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Shareholder-led Multilateral Development Bank reforms

Catalysing private finance towards African climate goals

Shareholder action plan | November 2022

Contents

Foreword

Framing a vision for net zero-oriented reform
African and global institutional investors hold significant pools of capital, which are critical to tap into, if we are to close the African $3trn climate finance gap. Achieving this will require more capital to be deployed annually to 2030, than has been delivered over the last decade. This kind of unprecedented acceleration in both the pace and scale of financing, demands changes to the status quo, reflective of our current global climate emergency.

In forging closer institutional investor-public partnerships (IIPP's), and greater risk sharing between public and private finance, we stand to unlock and scale an unprecedented pipeline of investable climate projects across the continent.

Getting this right is both a continental and global imperative and offers a significant investment opportunity for African and global institutional investors with long-term, patient capital. MDBs play a crucial role in creating and enabling that investment opportunity, in concert with private finance.

This report is our MDB shareholders net zero roadmap - setting out the fiduciary, top-down, governance and operational improvements, which MDB shareholders can institute, to support the scaled crowding-in of private capital at pace.

Africa's COP27 Presidency, represents a watershed moment and we at Africa Investor (Ai) and the African Green Infrastructure Investment Bank (AfGIIB), look forward to engaging all stakeholders on the proposals and recommendations in this report and to collaboratively mobilising private capital towards the delivery of the continent's just energy transition, in support of the world's climate goals.

Dr. Hubert Danso
CEO and Chairman, Africa Investor (Ai)

Introduction

African beneficiaries of multilateral development banks (MDBs) urgently need a scaling-up of capital flows and an acceleration of capital deployment in order to meet their Nationally Determined Contributions (NDCs). MDBs play a critical role in the delivery of the NDCs by enabling greenfield projects, early-stage innovation and financing adaptation. They structure transactions to enable private finance to enter markets and add additional scale, growing the total pool of finance available to African NDC projects.

MDB shareholders can use their privileged positions to institutionalise the joint commitments already made by MDBs towards this effort. They can directly influence the mandates and operating models of MDBs to enhance the mobilisation of private capital, which is critical to delivering globally equitable outcomes for the African populations that will benefit from the delivery of NDCs.

Against this backdrop, this paper sets out:

- Five key priority recommendations for reform (see box to right) to help MDBs become the catalyst for increased private financing to meet African NDCs.
- A high-level action plan for MDB shareholders to table and institute – both at COP27 and beyond, under the Egyptian presidency to COP28.

Five priority recommendations for reform

To increase the speed, scale and efficiency of mobilising and deploying capital at scale, five priority recommendations for reform are set out within this paper:

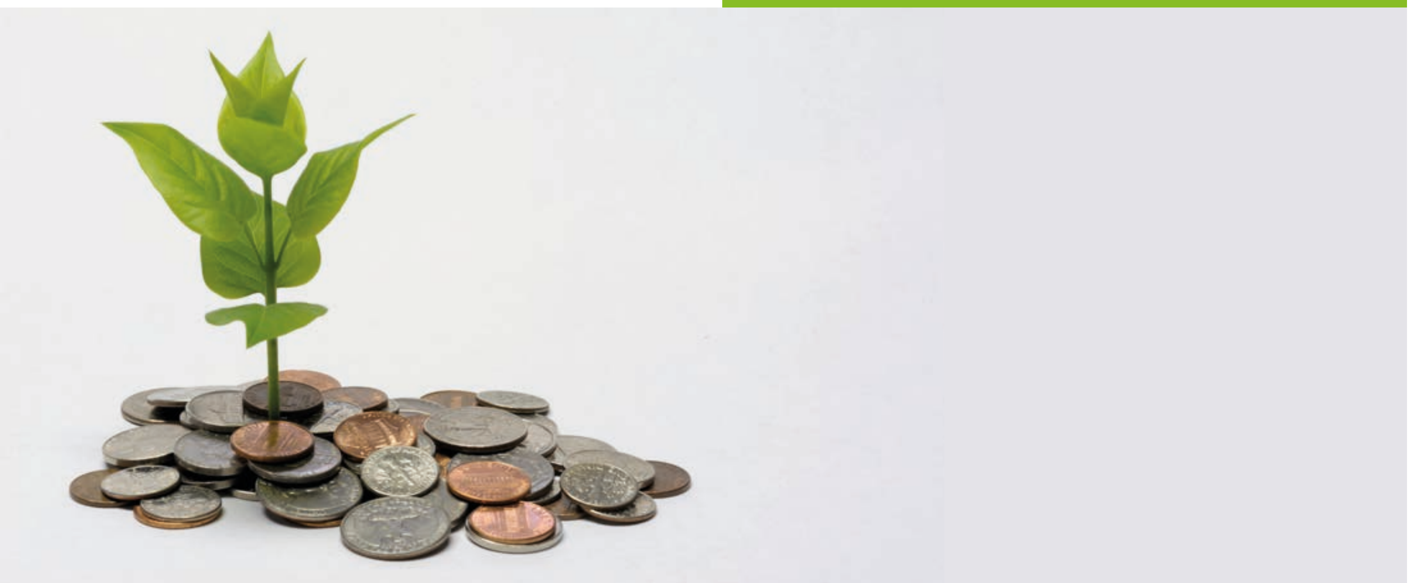
01. Update MDBs' purpose and governing charter documents via a special resolution to recognise the ongoing climate emergency and the crucial role that MDBs play in taking action to help mitigate it and adapt to it.

02. Set targets for climate finance mobilisation by MDBs, including stretch targets, expressed as a proportion of beneficiary NDCs. Provide board-level oversight of performance against targets and report on progress publicly.

03. Scale the investment needed by MDB beneficiaries by prioritising originating and sharing risk with private finance.

04. Increase risk-related data transparency to support risk sharing with private finance, aiming to minimise the cost of capital for African nations in NDC projects.

05. Streamline processes to support the necessary increases in both the pace and scale of financing required to deliver on African NDCs, providing additional project development support to scale the project pipeline.



Executive Summary

To increase the speed, scale and efficiency of mobilising and deploying capital at scale, five key priority recommendations for reform are set out:

01. Update MDBs' purpose and governing charter documents to recognise the ongoing climate emergency

Vision and recommendations:
MDB shareholders hold the privilege of setting the mandate for MDBs and their critical role in mobilising the required private finance towards African beneficiary NDCs. Shareholders should formally ensure that the mandate, purpose and, specifically, governing charter documents set for MDBs recognises the ongoing climate emergency and the crucial role that MDBs play in taking action to help mitigate and adapt to it.

Special Resolution:
An MDB may typically update its charter documents via a special resolution. In the case of the International Bank for Reconstruction Development (IBRD) of the World Bank Group, this may be proposed by any member to the Chairman of the Board of Governors, and once approved by the majority of the Board, would be adopted if agreed by at least 60% of the members, also holding at least 85% of the votes[1] The Appendix provides a template which can be used for this.

02. Set targets for climate finance mobilisation towards a proportion of African NDCs and monitor MDBs' progress against these

Context:
Following the collective MDB commitment at COP26, set out in the 'Joint MDB Climate Ambition Statement'to "align financing with the Paris Agreement" and "increase the level of private capital mobilised in support of mitigation and adaptation investments", MDB shareholders have the opportunity to set the mandate to translate these commitments into explicit targets to support beneficiary member NDCs.

Vision and recommendations:
MDBs should set explicit targets in relation to climate finance mobilisation, including annual interim targets, with Board and shareholder oversight and public transparency over the ongoing delivery against these targets. Targets should expand beyond MDBs' own resources as well as incorporate the mobilisation of private capital and institutional investor public partnerships (IIPP). To action this, members can:

A. Set targets for climate finance and private finance mobilisation, expressed as a proportion of beneficiary NDCs.
B. Establish a dedicated Board Committee to monitor target delivery.
C. Publish an annual delivery report to Board and shareholders on progress against targets.

03. Scale investment towards African beneficiary NDCs by prioritising sharing risk with private finance wherever possible

Context:
To scale climate financing at the unprecedented pace required to meet African NDCs by 2030, increased mobilisation of private finance is required. MDBs already have an undertaking under the Hamburg Principles to optimise their balance sheets to crowd in private capital. In order to scale-up finance at the pace required, more catalytic de-risking and increased risk sharing is required with private finance, to grow the total pool of capital for African NDCs.

Vision and recommendations:
To support the increased mobilisation of private finance for African NDCs by MDBs and increased capital recycling to support the scaling up of climate financing, at the pace required, we recommend an increased focus on providing de-risking solutions with an emphasis on originate and sharing risk over originate and holding risk and increased engagement between MDBs:

A. Amend risk appetite frameworks to enable: a) increased structured risk-taking, which may include selling senior risk positions and retaining junior risk positions; and b) increased capital re-cycling and velocity, which may include using securitisation as a tool, to help free-up capital away from established performing investments towards areas of new investment and greater priority, systematically de-risking the NDC project pipeline.
B. Establish a shared advisory board across MDBs, including access to specialist financing experience to support the move to an originate

and share model. The advisory board could be used as a conduit to engagement with private finance, to inform the packaging-up of risk in a way that is suitable for private institutional investors to participate in risk, aligned to their risk appetite and fiduciary duties.

04. Increase risk-related data transparency to prevent African beneficiaries paying an unnecessary cost on capital and support risk sharing

Context:
Transparency of risk-related data is essential to the process of risk evaluation and sharing – to remediate the potential for a 'risk perception gap', whereby credit rating agencies and institutional investors may perceive the risks to be higher than what the data shows as the actual risk, which can mean that African beneficiary countries may be paying an unnecessary premium on their cost of capital. Through advocating for transparency, MDB shareholders can help prevent that unnecessary premium be paid on cost of capital and support the building of markets, through increased disclosure around track records, improving the efficiency of MDBs' capital deployment and private finance mobilisation towards African beneficiary NDCs.

Vision and recommendations: MDBs advocate for Global Emerging Markets Risk Database (GEM)s to be expanded to include more comprehensive historical loss and recovery rate data from MDBs, with access to GEMs provided to risk takers and credit rating agencies. In expanding access to GEMs, confidentiality should be protected through use of data aggregation as appropriate. This may lower the cost of capital for countries by addressing misconceptions of risk and crowd-in further private capital. To action this MDBs can:

A. Publish historical loss and recovery rate data on GEMs.
B. Advocate for risk-takers' and credit rating agencies' access to GEMs.
C. Specify required data aggregation to protect confidentiality when increasing transparency and access to GEMs.

05. Enhance MDBs' project development support and streamline project procurement and approval processes to support scaling at pace

Context:
Delivering estimated climate financing needs of African NDCs would involve mobilising more capital to African climate projects this decade, than delivered globally over the previous decade. Acting at such an unprecedented pace and at scale, demands innovation in traditional operating models of MDBs.

Vision and recommendations:
To support financing African NDCs at such a pace and scale demands increased support to develop an investable project pipeline and a streamlining of existing project procurement and approval processes to enable MDBs to scale the mobilisation and deployment of financing at the pace required. The following actions can support this, top-down:

A. Scale-up existing financial support and staff provided as part of pooled resources for climate project development through existing platforms and facilities, including those run by or with the private sector.
B. Establish a catalytic financing network with pooled structuring expertise.
C. Innovate to streamline existing project procurement, appraisal and approval processes, through collective initiatives such as the Institutional Investor Public Partnerships Initiative's Model Law and by examining opportunities to fast-track or expedite certain governance and approval processes, where projects are of strategic importance to countries' NDC plans.

Context for reform

Increasing the total pool of capital available to support African NDCs, by instituting MDB reform to improve the speed, scale and efficiency of private finance mobilisation

The challenge

Africa contributes least to climate change but suffers greatly from it
Africa is the continent that contributes least to climate change. Though it is home to almost 20% of the world's population it is responsible for just 3% of global emissions, according to the International Energy Agency[3]. Africa also has some of the most climate vulnerable countries, with the continent losing between 5-15% of GDP growth to climate change annually, according to the African Development Bank[4]. Therefore addressing the continent's need to finance its efforts to alleviate climate change is a global equity imperative.

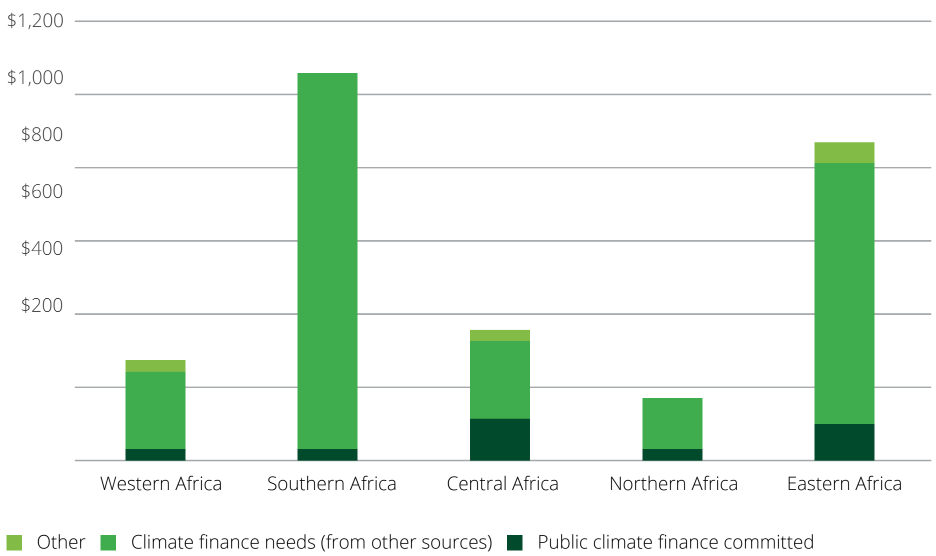
Africa's climate financing gap
At present sufficient finance to address climate change in the continent is lacking. A big scaling-up of climate financing is required to enable African countries to meet their nationally determined contributions (NDCs).

African countries have estimated that the cost of implementing their NDCs will be around US$ 2.8 trillion between 2020 and 2030 – equivalent to around 93% of Africa's total annual GDP at present – with on average, US$ 250 billion – or almost 9% of the continent's current annual GDP – required each year[5]. Total annual climate-related finance flows in Africa for 2020 were only US$ 30 billion (from both domestic and international sources)[6], and therefore only about 12% of the annual amount needed. This indicates that around US$220 billion, or almost 8% of Africa's current annual GDP, needs to be mobilised above and beyond current flows every year for the next 10 years. It is clear that movement at unprecedented pace and scale is required.

African governments have committed US$ 264 billion of domestic public resources in the period to 2030, not quite a tenth of the total estimated cost. This implies that the remaining sum of about US$ 2.5 trillion must come from international public sources and the domestic and international private sectors. To date, most current annual climate financing in Africa – 87% of the total – is from public actors, with little financing from private actors.

Existing commitments to all global developing countries, of which 26% are African[7], are also only a fraction of the amount required. The UN COP26 climate change summit in Glasgow in 2021 established the New Collective Quantified Goal (NCQG) to determine evidence-based funding needs and revise existing commitments in the period to COP30 in 2025[8]. It called for an urgent scaling up of financing. It is critical that the NCQG is sufficient to meet the demands of Africa's NDCs.

Figure 1 – Finance required to implement African NDCs (2020- 30), US$bn

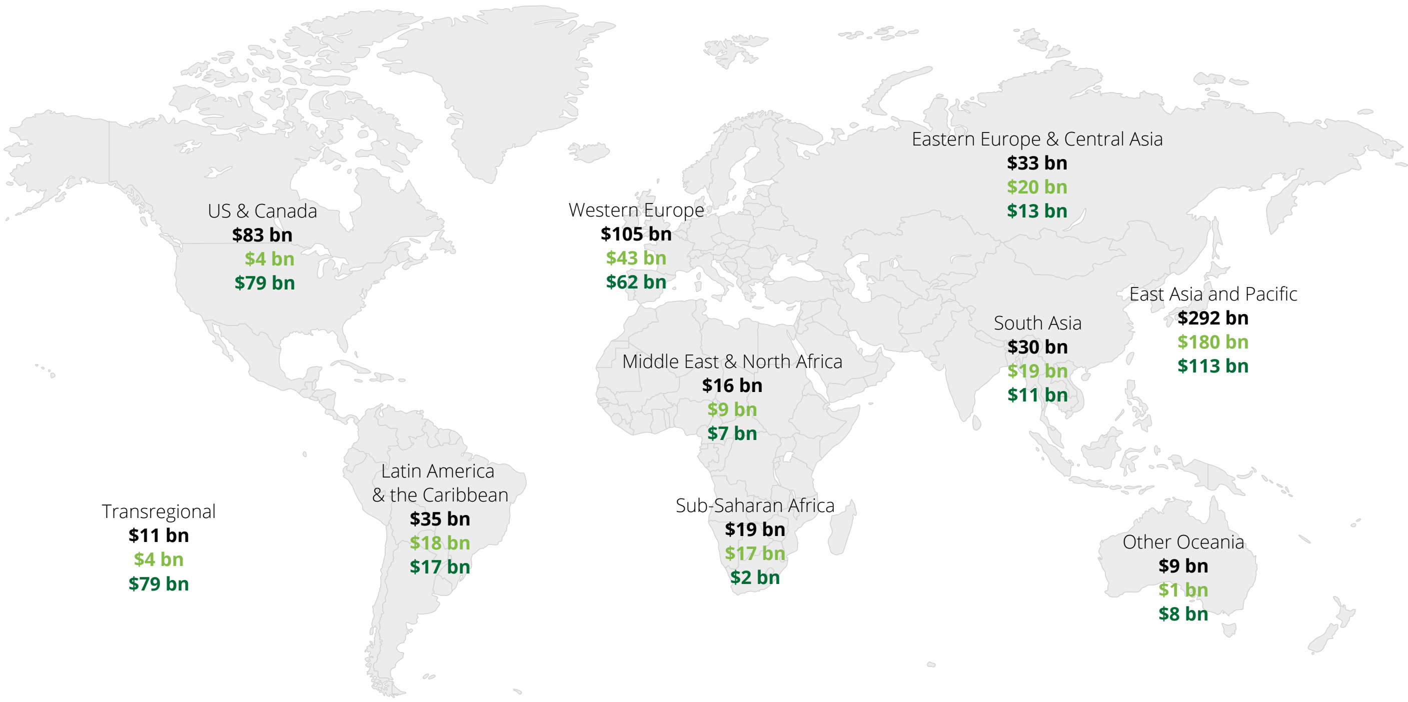


Source: Climate Policy Initiative

Multilateral Development Banks must spur private capital flows

Given the scale of the unmet financing need, it is critical that multilateral development banks (MDBs) mobilise and help African countries tap private capital pools. Private capital flows to Africa and the (Middle East and North Africa) MENA region averaged just US$ 9 billion per year in 2019-20 (see Figure 3). Only 0.75% of global private climate finance flows to the Africa and MENA region, according to the Climate Policy Initiative.

Figure 2 –Climate finance destination (USD bn, 2019/20 annual average)



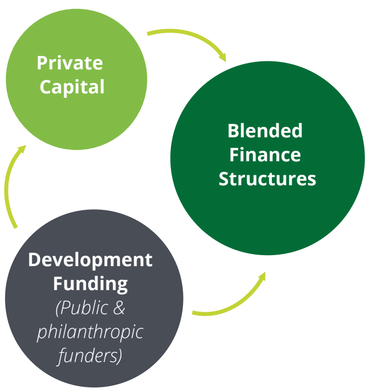
Key: **Public Finance** **Private Finance**

Source: [Climate Policy Initiative]

MDBs play a critical role in mobilising private finance (see Figure 4) – by de-risking and therefore enhancing the flow of capital. They can also provide grants when transactions are being formulated in order to achieve 'bankability' and by operating outside transactions in other ways to enhance the viability. This support is critical in Africa and other emerging and developing countries, where risks are typically higher.

MDBs' current mobilisation of private climate finance is a fraction of the amount required. According to the 2020 Joint Report on MDBs' Climate Financing, produced by a group of global MDBs, US$ 6 billion of private finance was directly mobilised – a small proportion of total climate financing by MDBs of US$ 85 billion in 2020[10], this mobilisation ratio must increase to meet the scaling of capital required

Figure 3 – Blended finance structures



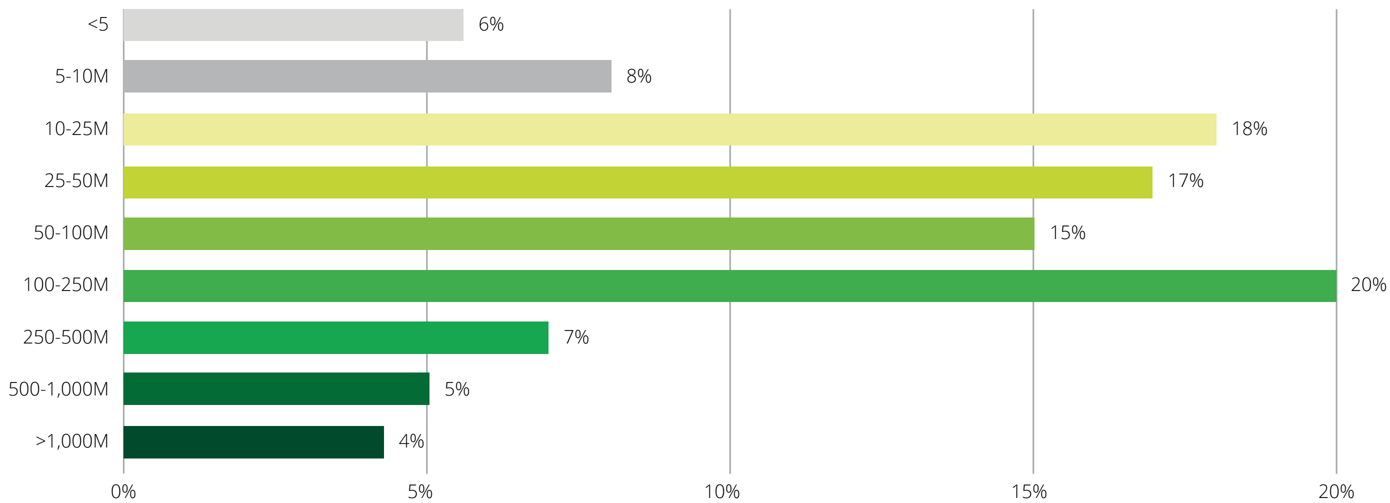
Example structures	Structure	Risks mitigated
Concessional Capital Public or philanthropic investors provide funds on below-market terms within the capital structure to lower the overall cost of capital or to provide an additional layer of protection to private investors	**Structure** Senior debt or equity First-loss capital	• Reduces cost of capital • Rebalances risk/reward ratio • Investor protection
Guarantee/Insurance Public or philanthropic investors provide credit enhancement through guarantees or insurance on below-market terms	**Structure** Guarantee Debt Equity	• Performance Risk • Credit Risk • Political Risk
Technical Assistance Funds Transaction is associated with a grant-funded technical assistance facility that can be utilised pre- or post-investment to strengthen commercial viability and developmental impact	**Structure** Debt Equity TA Facility	• Overall investment risk profile • Bolsters social and financial return
Design-stage Grants Grant funding from public of philanthropic funders to design or structure projects to attract institutional investment	Grant → **Structure** Debt Equity	• Increases viability of projects

Source: The State of Blended Finance 2021, Convergence[9]

Scale is needed in transaction sizes too

Funding more large projects (as opposed to many medium-sized projects) can provide operational cost-saving benefits and help attract more private investment by spreading due diligence costs over larger ticket sizes. According to the State of Blended Finance 2021 report, most deals were in the $100 million to $250 million bracket. Only 4% of deals were above $1 billion and a further 5% were in the $500 million - $1 billion bracket (see Figure 6). In order to close the financing gap and provide scale to encourage private finance participation, the number of large-scale deals in excess of $500 million needs to increase substantially.

Figure 4 – Percentage of blended finance transactions by total size



Source: The State of Blended Finance 2021, Convergence

Catalytic financing is needed from MDBs

According to the State of Blended Finance report , an average of 55 transactions have taken place per year since 2015, averaging just USD$ 9 billion per year. To achieve the scale of blended financing required by 2030, an increase in the pace of the procurement, due diligence and project approval will be required.

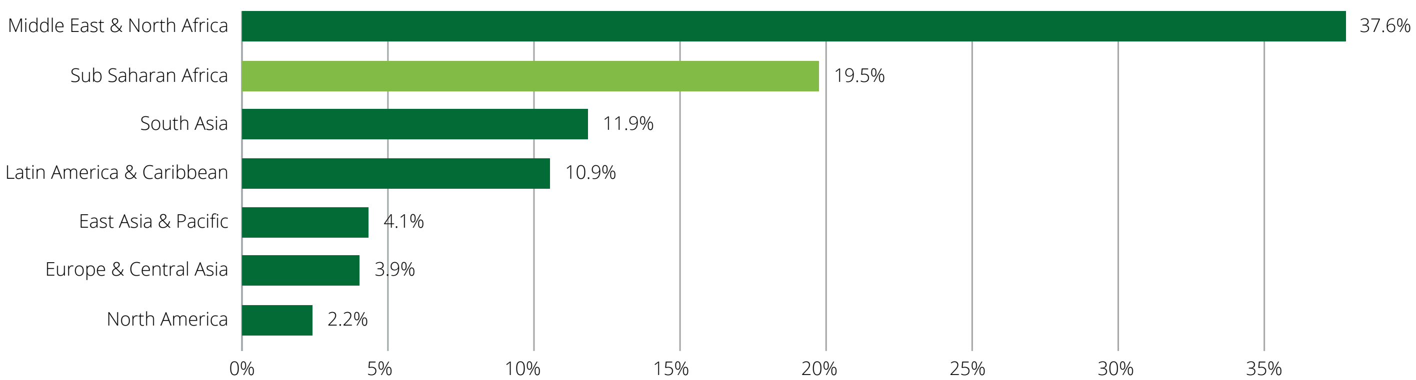
Tapping available funds from financial institutions, corporates, asset managers, and pension funds demands reform to MDBs' appproach. Urgent action is required to increase the proportion of catalytic climate finance provided by MDBs. At present 25% of aggregate blended climate financing is being provided by the private sector, with 36% from MDBs and the balance from concessional funders, including development finance institutions (DFIs) and philanthropists. Only a small proportion of deals are in the most catalytic blended finance structure which uses first-loss debt or equity (5% of commitments).

The opportunity

Africa's low-carbon transition, combined with the continent's abundance of natural resources, also offers an opportunity for growth and a future economic repositioning of the region as:

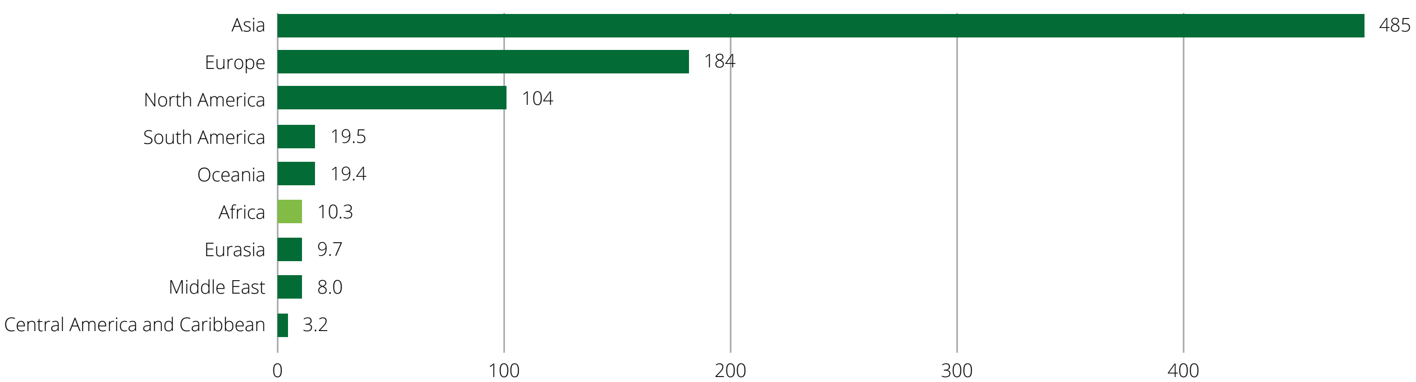
- A critical global supplier of carbon credits, including through securitisation of its natural capital endowment. In most African countries, natural capital accounts for between 30% and 50%[11] of total wealth14 and there is growing international demand for carbon credits (see Figure 8). Depending on the global market price of carbon credits, Africa has the potential to generate between $15 and $82 billion annually.[1]
- A key player in green industrial growth, through the value chain addition opportunities available from minerals critical to meeting the growing demand for clean energy technologies. Africa holds 40% of global reserves of cobalt, manganese and platinum – key minerals for batteries and hydrogen technologies. Building on the global production realised to date from key markets (South Africa, Democratic Republic of the Congo and Mozambique)[12], the continent can industrialise the opportunities linked to green technological advances, leveraging the African Continental Free Trade Agreement[13]. Projections from the IEA forecast that revenues from critical mineral production can double under its 'Sustainable Africa Scenario (SAS), supporting a wider vision for the growth.[3]
- As an important global supplier of renewable energy. Africa's untapped solar potential and ability to produce hydrogen from renewable sources offers significant opportunity. The IEA predicts that Africa has the potential to produce the equivalent of the total global supply of hydrogen, at internationally competitive prices – less than USD 2 per kilogramme.[3]

Figure 5 – Regional natural capital share of total wealth



Source: World Bank

Figure 6 – Solar PV Capacity worldwide



Source: Statista[14]

The need for reform is recognised

Calls have been made for reform to MDB leaders and their shareholders, such as in the G20 Finance Ministers Communiqué in February 2022.[15] In addition, US Treasury Secretary Janet Yellen has championed beneficiaries[16] and the US Treasury has written recently to World Bank senior management calling for change, along with other non-state actors including the Centre for Global Development[17] These calls for reform have included the need for both strategic and operational changes to help institutionalise within MDBs an increase in the speed, scale and efficiency of the mobilisation of private capital towards climate mitigation and adaptation.

MDB shareholders must bring about change

The shareholders of MDBs hold a privileged position, with the power to table and institutionalise the necessary change, together with MDB CEOs. Heads of State and governments have an opportunity to empower their MDB shareholder representatives to mandate this change when Egypt hosts the United Nations Framework Convention on Climate Change 27th Conference of the Parties (COP27) in November this year.

To support MDB shareholders in seizing the opportunity, this short paper outlines:

- A high-level action plan for MDB shareholders and beneficiaries to exercise those rights – both at COP27 and beyond to COP28, with the end goal of increasing the total pool of capital available to support African NDCs.
- A proposed vision for key recommended areas of reform and the necessary steps to achieve this.

"The shareholders of these global banks must ask the banks to develop new tools to meet these global challenges. The evolution of these banks will require changes to incentives, operating models and the uses of the banks' financial resources. MDBs must adopt stronger targets for mobilising private finance."

US Treasury Secretary Janet Yellen, October 2022[19]

MDB shareholder action plan

Shareholders of all MDBs hold a privileged position to be able to influence the mandates and operating model of MDBs. A high-level action plan for MDB shareholders is set out below, outlining how they can play their part in activating the required reforms across MDBs

Immediate actions for the COP 27 meeting

01. **Engage with respective member country government officials,** starting with Heads of State and including, but not limited to, Ministers of Home Affairs, Finance, and Foreign Affairs on the benefits of these reforms in mobilising increased capital towards the achievement of NDCs.
02. **Mobilise a coalition of MDB shareholders** to table a special resolution, by engaging with fellow governors on their respective MDB Board of Governors. MDBs' Boards of Directors have already committed to joint action. This now needs to be institutionalised through top-down reform, including through engagement with MDB CEOs.
03. **Draft a special resolution to update the governing charter documents to recognise the climate emergency and the crucial role that MDBs play** in taking action to help mitigate and adapt to it. The Appendix of this report provides a template which can be used and amended as appropriate.
04. **Decide on the submitting governors for the special resolution.** Typically this must be proposed to the Chair of the Board of Governors.
05. **Table the special resolution to update the governing charter documents to recognise the climate emergency** and the crucial role that MDBs play in taking action to help mitigate and adapt to it. Typically this requires a majority of the Board (in members and votes) to support adoption.

The Global Stocktake

What is it [18,19]

The global stocktake (GST) is the process for taking stock of the implementation of the Paris Agreement and countries' NDCs, with the aim of assessing the world's collective progress towards achieving the goals of the Agreement. The first global stocktake will present its findings at COP28 in 2023.

How can MDBs define contributions to the implementation of NDCs?

MDBs should consider their role with respect to support offered for NDC implementation.

The UNFCCC and its parties should also consider highlighting MDB reform discussions as part of the Means of Implementation pillar of the GST process.

Shareholder action plan beyond COP27 to COP28

NOVEMBER 2022

Shareholders should mandate their respective MDBs to:

- Share more required risk-related data, as part of a new centraliseised data-sharing network, expanding on the Global Emerging Markets Risk Database Consortium (GEMs).
- Set climate finance and private mobilisation targets by March 2023, embed these within scorecards and provide annual delivery reporting to the Board, with the first delivery reporting due ahead of COP28.
- Revise risk frameworks to support the prioritisation of risk-sharing with private finance, including key risk indicators (KRIs) linked to the efficiency and scale of MDBs' use and mobilisation of capital.

DECEMBER 2022

- Engage Environment Ministers and Heads of State to develop criteria with which to identify selected projects of strategic importance to countries' NDC plans and designate them for expedited approvals processes.
- Agree plan with MDBs to implement the recommendations of the G20 Capital Adequacy Review[24], to enable MDBs' to increase climate finance and private finance mobilisation given existing capital, whilst taking action to preserve credit ratings and preferred creditor treatment. US Secretary Yellen recently stated that she would ask World Bank management to develop an "evolution roadmap" for changes by December 2022, with "deeper work" beginning by the spring of 2023[19].

MAY 2023

Agree with MDBs:

- Targets for climate private finance mobilisation and annual target delivery reporting formats to MDB Boards, with mechanisms agreed for periodic review and intervention.
- Increase commitments to existing forums for project development support, including those run by and with the private sector, to address the project development financing deficit.
- Establishment of a catalytic financing network, with pooled structuring expertise to support scaling of risk-sharing with private finance.

JUNE 2023

Launch collective MDB networks and forum including:

- Centralised data-sharing network, pooling MDBs' and private markets' proprietary risk data, while protecting confidentiality.
- Shared MDB structuring advisory board, to support an increase in catalytic financing and risk-sharing with private finance.

AUGUST 2023

- Review adequacy of own shareholder capital provision to MDBs.
- Establish a Board Committee or revise the existing Committee Terms of Reference to incorporate oversight of MDBs' climate finance and private finance mobilisation targets (see the Terms of Reference Template provided in Appendix 2).

OCTOBER 2023

- Review the first Board Committee climate finance and private finance target delivery reporting from MDBs, ahead of COP28.

Detailed recommendations to support activation of this shareholder-instituted action plan for reform of climate private finance mobilisation in the period to COP28, are outlined over the following sections of the Paper.

Setting targets for climate finance mobilisation

Following the collective MDB commitment at COP26, set out in the 'Joint MDB Climate Ambition Statement'[20] to "align financing with the Paris Agreement" and "increase the level of private capital mobilised in support of mitigation and adaptation investments", MDB shareholders have the opportunity to set the mandate to translate these commitments into explicit targets to support beneficiary members' NDCs.

Set annual targets for private climate finance mobilisation

MDB shareholders should mandate that their respective institutions set explicit targets for climate finance and associated private finance mobilisation, including annual targets, with Board and shareholder oversight and public transparency over the ongoing delivery against these targets, to meet the finance needed to reach current and Paris-aligned NDCs. Targets should expand beyond MDBs' own resources and incorporate the mobilisation of private capital and institutional investor public partnerships (IIPP). To move ahead with, it is recommended that two steps be taken:

01. Set targets for private climate finance mobilisation

In line with the proposed realignment of MDBs' purpose, reflected in updates to their governing charter documents, it is recommended that shareholders mandate MDBs set targets to deliver on that purpose. To do that explicit targets should be set covering climate finance mobilisation towards a proportion of NDCs.

Standardise MDBs' climate financing targets and align with beneficiary countries' climate goals

It is recommended that shareholders mandate that MDBs work together to develop a shared framework for Paris-aligned climate finance and private finance target setting, mobilisation and measurement, with development ahead of COP28. It is recommended these targets include stretch targets covering:

A. Climate financing - with reference to a specified proportion of countries' NDCs financing to explicitly align MDBs' quantified climate financing goals with their beneficiary countries', with related annual targets set on:
   i. Private finance mobilisation (ratio and absolute);
   ii. Climate-related project approvals and financial executions each year (number and value);
   iii. Climate-related project development support – including project preparation, technical assistance and equity and grant funding for early-stage development (absolute); and
   iv. Specific targets for each of the above in relation to low income and least developed countries.
B. Science-based emissions reduction targets – to ensure alignment of wider financing with the Paris Agreement goals.

In setting these targets, it is suggested that frameworks be established to support prioritisation between projects within the NDCs, to guide target delivery, including those which:

A. Have the greatest impact in terms of Paris alignment – for example by including climate-adjusted returns linked to lifetime greenhouse gases avoided, or mitigated.
B. Are most in need of MDB support and capacity building, with the greatest gaps to delivery – for example, support for regulatory reforms or legal land rights certainty, to foster the development of nature-based solutions.
C. Offer the greatest social development opportunities – by weighting projects for social benefits and wider MDB priorities.
D. Maximise opportunities to scale up the impact of MDB financing, for example, with commercial or DFI partners.

02. Establish oversight of target delivery

The available window to achieve the required scaling and acceleration of climate financing is small and finite. Given the existing financing gap relating to African NDCs to 2030, it is recommended that annual delivery reporting be provided to the Board and shareholders on progress against targets, with a dedicated Board Committee established to monitor progress against climate finance and mobilisation targets, providing quarterly oversight. The Appendix provides a Terms of Reference that can be used for this executive-level committee, covering the purpose, responsibilities, and meeting expectations. It is recommended that consideration be given to linkage with existing governance structures, such as Operational Effectiveness Committees.

Building on the transparency provided by MDBs on collective climate financing provided under the annual 'Joint Report on MDBs' Climate Finance'[12], it is recommended that MDBs publish annual delivery reporting – providing enhanced transparency over annual progress in relation to beneficiary countries' NDC projects' pipeline, financing and associated results. This should cover both quantitative performance against key climate finance and private climate finance targets and qualitative analysis of trends, progress and key challenges relating to the reporting period – and plans for the forthcoming year. This oversight would enable the Board and its shareholders to ensure that the MDB has the resources and capabilities to deliver and is delivering on targets set.

When designing the target delivery reporting format and content, it is recommended that the following considerations be built in:

A. Early support provided for NDC projects – the total spend on capacity building and mobilisation (and the same as a measure of NDC impact and investment) and the number of new NDC-aligned projects initiated.
B. The pace of climate financing provided – the number of NDC projects progressed through conceptualisation, due diligence, and delivery, including the average time taken for each.
C. The type of climate financing provided – including breakdowns for each of: adaptation, mitigation and dual-benefit NDC financing.
D. Private financing mobilised directly and indirectly for each beneficiary country – including the absolute amounts and mobilisation ratios, with a breakdown provided for low income and least developed countries.
E. Capital recycling – through forward, or backward-looking measures, such as: reducing the proportion of assets for which no sale or mobilisation plan has been prepared or initiated; or the proportion of assets where the maturity at origination exceeded the actual on risk period or hold period, respectively.

It is recommended that the development of a common framework for MDBs' climate finance target setting and shareholder delivery reporting be taken forward in conjunction with consultative input from the Net Zero Asset Owner Alliance Heads of State Investment Champions Coalition and key regional groups such as the Committee of African Heads of State and Government on Climate Change (CAHOSCC). Heads of State should track collective MDB performance against targets, with appropriate mechanisms put in place for the necessary escalation of action, in support of achieving the required scaling of financing for NDCs.

Prioritising risk-sharing with private finance

To scale climate financing at the unprecedented pace required to meet African NDCs, increased mobilisation of private finance is required. More catalytic de-risking and increased risk-sharing is required by MDBs, in order to grow the total pool of capital for African NDCs.

Prioritise origination and risk-sharing with private finance

To support climate financing at the scale and pace required, it is recommended that MDBs, regional and subregional development banks increase their focus on: de-risking private finance; risk-sharing with private finance; and capital recycling, by collaborating with private financial institutions. To support this, two key actions have been identified:

01. Review risk and performance frameworks to support risk-sharing and capital recycling

In line with pre-existing MDB commitments to both optimise balance sheets to expand financing capacity (G20 Action Plan on Balance Sheet Optimisation (BSO))[21] and to increase private climate finance mobilisation (2015 MDB Commitment to increase mobilisation by 10 fold over time), it is recommended that risk frameworks be reviewed to support these goals:

A. Structured risk-taking - which may include selling senior risk positions to private finance and retaining junior risk positions; and
B. Capital recycling and velocity – to make better use of existing capital, which may include using securitisation as a tool – to help free up capital from established performing investments towards areas of new investment and greater priority, additionally fostering the creation of secondary green infrastructure investment markets.

It is recommended that MDBs review risk frameworks to ensure they are supportive of the above, including appropriate consideration of key risk and performance indicators (KRIs and KPIs) linked to the efficiency of MDBs' use of capital and its mobilisation (ratios and rates). Similarly, lending documentation and terms and conditions (T&Cs) should be reviewed to ensure they facilitate distribution and support the originate and share model with private finance.

02. Establish shared MDB advisory board

With a view to increasing risk-sharing with private finance, it is recommended that a shared advisory board be established with experience in risk structuring in private finance, to advise on the packaging of risk and the design of financial instruments that suit private financial institutions' risk appetite and fiduciary duties, as stated in the Communiqué of the International Cooperation Forum and Meeting of African Ministers ahead of COP27[22].

The shared advisory board should have access to specialised front office structuring and syndication experience, credit, market and liquidity expertise. It can help to design financial instruments that meet financial institutions' minimum risk characteristics and private finance demand, across the full risk-return spectrum. The board can also advise on new financial instruments that are supportive of increased capital recycling, for example, through easy syndication, such as partial credit guarantees. The advisory board can be used as a conduit to engage private finance and support both increased tailoring and innovation in instruments, addressing the range of risks experienced and risk-return preferences. It is recommended that this shared MDB advisory board with structuring expertise engage with Credit Rating Agencies (CRA) on MDBs' approach to risk-sharing, in order to best manage the impact of increased risk-sharing with private finance on MDBs' ratings.

Figure 7 – Indicative tailoring of blended finance structures

Indicative risks	Examples	Tailored blended financing
Policy risk	*Unclear regulation*	Compensation for lack of information absent regulatory track record
Project risk	*Skills/capacity*	Technical assistance to compensate for lack of local expertise and experience
Business risk	*First mover*	Taking risk and creating market knowledge for future market entrants goes unrewarded.
Counterparty risk	*Weak off-take agreement*	Risk mitigation, such as guarantees.
Tenor risk	*Market finance too short term*	Blended financing to lengthen terms or mitigate refinancing risk
Liquidity risk	*Thin debt or equity markets*	Underdeveloped emerging markets or green asset market; Blended Financing can be designed to limit downside.
Market risk	*Currency volatility*	No currency hedging available; Blended Financing can step in as swap counterparty.

Source: Blended Finance for Scaling Up Climate and Nature Investments, London School of Economics[23]

Increasing transparency to reduce the cost of capital

Transparency of risk-related data is essential to the process of risk evaluation and sharing – without this, a potential 'risk perception gap' can mean that an unnecessary premium is paid on capital for NDCs.

Make loss and recovery rate data available

With a view to addressing misconceptions of risk, two key actions have been identified:

01. Publish more comprehensive historical loss and recovery rate data on GEMs

Publishing increased historical loss and recovery rate data on GEMs would enable more accurate assessments of risk. Overall and portfolio level data should be included, with default rates and recovery rates (risk, defaults and losses). Similar data should also be provided for direct equity and portfolio equity investments. Providing enhanced transparency on this data, with the required level of disaggregation, is critical to addressing the current information gap. It is recommended that these default and recovery rates be disaggregated by: country, region, country income group, sector, or type of credit instrument.

To protect confidentiality when increasing transparency, aggregation, only to the extent necessary, is recommended. Consideration should be given to this in line with the Aggregation Standard in the Development Finance Institutions (DFI) Transparency Initiative[25] produced by Publish What You Fund. It provides guidance on reasonable levels of aggregation given the specific geographical and sectoral make-up of portfolios.

02. Advocate for risk-taker and credit rating agency access to GEMs

It is recommended that MDB shareholders advocate for access to GEMs for credit rating agencies and risk-takers. This would build on calls for expanded access to GEMs data (such as in the B20 Taskforce[26]), in order to support credit rating agencies' assessment of MDB financial strength and risk-takers' efficiency in pricing risk. Improving their access to data may lower the cost of capital for countries by addressing misconceptions about risk and enhance private capital flows.

Given the demand for MDBs to help catalyse much larger volumes of private climate finance and the possibility of calls for capital from shareholders, enhanced transparency on the track record of MDB private lending would also help shareholders assess their capital adequacy and ensure efficient use of existing capital. Collective disclosure through the GEMs database offers the opportunity to spur a 'race to the top' in transparency[27] to support accountability and help build markets. It is therefore critical for MDB shareholders to deliver a clear mandate to deploy data transparently.

It is recommended that these actions be taken forward in conjunction with wider agendas for reform – such as those to improve credit rating agency assessments of MDB Financial Strength, set out by the recent Expert Panel G20 Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks.[28]

"There is a common misconception about the performance of MDBs' loans ... the risk perceptions were often unbalanced."[24]

Andrew Hohns,
Lead Portfolio Manager - AfDB Room2Run Programme

Streamline processes to support scaling at pace

Scaling up the provision of climate financing will require changes to business-as-usual operating models. Transformation is needed across operations to enable MDBs to function at unprecedented scale and pace.

Meeting the estimated climate financing needs of African NDCs involves mobilising more capital to African climate projects this decade than was delivered globally over the past decade[9]. To acting at such an unprecedented pace and scale requires innovation in traditional ways of working and operating models.

Changes to the operating model

The following actions can support acceleration at scale in both the mobilisation and deployment of capital by MDBs for Africa's NDCs:

Pool resources with other MDBs to address the project development financing deficit

MDBs play a critical role supporting early-stage project development and creating enabling environments for NDC projects – for example through regulatory and policy reform for offtake agreements, or legal support on land rights linked to offset projects. Support of this kind can unlock investable project pipelines. By pooling resources MDBs can achieve greater efficiency and permit increased overall support. It is recommended that MDBs scale up financial support and staff for forums run by and with the private sector, which provide access to country and local on-the-ground expertise, to build the pipeline of investable and bankable climate projects.

Connect with a catalytic financing network and pooled structuring expertise

To provide the scale of catalytic financing required, close partnerships are needed with MDBs, national and sub-regional development banks and DFIs, as well as with private finance to enable the structuring of transactions and portfolios in line with the private sector's risk-return preferences. Developing a catalytic financing network with pooled structuring expertise would help to scale successes in blended financing. The MDB SOURCE network[29] on sustainable infrastructure, which includes localised Private-Public-Partnership (PPP) units, with access to the private sector through FAST-infra[30,31], could be expanded to help provide access to structuring expertise for catalytic financing.

Innovate to streamline project procurement, appraisal and approval

Recognition of the climate emergency within MDBs' purpose and charter updates provides a mandate to look for opportunities for fast-tracking or expediting certain approval and due diligence processes. The recent US Inflation Reduction Act (see Case Study box) provides an example of how certain types of projects can be designated to be strategically important to countries NDC plans, allowing an expedited approval process. MDBs can play an important role in supporting the identification of such strategically important projects and matching this by expediting their own governance and approval processes.

Similarly, the African Green Infrastructure Investment Bank Model Law on Institutional Investor-Public Partnerships (IIPP) initiative 38 provides an innovative example of the use of a legal and regulatory framework instrument to support efficiencies in IIPP project procurement. The instrument uses fast-track procurement processes to award IIPP projects in an efficient and streamlined manner, avoiding high procurement costs and delays to project implementation. Operating at the pace and scale required to deliver the financing needed for African NDCs will demand transformation, similar to these examples, across existing project procurement, appraisal and approval processes.

Appendices

Appendix 1 - Template for the special resolution

The Articles of Agreement of MDBs set out the banks' purpose. In light of the global climate emergency - and the climate financing gap experienced by the Bank's beneficiaries, we, the Board of Governors of < insert MDB >, resolve to expand the existing purpose contained within our Agreement in < insert relevant Article >, by adding:

"This purpose includes the contribution towards the sustainable economic development and social progress of its beneficiary members individually and jointly, with explicit consideration of member commitments that must be fulfilled, considerate of the climate emergency – such as members' individual nationally determined contributions (NDCs) and collective member commitments, such as the New Collective Quantified Goal (NCQG)."

We, the Board of Governors, are resolved to this, given the inextricable interlinkage between climate change, social equity, prosperity and long-term development for our members.

Appendix 2 - Template for the Terms of Reference for the Board Committee

PURPOSE

The primary purpose of the Committee is to assist the Boards in approving the respective climate targets and in overseeing the delivery of these through quarterly review of progress against targets.

Towards this end, the Committee assists the Boards in providing guidance to management on the strategic direction of climate financing; in determining appropriate targets; and in monitoring performance and progress against these targets.

RESPONSIBILITIES & DUTIES

In fulfillment of its responsibilities, the Committee shall carry out the activities enumerated below as well as other tasks that it deems necessary or appropriate:

01. Establishing and periodically reviewing climate finance targets
    - A. Establish strategic objectives, targets and key performance indicators relating to climate financing and private finance mobilisation, covering:
      - i. Climate financing - with reference to the proportion of countries' NDCs' financing to explicitly align MDBs' quantified climate financing goals, with their beneficiary countries', with related annual targets set on:
        - Private finance mobilisation (ratio and absolute);
        - Climate-related project approvals and financial executions each year (number and value);
        - Climate-related project development support – including project preparation, technical assistance and equity funding for early-stage development (absolute); and
        - Specific targets for each of the above in relation to low income and least developed countries.
      - ii. Science-based emissions reduction targets – to ensure alignment of wider financing with the Paris Agreement goals.

02. Guidance on strategic climate financing direction
    - A. Review the business plans, budgets and results of [MDB] in relation to agreed strategic priorities and climate financing targets and make recommendations to the Board as appropriate.
    - B. Play an active role in the Board's engagement with management in reviewing pre-agreed corporate performance indicators, instruments and incentives to ensure their alignment with the Bank's strategic objectives on climate financing and private finance mobilisation (direct and indirect).

03. Monitoring performance against targets
    - A. Periodically discuss performance against target with management on the basis of quarterly reporting on climate financing, analysing trends in outputs and results.
    - B. Discuss occasional management reports on evaluations or reviews on special topics or strategic themes related to climate financing and private finance mobilisation linked to the [MDB's] activities.

MEETINGS

The Committee shall meet as often as it considers necessary, but not less than once per quarter.

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