GIF ADVISORY COUNCIL MEETING
BACKGROUNDER

GIF ADVISORY COUNCIL MEETING: "INVESTING IN A RESILIENT FUTURE"
MAY 10-11, 2021

Context

Investing in sustainable and resilient infrastructure is crucial for reigniting global economic growth in a post COVID-19 era, as well as addressing the world's other great challenges – reducing climate change risks to our societies, livelihoods and natural environment, and attaining the Sustainable Development Goals (SDGs). Nowhere are such infrastructure needs greater than in developing countries, where infrastructure deficits are large at best and staggering in many countries. With broad recognition that public budgets alone are insufficient to fund the enormous infrastructure needs throughout developing countries, development finance institutions and governments are increasingly seeking to leverage private capital to close the sustainable infrastructure investment gap, with estimates by the New Climate Economy suggesting the world will need to invest US$90 trillion in climate resilient infrastructure between 2015 and 2030. While infrastructure needs in emerging markets and developing economies (EMDEs) are significant, according to a G20 Brief in which the World Bank is cited, it is estimated that the overall net benefit of investments in infrastructure resilience could reach US$4.2 trillion over the life of an infrastructure asset – suggesting a US$4 return for every dollar invested.

Within this context, the Global Infrastructure Facility (GIF) Advisory Council Meeting will focus on "Investing in a Resilient Future." The virtual event will offer insights into the importance of innovation and sustainability as key drivers in building more resilient infrastructure that can withstand future shocks, especially in the aftermath of the COVID-19 pandemic and in the face of an intensifying climate crisis. Panel discussions and roundtables will focus on: how to "build back better" through scaling up investment in nature-based solutions; recent innovations that optimize infrastructure design and delivery and promote resilience; and current initiatives and platforms sitting at the intersection of climate finance and infrastructure that seek to mobilize private finance towards sustainable, resilient solutions in line with the Paris Agreement and objectives of COP26. The event will also serve as an opportunity for the GIF and its multilateral development bank technical partners to highlight their work supporting transactions impacted by the COVID-19 pandemic, with a focus on those projects that are in an advanced stage of implementation.

As the GIF and its multilateral development bank (MDB) and development finance institution (DFI) partners continue to seek new ways to mobilize private capital within their portfolios, it is broadly recognized that scaling up **private capital mobilization (PCM)** is now more crucial than ever for spurring the post-COVID-19 economic recovery. According to the MDB and DFI 2021 joint report, *Mobilization of Private Investment 2019*, a total of US$63.6 billion of private finance in operations in middle- and

low-income countries was achieved in 2019. Although this represents an overall decline from 2018 levels, this amount also reflects US$6.7 billion mobilized for low-income countries, which is a significant increase of 21 percent.

Over the past year, the impacts of COVID-19 on the infrastructure sector, economies, and societies have posed both unprecedented challenges as well as exposed extraordinary opportunities. In this spirit, as we move toward a post-COVID-19 era, the GIF's 2021 AC meeting is examining new perspectives on the way we build and use infrastructure, including opportunities to build back better and greener, and fit for future, using sustainable infrastructure that is innovative, durable, more efficient and progressive, and aligned with the aspirations of the Paris Agreement and SDGs.

The meeting will consider the following questions:

- *How can we bridge the gap to create bankable pipelines of resilient infrastructure projects that are future ready, while leveraging the opportunity to integrate innovation, promote sustainability, and attract private capital?*
- *As assets continue to grow, where should investors put their capital today, to create the infrastructure of tomorrow? What are the challenges, opportunities, and risks?*

DAY 1: MAY 10, 2021

Session | Building a Resilient Future – Nature-based Solutions

Nature-based Solutions (NbS) are an opportunity to build back better and offer a cost-effective way to reduce climate risks and build resilience. Healthy NbS ecosystems are able to protect communities, optimize infrastructure use, and safeguard a stable and biodiverse future for all. Healthy mangroves and their strategic use, for example, can reduce the impact of climate change and natural disasters by potentially reducing annual flooding for more than 18 million people globally (Beck et al., 2018), and have been shown to "avert flood damage totaling up to US$ 57 billion in China, India, Mexico, US, and Vietnam each year (Reguero et al., 2018)." As the global economy shifts and the race to decarbonize assets, sectors, and entire economies intensifies, there is growing demand for NbS to be a key enabler for climate action. In response, innovative financing solutions have been developed to minimize risk and attract accelerated private investment in NbS.

HSBC Pollination Climate Asset Management has emerged as the world's largest dedicated natural capital asset management company. Together, the two entities are establishing a series of natural capital funds, investing in a diverse range of activities aimed at preserving, protecting, and restoring nature over the long-term, and addressing the protracted impacts of climate change. In an effort to accelerate private investment into climate resilient infrastructure that puts nature-based solutions front and center, Pegasus Capital Advisors, IUCN, BNP Paribas, Gold Standard, and R20 have partnered for the Sub-national Climate Finance Initiative, an innovative funding instrument that seeks to mitigate climate change and strengthen community resilience projects. The fund will specifically focus on mid-scale infrastructure in developing countries through a series of portfolio investments managed by Pegasus in mid-sized, climate-resilient infrastructure in developing countries, dedicated technical assistance managed by IUCN, a first-loss tranche from the Green Climate Fund to de-risk investments for the private sector, and a partnership of consortium members (including BNP Paribas, Gold Standard, and R20) to support capacity-building and project development. Translating financing solutions to concrete infrastructure projects, the Inter-American Development Bank (IDB) launched the report *Increasing Infrastructure Resilience with Nature-based Solutions (NbS)*, offering a practical

approach for project planners, developers, contractors, and operators to systematically incorporate NbS solutions across the infrastructure lifecycle. The report is structured as a 12-step technical guide that offers entry points to integrate NbS vis-à-vis technical, economic, financial, and policy considerations, highlighting case studies on how NbS approaches have been implemented in select projects in IDB's portfolio.

Session 2 | Designing a Resilient Future – Innovations in Infrastructure Development

Similarly, private investment in the technologies of the future is needed. In recent years, **disruptive technologies in infrastructure, also known as InfraTech,** have challenged traditional views of long-term capital that seeks stable returns for large infrastructure projects and how technology innovations are being viewed in capital allocation decisions. Today, there is an emphasis on innovations aligned with the G20 Agenda around InfraTech and the need to incorporate technology across the infrastructure lifecycle to achieve efficiency gains. In fact, according to a report by the Global Infrastructure Basel Foundation (GIB), 75 percent of the infrastructure that will be in place in 2050 does not exist yet, and GIB predicts the infrastructure of 2050 will not just be new, it will be transformative. Artificial intelligence, machine learning, robotics, drone technology, magnetic and pneumatic transportations systems, three-dimensional printing, and digital twin technologies are just a few of the forces shaping and influencing today's infrastructure needs.

One of these transformative solutions occurring in the transport sector includes developments in demand-responsive transport (DRT), a flexible mode of transportation that adapts to the demands of the user. As cities around the world increase in size and population falls in rural areas, greater congestion and rising demand for transport services become a challenge. DRT can have significant environmental benefits, as it could reduce carbon emissions and improve transport flows in cities around the world through the reduction of private vehicles on the road, and it would result in a cost-efficient connectivity for rural populations. These transformative technologies also include innovations in energy storage. With the rise of battery production and decline of costs associated with renewable energy production, innovations in battery storage can offer cost-effective solutions to boost the transition away from fossil fuels for core infrastructure projects.

DAY 2: MAY 11, 2021

The Road to COP26: Introduction to the Global Private Capital Mobilization Platform

On the road to COP26, 125 countries, including half of the G20, have committed to net achieving net zero by 2050. COP26 in November 2021 will serve as a crucial inflection point – countries are expected to raise the level of their Nationally Determined Contributions (NDCs) and reaffirm their commitment to achieving net zero. Meeting the climate goals outlined in the Paris Agreement will not only require commitments across the public and private sector, but also a significant acceleration of finance. To that end, the COP26 Private Finance Hub, led by UN Special Envoy and Adviser to the Prime Minister Mark Carney, focuses on building a system that mobilizes private finance to support the transition to net zero. The Hub's "Mobilization" track specifically focuses on increasing private finance flows to EMDEs by linking available capital in the market with a concrete pipeline of well-structured, quality, and sustainable projects. Aligned with the "Mobilization" track deliverables – and in recognition of the US$1 trillion in annual sustainable infrastructure investment needed to accelerate

climate action in line with net zero – the GIF has supported the development of investible infrastructure programs and projects that mobilize private capital. In addition to providing project preparation support upstream, the GIF is developing two downstream blended finance solutions to de-risk infrastructure at the project- and portfolio-level to crowd-in even greater levels of private capital.

To deliver accelerated and targeted action on the preparation, structuring, and financing of bankable sustainable infrastructure investment opportunities, the GIF is developing an integrated, end-to-end **platform "The Global Private Capital Mobilization Platform."** The platform presents a scaled-up GIF business model — including upstream capacity-building, midstream project preparation, and downstream investment de-risking. The proposed approach also credibly aligns critical stakeholders and initiatives of which the GIF is a part. The platform includes intensified and flexible upstream enabling environment support in sectors with strong potential to achieve accelerated impacts in terms of scalable and programmatic private investment opportunities, as well as an open-source collaboration space for public- and private-led capital mobilization initiatives to incubate solutions and align solutions for unlocking private capital for sustainable infrastructure.

Session | Going Downstream: GISD and GIF's New Blended Finance and Private Capital Mobilization Solutions

As part of the GIF's integrated "Global Private Capital Mobilization Platform," it is advancing two downstream financing windows that build on lessons learnt and other platforms, as well as provide additional value beyond those vehicles currently available in the market. The two windows provide de-risking solutions for private investors and MDBs/DFIs at individual project level and portfolio level, respectively.

The Credit Enhancement Facility is envisioned as a project-level de-risking facility focused on promoting innovation by providing a space where GIF and its MDB Technical Partners can collaborate in the development of flexible and agile credit solutions that allow MDBs to implement more efficient financial structures aimed at mobilizing private capital.

The Sustainable Infrastructure Investment Platform is envisioned as a portfolio-level de-risking facility that will combine GIF risk mitigation instruments with a private sector tranche. With potential support from concessional resources, the platform will be anchored by institutional investors, providing a new source of financing for developing country infrastructure to mobilize long-term investor capital. It will benefit from the pipeline of projects of the GIF's existing project preparation facility, the Credit Enhancement Facility, and other co-investment or co-financing opportunities with GIF's MDB Technical Partners.

Session | FAST-Infra – The Sustainable Infrastructure Label

To meet global development needs, US$6.9 trillion per year is needed in infrastructure investment by 2030. With an estimated financing gap of US$3.5 trillion per year, barriers need to be overcome to accelerate private sector finance into critical infrastructure solutions. The generation of bankable projects involving renewable power, green transport, sustainable water and waste, and green buildings is expanding but remains inadequate and sub-scale. Financing of infrastructure projects is limited and lacking sufficient investment from the private sector, which is crucial to bridging the investment gap. Institutional investors are keen to invest in sustainable infrastructure, which can offer stable, long-term returns. However, there is currently no way for them to verify which assets are genuinely sustainable.

FAST-Infra (Finance to Accelerate the Sustainable Transition – Infrastructure) proposes to establish a consistent, globally applicable labelling system for sustainable infrastructure assets. Alongside the labelling work, FAST-Infra is developing financial mechanisms to mobilize private investment at scale for the financing of labelled projects. The labelling system will allow the market to easily signal the sustainability of the asset. Investors can trust that their money is going to projects that meet environmental, social, resiliency, and governance needs and contribute to the SDGs.

A sustainable infrastructure label will also ensure that governments and project developers embed high environmental, social, governance and resiliency standards into new infrastructure at the design and pre-construction phases, on the grounds that only assets incorporating such standards will obtain the label. The label will also attract private finance at the construction stage and new institutional investors at the post-construction phase.

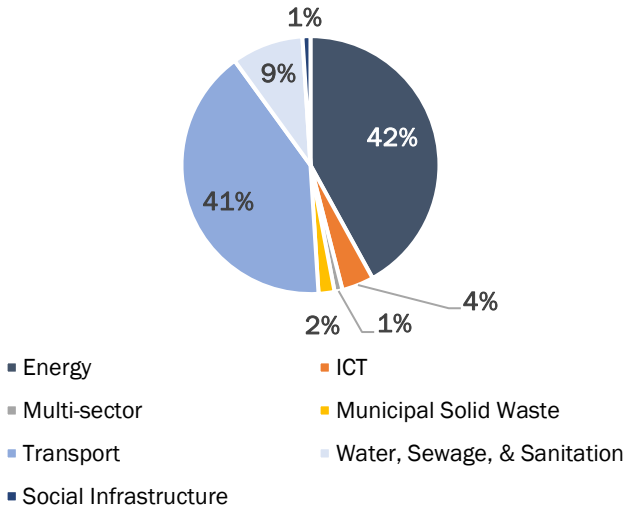
This session will focus on the Sustainable Infrastructure (SI) Label component of the FAST-Infra initiative, providing an overview of the SI Label, the set of sustainability criteria underpinning the label, and the updates on the governance framework that will operationalize the SI Label. The co-chairs of the SI Label Working Group (GIF and Macquarie) will also solicit direct feedback on the SI Framework Document (sent to meeting participants in advance), the value of approach, and usefulness of the label itself as a market signal for the private sector.

GIF RESULTS TO DATE (as of April 2021)

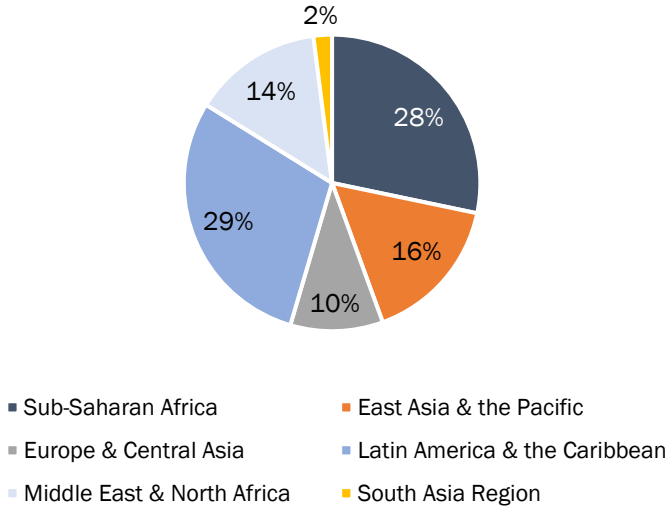
The GIF portfolio blends innovation in design and structuring with a backbone of projects that delivers both development objectives and the large-scale mobilization of private capital for sustainable infrastructure. As of April 2021, the number of advisory engagements is of 104 (net of cancellation), with a total estimated investment of US$74 billion in 52 EMDE countries. GIF's projects have mobilized more than US$50 billion in private investment.

The GIF's governing framework requires projects to be climate-smart and ensures that all activities are analyzed for opportunities to maximize approaches addressing climate change and aimed at strengthening climate resilience. To date, 74 percent of GIF's projects are climate-smart. GIF's projects are also required to demonstrate connectivity and integration in design, and which at least 50 percent of them do.

GIF Portfolio by Sector (April 2021)



GIF Portfolio by Region, by $ (April 2021)



Alongside its project preparation activities, the GIF has also demonstrated its unique and valued position in the EMDE infrastructure finance ecosystem as a source for the creation and dissemination of knowledge. Drawing on its rich portfolio and working in collaboration with its Advisory Council partners, the GIF has produced over 20 knowledge products, including a recent 2020 report produced with GIF AC co-chair, Swiss Re, entitled *Closing the Infrastructure Gap: Mobilising Institutional Investment into Sustainable, Quality Infrastructure in Emerging Markets and Developing Economies (EMDEs)*. Most recently, the GIF—in collaboration with the Climate Finance Leadership Initiative (CFLI) and the Association for European Development Finance Institutions—produced the report *Unlocking Private Climate Finance in Emerging Markets: Private Sector Considerations for Policymakers*.