by their database by the end of 2022.

Delving further into specific national efforts from 2021 onwards, a number of key Asian jurisdictions have begun developing their own SDSs. They intend to align them with ISSB to ensure interoperability and comparability of information, while at the same time reducing reporting burdens on regulated entities and avoiding double-reporting. Countries at the forefront of this process include:

**Australia**, whose Accounting Standards Board (AASB) published an Exposure Draft of its initial set of SDSs, building on a previous consultation paper issued by the Australian Treasury. These standards will be phased in between 2024 and 2027. The reporting requirements outlined in the exposure draft aim to maximize alignment with ISSB standards S1 and S2.

**Japan**, which has established a new Sustainability Standards Board of Japan (SSBJ) tasked with developing SDSs aligned with the ISSB framework. Work on the SDSs will commence in 2024, with the aim of releasing the first set of standards by early 2025. These standards will be applicable to financial years starting on or after April 1, 2025.

**Hong Kong**, where the Stock Exchange issued a consultation paper on proposals to make climate-related disclosures mandatory in listed companies’ annual ESG reports, moving away from their current "comply or explain" approach. These proposed disclosures seek to align with ISSB standards and cover aspects such as governance, strategy, and risk management, aiming for full compliance from the beginning of 2026.

**South Korea** whose Financial Services Commission (FSC) announced plans to phase in mandatory ESG disclosures for large listed companies from 2026, and gradually expand to smaller entities. However, there are concerns about reported pushback from a number of companies due to the expected associated costs and legal aspects of tighter reporting requirements. At the time of writing this report, consultation with key stakeholders in South Korea indicated that the recently created Korea Sustainability Standards Board (KSSB) is open to adopting ISSB standards domestically.

While Asia leads the way, promising developments are also emerging in:

**Nigeria**, whose Financial Reporting Council announced at COP27 that it aims to become Africa’s first country to adopt (and adapt) ISSB disclosure standards. Given Nigeria’s burgeoning influence in Africa and the global economy, this encouraging announcement should be closely monitored and supported, as a clear implementation roadmap is yet to be made public.
Despite encouraging progress, we have identified areas of concern that require attention and further consideration to foster truly global, inclusive, and holistic progress in standard-setting and impact transparency:

**INCLUSIVITY:** Extensive consultation and emerging discussions with and within our global network revealed persistent challenges hindering the truly global adoption of SDSs due to the existence of open gaps that impede their adoption in certain jurisdictions, particularly in EMDEs. This is important to our agenda, given that lack of data and concern about the quality of disclosures are regularly cited as significant barriers to the flow of international institutional capital into EMDEs. To address these challenges, we advocate for enhanced engagement and capacity building among preparers, financial regulators, and other key stakeholders. Tailored to local contexts and priorities, these efforts should aim to enhance preparedness for evolving SDS requirements and ensure that the voices and realities of all stakeholders are adequately reflected in global sustainability standard-setting initiatives. Furthermore, we emphasize that inclusivity in SDS setting should also factor in the balance and proportionality of reporting costs for companies of all sizes, particularly considering the limited capacities and resources of SMEs to respond to increasing reporting requirements. SMEs play a significant role in many emerging market economies, accounting for the majority

**Chile,** whose banking regulator CMF plans to begin addressing sustainability disclosures under the ISSB standards. The country currently mandates companies worth over $700 million to issue ESG reports aligned with TCFD and Sustainability Accounting Standards Board (SASB; now part of ISSB). Furthermore, it intends to apply the same mandate to most banks and insurers, and to all companies with assets of $35 million or more, from 2025.

**Argentina,** whose Central Bank recently issued a communication announcing its intention to assess the country's largest banks' and companies' compliance with ISSB standards S1 and S2, focusing on climate and transition risks.

In the United States, the State of California passed several Senate Bills mandating climate disclosures for companies, including reports relating to greenhouse gas (GHG) emissions and climate-related financial risks, in line with the wider **Climate Accountability Package** introduced by the current administration. Pursuant to the new regulations, all private and public businesses generating annual revenue exceeding $1 billion and operating within California will be required to annually disclose their Scope 1, Scope 2, and Scope 3 GHG emissions. Furthermore, these companies will be required to obtain third-party assurance of their disclosures (with Scope 1 and 2 disclosures mandatory by 2026, and Scope 3 disclosures mandatory by 2027, followed by annual reporting thereafter). As mandated by Senate Bill (SB) 261, **companies will be required** to prepare and make publicly available on their websites qualitative reporting on climate-related financial risk and measures taken to reduce and adapt to that risk, “…applying the frameworks and disclosure guidance established by the Task Force on Climate-related Financial Disclosures (TCFD)… Successor or equivalent reporting standards, including the IFRS Sustainability Disclosure Standards issued by the ISSB are also an acceptable framework for reporting.” This ambitious move by the world’s largest sub-national economy, surpassing current and emerging US national regulation requirements, has the potential for substantial global impact due to its demonstration effect and California’s economic significance on the world stage.
of employment. Although they are not reporting entities themselves, they participate in the value chains of larger corporations, and risk being marginalized should they fail to comply with existing and future reporting requirements.

In response to this need, we welcome and recognize emerging efforts in this direction by the ISSB and its global partners, including the launch of the Partnership Framework for Capacity Building in COP27, and the recent creation of the ISSB Knowledge Hub. In particular, we are encouraged by and supportive of an effort recently launched by the GSG, with support and funding from the UK Foreign, Commonwealth and Development Office (FCDO), to carry out capacity building and stakeholder engagement activities in key EMDEs in Q1 2024 - building on an ongoing, Porticus Foundation-sponsored capacity building effort by the GSG in a select number of ASEAN jurisdictions. These activities are also intended to provide input “from the ground up” to the international bodies that the organization is part of, as well as to other relevant organizations, including ISSB, International Public Sector Accounting Standards Board (IPSASB), IFVI, and IMP. The GSG will work in coordination with other key partners who are also actively working to promote greater inclusivity in the transparency agenda, including the United Nations Development Programme (UNDP).

We welcome the development and implementation of additional resources that align with this approach, such as a recent joint report by the International Monetary Fund (IMF), the World Bank, and the OECD, which emphasizes and provides technical suggestions for inclusivity in climate data and their reference frameworks, highlighting that, “Alignment approaches should be inclusive of all parts of the global economy — particularly SMEs, women, and vulnerable groups — and appropriate for EMDEs.”

PACE (AND COMPARABILITY): The current, slow pace in developing and implementing SDSs will not meet the pressing need to fulfill global commitments, namely the SDGs and Paris Agreement goals. Differences in national processes speak to a degree of tension between the need to adapt global standards to local market realities and the aspiration to establish a common framework enabling the comparability of information across different jurisdictions.

While upholding due processes and adhering to principles of inclusivity and diversity, we must expedite, in a coordinated manner, the creation of a truly global baseline for mandatory sustainability-related financial reporting. Non-synchronized approaches toward enhanced transparency/reporting requirements across countries could result in unintended distortions at the global level, encouraging capital to flow to areas with lower disclosure demands rather than areas with the most pressing investment needs.

HARMONIZATION: Some progress has been made in terms of the much-needed harmonization and interoperability of the different emerging reporting standards, recognized in 2021 by the ITF as crucial to allowing international capital to make informed investment decisions based on comprehensive and consistent information. However, with companies of all sizes and geographies struggling to navigate inconsistent terminology and alternative standards, it is clear that significant work remains to be done. In this regard, we acknowledge and firmly support efforts by the IMP to facilitate the interoperability of existing frameworks and to build consensus among standard setters and relevant stakeholders around taxonomies (including key terms and definitions), as well as emerging efforts by the IFRS’s jurisdictional working group.

MIND THE “SOCIAL”: Given the rapid progress in climate-related reporting standards, which is disproportionate to other SDSs, the inextricable nature of environmental and social impacts must be strongly emphasized as part of our global aspiration to achieve a just transition to Net Zero economies that leaves no one behind. For SDSs to be “climate-first, not climate-only” there needs to be a more concerted and accelerated push in 2024 to integrate key social dimensions into sustainability reporting. Encouragingly, the ISSB’s emerging priorities for the next two years include developing social-related standards, potentially focusing on Human Rights and Human Capital. Furthermore, international initiatives such as the Taskforce on Inequality and Social-related Financial Disclosures (TISFD) have the potential to lay the groundwork for future standards, in the same way that the TCFD paved the way for climate-related standards.

Much-needed progress on the social dimension of reporting will face harmonization challenges, given that social metrics will be much harder to standardize across jurisdictions than climate metrics. We must also be prepared for potential cultural backlash in some countries. Achieving meaningful progress requires placing
people, households, and broader civil society organizations at the heart of change initiatives. This involves co-designing change programs, sharing information through trusted intermediaries, and ensuring that initiatives effectively enhance wellbeing. Just Transition approaches encompassing environmental, socio-economic, and community voice perspectives could be effective in guiding change processes.

**INTEGRITY:** In 2021 the ITF called for the integrity of disclosed information as a crucial step toward true impact transparency and a means of ensuring that private investors have access to reliable information on the impact of their decisions. Today, we see a promising development in the recent consultation by the International Auditing and Assurance Standards Board (IAASB) regarding the first set of assurance and auditing standards for sustainability-related information. These standards are expected to apply to all areas of sustainability and are due to be issued by the end of 2024.

b. Building on the reporting baseline to incorporate impacts on all stakeholders

The scope of SDSs currently under development globally, with the exception of the ESRS that intends to follow a double-materiality approach, is largely limited to information on sustainability-related risks and opportunities that affect enterprise value (following a single or financial materiality approach). As per our 2021 call to account for impacts affecting all stakeholders, we see a need to support efforts seeking to build on the global reporting baseline in order to include disclosure requirements on impacts that go beyond those affecting corporate and investors’ financial performance.

Specifically, many businesses, investors, and financial institutions currently approach sustainability management (including disclosure) by only addressing specific risks and opportunities that are unique to their operations, including reputational, regulatory, operational, and technological aspects. However, what often goes unnoticed is that these impacts also contribute to broader “system-wide” risks and opportunities, regardless of whether they currently pose quantifiable entity-specific or “idiosyncratic” risks. Both categories of impacts are inextricably interconnected, as economic activity relies on environmental and social systems. Consequently, the financial success of enterprises, investors, and financial institutions hinges on the health and stability of such systems. A growing body of evidence underscores that suboptimal environmental and social outcomes can erode overall economic performance, thereby affecting corporate and financial returns, given the historical correlation between economic growth and corporate profitability.

As such, the single or financial materiality approach to sustainability disclosure and management not only overlooks the intrinsic value of social and environmental externalities and impacts but also disregards the system-wide risks and opportunities they generate, which can influence corporate and investor performance at any point in time. However, current interpretations of financial materiality do not always recognize the importance of information on entities’ contributions to the accumulation of system-wide risks. Investors’ exposure to and interest in managing system-wide risk suggests that information on entities’ impacts and impact-management processes could affect their decision-making, possibly rendering such information financially material.

Although there is still a long road ahead, we are encouraged by the ongoing collaboration between the ISSB and the Global Reporting Initiative (GRI) to enable GRI’s broader, impact-oriented approach to materiality and reporting frameworks to become interoperable with the ISSB baseline, providing a holistic picture of sustainability performance. While adoption of impact-focused SDSs, such as GRI standards, continues to be voluntary, the role of these standards as legitimate guidance should be acknowledged and their eventual integration into mandatory disclosure requirements should be actively pursued.

Finally, consistent with our call for greater interoperability, varying interpretations of materiality as a concept (financial vs. double-materiality) will need to be adequately addressed.

c. Advancing impact valuation methodologies

In 2021, as we looked ahead to catalyze the necessary shift in investment decision-making and capital allocation for impact, we emphasized the importance of supporting leading efforts by academia and other institutions working to advance valuation techniques and methodologies. Specifically, we identified monetary valuation of impacts as a key enabler for the integration of financial and sustainability reporting. This
integration is essential for fully understanding and effectively communicating the real value created or destroyed by an entity and enabling meaningful comparisons of companies’ performance. Such integration could revolutionize decision-making not only for investors, who could access comprehensive financial and impact information under a single monetary unit, but also for consumers and other stakeholders who could analyze and act upon this information using familiar management systems and financial analyses.

It is gratifying to note the rapid progress made in the field of impact valuation over the past two years. Significant milestones include the establishment of the IFVI in 2022, which partnered with the VBA to develop a standardized impact accounting methodology for the public good and to pilot the methodology in everyday business operations with corporates and investors. The IFVI-VBA partnership ultimately hopes to establish a comprehensive system for impact accounting, which will include standardized calculation methodologies, practitioner application guidance, robust audit and data management protocols, and correctly disclosed monetary coefficients, akin to the financial accounting and audit ecosystem and its supporting standard databases (such as for depreciation and amortization schedules).

SVI has expanded its network of practitioners to over 60 countries, offering guidance and best practice standards for impact valuation. SVI has also launched its first Standard and Guidance for the new Principle of Social Value, titled Be responsive. This is a noteworthy development, as it emphasizes the critical role of incorporating impact data into strategic, tactical, and operational decision-making processes.

The Capitals Coalition made important contributions through major advancements in the development of the Capitals Protocol, a unified framework to identify, measure, and value impacts on natural, social, human, and produced capital. It also launched the Global Value Commission, which gathers experts from around the world to drive transparency and accountability in the application of value factors by organizations.

Promisingly, the adoption of impact accounting as a practice by corporates and investors is more widespread than most stakeholders may be aware of. A 2022 survey of organizations by Harvard Business School’s IWAI, in partnership with VBA, found that almost 60% of respondents were already implementing some form of impact accounting, mainly for internal reporting purposes (69%) but also for external reporting (56%) and management control systems (49%). The survey captured responses from 22 countries, primarily from Europe and Asia, spanning 18 industries, highlighting the growing global adoption of impact monetization as a standard practice. Furthermore, recent reports by the VBA show concrete results based on pilots by companies that are already linking impact valuation to corporate decisions. On the investor side, funds like Summa Equity are conducting impact accounting cross-portfolio analyses for employment and environmental impacts, and publicly disclosing their results. In 2022, Summa Equity calculated that their net portfolio impact on climate was €35 million+ (roughly 2% of aggregate portfolio revenues), and that their net portfolio impact from employment was €193 million+ (or 55% of the total wage bill).

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Milarex: valuing product impacts in health

Milarex, a Summa portfolio company, is a seafood enterprise that offers a range of safe and sustainable salmon products. In 2022, employing HBS’ IWAI methodology, the company estimated that its products generated an annual positive impact of €588 million, surpassing the same year’s revenue by up to 50%. Monetized impacts included fewer productivity losses and lower healthcare costs for customers thanks to reducing risks of breast cancer and cardiovascular events, which could be attributed to the benefits of consuming Omega-3s and other nutrients found in Milarex’s products.
d. Impact transparency in public sector accounting and reporting

In 2021 we identified the need to advance impact transparency in public sector accounting and reporting as a priority area for development.

In fact, for many years, calls have been made for policy makers and national statistical offices to move beyond global domestic product (GDP) as a single measure of socio-economic performance. GDP, while valuable, offers a narrow perspective on the complex interplay between economic growth, wellbeing, and sustainability.

As part of this movement, governments, too, may strive toward greater impact transparency by going beyond merely disclosing their expenditure and by measuring and reporting the impacts of their activities. The adoption of public sector accounting practices that prioritize transparency, harmonization, and integrity in impact measuring and reporting can grant decision makers in the public sector a more profound understanding of impacts and dependencies within their national economies.

Several governments have taken steps to incorporate wellbeing into their national accounting systems, seeking to place impact at the forefront of public policy and investment decision-making. In the last few months, for example, New Zealand published its first National Wellbeing Report, the EU recognized the need to shift to a wellbeing economy, and the World Health Organization launched an initiative that calls for wellbeing to be at the heart of economic recovery.

Alongside countries such as Finland, Iceland, Scotland, and Wales, New Zealand is a member of the Wellbeing Economy Governments partnership (WEGo) aimed at transforming “economies around the world to deliver shared wellbeing for people and the planet by 2040.” This transformation involves moving beyond GDP growth as a core indicator of progress toward a broader economic policy that delivers quality of life for all people in harmony with the environment. Australia, Canada, and Costa Rica are also among the countries to have worked closely with WEGo in recent months to advance this agenda.

In an important related development, upon request from the World Bank, the IPSASB (responsible for setting accrual-based accounting standards for use by governments and other public sector entities around the world) led a consultative process in 2022 to gain support for developing global public sector-specific sustainability reporting guidance. Following this consultation, in June 2023 the IPSASB announced initial work to develop public sector-specific sustainability reporting standards, starting with climate-related disclosures.

Linking back to impact valuation, impact-weighted accounts are gaining traction in public-sector accounting. Traditionally, development organizations, including governments, have offered incentive packages to organizations considering moving into or expanding in specific regions, aiming to achieve objectives such as job creation and economic growth. However, comparing whether the quality and impact of those jobs justify the costs incurred by the public sector remains a challenge. In the US, the Fresno Economic Development Corporation is working to change this paradigm with an innovative corporate scorecard, upon which tax rates or other incentives may be based. For example, rather than offering lower taxes up front, organizations would be evaluated annually based on their impact, and incentives adjusted accordingly. One of the critical inputs to the scorecard is the impact-weighted accounts employment framework, which has numerous action pathways for organizations to increase their impact by investing in areas with higher unemployment (location impact), diversity challenges (diversity and opportunity), and increasing wages and benefits for workers (wage quality and health/wellbeing).

These examples illustrate a path toward a future economic system where all stakeholders, both private and public, account for their impact on people and the environment and recognize it as a crucial variable to be incorporated into their decision-making processes.
Our renewed call for action

The imperative for greater impact transparency in private and public sector accounting beckons us toward a transformative era of convergence. This journey will reshape the landscape of finance and governance, placing impact at the core of decision-making as we shift to a paradigm of tri-dimensional optimization of risk, return, and impact, which in turn will allow, and hopefully incentivize, asset and wealth managers to “do good” while they “do well.”

As organizations and stakeholders collaborate on this transformative endeavor, they chart a course toward impact-centered economies. Figure 1 below outlines the main building blocks of the “impact transparency pathway,” which evaluates progress through a RAG rating in accordance with the above considerations.

Recognizing the outstanding progress made over the past two years, while at the same time stressing the urgency to fulfill our vision in response to the challenges of our time, the ITF renews its commitment to serving as a constructive advocate for the impact transparency agenda worldwide, committing to participate both directly and through the GSG, and the Boards and consultative bodies of some of the leading organizations in the field, including: ISSB; IFVI Technical Committee and Board (on which 10 ITF SteerCo members sit); IPSASB Sustainability Reference Group; and the IMP.
In this same spirit we update our calls to action and recommendations:

1. We reaffirm our unwavering support for the work of the ISSB and reiterate our call to build on the ISSB baseline, striving for global, harmonized, and interoperable reporting frameworks—or ideally a single framework—that encompass impacts on all stakeholders, extending beyond climate-only disclosure to incorporate crucial social dimensions. In this regard, the EU's efforts to embrace double-materiality, though reportedly progressing at a slower pace and with a narrower scope than originally envisioned, represents a positive step forward and should be encouraged. To achieve this, close coordination with ISSB and other standard setters is essential to avoid the risk of fragmented reporting requirements for companies and other stakeholders engaged in global value chains. Ongoing work by the IMP to promote greater harmonization and interoperability across the broader system of impact-management resources, including disclosure standards, is deemed essential. Similarly, current efforts to make GRI and ISSB’s frameworks interoperable should be supported, while not losing sight of the distortive risk of ending up with a mandatory baseline (as ISSB is adopted by different jurisdictions) and an optional build (if GRI remains a voluntary “add-on” of sorts), should both paths not advance with the same potential for enforcement. Finally, a TISFD would be a welcome initiative to advance on a global set of recommendations for inequality and social disclosures.

2. We issue a strong call and reiterate our commitment to “double down on inclusivity” to ensure that global sustainability disclosure requirements are relevant to and adoptable by companies of all sizes and key stakeholders in both developed and emerging markets. This fully aligns with the G20 2023 leaders’ communiqué (paragraph 41), which calls for preserving flexibility in implementing ISSB’s SDSs, “to take into account country-specific circumstances.” In this context, as evidence indicates that engagement from EMs in global consultations such as those carried out by ISSB in 2022-2023 was severely limited, we reiterate our support to the aforementioned, upcoming capacity building and stakeholder engagement initiatives by the GSG and the UNDP in EMDEs.

3. Recognizing monetary impact valuation as one of the most powerful catalysts for positive behavioral and system change, we urge IFVI, VBA and other leading organizations in the impact valuation domain to continue developing a comprehensive impact accounting system. This system should include calculation methodologies, practitioner application guidance, audit and data management protocols, and robust, transparently disclosed monetary coefficients, consistent with the financial accounting and audit ecosystem. In parallel, we call on corporations, investment professionals, and other key market players to emulate the pioneering organizations in select jurisdictions by building on the adoption of emerging monetary impact valuation methodologies. In accordance with IFVI-VBA’s work plan, three years of intensive development work are necessary before the first comprehensive set of documentation is complete. Going forward, we encourage key stakeholders to stay actively engaged in this visionary process, preparing for a future where impact accounting will be the standard practice, as we anticipate increased information requirements by regulators. Lastly, we echo the IFVI-VBA’s view that an international organization with the necessary legitimacy, credibility, and resources, such as the UN (through its specialist agencies), or OECD, should consider adopting and further developing impact accounting methodologies and frameworks into international standards. The success of these standards hinges on the hosting, maintenance, and ongoing development of monetary value factors to ensure transparent, publicly scrutinizable, comparable reporting.

4. We call on governments and other key stakeholders to support ongoing efforts by IPSASB to advance much-needed impact transparency in the public sector, while welcoming the early engagement of key ITF members and partners such as the GSG and the UNDP in the IPSASB’s inaugural Sustainability Reference Group. Our second pathway for change is a transformation in the supply of opportunities to invest for impact that meet the needs of institutional investors. Our second pathway for change is a transformation in the supply of impact investment opportunities that meet the needs of institutional investors.
The ITF Workstream on Capital Mobilization was chaired by Dame Elizabeth Corley and led by the Impact Investing Institute. It convened 170 finance, policy, and thought leaders, representing 110 institutions in 38 countries between August and November 2021, and issued the report Mobilizing Institutional Capital Toward the SDGs and Just Transition.

This 2023 progress update section has benefited from the expert inputs of our knowledge partner organizations, which can be found listed in Annex B. Notably, Convergence’s input paper provides a recent snapshot and looks at the opportunities afforded by blended finance for closing the tremendous climate and SDG-financing gaps that lay before us. The Blended Finance Taskforce hosted by Systemiq looks at the untapped potential of guarantees, which have the potential to unlock $2.4 trillion annually for climate action. The CFF’s input paper outlines a set of thoughtful suggestions for how to mobilize capital for small and growing businesses. Building on its legacy work for the ITF, the Impact Investment Institute is continuing to focus on growing the value of assets incorporating a Just Transition lens, and has put out key practical tools for investors, including Just Transition Finance Criteria, a Handbook for Engaging Communities in Place-based Impact Investing, and Bridging Divides: A guide on using catalytic capital for a Just Transition.

Finally, GSG’s input paper looks deeper at many of the most critical capital mobilization topics we examine in this report – Just Transition financing, MDB and DFI reform, and encouraging greater engagement from domestic and catalytic capital providers – and ways our network can support these initiatives.

a. Our message in 2021

In 2021, we focused on how to deploy more institutional capital into global markets with the highest impact and growth opportunities, which entailed both destination and volume challenges. At the request of the G7 Presidency to prioritize mobilization into EMDEs, we identified the key barriers facing institutional investors and called on the G7 to help break these barriers down.

We outlined actionable pathways, supported by concrete examples, to enable each key stakeholder group - G7 policy makers, asset owners, asset managers and intermediaries - to effectively mobilize more impact capital. The pathways included repurposing familiar models of public-private collaboration for greater impact, and reforming the mandates and operating practices of key national and multilateral DFIs to explicitly empower them to prioritize private capital mobilization, especially in EMDEs.

We supported the call to promote the wider application of existing tools, such as blended finance vehicle structures, insurance products, and portfolio-level guarantees, to adjust the risk perception profile of investment opportunities for mainstream institutional investors in the near term. We gave examples of best practices that demonstrate what is possible today so that we do not unnecessarily reinvent the wheel when tried-and-tested instruments exist.

Given the primacy and momentum of climate funding, we were early advocates for the importance of social investment and the need to convert rhetoric around a Just Transition into a well-defined framework to mobilize public, private, and philanthropic investment to address the needs of those most affected. We made it clear that the framework had to integrate social and environmental goals to ensure people and places were not left behind in the transition to Net Zero, and we demonstrated how climate-led strategies can effectively incorporate socially inclusive objectives.

b. Stocktake of progress

The numbers are going the wrong way

The SDG and climate funding gaps have widened since our last report. The macroeconomic and geopolitical environment that shapes investor appetite for risk has clearly deteriorated since 2021. Climate financing flows are running at around $630 billion a year, nowhere near the assessed need of around $5.9 trillion per annum by 2030.15 Only 13% of climate finance is...
flowing into EMDEs, where it is needed most. Adaptation finance currently represents only 7% of climate finance, and private sector flows are negligible. The annual financing gap for the SDGs continues to be estimated at around $4 trillion per annum. Against this backdrop of need, private finance to EMDEs, excluding China, is reported to have declined by 21% since the Covid-19 pandemic. EMDEs saw net capital outflows of $522 billion in 2022; the situation improved somewhat this year with midyear data for 2023 reporting much lower net capital outflows of $173 billion. Nevertheless, capital is still not flowing at the speed and volume needed.

DFI mobilization rates are still undermobilizing.

According to the OECD, total private sector finance mobilized by DFIs in 2021 amounted to just $40.3 billion, of which only 10% reached low-income countries. The private capital mobilization ratio of International Financial Institutions (IFIs) is estimated to range between 0.1x to 1.5x, with the G20 calling for mobilization ratios of at least 1x. One of our core recommendations was for DFIs to structure more blended finance transactions, in light of data from our knowledge partner Convergence, which reports that blended finance has mobilized $188 billion since 2014. Despite our recommendations, the numbers are going the wrong way. Total deal volume decreased by approximately 45% in 2022, while climate blended finance fell by about 55%, reaching a 10-year low in total financing. Moreover, climate-blended finance transactions accounted for under 40% of all blended finance deals in 2022, while in each of the previous five years climate-focused transactions accounted for 50% or more of the annual deal count. We called for a smarter and more efficient use of capital, as evidenced by research from the Blended Finance Taskforce. However, their most recent research shows that guarantees represent just 4% of total commitments. DFIs and MDBs are still not reaching their full potential as arguably the most critical drivers in transforming the supply of suitable opportunities to invest for impact on the SDGs in EMDEs.

There is evidence of growing institutional investor appetite for impact-linked investment, although flows to EMDEs are inhibited.

As we noted in our 2021 report, there has been a structural shift toward investment products that prioritize environmental and social responsibility on a spectrum of ambition. The ESG movement faces political challenges in the USA but it has yet to be determined whether this has threatened the structural shift. In this context, it is worth noting that EU lawmakers recently adopted new sustainability reporting requirements that are expected to lead to around 50,000 companies reporting on the impact of their operations on the environment. ESG assets under management reached an estimated $35 trillion in 2022, and grew by 15% annually. This movement has greatly influenced corporate and investor perspectives on sustainability. Rightfully, the market is under increasing scrutiny from regulators who want to safeguard investors from greenwashing. We advocate for a response that acknowledges that “doing less harm” is no longer good enough. Our primary interest is in the growing spectrum of investors seeking opportunities to make measurable and intentional impact investment at scale. The Global Impact Investing Network estimates that the global impact investing market reached $1.16 trillion in 2022. The continued growth of the Green, Social, Sustainability, and Sustainability-Linked Bonds (GSSS bonds) market, which reached $4 trillion in 2023, is another significant development. Although this is encouraging, there is still room for improvement in terms of increasing issuance from EMDEs. The GSG has published a valuable report that outlines the key trends in this market’s development and provides recommendations on how different stakeholders can foster greater adoption in EMDEs.

In addition to the broad market shift to ESG, the last few years have seen bold commitments to climate finance and net zero from coalitions of institutional investors, most notably GFANZ. However, it is clear that these institutional investors struggle to reconcile investments in EMDEs within their prudent regulatory frameworks, and very few have the flexibility to adjust their risk and capital charge frameworks.
A Sovereign Sustainability-linked Bond in Uruguay

In 2022, the Republic of Uruguay issued a $1.5 billion sovereign sustainability-linked bond to finance its green transition. The bond’s interest rate depends on the country reaching two Specific Performance Targets (SPTs) linked to quantitative goals set for 2025 in Uruguay’s National Determined Contributions to the Paris Agreement. The adjustments will be triggered by performance against two indicators: the reduction in GHG emissions by unit of GDP (in %) and the preservation of native forests (in hectares). Two SPTs are set against each indicator: Uruguay will face a step-up coupon if it fails to meet the minimum target and be offered a step-down coupon if it manages to achieve an outperformance target. To assess performance, Uruguay will report GHG emissions on an annual basis, and conduct satellite imaging mapping of forests every four years. UNDP will provide an independent external verification (Ministry of Economy and Finance of Uruguay, 2022). The bond was 2.6 times oversubscribed and attracted 188 investors, of whom 21% were new to Uruguay’s bond market, and enabled Uruguayan sovereign debt to achieve an historically high credit rating of BBB+ (IDB, 2022).

Geopolitical shifts have triggered increased pressure for change.

We argued that achieving the necessary scale of mobilization would demand an extraordinary level of cooperative engagement, not only from market actors but also from governments. Since then, we have seen a substantive shift in geopolitics, as outlined in the introduction to this update. In addition to structural shifts of economic power and growing awareness of the impact of climate change on the global economy, we have experienced a series of interconnected shocks, including conflict, energy market turbulence, and macroeconomic shifts including higher inflation and interest rates. This has exacerbated the challenge of effective collaboration. However, one very clear shift is the growing influence and voice of the Global South, reflected clearly by the Bridgetown Initiative, and at the following summits: COP27, Summit for a New Global Financing Pact; G20 New Delhi Summit, in which the African Union joined as a permanent member; and the Africa Climate Summit. The pressure to change the way the financial system works for EMDEs has grown. Our colleagues and knowledge partners at the Blended Finance Taskforce have produced a useful overview of the reform agenda under active discussion.
## FIGURE 2 - OVERVIEW OF INTERNATIONAL CLIMATE FINANCE AND MDB REFORM AGENDAS

<table>
<thead>
<tr>
<th>Main Levers</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>Increase the flow of public capital</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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</tr>
<tr>
<td>• Use available capital more effectively &amp; increase funding</td>
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<td></td>
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<tr>
<td>• MDBs to redefine risk tolerance, make more use of catalytic capital, use SDRs &amp; use financial innovations e.g. private sector risk transfers &amp; guarantees</td>
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<tr>
<td>• Credit rating agencies to refine assessment</td>
<td></td>
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<td></td>
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<tr>
<td>Use public capital more catalytically to mobilise private capital</td>
<td>✔</td>
<td>✔</td>
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<td></td>
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<tr>
<td>• Increase the use of concessional finance and catalytic instruments such as guarantees to mobilise private capital</td>
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</tr>
<tr>
<td>Create &amp; use innovative finance models</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>• Innovation (e.g. disaster clauses) that increases access to existing and new finance sources (e.g. carbon markets for coal off)</td>
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### Enabling levers

| Define a new operating model                                              | ✔ |
| Scale the country level approach                                           | ✔ | ✔ |
| • Set operational incentives & KPIs for private finance mobilisation and climate |   |
| • Move from project to country approach and step up government support on climate strategies & policy advice |   |
| • Strengthen the investment climate and pipeline development efforts      |   |
| Strengthen public-private collaboration                                    | ✔ | ✔ |
| • Much stronger collaboration between the private sector and DFIs on pipeline development, including joint project preparation leveraging the on-ground presence of DFIs |   |
| Drive open access finance data                                            | ✔ | ✔ |
| • Accelerate economic & sectoral policy analysis, share credit risk methodologies & assessments |   |
| • Improve insight and transparency of investments in EMDEs                |   |

### Primary focus of recommendations

<table>
<thead>
<tr>
<th>Theme</th>
<th>CO2 Mitigation</th>
<th>CO2 Adaptation</th>
<th>CO2 Loss &amp; Damage</th>
<th>CO2 Nature, Food &amp; Land use</th>
<th>CO2 Energy</th>
</tr>
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</table>

**There is more visible support for the Just Transition**

In 2021 we were among the first to argue for a more comprehensive definition of a “Just Transition” that incorporated social and environmental objectives into investment frameworks. Hence, we welcomed the emphasis that the G20 Sustainable Finance Working Group put on the need to avoid or mitigate negative social impacts in their development of a Framework for Transition Finance.24 Our call coincided with the launch of Just Transition initiatives such as the G7-led series of Just Energy Transition Partnership (JETP) packages in South Africa, Vietnam, Indonesia, and Senegal. These “country packages” aim to link national infrastructure development and decarbonization plans with public and private financing. The success of the JETPs hinges on delivering the promise to facilitate socially just outcomes, meaning that JETP countries and their

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institutions will need to take on a leadership role. Sufficient investments in meaningful community engagement, worker upskilling, community rehabilitation, and other critical actions are essential to ensuring that no one is left behind in this complex and seismic economic transition. Mobilization of private capital is critical to JETP success but it is hard to identify a “country platform” that has a clear implementation strategy or roadmap to achieve this. It is also not yet clear how the social and community voice component we advocated for as part of the Just Transition investment framework is being prioritized. In the private sector, multiple initiatives have been calling for stronger pipeline development and wider availability of de-risking instruments. These include: Glasgow Financial Alliance for Net Zero (GFANZ); Sustainable Markets Initiative; Investors Leadership Network; Blended Finance Taskforce; IIF; and Capital Mobilization Accelerator. There is a clear commitment to inclusivity, with GFANZ, for example, building networks in Africa, Asia Pacific, and Latin America, as well as collaborating with JETP processes and country platform pilots.

However, there is little evidence of the difference that these initiatives are making to the flow of finance into EMDEs, nor of any clear prioritization of investment support for the social objectives that underpin a meaningful community-supported Just Transition.

Drawing on their experience from heading up the Impact Investing Institute, the Impact Investing Institute turned insight into action by launching the Just Transition Finance Challenge, which brought together over 23 global institutions, with more than $5 trillion of assets under management, committed to financing a Just Transition in both developed markets and EMDEs. Challenge participants collaborated to devise a set of Just Transition Criteria to guide fund managers in designing and structuring investment products that demonstrably advance the key tenets of a Just Transition.

In the near term, finance for the global energy transition will be the primary driver of private capital mobilization in EMDEs. We maintain our stance that commitment to a Just Transition is critical for sustaining political support. Words need to be underpinned by tangible investment flows to support communities most vulnerable to job losses and the physical risks of climate change. We welcome evidence of renewed political commitment to support the mobilization of public and private investment in global markets, which will have a positive impact on the broad SDGs and climate goals. The challenge, as ever, is turning rhetoric into real-world flow of investment into the markets that need it most. For example, in the context of climate finance, the Blended Finance Taskforce analysis estimates that over 75% of climate finance pledges are not deployed. We must strive to understand why there has been so little progress despite extensive analysis of barriers and solutions.

As the climate crisis deepens, inequality widens, and a shift in geopolitics brings increased pressure for change - not to mention societal pressures that are challenging the status quo - there is no doubt that 2024 needs to bring about pivotal change. Failure to respond adequately poses a systemic threat to our prevailing capitalist system and the liberal democracies that depend on it. Political and business leaders’ interests are aligned, and they must find a more effective model of collaboration. The way forward must revisit incentives, and challenge current practices in public, private, and philanthropic sectors. Fragmented efforts are inefficient; the next cycle of leadership in the G7 and G20 needs to align key public and private actors behind a single transparent plan to mobilize private capital for impact on the SDGs in EMDEs with a level of accountability that will incentivize delivery.

We recommend that this plan focuses on the most impactful and actionable levers of systemic change, without neglecting the need to address two key long-term systemic issues:

- National governments and multilateral institutions must be more effective in identifying models of collaboration that can mitigate the real risk of investing in EMDEs through the implementation of micro- and macroeconomic policies that foster more stable, supportive environments for private investment.
- Investment institutions must reassess their risk tolerance and perceptions of fiduciary duty in a world where business as usual is untenable and exacerbates systemic risks. In this process they need to be mindful that a new generation of customers and talent are likely to have different values, expectations, and demands. Within this process, long-term prudent regulators should be challenged as to whether their frameworks are too onerous with respect to the treatment of private assets.
from EMDEs. Rating agencies should also be challenged as to whether their models adequately capture risk of EMDEs, especially in sub-investment grade countries.

These systemic, long-term issues need to be resolved but will not generate the short-term results we need. Given the need to pivot in 2024, we decided to prioritize finding a better answer to the critical question:

"How do we realize the full potential of the DFIs and MDBs to mobilize institutional investment for positive impact on the SDGs in EMDEs?"

It is now widely understood that the publicly owned international financial system is critical to mobilizing private capital to where it can have the biggest social and environmental impact. Realizing this full potential becomes even more important given the likelihood that MDBs will have more money to invest. The G20 review of MDB Capital Adequacy Frameworks shows a path to taking more risk with existing capital without jeopardizing AAA status, and shareholders are becoming more innovative in using guarantees to help unlock additional investment.

The clamor for reform has grown but with public resources and bandwidth limited, so has the need to focus on what is most actionable and impactful. Since the original report in 2021, our thinking has evolved through discussions with DFIs, MDBs, investors in our ITF network, and colleagues across the GSG network.

d. Our updated recommendations

FOR GOVERNMENT DONORS/SHAR­E­HOLDERS

Coordinated action to clarify mandates of DFIs

We reiterate our view that shareholders should review DFIs’ and MDBs’ mandates to ensure the correct messages are being conveyed. A more sophisticated approach is required than simply increasing mobilization ratios, which might push DFIs toward less complex deals and subsidies for commercial investors in middle-income countries, where they are not as needed. DFIs are often tasked with pursuing multiple, and sometimes conflicting, objectives. Increased investment in low-income countries, for example, involves a set of interventions and financial instruments distinct from those used for mobilizing capital from commercial investors, where the focus is on larger deals mostly in middle-income countries with stronger credit ratings. However, by segmenting strategy along maturity and risk curves, the areas in which donors expect DFIs to be most effective in mobilizing private capital and recycling their balance sheet can be more clearly defined. Some mandates, for example those that are climate or non-climate related, may need to be segmented and prioritized, while others may require a review of their regulatory regimes in terms of the MDBs’ ability to co-invest with regulated entities, specifically commercial banks, for example.

Ultimately, each MDB/DFI needs to be accountable for having a transparent mobilization strategy with clear metrics, appropriate safeguards, and clarity about which balance sheet components correspond to different priorities. Furthermore, the ecosystem as a whole should be incentivized to collaborate more closely at the institutional, national, and regional level, with DFIs and MDBs being held accountable for their collective impact. Both these elements are captured in the Paris Summit Roadmap, and we take note of the commitment to a stocktake in September 2024.

Prioritize interventions that facilitate investment flow, especially risk perception adjustments

a) Promote a better understanding of real risk in emerging markets

One practical action is to accelerate the process underway to publish the GEMs Risk Database Consortium through an independent organization with a more agile governance structure. This would expedite the process of making this Database, which contains historic data of DFI deals, a public good accessible to third parties such as credit rating agencies and regulators, who will then be able to base risk assessments and rating evaluations on real - not perceived - risk.

b) Find a better solution to hedging FX risk in SDG-aligned projects

The Bridgetown Initiative has quite rightly focused on the need to find a better solution to the substantial problem of hedging FX risk in SDG-aligned projects, which has a critical bearing on the cost of capital in EMDEs. When considering this issue, it is important to bear in mind the fundamental need to address the macroeconomic factors that underpin FX risk in terms of volatility
and the trend toward depreciation. To identify the correct interventions for managing existing risk and enabling investment flow, we need to distinguish between large investment-grade countries that have access to FX derivatives and smaller, sub-investment grade countries that do not. There has been discussion surrounding a pragmatic option to scale up and diversify the existing Currency Exchange Fund (TCX), which was set up in 2007 by DFIs, donors, and microfinance investment vehicles to act as a market maker for currencies and maturities not covered by the markets. While there may be good arguments for this, decision makers would need to be clear on how to reduce and cover costs, ensuring the financial burden is not borne by those least able to afford it. Solutions that do not involve a significant element of subsidy/first loss provision are hard to come by, and our premise is that all subsidies should be prioritized for the markets that most need them. We would also like to flag a recurring issue, namely the pressing need to create more opportunities to deploy large, fast-growing pools of domestic capital in certain EMDEs to generate impact in the real economy. The debate surrounding this topic understandably focuses on breaking down barriers to the flow of international capital, but we believe in giving greater prominence to supporting domestic capital markets through flows of domestic capital that do not involve FX risk hedging and that could lead to more a stable commitment to investment in the real economy of their countries.

c) Increase the supply of catalytic tools for EMDEs

It is time to recognize that in the short-to-medium term, risk mitigation and credit enhancement are required as a means to the end of helping institutional investors reconcile private EMDEs’ risk with their risk and capital charge frameworks. In time, the degree of risk mitigation required should taper with better data to support decision making. Catalytic capital is therefore critical to unlocking impact and drawing in additional investment that would not otherwise be possible. Here we use its broadest definition, encompassing the full “toolbox” of catalytic grants, subsidies, guarantees, blended finance structures, concessional capital, insurance contracts, and outcome payments. Catalytic capital can come from different sources, including governments, philanthropists, corporates, family offices, and insurance companies. The common goal is to change market dynamics and - in the case of concessional capital - to transform the investability of high-impact projects. The last decade has brought new, and welcome, philanthropic interventions, such as the Catalytic Capital Consortium (C3) and the Global Energy Alliance for People and Planet. We have seen public development institutions such as the British International Investment (BII), Development Finance Corporation (DFC), World Bank, and Private Infrastructure Development Group (PIDG) innovate and demonstrate what is possible. For example, the World Bank has led the way in designing subsidy programs that have transformed the ability of private companies to offer affordable, distributed energy solutions to help reduce energy poverty in sub-Saharan Africa. In national contexts, we have seen governments creatively deploy catalytic capital to build markets. For example, the social impact investment market in the UK is now worth over £9 billion, with growth largely attributable to the creation of a new catalytic wholesale fund in 2012, called Big Society Capital.

If we are to unlock more private capital for impact in the 90% of EMDEs that do not have investment grade status, then we need more catalytic capital, and we need to make sure this precious resource is used in the smartest possible way, targeting the greatest impact and need.

MORE CATALYTIC CAPITAL AVAILABLE FOR EMDEs

New pooled facilities from existing budgets

We believe it is time to structure new catalytic capital facilities that would, ideally, pool top-sliced resources from existing public budgets controlled by high-income countries, including: Official Development Assistance (ODA), climate finance, multilateral funds such as Green Climate Fund, Global Environment Facility, Climate Investment Fund, and initiatives such as the G7-led Partnership for Global Infrastructure. This was originally proposed by our knowledge partner Convergence in their groundbreaking Action Plan for Climate and SDG Investment Mobilization, produced in partnership with USAID. The Action Plan estimates that catalytic capital of $13.5 billion plus a catalytic grant of $2.5 billion, combined with $45 billion of mezzanine finance from DFIs/MDBs, could mobilize $286 billion of private investment annually, which would represent six times the current mobilization of the entire development finance system. Since the current fragmented approach has failed to deliver, the time has come to try something different. We encourage new facilities to be set up regionally, with a mandate to prioritize


supporting nationally and regionally led blueprints for mobilizing different types of domestic and international capital in order to invest for high impact in priority areas, such as facilitating access to appropriate capital for job-creating micro-, small, and medium-sized enterprises (MSMEs).

**Tap new sources of catalytic capital**

We would take this a step further to encourage coordinated engagement with new sources of catalytic capital. The insurance industry should be viewed as a priority, considering the financial implications of the climate crisis for the industry. Given their current very low-level investment, there is certainly opportunity for the industry to invest more of their portfolio in low-carbon and climate-resilient infrastructure in EMDEs. However, beyond this, the insurance industry already has the tools, as well as the ability to create new ones, to support cost-effective risk mitigation, in partnership with development banks and donors. We also note with interest the arguments being made for the strategic value of the largest sovereign wealth funds being seen to support this critical mobilization, especially if they have generated windfall profits from recent turbulence in energy markets.

Although increasing the supply of catalytic capital available to EMDEs is necessary, this alone is not sufficient. There must also be a much greater commitment to smart collaboration between DFIs/MDBs, private and philanthropic sectors, and national governments, who have their own catalytic toolbox for unlocking private investment for impact. One dividend of this collaboration, as we go on to explore, must be a greater shared understanding of “what works” in terms of deploying catalytic capital effectively in different contexts.

**a) Enable greater use of guarantees**

In 2021 we called for greater use of guarantees in light of growing evidence of their relative impact and cost effectiveness. Since then, further analysis from Systemiq, represented on our SteerCo, has strengthened the case. The report gives examples of effective guarantee products that could be scaled, including Guarantco, SIDA and US International DFCs partial credit guarantees, and the Climate Investor One Tranched fund structure. It also makes a case for new guarantee facilities to help achieve the scale required, with analysis that suggests mobilization rates of 30x are possible. We welcome evidence of growing ambition to scale instruments; the European Fund for Sustainable Development Plus (EFSD+), for example, has a guarantee capacity of $40 billion to be deployed between 2022-2027 for SDG-related investments, $6 billion of which has already been approved. Through the “Room to Run Sovereign” guarantee, the British government will guarantee up to $1.6 billion of existing AIDB loans across a portfolio of 11 countries. The PIDG has demonstrated how guarantees can be used to mobilize local finance in Nigeria, Pakistan and Kenya.

**FOR DFIs AND MDBs**

**Smarter collaboration for Impact**

**a) Increase support for domestic collaboration.**

There is a clear need for greater collaboration between DFIs and MDBs within countries and across regions. However, we believe that priority needs to be given to increasing support for collaboration with domestic players, specifically to:

1. **Domestic Pension Funds (DPFs)**

   Pension funds in several EMDEs are already large and are growing fast. Across Africa the value of institutional assets are estimated to be $1.4 trillion. For example, Nigerian pension fund industry assets are valued at over $32 billion and grew by over 11% between 2021 and 2022. Domestic pension funds invest in local currency, but largely in national treasury bonds. There is a clear opportunity for them to engage with supporting the real economy in their countries, and to diversify into alternative assets, not least because we are seeing some leadership, for example in South Africa, in loosening asset allocation limits.

2. **Public Development Banks (PDBs)**

   450 PDBs around the world, managing over $11 trillion of assets and with deep knowledge of local markets, must be seen as increasingly valuable partners to support private capital mobilization. Finance in Common (FiC) has a key role to play in networking with these institutions. The Paris Summit roadmap includes an undertaking for FiC to create a compilation of commitments and proposals to enhance PDBs’ access to de-risking capital for the next G20 meeting.
Higher priority should be given to investing in the development of resilient, domestic impact fund managers who understand local needs and can invest in early-stage companies with the potential to create jobs and positive SDG impacts. We have a growing list of examples across the world of wholesalers that have the potential to build domestic impact markets. ITF SteerCo members played a critical role in the development of Big Society Capital in the UK, which alongside the Access Foundation for Social Investment, has helped grow the domestic social investment market to be worth over $9 billion. Members of the GSG network have been instrumental in developing similar propositions in Japan, Korea, Portugal, Spain, Canada, Türkiye, Nigeria, and Ghana.

In many EMDEs, the critical issue is access to affordable finance for job-creating SMEs. According to our knowledge partners Collaborative for Frontier Finance (CFF), MSMEs create seven out of 10 formal jobs in EMDEs, making them instrumental to the creation of economic opportunity for large, fast-growing populations of young people. Within its input paper to this update report, GSG has produced a valuable analysis of the challenges underlying the problem of access to finance, and the landscape of existing tools and responses. We argue that this challenge needs a more ambitious and coordinated approach, which fits with the growing priority that both the G7 and G20 attach to enhancing the business environment and strengthening partnership with African countries, including through the G20 Compact with Africa. Failure to solve this issue will have serious cross-border economic and political consequences. We observe too big a gap between institutional capital providers and local capital providers who can deploy capital to SMEs. Blueprints for investable solutions may be required to bridge this gap, but they would need to be based on DFIs’ and PDBs’ pooled insight on success factors. A number of GSG NABs are structuring vehicles to channel impact investment to local SMEs, for example in Nigeria, Zambia, and Ghana, and more support is needed to design, accelerate, and disseminate locally grown solutions.

**Domestic impact fund manager ecosystem**

**Deploying capital to SMEs—a shared agenda**

**Smarter deployment of limited catalytic and concessional finance.**

We have joined others in calling for an increase in the supply of catalytic and concessional capital. We have emphasized that now is the right time to look beyond public sector balance sheets for sources of more flexible capital and de-risking tools. However, we also feel that this is an opportune moment to take stock of what we have learned over decades to make sure that future allocation of resources is as impactful as possible. There is clear scope to develop a better shared understanding of what works in terms of using catalytic and concessional finance on a broad spectrum to adjust risk profiles and thereby mobilize private capital at scale into high-impact areas. The limited number of players who are able to supply catalytic and concessional finance could streamline their coordination within countries and regions, making it easier for governments, project developers, and investors to navigate the offer landscape.

**Pipeline development**

Institutional investors continue to cite the lack of quality pipeline as a barrier to investment. Institutional investors require improved access to pipeline with the right fund economics and scale in a variety of impact-related domains, including access to fund managers investing in SMEs, targeted climate- or gender-lens focused funds, sustainable infrastructure and affordable housing funds, health, education, agriculture, and other SDG-aligned investment opportunities. To overcome some of these pipeline-related issues, some institutional investors have banded together to create asset owner alliances or pooled pension collaboratives (see ANNEX A). As our knowledge partner CFF argues in their input paper, DFIs can provide greater exposure to investment pipeline by approaching pension funds to co-invest in their deals. DFIs can also better support project development, by increasing their coordination with catalytic capital providers, including charitable foundations and impact investors.. It is time to learn from what works and allocate finite resources to scale existing assets that deliver good results, following the examples...
of the PIDG, Global Infrastructure Facility (GIF), FSDAi, CFF’s Early Stage Local Capital Provider Network, and Partnership for Forests. It is striking for example how successful PIDG has been in leveraging $5.3 billion of investment in over 200 projects developing sustainable infrastructure in low-income countries to mobilize an additional $24.5 billion."46

c) Supporting opportunities to mobilize institutional investment at scale.

**i. GSSS Bonds/Outcomes-Based Financing Instruments**

The GSSS bond market has grown and is now worth almost $4 trillion. It is part of a growing family of investments that tie funding to results, and reflects a shift (one that we support) to funding outcomes. However, issuance in EMDEs accounts for only 15% of the global market. IFIs can play a catalytic role in supporting wider adoption of GSSS bonds in EMDEs through anchor investment, first loss/subordination positions, or through technical assistance.

**ii. Multi-asset portfolios**

Larger DFIs are able to bundle pools of assets ($500 million or more) to either sell or securitize. This allows them to help create new investment products and recycle their balance sheets faster to free up risk capital.47

d) Supporting well-targeted collaborative platforms.

The DFIs/IFIs have demonstrated their ability to collaborate for impact, not least through the 2x Challenge (now under 2X Global) which was launched at the 2018 G7 summit as a bold commitment to inspire DFIs and the private sector to invest more in the world’s women.48 It has exceeded a $15 billion target. In September 2023, the Japanese Presidency of the G7 launched the Impact Investment Initiative for Global Health (see box below) with the support of G7 partners and a range of institutions.49 These targeted collaborations encourage investors to agree on frameworks for investment in priority areas and share information on investments to provide demonstration effect.

**Impact Investing Initiative for Global Health – the “Triple I”**

The Triple I was endorsed by G7 leaders at the Hiroshima Summit. It is an action-oriented movement that aims to create better access to global health outcomes, by increasing the flow and effectiveness of investment that seeks to combine financial returns with a measurable positive impact, especially in LMICs. It reaches out to investment institutions, both public and private, that are committed to invest for positive impact on global health, and asks partners to commit to:

- Promoting impact investments that set out to have a measured, positive impact on the access, affordability and outcomes of health services and produces in LMICs;
- Identifying and promoting the thematic opportunities that are most appropriate and urgent for mobilization of private investment for impact;
- Helping to provide valuable insights to decision makers on existing good practice and the opportunity to develop appropriate metrics and reporting systems, conduct research, and create an enabling environment for investment to flow.

The GSG, including its role as Secretariat of the ITF, was asked to become an Implementation and Knowledge partner to the Triple I, alongside the Gates Foundation, EY Japan has provided further support. Triple I has also brought together three co-chairs with extensive international experience, including from Japan and LMICs: Ken Shibusawa, Ayoade Alakija, and Steve Davis.
Our Proposal

An urgent process to develop a better shared understanding of “what works” in two key areas:

1. Getting the most out of the catalytic capital we have.

It is time to convene a new, safe discussion that takes an honest look at what we have learned from years of testing the most effective deployment of catalytic capital including, but not limited to, concessional finance. While it is easy to criticize DFIs, we should also recognize instances of bold leadership, such as that displayed by the British government when it backed BII (British International Investment) with $1.5 billion of capital to develop their Catalyst strategies in 2020. Despite opportunities to learn from one another, this does not seem to be happening in a meaningful way. We suggest promoting dialogue that brings together a range of actors to facilitate mutual understanding. While DFIs are a core part of this dialogue, other sources of more flexible and risk-tolerant capital, such as the Catalytic Capital Consortium and the Global Energy Alliance for People and Planet, should also be included. With new dialogues starting to take place between different stakeholders and institutions from EMDEs, including Heads of State (The Bridgetown Initiative), Ministries of Finance and Central Banks, pension funds, national development banks (FiC), and local capital providers, this is the time to work together to scale proven strategies and co-create solutions. We believe the greatest value will come from surfacing actionable pathways and blueprints for new types of investment vehicles that can drive capital to the SDGs at scale in EMDEs.

2. Providing small job creators with much-needed growth.

Alongside this broader dialogue is a significant opportunity to develop a better shared understanding of what has worked and what has not in a specific area of high importance. In this report, we have stressed the importance of making it easier for SMEs and domestic fund managers to access finance, specifically by connecting the big institutional capital - international and domestic - to local asset managers, working with small and growing high-impact companies. This is applicable to all economies, as it involves creating valuable jobs but is especially relevant for EMDEs. We would take it further by stressing the importance of the S in SME. Over the years, a handful of different typologies have been used to try to get the right kind of capital to small companies, ranging from directed loans, taking
ownership stakes in local banks, micro finance, fund of funds, FinTech, and trade finance. However, a substantive stocktake of our learning from previous typologies has not taken place. In the context of EMDEs, a subset of DFIs should be provided with the resources necessary to collaborate with each other and with dialogue partners to conduct portfolio analyses that foster a deeper shared understanding of effective strategies. This will enable the most impactful allocation of finite resources in the future. Again, we should be seeking to surface actionable pathways and blueprints aimed at narrowing the gap between institutional capital and small, high-impact businesses. This could carry a significant dividend in the opportunity to mobilize the large, fast-growing domestic pools of capital, which we have identified as a priority, particularly because they do not have to hedge currency risk.

**Turning this insight into action:**

- Connect the learnings on catalytic capital to the new regional catalytic facilities we propose.
- Build a Coalition of the Willing to transform the financing landscape for SMEs.

Given the geopolitical importance of helping job-creating SMEs grow, we call on the G7 and G20 to use their convening power to build a diverse coalition of public and private investors to collaborate in mobilizing more investment in support of MSMEs in EMDEs, leveraging the learnings and actionable pathways that surface from the dialogues we propose. As outlined below, there are precedents in the form of the G7-led initiatives to mobilize more investment to empower women (2X Challenge) and to global health through the Impact Investment Initiative for Global Health (Triple I).

Few organizations are better placed to convene the first, broad dialogue than the GSG, who is currently undertaking this endeavor. GSG is also well placed to initiate and contribute to the more specific dialogue around what works in delivering appropriate finance to small companies in EMDEs. However, this project will require more dialogue partners to support the DFIs in assessing the data and convening the full range of actors across the different typologies that have been tested. As partners of 2X and an implementation partner of Triple I, both the ITF and the GSG would be well-positioned to support a similar initiative focused on MSMEs.
The ITF seeks to add value through delivering insight on “next frontier” opportunities and taking practical action to help accelerate the testing of concepts. In 2021, as part of our call for greater impact transparency, we highlighted impact valuation and accounting as key areas that needed support, and since then the ITF has unequivocally backed the foundation of the IFVI. In terms of capital mobilization, we identified the need for an investment framework to better define a Just Transition and aligned our efforts in support of the Just Transition Finance Challenge.

In this report, we table outcome partnerships as an emerging, “next frontier” opportunity that integrates two key components of our central premise:

1. The opportunity to mobilize private capital into impact-linked investment products.
2. The need for creative public-private partnerships to enable efficient allocation of resources into areas of high impact.

In a context where governments are facing larger and more complex challenges to deliver high-quality social services while trying to reduce taxpayer cost, outcomes partnerships have emerged as a notable solution. As defined by Bridges Outcomes Partnerships (Bridges), our specialized knowledge partner, outcomes partnerships are “programs that shift the focus from paying for specific inputs or activities, to paying for specific, measurable outcomes.” They aim to improve the effectiveness of public spending by building on existing knowledge, fostering innovation in delivery and funding, and improving the provision of governmental social services.

Since 2010, when the world’s first Social Impact Bond (SIB) was implemented in Peterborough (UK), different vehicles that link payment to results have emerged, ranging from Outcomes Funds to Development and Career Impact Bonds (DIBs and CIBs). Today, there is a growing body of evidence that shows the potential of outcomes partnerships to deliver value: a study on 72 UK Social Outcomes Contracts found that these projects generated £1.4 billion of value (including direct savings or costs avoided by the public sector, gains to society, and increase in earnings or growth of local economies), out of £139 million spent. In other words, for every £1 spent, £10.2 of public value was generated (i.e., a benefit cost ratio of 10.2).

In parallel, success cases of outcomes partnerships have expanded across different jurisdictions. In 2019, Social Finance US launched the UP Fund, a $50 million pool of catalytic capital investing in a portfolio of CIBs that enable people to build careers in high-demand, recession-resistant sectors across the US. The Fund has so far enrolled over 2,100 people, out of which more than 80% held less than a bachelor’s degree, achieved a 94% graduation rate, and increased participants’ annual earnings between $15,000 and $45,000. Career Impact Bonds have been applied in Israel and Latin America and hold much potential for many countries looking to scale up and upskill their workers in in-demand sectors, including data and IT, engineering, nursing, and more.

Some other meaningful examples of impactful outcomes partnerships include:

**Australia: Commonwealth Outcomes Fund**

In their 2023-24 Budget, the Australian Government committed A$100 million toward establishing an Outcomes Fund to fund projects based on measurable outcomes, with nonprofits and social enterprises that have deep understanding of local disadvantages acting as service providers. This Fund will create more investable opportunities to address complex social challenges suited to outcomes-based initiatives, such as homelessness, health, unemployment, recidivism, and out-of-home care.
Colombia: Empleando Futuro SIB
In 2017, Colombia was the first country to launch a SIB in a developing country. The goal was to employ vulnerable individuals in formal jobs and support them in retaining these jobs. The bond successfully placed 899 (out of 1855) individuals in a formal job, retaining over two thirds of them for at least three months, and the remaining third for six months or more. The success of this first bond paved the way for the subsequent structuring of impact bonds and funds in the country.

Nigeria: SDG Outcomes Fund
Wecyclers, a Nigerian waste management company that helps low-income individuals exchange their recyclable waste for cash and other rewards received a five-year $1.6 million commitment from the SDG Outcomes Fund to establish 26 waste management franchises. These franchises aim to create over 780 jobs paying at least 25% above the minimum wage, and to recycle 34,000 tons of plastic waste.

World Bank’s Multi-Donor Trust Fund (MDTF)
Through the Global Partnership for Results-Based Approaches (GPRBA), the World Bank launched the MDTF, a Fund whose objective is to drive improved social, infrastructure, and environmental outcomes for poor and vulnerable populations using innovative outcome-based financing approaches. Over the past years, the World Bank has disbursed over $22 billion globally to fund results-based mechanisms.

Education Outcomes Fund (EOF)
The GSG along with the Education Commission were instrumental in establishing the EOF, an organization that aims to pool at least $1 billion in aid and philanthropic funds by 2030 and transform the lives of over 10 million children and youth. With a view to funding innovative education and youth employment readiness programs, EOF is also a clear example of public-private cooperation through an innovative model that brings together government, funders, investors, and education organizations to work toward a common objective.

While outcomes partnerships approaches are not necessarily new, they are yet to be implemented at a wider scale. Some of the challenges hindering widespread adoption of outcomes-based financing mechanisms include the existing rigid budgeting and procurement practices in the public sector, the need for sophisticated data management systems that are hard to fully implement, the lack of familiarity of policymakers with these financing mechanisms, and changes in government or sudden shifts in the political landscape that lead to lack of continuity. According to Bridges, there are three key success elements needed to advance outcomes partnerships based on its experience as one of the world’s leading designers and delivery partners of outcomes programs:

1. Collaborative design, achieved by working with local groups and experts to establish a shared vision based on measurable improvements.

2. Flexibility in delivery, which allows delivery partners to adapt solutions to local circumstances and continuously analyze impact data to improve programs based on the evidence gathered.

3. Shared accountability mechanisms, put in place by setting meaningful metrics tied to real-life improvements, transparency reporting, and a focus on understanding the broader systemic impact and lessons learned for future programs.

There is growing evidence that underscores the advantages of outcomes partnerships serving as a catalyst for attracting greater financial resources to support projects that put people and planet first. Experience shows that the most feasible opportunities for outcomes partnerships lie in social policy delivery, where there is an existing demand for innovative approaches to tackle the financing gap needed to deliver quality social services while reducing taxpayer cost.

For outcomes partnerships to succeed and proliferate, it is imperative for governments to shift toward decision-making models that link resource allocation to measurable outcomes and positive impact, which is in line with ITF’s call for greater impact transparency in public sector accounting.
Our call to action

FOR PRIVATE SECTOR AND POTENTIAL FUNDERS

1. FLEXIBILITY IN DELIVERY. Adopt a flexible mindset that can adapt to varying local frameworks and contexts, instead of trying to impose standardized solutions or regulations.

2. POOLED FUND OF PRE-FINANCING. DFIs and philanthropic capital can play a catalytic role by anchoring pooled working capital investment funds. This can help to reduce fundraising and other transaction costs of individual projects, reduce investor risk by spreading exposure across several projects, build a pioneer market for these products, and provide a demonstration effect.

3. DISSEMINATE OUTCOMES PARTNERSHIPS’ BENEFITS. Disseminate information about these mechanisms and their benefits through networks of champions and advocates. To navigate political complexities, plan strategically with leaders and civil service to secure long-term support, in order to ensure continuity.

FOR GOVERNMENTS

4. CREATE AN INSTITUTIONAL ENVIRONMENT THAT ENABLES INNOVATION. Specific outcome contracting units in government are ideal. However, governments, particularly those that are financially challenged, can incrementally promote changes by shifting from traditional budgetary periods and procurement practices to multi-year budgeting with adaptable payment profiles.

5. ESTABLISH AN OUTCOMES FUND. To initiate change and create a demonstration effect, we propose the establishment of outcomes funds that pool resources from different departments. An outcomes fund that has the capacity to supplement government contributions can streamline funding processes, promote cross-sectoral coordination, and enable long-term funding aligned with multi-year budgeting models.

6. SET UP AN EXTERNAL EXPERT BODY. To improve data quality and support impact-based funding allocation, an external advisory board can help to build the market, share knowledge, and provide better data.

Example: Colombia’s LOGRA Outcomes Fund

LOGRA is a $5 million+ outcomes fund set up in 2020 by Colombia’s Social Prosperity Department, with support from IDB-Lab and Switzerland’s international cooperation financing, as the first of its kind set up by a government in Latin America. Its objective is to increase employment opportunities for vulnerable populations in times of crisis.
THE WAY FORWARD

In 2021, we came together as an independent group of leaders and experts from the worlds of investment, finance, policy, international development and cooperation, to offer industry-led, action-oriented insight to transform our economic systems for good. As previously stated, we are encouraged by progress made over the past two years, including by several of our members, against our core legacy recommendations. However, we are deeply concerned by the sluggish pace of progress despite the urgency of the situation and worsening conditions in EMDEs.

In light of this, moving forward we reaffirm our commitment to remain a leading voice for innovation and advocacy, including in key international fora such as the G20, committed to the most effective means to achieve full impact transparency and to unlock capital at scale for a Just Transition to Net Zero that does not leave people and places behind.

Above all, our commitment is to solidify our position as a practical forum for action, bridging the gap between rhetorical ideas and tangible outcomes. We will do so by leveraging the power and reach of our global network, including the unique perspectives and drive of the national impact leaders in and across the 40+ countries in which the GSG operates.

As per our assessment presented in the sections above, we will prioritize work where we can add the greatest value, around our two main workstreams:

Impact transparency

1. **LEADING**, through and alongside the GSG, a UK government-backed initiative to double down on efforts to promote greater inclusivity of voices from emerging markets in the main global sustainability disclosure standard-setting processes underway.

2. **SUPPORTING** the work of the ISSB while continuing to engage with groups pushing for a "build" on the global reporting baseline for private entities, as well as supporting the IPSASB in its recent efforts to progress sustainability and impact reporting in the public sector. ITF members sit on both the ISSB and IPSASB consultative committees.

3. **ADVANCING** our vision to achieve impact accounting through the work of the IFVI (10 ITF SteerCo members serve on this inaugural board) and the VBA, who responded to our 2021 call to boost progress in the field of monetary valuation of impact, crucial for facilitating a new paradigm of risk, return, and impact in business and investment decision-making.

Capital mobilization

4. **SUPPORTING** strategic initiatives that aim to encourage mobilization into areas of high impact. In particular, we are proud to be formal implementation partners of the G7 Impact Investment Initiative for Global Health (Triple I), led by Japan as the 2023 G7 Presidency, with the support of other G7 partners and 37 inaugural members. As it invited the GSG to drive the Triple I as leading impact investment experts, the Japanese leadership also nominated Mr. Ken Shibusawa, member of the ITF Steering Committee and Chair of the GSG Japan National Advisory Board, as one of the co-chairs of the Triple I.

5. **FURTHERING** opportunities and partnerships to improve access to finance for SMEs in emerging markets, potentially supporting the development of blueprints for vehicles that bridge the gap between larger pools of investment capital and small businesses, allowing international and, especially, domestic institutional capital to cascade down to local capital providers. This could build on learnings from the activities of local fund managers, such as those profiled in CFF’s 2023 Local Capital Provider Survey, and from valuable models and precedents, such as the platform recently launched by BII in Ghana, aimed at boosting funding for SMEs by “industrializing and standardizing the lending process to get growth and working capital to SMEs without the typically onerous collateral/security requirements that commercial banks require.”
CONTINUING TO SUPPORT colleagues at the Impact Investment Institute (III) in the next phase of their Just Transition Finance Challenge. It is the III’s ambition that in the next five years, 50% of the estimated $2.8 trillion invested in sustainable climate-focused funds will incorporate just transition considerations using the Just Transition Criteria introduced in 2021 as part of ITF’s work. The Institute is piloting the Criteria with a number of asset managers and engaging with actors such as catalytic capital providers to ensure these funds also support a just transition in EMs. The III has also developed a proposal for a Just Transition Label recognizing compliant products and solutions. Through our network, including the GSG National Advisory Boards, the ITF will leverage the III’s work and continue to engage with governments and stakeholders in key countries embarking on major energy transitions to explore the scope to build coalitions of action around the need to mobilize investment that integrates social and environmental objectives, seeking to support the most vulnerable communities. Brazil, as the largest country in Latin America, due to lead the G20 and COP in 2024, and home to some of the world’s most critical natural assets, remains a compelling opportunity for testing innovative solutions.

We have polished the problem long enough. Common ground has been established around what needs to be done. The real, pressing question, therefore, is why change is not happening with the urgency and scale of ambition required.

In an increasingly challenging global environment, we cannot sit idle as system inertia in both the public and private sectors prevails, perpetuating a status quo that works against human development and pushes natural systems to the verge of collapse.

To an increasing extent, high-level global dialogue is engaging with the difficult shifts required. While we are broadly supportive of the direction of travel and will continue to engage as an expert, recognized voice, our focus will be on the pragmatic things that can be done today to create a more enabling environment for mobilizing private capital for impact, demonstrating what is possible.

2024 needs to be a pivotal year for change.

IT IS STILL TIME TO DELIVER.
ACKNOWLEDGEMENTS

We are grateful to everyone who has contributed to our work, including the GSG staff who authored this report, the ITF Steering Committee who provided invaluable steer and input, and our sponsors and generous supporters. This work would not have been possible without their passion, professionalism and commitment.

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• Paul Ramsay Foundation (Silver)

## ABBREVIATIONS AND ACRONYMS

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<thead>
<tr>
<th>AUM</th>
<th>Assets Under Management</th>
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<tbody>
<tr>
<td>BII</td>
<td>British International Investment</td>
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<tr>
<td>CIB</td>
<td>Career Impact Bonds</td>
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<tr>
<td>DFC</td>
<td>U.S. International Development Finance Corporation</td>
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<tr>
<td>ESG</td>
<td>Environmental, Social and Governance</td>
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<td>EMs</td>
<td>Emerging Markets</td>
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<td>EOF</td>
<td>Education Outcomes Fund</td>
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<td>EU</td>
<td>European Union</td>
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<td>FIC</td>
<td>Finance in Common</td>
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<td>FSC</td>
<td>South Korea’s Financial Services Commission</td>
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<td>GEMs</td>
<td>Global Emerging Markets Risk Database Consortium</td>
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<td>GIF</td>
<td>Global Infrastructure Facility</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<td>GSG</td>
<td>The Global Steering Group for Impact Investment</td>
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<td>International Auditing and Assurance Standards Board</td>
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<td>IFIs</td>
<td>International Financial Institutions</td>
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<td>IFRS S1</td>
<td>General Requirements for Disclosure of Sustainability-related Financial Information</td>
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<tr>
<td>IFVI</td>
<td>International Foundation for Valuing Impacts</td>
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<td>III</td>
<td>Impact Investing Institute</td>
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<td>INFFs</td>
<td>Integrated National Financing Frameworks</td>
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<td>IPSASB</td>
<td>International Public Sector Standards Board</td>
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<td>ITF</td>
<td>Impact Taskforce</td>
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<td>KSSB</td>
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<td>MDB</td>
<td>Multilateral Development Bank</td>
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<tr>
<td>MSME</td>
<td>Micro-, Small and Medium-sized Enterprise</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PIDG</td>
<td>Private Infrastructure Development Group</td>
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<td>ADB</td>
<td>African Development Bank</td>
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<tr>
<td>CFF</td>
<td>Collaborative for Frontier Finance</td>
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<tr>
<td>COP27</td>
<td>Conference of the Parties (United Nations Climate Change Conferences), 26th edition, 2022</td>
</tr>
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<td>DFI</td>
<td>Development Finance Institutions</td>
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<tr>
<td>EFSDs</td>
<td>European Fund for Sustainable Development Plus</td>
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<td>EMEDs</td>
<td>Emerging Markets and Developing Economies</td>
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<td>ESRS</td>
<td>European Sustainability Reporting Standards</td>
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<td>FCS</td>
<td>Financial Stability Board</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GHG</td>
<td>Greenhouse Gas Emission</td>
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<tr>
<td>GPRBA</td>
<td>Global Partnership for Results-Based Approaches</td>
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<td>GFANZ</td>
<td>Glasgow Financial Alliance for Net Zero</td>
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<td>GSSS</td>
<td>Green, Social, Sustainability and Sustainability-Linked</td>
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<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>Impact Management Platform</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
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<td>ISSSB</td>
<td>International Sustainability Standards Board</td>
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<tr>
<td>JETP</td>
<td>Just Energy Transition Partnership</td>
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<tr>
<td>LMICs</td>
<td>Low and Middle income countries</td>
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<tr>
<td>MDTF</td>
<td>Multi-Donor Trust Fund</td>
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<td>NAB</td>
<td>National Advisory Board</td>
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<td>PDB</td>
<td>Public Development Bank</td>
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<td>SASB</td>
<td>Sustainability Accounting Standards Board</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>SDG</td>
<td>Sustainable Development Goal</td>
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<tr>
<td>SEC</td>
<td>United States’ Securities and Exchange Commission</td>
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<td>SIDA</td>
<td>Swedish International Development Cooperation Agency</td>
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<tr>
<td>SPTs</td>
<td>Specific Performance Targets</td>
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<tr>
<td>SVI</td>
<td>Social Value International</td>
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<tr>
<td>TCX</td>
<td>Currency Exchange Fund</td>
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<td>‘Triple I’</td>
<td>Impact Investing Initiative for Global Health</td>
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<td>UNICEF</td>
<td>United Nations International Children’s Emergency Fund</td>
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<td>World Health Organization</td>
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<td>SDSs</td>
<td>Sustainability Disclosure Standards</td>
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<td>Social Impact Bond</td>
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<td>Small and Medium-sized enterprises</td>
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<td>SSBJ</td>
<td>Sustainability Standards Board of Japan</td>
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<td>TCFD</td>
<td>Taskforce on Nature-related Financial Disclosures</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>VBA</td>
<td>Value Balancing Alliance</td>
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</table>
ANNEX A: Success Stories in Mobilizing Domestic Pools of Capital for Impact

I. Vehicles designed to mobilize domestic pension funds for impact in EMDEs.

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>DESCRIPTION</th>
<th>COUNTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equity</td>
<td>MOBILIST, a flagship initiative by the UK government and FCDO, helps products list on global and local public exchanges. To date, the program has made two commitments, with 12 more in the pipeline and/or under review. MOBILIST invested £25 million in the ThomasLloyd Energy Impact Trust PLC, the first-ever EMs renewable energy fund, which went on to raise $115 million in December 2021 at IPO. Through partnerships with stock exchanges in London, Singapore, Johannesburg, São Paulo, Manila, Mexico, and Nigeria, MOBILIST is helping to channel more capital for sustainable development via products listed on those exchanges.</td>
<td>UK, Singapore, South Africa, Brazil, Philippines, Mexico, Nigeria</td>
</tr>
</tbody>
</table>

| Private Debt | Managed Co-Lending Portfolio Program (MCPP), One Planet is a $3 billion global loan syndication platform for climate-smart investment aligned with the Paris Agreement. Developed by the IFC, the facility enables institutional investors to directly provide capital for sustainable lending in EMs. Since its launch in 2013, MCPP has raised over $10 billion from 11 investors and provided financing to more than 200 firms across 55 developing countries. | Global |

| Private Equity / Venture Capital / SMEs | Ci-Gaba Fund of Funds, Impact Investing Ghana (IIGH) is a $75 million blended finance vehicle that will provide funding for West African venture funds and SMEs. 75% of the funding is local and focused on investing in SMEs. The use of local currency is designed to encourage local market development and capital mobilization from Ghana’s pension industry. The vehicle consists of two tiers of capital: a senior tier structured as preferred shares with return expectations based on a 10-year government bond rate, and a second tier covering a percentage of first loss from donors or DFIs. The vehicle is sponsored by Impact Investing Ghana with support from the Global Steering Group for Impact Investments, FMO Ventures, and the Research and Innovation Systems for Africa (RISA) Fund of UK International Development. | Ghana |

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50 Impact Investing Ghana (IIGH) is GSG’s affiliated National Advisory Board (NAB) for Impact Investing in Ghana.
<table>
<thead>
<tr>
<th>Private Equity / Venture Capital / SMEs</th>
<th>Ghana</th>
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<tbody>
<tr>
<td>Growth Investment Partners (GIP) Ghana is a local currency financing vehicle launched by BII in July 2023 designed to provide long-term capital that addresses a financing gap for Ghanaian SMEs, which account for over 80% of all employment. Through a $50 million commitment, the vehicle will support up to 150 SMEs in Ghana within the next 15 years.</td>
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<tr>
<th>Private Equity / Venture Capital / SMEs</th>
<th>Zambia</th>
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<tbody>
<tr>
<td>Credit Risk Guarantee Scheme, Bank of Zambia</td>
<td>In 2022, The Bank of Zambia (BoZ) signed an MOU with the Zambian National Advisory Board for Impact Investment (NABII) to design a Credit Risk Guarantee Scheme (CRGS) to provide affordable credit to formal and informal SMEs operating in the agriculture value chain. Thanks to a grant from C3 Collaborative, NABII and partners are assessing demand and supply-side gaps to create a mechanism that addresses the real and perceived risks preventing commercial banks from lending to MSMEs. In time, the mechanism will seek to draw in capital from domestic pension funds who are looking to diversify their portfolios and increase support for local sustainable investment opportunities.</td>
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<tr>
<th>Private Equity / Venture Capital / SMEs</th>
<th>Nigeria</th>
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<tbody>
<tr>
<td>Wholesale Impact Investment Fund, Government of Nigeria</td>
<td>In May 2023, Nigeria's government pledged to support a 50% stake in a $100 million initial investment to establish a $1 billion impact wholesaler benefiting local SMEs and fund managers in the fields of health, education, and agriculture. Sponsored by the Impact Investors Foundation (IIF) and with research support from the Global Steering Group for Impact Investing, and design funding from GIZ, the wholesale fund seeks to raise co-investment from Nigerian pension funds and other investors.</td>
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<tr>
<th>Infrastructure</th>
<th>African countries</th>
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<tr>
<td>Institutional Investor-Public Partnerships (IIPP)</td>
<td>Legal and regulatory barriers in many African and other emerging markets prevent domestic institutional investors from investing in domestic infrastructure projects, yet without the ability to harness institutional investment, meeting these gaps will be virtually impossible. Africa alone needs to mobilize $3 trillion for its Nationally Determined Contribution (NDC) projects by 2030. To address the challenge, the African Green Infrastructure Investment Bank (AfGIIIB), Africa investor (Ai), the CFA Asset Owners Council (AoC), and global law firm DLA Piper collaborated to develop the Institutional Investor-Public Partnerships (IIPP) Legal Regulatory Framework. IIPPs are partnerships between government and institutional investors designed to fast track, de-risk, and scale private capital participation in green infrastructure projects. Under the program,</td>
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51 NDCs are countries’ self-defined national climate pledges under the Paris Agreement, detailing what they will do to help meet the global goal to pursue 1.5°C, adapt to climate impacts, and ensure sufficient finance to support these efforts. UNDP (2023). See: https://climatepromise.undp.org/news-and-stories/NDCs-nationally-determined-contributions-climate-change-what-you-need-to-know#:~:text=Nationally%20Determined%20Contributions%2C%20or%20NDCs%2C%20are%20the%20%20climate%20goals%20that%20countries%20have%20committed%20to%20achieve%20under%20the%20Paris%20Agreement. UNDP (2023).
a government’s Climate Procurement Authority pre-selects investors to develop the procurement, project pipeline, feasibility, and appoint a contractor for domestic climate projects aligned to the country’s NDCs. Through a partnership with the International High-Level Panel on Water Investments for Africa, IIPPs will help mobilize $30 billion for water investments in Africa, with more partnerships on the way.\textsuperscript{52} IIPPs were endorsed in June 2023 by the New Financial Pact Summit private-sector recommendations as a means of mobilizing private capital at scale in EMDCs.\textsuperscript{53}

### Asset Owner Alliances and Pooled Pension Initiatives

**Asset Owners Forum South Africa (AOFSA)\textsuperscript{54}** is a collaborative of local pension funds set up to contribute to local, sustainable, and inclusive economic development by increasing investments in alternative assets. Established in 2019 and supported by FCDO, USAID, MiDa/World Bank, and the Batseta Council of Retirement Funds for South Africa, a non-profit professional body, the AOFSA comprises 15+ domestic pension funds, among them the 20 largest pension funds in the country representing $160 billion AUM, including the Government Employees Pension Fund ($86 billion AUM) and Eskom ($11 billion). Forum members work together on deal sourcing, due diligence, impact measurement and management, and co-invest in pooled vehicles. To date, the forum has committed more than $400 million to South African infrastructure deals, with a third of funding allocated to women-owned, first-time, or black fund managers.\textsuperscript{55}

**Kenya Pension Funds Investment Consortium (KEPFIC)** is a consortium of Kenyan pension schemes working together to pool resources into large-scale infrastructure projects. Consortium members have access to training and capacity-building programs, and review new investment opportunities as a group.\textsuperscript{56} KEPFIC has mobilized $113 million for infrastructure investments to date and is on track to meet its goal of mobilizing $250 million over five years. The consortium’s three investments align with Kenya’s development priorities, and include an affordable housing bond, a university student housing construction project, and a road project in northeastern Kenya. The consortium’s 2023 Investment Deal Book includes 19 shortlisted opportunities valued at over $2.5 billion across the telecoms and ICT, transport and logistics, water and sanitation, energy, property, healthcare, agriculture, and small business sectors.\textsuperscript{57}
## II. Examples of effective DFI/PDB cooperation

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<tr>
<th>ASSET CLASS</th>
<th>DESCRIPTION</th>
<th>COUNTRY</th>
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<tr>
<td>Infrastructure, SMEs</td>
<td><strong>AfDB provides a $115 million credit line to the Development Bank of Southern Africa (DBSA).</strong> In December 2022, the AfDB approved a $115 million line of credit to DBSA. Financing will help DBSA expand its loan portfolio to $1 billion and increase support for clean and renewable energy projects, ICT, and women-led businesses.</td>
<td>South Africa</td>
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<tr>
<td>SMEs</td>
<td><strong>EURIZ Guarantee Facility for MSMEs in African, Caribbean, Pacific (ACP) Countries</strong></td>
<td>African, Caribbean, Pacific (ACP) countries</td>
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<td>EURIZ was a $873 million guarantee facility targeting MSMEs in African, Caribbean, and Pacific countries. The program, which completed its investment period in 2022, was co-financed by the EU and the Organization of African, Caribbean, and Pacific States (OACPS) and implemented by the Agence Française de Développement (AFD), PROPARCO, and the SIDA. Financing from SIDA (a development agency) and AFD (a public development bank), helped absorb additional costs generated by hedging mechanisms implemented to deploy credit lines in local currency. The partnership also enabled the deployment of technical assistance to build the capacities of financial institutions to lend to SMEs, while strengthening the capacities of SMEs to access commercial financing.</td>
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<tr>
<td>SMEs</td>
<td><strong>EBRD Risk Sharing Facility with TSKD, Türkiye’s Industrial Development Bank.</strong></td>
<td>Türkiye</td>
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<td></td>
<td>Through EBRD’s Risk Sharing Framework, the European MDB provided co-financing and a guarantee enabling TSKD to issue a local currency loan to Panelsan, one of Türkiye’s leading manufacturers of insulation panels. The $1.5 million loan enables Panelsan to increase production of panels that ensure energy efficiency in residential and commercial buildings.</td>
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58 See: https://www.engineeringnews.co.za/article/afdb-approves-r22bn-loan-to-dbsa-2022-12-20


60 See: https://www.ebrd.com/small-business-support/financial-products.html
ANNEX B: Input Papers to the ITF (2023)

This report was informed by technical input papers and insights from leading global organizations in their capacity as Knowledge Partners of the ITF. We are deeply grateful to all of them for their support and contribution.

- Bridges Outcomes Partnerships: “How Outcomes Partnerships Enable Better Outcomes and Better Value”
- Impact Investing Institute: Just Transition Finance Criteria; a “Fostering Impact: An investor guide for Engaging Communities in Place-based Impact Investing”; and, “Bridging Divides, a guide on using catalytic capital for a Just Transition”.
- Social Value International: “Impact Transparency in Public Sector Accounting”