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Financing a Transition that Leaves No One Behind

Input paper to the G20 Sustainable Finance Working Group submitted by The Global Steering Group for Impact Investment (GSG) in partnership with the Impact Investing Institute (III)

Introduction

It has become evident that there is a pressing need to accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact, for it is equally clear that there will not be enough public money to deliver on the SDGs by 2030.

Limited public budgets mean that the mobilisation of private enterprise, innovation, and capital in support of positive social and environmental impact is mission critical. The challenge lies in creating the conditions and frameworks for it to flow sustainably, with urgency, scale and integrity into investment opportunities that reflect investor appetite and risk and return tolerances while having a positive impact on the public effort to meet the challenges.

This is not a new aspiration, but the urgency of the context requires a more effective response than we have seen in the past. For trust and hope to be sustained, the gap between rhetoric and delivery needs to narrow visibly over the next critical years in the run up to 2030.

Given the looming risks attached to non-delivery, a more conspicuous and coordinated effort is needed to align interests and achieve this mobilisation. This cannot be left to private markets alone: public capital, policy and regulation will be key enablers. The worlds of business and politics need each other more than ever. Both are essential to achieve the global sustainability goals. This needs to be reflected in the structuring of networks to accelerate the flow of investment to where it can have the most positive impact.

The G20, as the premier forum for international cooperation, representing over 85% of the world's GDP and two thirds of its population[1], has a key role to play in stimulating change from its leaders, regulators, business executives, investors and non-governmental organisations, all of whom are uniquely positioned to meet the challenges ahead.

There is more than enough private capital to fill the funding gap, with the world's investable assets estimated at around $250 trillion[2], and investment decision-makers are becoming increasingly alive to social and environmental risks. There is momentum to challenge system inertia, align interests and move large pools of mainstream institutional investment to be a more visible part of the solution. This will require sustained commitment and acceptance of the need to work in less fragmented ways and develop new models of partnership which, again, the G20 can foster in a credible manner.

Today's critical context both allows and requires us to think and act in ways that would have been unimaginable just a few years ago. Advocates of reform can take confidence in two powerful tailwinds of change. The first is the shift in the social values of consumers, employees and investors, which is already influencing corporate behaviour. The second is the huge leaps in digital technology which are creating opportunities to deliver and measure social and environmental impact in ways that were previously inconceivable. These tailwinds have encouraged leaders across different disciplines to build an increasingly powerful demonstration effect to influence others.

One manifestation of these trends has been the increase in green capital flows. However, whilst the increasing global attention to climate finance is welcome, it is not sufficient to meet the needs of people and the planet. There is consensus that a shift in perspective to also include the socio-economic impacts of the climate crisis is essential - in particular, the disproportionate effects of climate change on women and on vulnerable populations need to be recognised and addressed. Hence, a holistic approach to a Just Transition needs to pay attention to where and to whom money is flowing to address climate change and its effects on societies in a fair and inclusive way, leaving no one behind.

While a just transition needs to be universal and global, pathways towards it must be grounded in local considerations of needs, capacity, and priorities to ensure that they are inclusive, fair and equitable. This will be essential to gaining local people's support for climate action policies. Countries, regions and communities have different starting points when it comes to achieving a just transition. These starting points will influence local decarbonisation and development trajectories, as well as transition pathways. That said, the requirement to reflect locally specific context does not dilute the global relevance and power of, and need for, a common understanding of what a just transition means in practice.

ABOUT THIS DOCUMENT
This input paper, produced by The Global Steering Group for Impact Investment (GSG) draws on its own expertise, leverages contributions from its member organisation the Impact Investing Institute and builds on the work of the Impact Taskforce (co-led by both organisations, and which gathered inputs from 170+ finance, policy and thought leaders representing more than 110 organisations in 40 countries) with the aim to contribute to the discussions of the G20 Sustainable Finance Working Group (SFWG), in particular to its efforts to put forward a High-level Framework for Transition Finance.

The paper summarises the key levers for action for financing a transition that leaves no one behind, as identified by the Impact Taskforce:

Lever 1: A common approach to a Just Transition. This first section discusses principles for a just transition, focusing on a

[1] https://www.oecd.org/g20/about/

[2] BCG (2021): "Global Wealth 2021: When Clients Take the Lead"; https://on.bcg.com/3kDkpLh

set of key drivers (or "elements") that can (and should) be applied across alignment approaches.

Lever 2: Tools and instruments for mobilising private capital at scale. This section discusses existing barriers and constraints to the effective deployment of capital towards a just transition, and introduces practical pathways and examples to activate markets, overcoming some of these barriers.

Lever 3: Sustainability reporting. This section touches on the evolution of corporate- and investor-level sustainability (alongside financial) reporting, acknowledging transparency as a key lever for change.

The final section concludes, with considerations on the role of governments, international finance institutions and the G20 to drive this agenda forward.

Lever 1: A Common Approach to a 'Just Transition' to Net-Zero Economies and Societies Worldwide

The climate crisis is one of the defining and universal challenges of our time. The impact on our planet is visible, tangible. Sea levels have risen, floods and droughts are affecting people and ecosystems across all continents, glaciers have shrunk, and biodiversity has been lost.

The Intergovernmental Panel on Climate Change's 2018 Special Report rang an alarm bell. It demonstrated that net CO_2 emissions must be reduced to zero by 2050 to stabilise global temperatures and limit global warming to 1.5°C or 2°C to avoid the worst climate impacts.

The call for a 'Net Zero' climate agenda has been gaining traction across the globe in recent years, moving from the fringes to centre stage in politics. Transition to Net Zero has also moved into the limelight in discussions of international financing flows, both public and private capital, including during the COP26 in 2021.

However, there is increasing consensus that a single focus on Net Zero is not sufficient. It has generated push-back due to perceived or actual negative social and economic effects of actions resulting from Net Zero commitments, including job losses in affected industries or changes to commodity prices resulting in higher household expenses. These negative socio-economic effects have led to social tensions, dissatisfaction or even unrest across the globe.

A shift in perspective to include socio-economic aspects in transition commitments is paramount. The Covid-19 pandemic has highlighted the urgent need to design climate solutions that pay attention to our planet and its people.

A concerted and urgent effort by all actors – governments, investors, IFIs, regulators and other ecosystem players - is required to move significant pools of funding into the SDGs and achieve a transition to a Net Zero world where no places and people are left behind; this is what a 'Just Transition' means. Actors across the institutional investment ecosystem need to work to direct more of the $154 trillion they collectively manage towards tackling the world's most urgent environmental and social challenge.

This coordinated and urgent movement will need to be done in conjunction with all relevant market actors in developed and emerging markets and governments around the world, whilst not obviating the work of front runners who can catalyse other actors. It will also require the mobilisation of domestic capital pools to work alongside international sources of finance.

A shared transition framework will support alignment across public and private actors and drive concerted and effective action. Making clear 'what good looks like' will allow the global community to speak the same language in terms of pursuing a Just Transition while inviting, encouraging and incentivising actions that can have the most impact in local environments.

1.1. THE JUST TRANSITION ELEMENTS AS A FRAMEWORK FOR TRANSITION FINANCE

To drive alignment between public and private actors, and to ensure that more capital is meaningfully directed towards a Just Transition, the G20 is invited to consider and build upon three integrated Elements which reflect the critical drivers of a Just Transition: i) advancing Climate and Environmental Action; ii) improving Socioeconomic Distribution and Equity; and iii) increasing Community Voice.

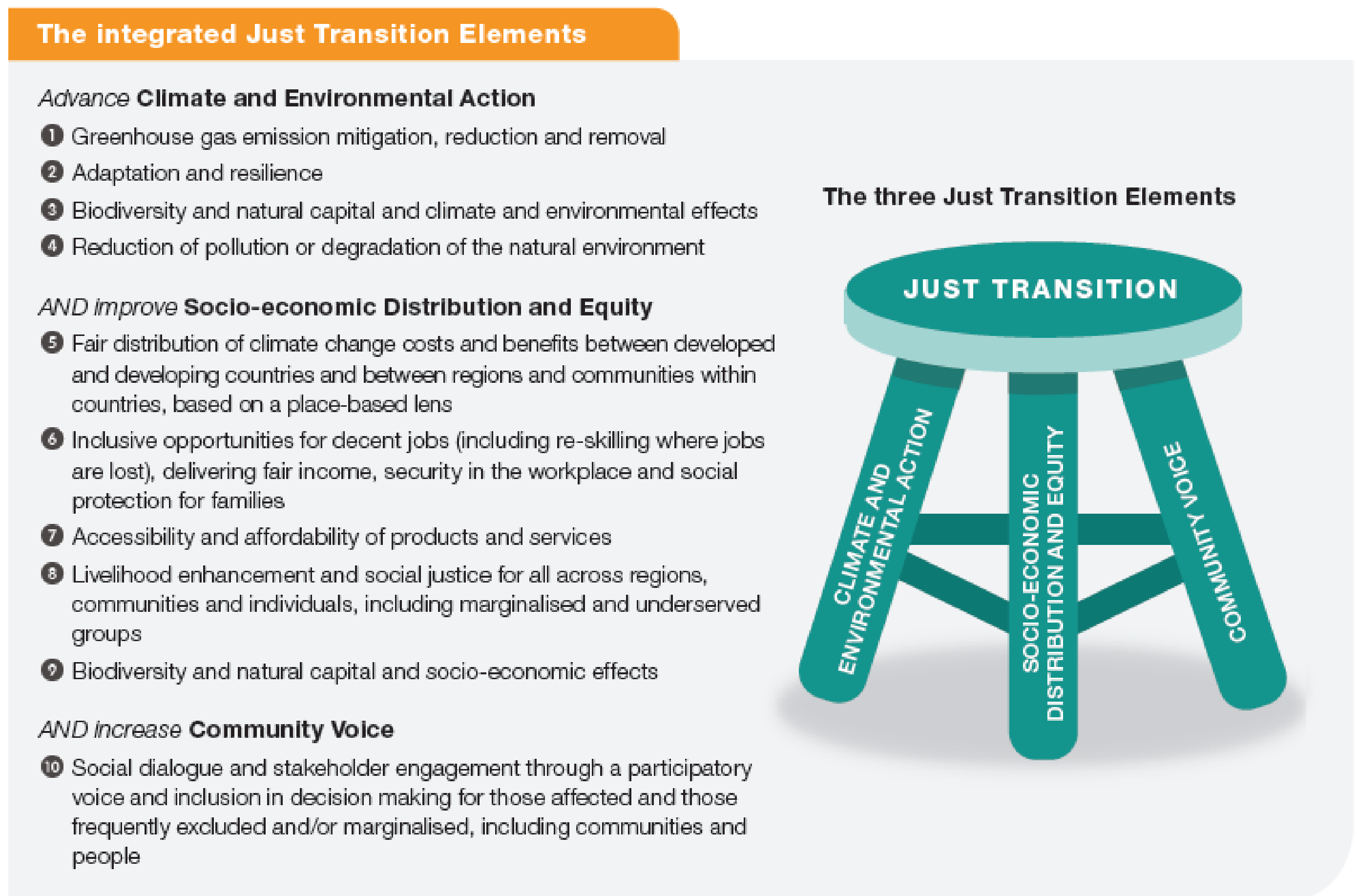
These Just Transition Elements are applicable across geographies, sectors, investments, and policies. Together, they provide a common foundation for action, while enabling a tailored understanding of local implementation scenarios.

While they have general applicability across all investment (and policy) actions, the Elements are particularly relevant to the development of financing vehicles that can attract private capital at the scale needed to finance a Just Transition. In addition, they can also be integrated both in existing investment vehicles and those yet to be designed.

All three of the following threshold statements should be considered in any investment programme within this framework:

- Every Just Transition investment transaction will, as a minimum, include at least one clear component of Climate and Environmental Action and there should be a net positive contribution to climate and the environment.
- Every Just Transition action will, as a minimum, make a net positive contribution to Socioeconomic Distribution and Equity.
- Every Just Transition action will, as a minimum, include meaningful engagement with local stakeholders and demonstrate how Community Voice is reflected.

Figure 1: *Description of the Just Transition Elements*



Accelerating capital towards a just transition builds on growing public and private market awareness, offers tangibility to a concept with positive resonance, and strengthens investment behaviour to integrate environmental and social considerations.

Investments in Just Transition can span most sectors and therefore open opportunities to widen the scope of sustainable finance as commonly understood, while maintaining integrity of the impact sought. As strategies can be anchored in or led by the climate and environmental or the social Element, the resulting breadth of possible Just Transition investments is substantial. Possibilities go far beyond renewable energy generation projects, energy efficiency investments and sustainable infrastructure; Just Transition investments can extend, for example, to financial inclusion strategies targeting microfinance investments, fintech and climate adaptation insurance, healthcare strategies that include energy efficiency improvements, green built environment strategies that target educational and other social infrastructure, as well as strategies that target the growing pool of nature-based solutions.

The Just Transition Elements reflect the systemic connectedness of environmental enhancement and social equity. Progressive adoption by all key actors – asset owners, stewards of capital, designers of investment products, and ecosystem players – offers a corridor of tangible action. By embracing the Just Transition Elements there is a real chance to accelerate the effectiveness of public and private finance deployed towards climate and socially positive solutions.

Aligning a Just Transition approach with proven tools for the deployment of capital by institutional investors, as detailed in Section 2, presents a clear and practical pathway for action towards these objectives.

1.2. A BLUEPRINT FOR JUST TRANSITION INVESTMENT STRATEGIES

Climate change is a global problem that will require action across all developed and emerging markets. While the concept of a Just Transition is universally applicable, its implementation also requires paying attention to local contexts using a place-based lens.

A Just Transition approach to achieving Net Zero should factor in:

- Different climate transition and planet preservation strategies across sectors;
- Geographic disparities, needs and priorities at international, national and regional levels;
- Affected and underserved or marginalised communities, households, individuals, workers, and enterprises to achieve an inclusive and socially beneficial transition.

To facilitate the adoption of a Just Transition approach into investment strategies, the Just Transition 'Blueprint' developed by the ITF presents a set of Principles, that can inform the design of any investment vehicle across asset classes. It also offers clear, consistent and accessible pathways to determine

whether and how an investment meets the Just Transition Elements.

The **Principles** are detailed below:[3]

1. AMBITION

PRINCIPLE 1.1: **The ambition is grounded explicitly in the integrated Just Transition Elements**: Climate and Environmental Action; Socio-economic Distribution and Equity; and Community Voice. The ambition statement clearly articulates the three Elements of a Just Transition that are being addressed, based on clear and concise parameters, defining what the vehicle sets out to achieve and who will be affected, including the geographic scope, environmental scope and socio-economic scope.

PRINCIPLE 1.2: **The ambition is grounded in the local context and needs.** The ambition needs to express the local context and relevance within the context for each of the three Elements. Inclusion of cross-cutting themes such as gender, race or other disadvantaged communities can be valuable components for framing an ambition, in particular to ensure that marginalised, underserved and affected segments of societies are expressly included and their interests are addressed.

2. INVESTMENT STRATEGY

PRINCIPLE 2.1: **The investment strategy is Just Transition relevant**. A distinct understanding of how the Just Transition strategy targets selected regions, sectors, environmental challenges and demographic groups, and what financial products and additional support are satisfying market needs, is paramount. A Just Transition investment strategy will: a) Be grounded in place-based demands and needs – and resulting opportunities; b) include measures for negatively affected stakeholders; and c) consider the inclusion of social activities in the strategy and related costs.

PRINCIPLE 2.2: **The investment strategy is investable by institutional investors**. In order to attract significant amounts of institutional investor capital, the vehicle's investment strategy must be investable by institutional investors, addressing investor appetite and constraints, including a satisfactory risk/return profile, a suitable size to enable the deployment of large amounts of capital, and a sizeable and viable pipeline to back the investment vehicle.

3. OUTCOMES FRAMEWORK

PRINCIPLE 3.1: **The outcomes framework has an integrated focus on each of the three Just Transition Elements.** The outcomes framework provides clear targets and outcomes metrics across all three Just Transition Elements.

PRINCIPLE 3.2: **The outcomes framework fosters transparency and accountability.** The vehicle includes transparent reporting and communication of targets and actual achievements. External third-party verification is considered to ensure accountability, strengthen the Just Transition proposition and to avoid green- or impact- washing.

4. STRUCTURE

PRINCIPLE 4.1: **The structure and terms enable the capital invested to advance a Just Transition.** When structuring a Just Transition investment vehicle, it is important to ensure that the structure, the choice of asset class and the vehicle's terms enable the delivery of a Just Transition strategy and outcomes targets. Examples of possible demand-side considerations include: vehicle life and whether it is adequate to achieve the targeted Just Transition outcomes; distribution of risk and returns between investees and investors; and need for technical assistance, providing capacity building to investees and local communities.

PRINCIPLE 4.2: **The structure and terms allow for institutional investor participation.** Vehicle structure and terms address target investors' specific investment appetite and investment barriers to allow for their participation. These include the choice of asset class, the vehicle's jurisdiction and legal form, target size, risk mitigation mechanisms, etc.

5. GOVERNANCE

PRINCIPLE 5.1: **The governance structure holds the vehicle accountable to its Just Transition ambition and the Just Transition Elements.** The vehicle's governance strives to be transparent across all levels, holding all bodies accountable for adherence to and application of all three Just Transition Elements across investments and actions. Transparency and accountability are sought internally and also with respect to the wider public. Information about the composition of a vehicle's governance bodies is publicly available.

PRINCIPLE 5.2: **The governance structure enables broad stakeholder voice.** The vehicle's governance structure demonstrates how different voices, and particularly the voices of communities, are represented and incorporated throughout the vehicle's life. It also invites intentional dialogue across stakeholders, including investors as well as local stakeholders and communities; this interaction sparks informed feedback and dialogue throughout the life of the vehicle.

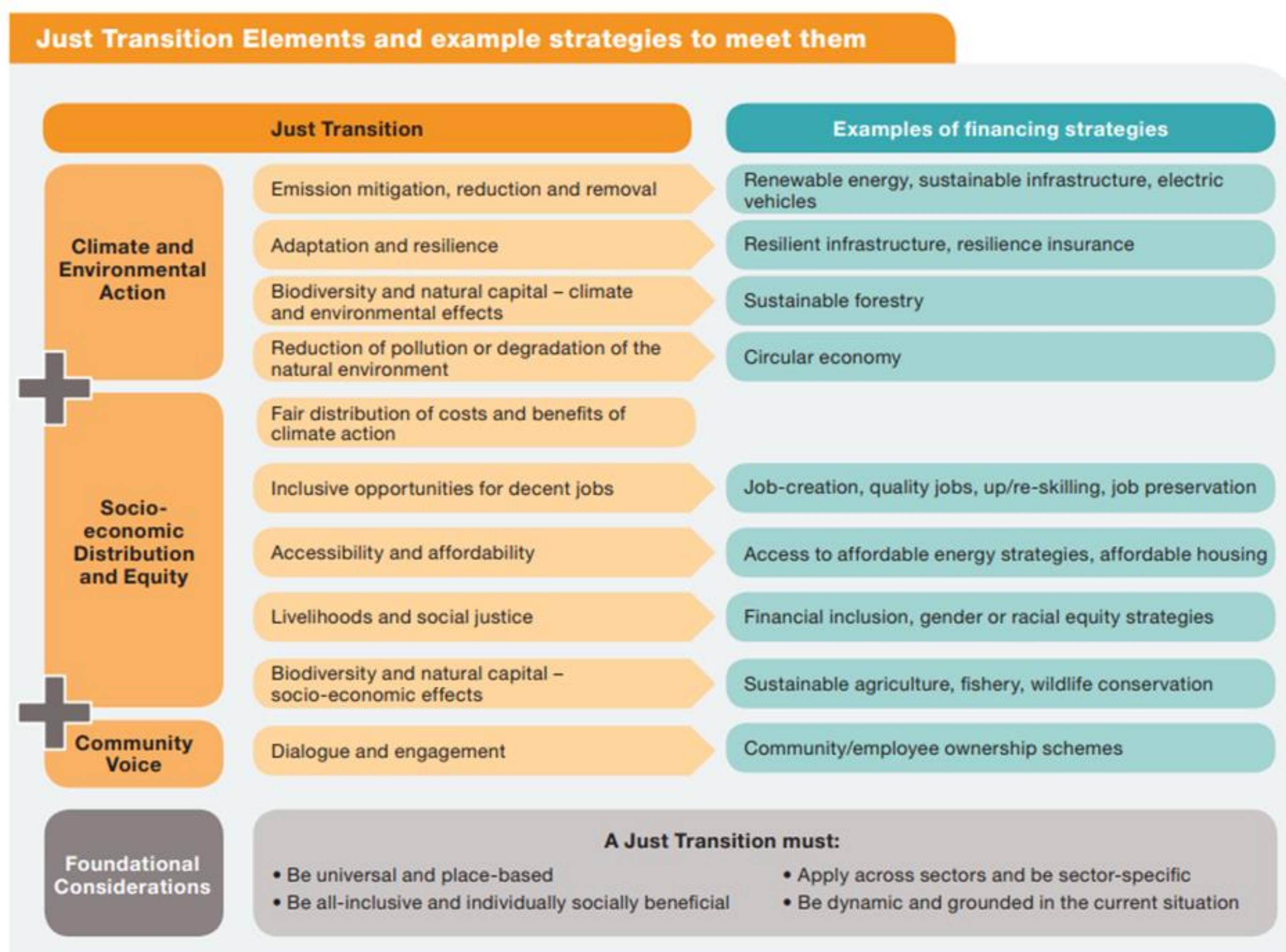
6. OPERATIONS

PRINCIPLE 6.1: **The vehicle or manager staff are capable and incentivised to implement and execute the Just Transition ambition**. A Just Transition investment vehicle must ensure that all relevant staff have the necessary training to deliver a Just Transition strategy, from pipeline building to due diligence and monitoring.

PRINCIPLE 6.2: **The Just Transition strategy is operationalised during the investment horizon and beyond.** An investment vehicle includes Just Transition considerations across its whole investment lifecycle, from sourcing to investment to monitoring, seeking to take a long-term view that extends even beyond the vehicle's actual investment life.

[3] More information on the Just Transition Principles and examples of financing vehicles applying the Principles across asset classes are available in the ITF report. https://www.impact-taskforce.com/media/n2dbgesu/workstream-b-full-report.pdf

Figure 2: *Just Transition Elements and sample financing strategies*



Lever 2: Tools and Instruments for Mobilising Private Capital at Scale.

Notwithstanding increasing momentum and a clear need to mobilise capital at scale for the achievement of the SDGs, commercial investors (especially institutional investors) continue to face real and perceived barriers to deployment, in particular when it comes to investing in emerging markets. Such barriers can be either external or internal and apply across asset classes. While most barriers affect all (institutional) investors, some present more significant impediments to certain investor types because of their regulatory status. For capital to move at scale, these barriers need to be acknowledged and adequately addressed.

The G20 can provide a platform for global coordination to tackle these barriers using the proven solutions highlighted below.

2.1. EXTERNAL BARRIERS

i. Real or perceived risks of investments and returns, including market-specific macro risks, insufficient track record and data points, uncertainty and/or level of risk and expected returns.

ii. Lack of available pipeline, affecting transactions across asset classes and relevant to various investor types.

iii. Lack of liquidity: uncertainty of exits is a particular challenge for private equity and low liquidity may be a problem for securities and related vehicles listed on emerging markets exchanges.

iv. Lack of an ecosystem of suitable intermediaries, which affect all types of investors across asset classes.

v. Statutory and general law duties and regulatory requirements are particularly relevant for fixed income bond issuances or securitisations; across investor types, with insurance companies often being the most restricted by regulators in holding sub-investment grade assets.

vi. High(er) costs: costs of private transactions, particularly in emerging markets, are higher than institutional investors are used to in listed markets. Investors prepared to invest in emerging markets need to build a degree of internal capacity to make investment decisions, which can be expected to be realised by greater volume of investment activity.

2.2. INTERNAL BARRIERS

vii. Limited risk appetite, which can vary by investor type, e.g., life insurers, pension funds and also some sovereign wealth funds typically have more appetite for longer time horizons and can therefore afford to take more risk. (Institutional) investors need to satisfy their risk/return requirements in making investment decisions, for which they need to disaggregate these requirements to identify the parts of their portfolios where SDG-aligned emerging markets investments can fit. In doing so, they need to quantify their long-term liability exposures with investment opportunities that match these exposures

viii. Rigid allocation policies or frameworks and mandate restrictions usually act as a limiting factor for mobilisation. Institutional investors should explore ways to amend their mandates, policies and allocation frameworks, allowing for more investment engagement in emerging markets and to support the SDGs. In all cases, an important driver for change is the institution's leadership and the voice of its members.

ix. Lack of awareness and access, including limited staff capabilities, expertise and market familiarity

x. 'Complexity premium': time and effort are required to underwrite any new set of opportunities, yet asset owners can resist the common request to charge a 'complexity premium' or similar underwriting fees. As asset owners become more familiar with such investments, more available quality data and information should reduce the required effort over time.

In order to address the barriers identified above, a series of tools and instruments can be deployed to enable capital mobilisation at scale towards the SDGs, in particular in emerging markets. Given that institutional investor have specific requirements, appetites and challenges, solutions need to be designed with specific investors in mind.

Managers are encouraged to structure investment vehicles for strategies that advance the SDGs in emerging markets by using one or more of the instruments and tools that are gaining traction and familiarity. MDBs and DFIs - of which G20 members are key shareholders - feature in nearly all of the instruments and tools highlighted, underscoring their vital role in mobilising institutional capital.

- Subordinated capital tranches are often provided by impact investors, including public and private funders. For institutional investors they provide an important de-risking mechanism, as senior ranking tranches benefit from loss protection by their junior counterparts. The core feature of subordinated capital structures is that the junior tranche in principle absorbs losses first, so that the senior tranche is only affected by losses once the subordinated tranche is 'wiped out'. Subordinated capital is probably the most widely used blended finance tool in vehicle structuring for impact investing where the perception of risk may deter participating investors.

- Guarantees are "a type of insurance policy protecting banks and investors from the risks of non-payment"[4]. The guarantor, i.e. the provider of the guarantee, agrees to pay the investor or lender in the event that the investee or borrower is unable to do so, typically against the payment of a fee. Guarantees can enable a proposition to achieve a certain (investment grade) rating that allows investors to come into the deal. Guarantees are mainly issued on specific deals but can also be assigned at the portfolio or vehicle level. In their pursuit of the SDGs, such vehicle or portfolio level guarantees have the potential to mobilise significant institutional investor support. Guarantees can also be a useful tool to free up capital on institutions' (in particular banks') balance sheets, allowing them to extend new loans. For example, the European Fund for Sustainable Development (EFSD)'s Guarantee from the EU has stated a mobilisation target ratio of 10x[5]. GuarantCo to date has achieved a mobilisation ratio of up to 3x[6]. The multiplier potential of guarantees to address the risk (actual and perceived) barrier of institutional investors and mobilise capital at scale is significant.

- Insurance provides protection against specific risks, whereby the risk of the insured loss is transferred to a risk pool administered by the insurer against payment of an insurance premium. In emerging markets among SDG-relevant insurance products, the most prevalent examples are political risk insurance, (short-term) trade credit insurance and (long-term) non-payment insurance. Insurance can mobilise private capital into emerging markets in two main ways. First, it can cover specific risks so that institutional investors are able to participate in an investment vehicle. This can enable greater participation of institutional investors in emerging markets transactions focused on the SDGs. Second, it can increase the current lending activity of an institution by expanding the balance sheet reach of commercial banks and MBDs/DFIs. In structures where lenders are insured to expand lending activity, there is significant opportunity to test the boundaries of efficient balance sheet management. In 2019, the Asian Development Bank (ADB) used $921 million of credit insurance to bring insurance providers into loans or portfolio of loans, of which more than $500 million was in local currency, and the European Bank for Reconstruction and Development (EBRD) used $950 million. The International Finance Corporation (IFC) used close to $800 million in 2020 and expanded its relationships with insurance companies under its Managed Co-lending Portfolio Platform (MCPP) Financial Institutions Group (FIG) platform significantly in June 2020[7].

- Securitisations are structures where a special purpose vehicle (SPV) acts as an issuer and purchases loans or loan portfolios from one or more lenders (banks or other financial institutions), and then sells its cash flows as securities to investors, typically rated and *tranched*, backed by the loan portfolio. In synthetic securitisation structures, risk is transferred via credit derivatives or guarantees, while the exposure remains on the originator's balance sheet. Securitisations have historically been used predominantly in developed markets, but are starting to be considered for emerging markets, particularly with respect to MDBs' and DFIs' loan portfolios.

- Local currency financing is scarce in many emerging markets, due to underdeveloped, poorly regulated and volatile local financial markets and the absence of appropriate financing instruments. Many local currency funding solutions can only be achieved by MDBs and some bilateral agencies, as special approvals and privileges to access local currency in domestic markets are required (as opposed to specialised funds such as The Currency Exchange Fund, TCX). The current lack of local currency solutions, including local currency facilities, guarantees or hedging solutions is a major challenge for the development of capital markets in developing countries. More needs to be done – and MDBs and DFIs must

[4] OECD (2021): "The role of guarantees in blended finance"; https://www.oecd.org/dac/the-role-of-guarantees-in-blended-finance730e1498-en.htm
[5] European Commission (2021): "The EU External Investment Plan – A range of financial guarantees"; https://ec.europa.eu/eu-external-investment-plan/sites/default/files/documents/efsd_guarantees-feb_2021-en.pdf
[6] GuarantCo (2021): "Enabling long-term infrastructure finance in local currency Quarter 3 2021"; https://guarantco.com/wp-content/ uploads/2021/11/GuarantCo-CorporatePresentation-Q3-2021-v101121.pdf
[7] ADB and IFC (2019): "MDB Joint Report – Credit Insurance Extract"; https://www.eib.org/attachments/press/1257-joint-report-onmdbs-climate-finance-2019. pdf

be called upon to increase their support. An example is the European Union (EU) Market Creation Facility, which has a multi-tool approach to enable TCX to take on more risk and grow its risk coverage even in challenging circumstances like the Covid-19 pandemic, by adding a guarantee. The increased capacity of TCX allows its clients to provide more funding to financial institutions. These are in turn able to lend more to people and businesses in Sub-Saharan Africa and the EU neighbourhood. The facility makes financial institutions more stable by shielding end-clients from foreign exchange risk[8].

- Performance data and information: many institutions, especially MDBs and DFIs, have been working in emerging markets for many years and therefore hold a large volume of relevant data, including crucial data on investment performance. Transparency of data has the power to make a fundamental change to the flow of capital to emerging markets – both with respect to actual amounts invested but also by reducing the risk premium demanded on emerging market securities, potentially providing billions of actual savings. The mobilisation effect of data can also allow for the fair and realistic risk assessment and pricing of other instruments, such as subordinated capital, guarantees, insurance products or securitisations. Data held by impact players should thus be perceived as a core tool to the furtherance of the SDGs and a global public good. An example is the Global Emerging Markets (GEMs) database, which was established in 2009 and today counts 24 member MDBs and DFIs[9].

- Innovative Partnerships are being increasingly leveraged to pull in a wider set of inventors into defined transactions. For example, syndication partnerships, used by many MDBs and some DFIs are those in which the lead investor, such as an MDB, syndicates part of its loan to third-party investors through a so-called 'B-loan'. The B-loan holder sub-participates in the MDB loan, while the MDB typically remains the sole contractual counterparty of the borrower. The institutional investor benefits from the MDB's sourcing capabilities, market network and expertise and from its expressly developmental focus. The participation structure also allows for clear alignment of interests and also for the B-loan holder to benefit from the MDB's preferred creditor status. Other types of partnerships include Co-creation partnerships, which are alliances whereby institutional investors and impact players, including MDBs and DFIs and others such as foundations, jointly design and sponsor the establishment of an investment structure or vehicle with the objective of catalysing more capital towards an impact objective; Co-management partnerships through which different managers with complementary skill sets and expertise, e.g., a mainstream asset manager and an impact manager or a DFI, cooperate with the aim to leverage respective capabilities, to achieve a combined offering that is attractive to institutional investors allowing the funds to scale.

ISSUE SPOTLIGHT: Scaling Investment To Tackle Urban Informality

Over 1 billion people live in slums and informal settlements across the Global South, without formal access to potable water, sewage or electricity, amongst other deficits. Given its multi-dimensional implications, the issue of urban informality is a core area for impact and development, including for the delivery of the SDGs and, given its environmental and climate-related implications, to achieve a just transition.

With a global investment gap estimated by the GSG at over $6trn it is evident that public funding alone will not be able to cope even with the yearly growth of the issue - under constant stress as a result of sudden migration to cities, including by refugees fleeing conflict and rural communities migrating because of climate change.

In 2018 Argentina pioneered a dedicated vehicle to boost investment in its over 4,400 informal settlements, home to 4 million people (roughly 10% of its total population), by passing legislation that, amongst other things established the creation of a dedicated socio-urban integration programme (PISU) and mandated the creation of a trusteeship to act as the main financial vehicle of the PISU, conceived as a blended capital, dedicated fund to deliver better solutions, at scale. Notably, the initiative was promoted by a cross-party coalition of supporters in Congress, and fuelled and informed by civil society organisations from the onset, including the direct participation of over 10,000 slum-dwellers who carried out a census at the beginning of the process, and continued to input through social organisations active in the habitat space.

Government estimated that more than $26bn in investment will be required to regularise all settlements in the country. This is equivalent to over 150 times the annual direct investment from the Federal Government for programmes related to the development of slums and informal settlements - making it clear that this is one social issue where government alone (or philanthropy alone) cannot respond at the required scale.

The initiative was continued with the change of government in December 2019, paving the way to its consolidation as a true State policy in the long run. The first layer of public capital fuelling the fund, of around AR$60 billions (roughly US$300 million) was secured in 2020-2021 from tax revenues established in the "Social Solidarity and Production Stimulus Act" and "COVID recovery solidarity act" targeting high net worth individuals passed by Congress in December 2019 and August 2021, respectively.

Envisaged as a 15 to 20-year effort, the PISU will need more than just public funding to deliver solutions at scale. Private capital flowing to the fund will be instrumental in this sense and can also bring in the right set of incentives and rigorous frameworks to monitor and deliver better social outcomes.

[8] ADB and IFC (2019): "MDB Joint Report – Credit Insurance Extract"; https://www.eib.org/attachments/press/1257-joint-report-onmdbs-climate-finance-2019. pdf

[9] https://www.gemsriskdatabase.org/

Investing in such programmes is of great importance to achieve a just transition to net zero, with clear links to the Just Transition Elements outlined in this document, and the delivery of the SDGs. For instance, the lack of a formal postal address often prevents slum dwellers from securing a registered job, which can result in lower income (SDGs 1, 2 and 10) and precarious working conditions (SDG 8). Financial limitations, in turn, hinder access to health supplies or quality education services (SDGs 1, 3 and 4).

In relation to the Just Transition Elements, the implications of consistent investment in slum-upgrading are clear for socioeconomic distribution and equity, given its multi-dimensional objectives of delivering basic and community infrastructure and further socio-productive development, health, education, early childhood development and other social outcomes, and given the characteristics of its young population. Around 40% of slum dwellers in Argentina are under the age of 15 (a characteristic seen across different regions), registered workers are only 15% of the total labour force,and most single-parent households are headed by women.

Making progress in this issue area is also anchored in climate and environmental action (SDG 13), including i) through the links between increasing urban informality and climate-driven migration, ii) the immense opportunity to deploy green, efficient infrastructure in slum-upgrading programmes (from "green pavement" to renewable energy facilities or energy efficient buildings), and iii) the need to gradually replace highly-polluting economic activities often prevailing in informal areas with cleaner ones.

Finally, tackling the issue of urban informality in a sustainable manner requires the incorporation of community voice at all stages of any given initiative or project. In the case of Argentina, as described above, community organisations were involved from the onset in the definition of the socio-integration programme, the first census of informal settlements, and the drafting of the law finally passed by Congress. Representatives from those same social organisations also joined the team responsible for implementing the programme in the National Ministry of Development. At a project level, best practice anchors implementation in community involvement throughout any given process. The University of Buenos Aires developed "La Brújula" (The Compass), a participatory methodology which diagnoses the issues before design work starts on urban interventions. In a similar approach, the Housing Institute of the City of Buenos Aires carries out participatory workshops in each of the slum upgrading programmes it leads in Argentina's capital to reach consensus on major design features of the interventions.

Lever 3: Sustainability Reporting: impact transparency, harmonisation and integrity as drivers of change

To secure the private and public investments needed to achieve the SDGs and the Paris Agreement goals, greater impact transparency, harmonised disclosure standards and better data quality (integrity) is needed.

Currently, investment decisions are being taken with insufficient and/or inadequate information about their social and environmental impact. There is an urgent need to transform the quality and usefulness of information on impact available to investment decision-makers, as well as those holding them to account. In this paper, 'impact' refers to "a change in an aspect of people's wellbeing or the condition of the natural environment caused by an organisation".[10]

Better information should lead to better decisions and so be seen as a vital management tool by companies. Leveraging the power of impact transparency is key to change behaviour and work towards a future in which investment decisions, by companies and institutional investors are increasingly taken through the triple lens of risk, return and impact.

3.1. IMPACT TRANSPARENCY

The scope of investors' requests from companies and wider capital market participants is widening and changing more quickly than are the rules and regulations. Investors are demanding more information related to economic, environmental, racial and climate justice, and using this information to make investment decisions – including whether the impacts fall unevenly on low-income or emerging market communities. In this sense, global efforts such as the recently announced IFRS-International Sustainability Standards Board, are being articulated to foster impact transparency through voluntary and mandatory reporting regulation across value chains and at both the enterprise and investor levels.

Transparency on the impact of practices and performance for businesses and investors will provide the data necessary to understand impact risks and opportunities and to know if we are getting closer to achieving the SDGs and a just transition. Disclosure must catch up with the scale of the challenges the world faces, if there is any chance for owners of private and public capital to make decisions based on impact for people and the planet.

Increased transparency needs to reflect the interdependence of green and social issues. Great progress on environmental disclosures can be complemented with disclosures on social issues like inequality, in private and public accounting.

3.2. HARMONISATION OF STANDARDS

Harmonisation of accounting methods and reporting standards is one of the most effective mechanisms to achieve comparable, consistent and reliable information on impact. Globally, the number of Environmental, Social, and Governance (ESG) and impact standards has nearly doubled in the last five

[10] Impact Management Project (2021)

years.[11] Publicly listed companies must abide by mandatory financial and non-financial disclosure requirements issued by regulators and stock exchanges. Companies must also respond to varying requests for voluntary disclosure and assessment from ratings providers, shareholders and the broader investment community, which can be difficult and expensive for all. As a result of the range of requests from different audiences, there are significant variations in the information disclosed about the impact of practices and performance.

To facilitate harmonisation of disclosure standards and practices a "baseline-and-build" approach needs to be adopted, where – at a minimum – the "baseline" is that accounting[12] reflects key social and environmental risks to companies now and in the future, focused on enterprise value. The "build", in the face of urgent challenges, is accountability to all stakeholders – including customers, suppliers, employees, local communities and the environment. Even if they do not visibly affect enterprise value, impacts on people and the planet should be considered, reported and managed in legal frameworks and decision making.

Additionally, to enhance the quality and quantity of data available to inform decision making, either for policy or investment purposes, reporting standards must be globally relevant and easy to adopt to all actors in the system, including SMEs and enterprises in emerging markets.

Emerging markets are the main manufacturing locations for the top 500 global companies, which makes understanding local impact critical. In order to maintain and attract foreign investment, companies will have to comply with further efforts related to disclosure, transparency and risk management.

SMEs play a major role in most economies, particularly in developing countries, where they contribute up to 40% of national income. Enterprises from different regions have varying access to resources and knowledge that may lead to a different level of adoption of global standards. This makes enterprise-level impact reporting often not comparable, resulting in uncertainty and ambiguity. Such imperfect information can lead to market failures, even while impact capital is actively seeking to turn them into market opportunities. SMEs need to be equipped with resources and capabilities to be able to report the impact of their operations and contribute to the overall transparency in global markets.

3.3. INTEGRITY OF DATA

Integrity rests on how environmental and social impact measures are accounted for, audited and valued to be aggregated, disaggregated and integrated within existing approaches to reporting. This includes data on practices and performance, and how the data is used, including its role in decision making and accountability to stakeholders.

Impact integrity is the development of systems, principles and norms that build trust in underlying data, responsibly stewards data about people and the planet and creates constructive feedback loops with affected stakeholders.

Integrity ensures that the impact data produced through increased transparency and better harmonisation maintains quality, consistency, privacy and interoperability. More data does not necessarily mean better data, nor that the governance bodies and managements of organisations are incentivised to use it. Standards and regulation can play a positive role in ensuring that information used in the financial system meets the high standards that investors need to make decisions. This requires robust governance arrangements, methodological transparency, data quality controls and the management and disclosure of potential conflicts of interest.[13]

Impact data, disclosed in accordance with harmonised standards, should be available and easily accessible for all kinds of users. Structured information enables greater connectivity and allows for searching, filtering, aggregation and integration. Unless technology is leveraged, the preparation of impact disclosure and reporting will be difficult, unverifiable and the utility of such disclosure will be limited. Without data infrastructure, the critical context behind social and environmental issues will be difficult to assess.

While celebrating the volume of private capital flowing towards impact, ensuring data integrity is critical to developing and maintaining public trust, especially around issues that require some level of judgement and subjectivity.

Conclusions and call to action

The preceding sections of this paper identified opportunities and challenges for mobilising capital at scale for public good. Financial markets are one of the most powerful systemic levers of change, and the combined savings and wealth of the world can be an extraordinary force for good in generating more positive social and environmental impact, while creating appropriate risk-adjusted financial returns. With the right incentives, frameworks and leadership, capital will flow at scale to where it is more beneficial for people and the planet.

Achieving the SDGs and a transition that leaves no places and people behind requires the development of a new model for effective collaboration between governments, multilateral organisations and the development finance system, and private capital, both domestic and international. This is needed to build trust, to understand investment priorities, and to work through the key barriers to the deployment of capital and the reduction of its cost.

Developing a framework that helps provide clarity around 'Transition Finance' is a substantive step forward in the mission of securing the financing to achieve a transition to an equitable and sustainable future. This is a challenging task that should not be underestimated. The framework needs to be clear enough to aid investor decision-making while introducing credible benchmarks to create confidence and prevent greenwashing. At the same time, it should be flexible enough to ensure that a wide variety of investment approaches can fit into the framework to meet the diversity of investor motivation in committing capital to sustainable investments.

A wide range of actors within the private sector will need to incorporate and enhance sustainability practices in their operations and their approach to financing to address the pressing challenges of our time and to meet the global goals. Capital that ignores environmental consequences and social inequality will be increasingly vulnerable to performance as well as reputational risk. In contrast, capital that pursues investment strategies in which environmental and social objectives are integrated not only mitigates exposure to risk

[11] EY (June 2021): "The future of sustainability reporting standards"; https://assets.ey.com/content/dam/eysites/ey-com/en_gl/topics/sustainability/ey-the-future-of-sustainability-reporting-standards-june-2021.pdf
[12] 'Accounting' is how entities make sense of and act upon financial and non-financial disclosures, in a way that can be audited and assured.

[13] S&P (2021): "S&P Global Response to IOSCO Consultation Report on Environmental, Social and Governance (ESG) Ratings and Data Products Providers"; https://www.spglobal.com/en/research-insights/featured/sp-global-response-to-ifrs-foundation-consultation-paper-on-sustainability-reporting

but also expands the opportunity landscape for capital to generate positive financial, environmental and social returns.

As market regulators, enablers and participants, governments have a critical role to play by allocating public investment and designing policies and regulations to leverage change at scale. Governments can also help by empowering MDBs and DFIs of which they are the shareholders to be more effective in catalysing mobilisation of private capital for public good.

The G20, given its convening power, can play a key role in fostering a coordinated and urgent global movement towards a just transition. Part of the G20 members represent an important volume of foreign direct investment worldwide and their capital markets have a crucial impact on the rest of the world. Some others represent a substantial share of the most vulnerable populations around the globe, and their perspectives and voices need to be adequately heard and incorporated into any given solution put forward. The G20, given this diversity and unique representativeness, is best positioned to host discussions and foster action in both developed and developing economies as countries struggle with high levels of indebtedness, mounting social inequality and the urgent need to recover from crisis.

Time is running out in the race to achieve the SDGs by 2030.

We need governments, regulators, financial institutions, international organisations and investors of all stripes to lead a concerted and urgent action to overcome the inertia of our system and shape a sustainable and inclusive future for all.