Catalyzing SDG Investment

An invitation to blend public and private capital for greater impact

December 2016
“Our ability to deliver on the 2030 Agenda contributes to the long-term stability of our world and markets. We need new financial models and blended financing structures to play our part as institutional investors.”

Else Bos,
CEO PGGM

“The SDGs are the basis of the world’s long term agenda for sustainable growth, or even better for survival. By nature of FMO’s mission we already contribute substantially to the SDGs and we will use the power of our knowledge and network to expand our impact.”

Linda Broekhuizen,
Chief Investment Officer, FMO
This paper was written as part of a larger effort to articulate a shared Dutch ‘SDG investing (SDGI) agenda’. It was developed by 21 financial institutions and enabling institutions and presented to the Dutch government and Central Bank on December 7th 2016 at the GIIN’s Investors Forum in front of over 700 investors.

This paper describes the insights and recommendations that emerged from one of four working groups that set out to identify concrete actions that can be taken to build ‘SDG investment highways’ – at home and abroad.

The focus of this paper has been to catalyze greater institutional investment in the 2030 Sustainable Development Goals (SDGs) through the systematic deployment of blended finance instruments by the financial sector and government alike.

Findings in the report are the result of a collaborative process which was led by FMO and PGGM. Its insights and recommendations are based on the professional experience of the leads, available market research, and the input of multiple financial institutions that are part of the wider SDGI Initiative. In addition to the financial institutions, various Ministries, as well as organizations such as Atradius, NLII, Philips Medical and Lighting have been involved in this working stream.1

Importantly, this paper does not contain any investment advice. The examples in the paper may serve as an inspiration, and we look forward to promoting the blending agenda in the years ahead welcome any feedback you may have.2

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1 Organizations that contributed to our work include Aegon, C-Change, NNIP, and Rabobank, as well as the Ministry of Foreign Affairs, Ministry of Finance, Ministry of I&M.

2 For the full SDG Investing Agenda, please visit www.sdgi-nl.org
GOAL
The ultimate goal for this working group has been to catalyze significant SDG investment through the systematic deployment of blended finance instruments.

OPPORTUNITY
Attract significant institutional investment capital towards SDG investment opportunities in domestic and developing markets through optimal allocation of risks and a ‘blending of capital’

Leveraging the full power of leading Dutch value chains (‘topsectoren’) will help increase the upside to investments, decrease perceived risk, and increase the scale of the interventions at play. In doing so, the NL financial sector will get access to new markets and the Netherlands makes a clear contribution towards realizing the SDGs worldwide. This will make The Netherlands a true frontrunner in SDG financing, with particular attention for priority sectors.

CONTEXT
Despite an uptake of innovative financing structures by Dutch actors, significant barriers to greater SDG investment exist. A leading barrier involves that existing investment opportunities do not meet threshold risk-return requirements. Blending capital and crowding in private investment at scale requires the availability of risk capital, project pipeline, a real willingness to consider new investment and collaborative structures, at times a relaxation of mandates, as well as the presence of financial structuring expertise.

The Dutch government has been contributing to blended finance for years through funds like ‘Massif’, where public capital is typically applied to fund young institutions that are subsequently funded by private capital e.g. through microfinance funds. Through initiatives such as NLII, the establishment of a Dutch innovative finance team inside the Ministry of Foreign Affairs, as well as advanced experimentation with vehicles such as Climate Investor 1, new structures have emerged that combine public and private capital.

Globally, institutions such as the EIB, OECD, the U.N. and the World Economic Forum define the deployment of public sector capital to ‘de-risk’ private sector investments as a key success factor to realize the SDGs.

RECOMMENDATION
1 FIN: Set institutional targets for sustainable or SDG investing as feasible, and proactively address internal barriers to SDGI
2 FIN/REG: Pool institutional funds and resources where feasible to enable economies of scale, and further adoption among smaller institutions (e.g., pension funds) and wealth holders
3 GOV: Enhance and develop public risk-return enhancing solutions in close consultation with the financial sector, in order to crowd in greater institutional capital towards the SDGI and to leverage government spending
4 FIN/GOV: Advance integrated structured financing solutions where feasible that cut across the lifecycle of investments with a focus on more ‘investable’ sectors – energy, infrastructure and water, agri & food, and healthcare
5 GOV: Offer a ‘one-stop-blending-shop’ that guides projects requiring public sector support through government bureaucracies as needed
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### Introduction

The investment needs to support the achievement of the SDGs are high. According to one estimate, there is a $1.4 trillion annual SDG investment gap. As public investment will be unable to fill this gap, private investment will be essential to realize the SDGs. Blended finance is an opportunity to stimulate private investment to plug part of the financing gap.

In line with the OECD, we define blended finance as the strategic use of public and private funds, including concessional tools, to mobilize additional private/commercial capital in order to make investments possible in support of the SDGs that wouldn’t have happened otherwise.

Three key characteristics of blended finance stand out:

1) Its catalyzing role: the role of the grants/public funding element is to make the risk-return profile of certain investments more attractive to private investors;

2) Additionality: the objective is to make possible investments that wouldn’t have happened otherwise;

3) Emerging markets: OECD specifically includes emerging and frontier markets in its blended finance definition. We don’t; whilst we support the notion that the vast majority of SDG requirements relate to developing and emerging markets, there is a strong interest among Dutch financial sector to also support domestic and other developed markets SDG investments (e.g. climate related).

Different partnerships can be formed as is shown in the figure below. This can be done on different levels: at the institutional level, at a fund level or at the client/project level.

### Exhibit 1: Updated Definition of Blended Finance

<table>
<thead>
<tr>
<th>Concessional Terms</th>
<th>Non-Concessional Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUBLIC ACTORS</strong></td>
<td></td>
</tr>
<tr>
<td>Public concessional finance blended with private non-concessional investment, e.g., ODA loan alongside institutional investor loan from the private sector</td>
<td></td>
</tr>
<tr>
<td>Public concessional blended investment with public non-concessional investment, e.g., EU blending facilities in conjunction with DPI investment</td>
<td></td>
</tr>
<tr>
<td>Private concessional investment blended with private non-concessional investment, e.g., private donors and institutional investors from the private sector</td>
<td></td>
</tr>
<tr>
<td>Public non-concessional investment blended with private non-concessional investment, e.g., DPI investment at market rates alongside institutional investors from the private sector</td>
<td></td>
</tr>
</tbody>
</table>

Over the years Dutch banks and institutional investors as well as the Dutch government have taken several initiatives to invest more in SDGs as evidenced by the list of facilities and vehicles that is provided in this paper, but new investments have failed to reach significant scale. In this report, we identified several reasons for this, such as existing investment mandate guidelines, lack of bankable projects, development risks and country/political risks in developing countries. Our focal question: How can blended finance bridge the financing gap and channel more money from Dutch banks and institutional investors to SDG-related projects?
The MASSIF fund provides much needed financial resources to small businesses and micro-entrepreneurs (MSMEs) by supporting the local financial intermediaries and institutions that can contribute to their development.

MASSIF supports clients in improving their management skills and technical expertise through our Capacity Development program.

MASSIF

An emerging trend in sustainable finance involve efforts to make global supply chains more sustainable and inclusive. Partial risk guarantee structures that enable corporations and producers to certify – and finance – their products and supply chain processes are set to become an important channel for blended SDG investment.

The SDGs offer a unique opportunity to step up investment in sustainable development, in developed, emerging, and developing markets alike. As an institutional investor commented during one of our workshops, “SDG investing is the next step in Responsible Investing”. For Dutch banks and institutional investors, the SDGs offer an opportunity to help solve the world’s challenges while at the same time diversifying their portfolios and improving their reputation. SDG investing yields the following key benefits:

- Access to new markets – improve portfolio diversification through broadening developing and emerging markets exposure
- Access to new products – enhance business potential e.g. by financing essential infrastructure across projects’ lifecycles
- Societal impact
- Image / reputation building
- Implement goals of asset owners

The funding of SDGs in developing markets has historically been the core focus of development banks. FMO, the Dutch development bank, has been very successful in financing SDG-related projects in developing markets for several decades. The core business of Triodos and ASN Bank is the financing of companies and projects that have a positive contribution to the SDGs.

The Blending Opportunity

The SDGs are not only focusing on developing countries, the scope of this work stream has also been on projects and investments in developed markets where contributions to SDGs can be made, such as windmill projects in Europe, sustainable real estate projects, greenbonds of issuers in developed countries. The Dutch ‘Groenregeling’ is a good example of an existing blended finance structure to facilitate more retail investments in SDGs.

Dutch value chains are well positioned to contribute to various SDGs. Still, financing for investments of this nature – be it through Dutch, international or local enterprises – has failed to reach the required scale. As we will analyse in the next section, some of the most pressing obstacles to scaling up SDG investing can be addressed through blended finance solutions. We believe that solid support to blended SDG financing will allow The Netherlands to become a front runner in SDG investing. Besides reputational benefits, more SDG investing should give a push to the growth of most of the Dutch top sectors (“topsectoren”), both domestically as well as internationally.

OPPORTUNITY

The Blending Opportunity

Illustrious initiatives

MASSIF

More financial institutions in The Netherlands are now focusing on financing SDG-related projects. Dutch banks have indicated ambitions to contribute to the SDGs. Dutch pension funds ABP, PFZW and PMT as well have stated specific ambitions to invest more in SDGs.

As the SDGs are not only focusing on developing countries, the scope of this work stream has also been on projects and investments in developed markets where contributions to SDGs can be made, such as windmill projects in Europe, sustainable real estate projects, greenbonds of issuers in developed countries. The Dutch ‘Groenregeling’ is a good example of an existing blended finance structure to facilitate more retail investments in SDGs.

Dutch value chains are well positioned to contribute to various SDGs. Still, financing for investments of this nature – be it through Dutch, international or local enterprises – has failed to reach the required scale. As we will analyse in the next section, some of the most pressing obstacles to scaling up SDG investing can be addressed through blended finance solutions. We believe that solid support to blended SDG financing will allow The Netherlands to become a front runner in SDG investing. Besides reputational benefits, more SDG investing should give a push to the growth of most of the Dutch top sectors (“topsectoren”), both domestically as well as internationally.

OPPORTUNITY
Sizing the opportunity is incredibly difficult, yet as a benchmark the assets that are managed by the signatories of the SDGI initiative amounts exceeds 2,800 billion Euros today. In reviewing the Dutch blending opportunity we have taken two separate lenses or starting points:

**Integrated Lifecycle Financing**

Projects and companies face different risks and financing challenges depending on the type of project and the stage of development they are at. Exhibit2 illustrates the benefits of blending throughout the life cycle of a project. Typically, a larger grant or public funding element will be required at early development stages when the risks are highest, with institutional investors more likely to come in at later stages, when the risks have reduced considerably. The examples elaborated in this document describe how blending helps to alleviate financing barriers across these contexts.

**A Sectoral Approach**

In terms of sectoral focus, the SDGs are broad and cover many domains (education, health, water, infrastructure, etc.). We decided to focus our case work on four SDG-relevant investment sectors:

- Energy
- Infra/water
- Agriculture and food security
- Healthcare

These sectors were chosen because they are Dutch top sectors and because they are considered investable by private investors. The case examples in the appendix were taken from these sectors.

**Exhibit 2: Blended Finance Benefits by Stage**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explore</td>
<td>Brings more bankable projects to market ready for investment</td>
</tr>
<tr>
<td>Build</td>
<td>Makes capital available in underpenetrated markets and sectors</td>
</tr>
<tr>
<td>Grow</td>
<td>Brings in new investors and skills, while creating efficient markets</td>
</tr>
<tr>
<td>Mature</td>
<td>Leads to fully commercial solutions, freeing up public capital for new development projects</td>
</tr>
</tbody>
</table>

**CASE: Climate Investor 1**

**IMPACT GOAL**

To accelerate the delivery of renewable energy projects in developing markets.

**CHALLENGE**

Due to a lack of available and readily deployable finance and insufficient bankable projects, infrastructure projects are not sufficiently coming off the ground in developing markets. Specific blockages at each stage of the process are:

- Lack of bankable projects: Despite a pressing need for investment in infrastructure in developing markets, very few projects reach financial closure, this is primarily due to a lack of appropriate structuring and project development. More funding is needed for project preparation in order to ensure projects are developed in a robust manner.
- High cost of capital: Many of the target countries present a higher risk profile compared to developed markets, increasing the cost of capital for developers operating in those geographies. Innovative solutions are needed to ensure projects do not fail because of lack of timely access to capital.
- Limited exit/refinancing options for investors: Banks and institutional investors take a largely opportunistic approach to infrastructure in developing markets. The limited capacity of local capital markets and the high cost of structuring transactions means projects can be left without financial support. Even finance from DFIs can be cumbersome and take a long time to deploy.
- Investment Mandate of institutional investors focus on OECD markets & operational stage: With an ECI guarantee structure in place for institutional investors, a high portion of risk is mitigated. Yet, it needs to be more attractive for institutional investors to enter in an earlier (construction) phase and explore developing market opportunities to truly unlock institutional capital.
SOLUTION

Through its innovative blended finance structure, Climate Investor 1 mobilizes donor and private capital to finance renewable energy projects in developing countries, mobilizing an estimated $1bn in finance, and reducing 1.5 million tons of CO₂ per annum.

The approach is to provide capital for projects throughout the project lifecycle, with a particular focus on solar, wind and run-of-the-river hydro technologies.

Climate Investor 1 was designed specifically with the aim of supporting infrastructure projects from development to completion. It comprises three sub-funds each coinciding with the three main phases of project finance: project preparation, construction and operations. It aims to cover all three cycles and include institutional investors at an earlier stage while still taking into account the risk / return institutional investors need.

By accessing different types of capital for a number of sub-pools, Climate Investor 1 is able to offer construction equity to developers at an acceptable cost of capital. The construction equity fund is arguably the most innovative part of the vehicle, and the part which most heavily relies on being able to access capital with different risk-return expectations. The figure below shows Climate Investor 1’s innovative approach to include institutional and commercial investors at an earlier stage.

LOOKING AHEAD

Climate Investor 1 provides a sample investment vehicle of which the structure can be considered in future blending efforts. The vehicle as well as the process of bringing Climate Investor 1 to market helped shape our Working Group assessment and recommendations, most importantly priorities 1.3 (the development of risk-return enhancing solutions) and 1.4 (the advancement of integrated structured finance solutions).

The figures below a traditional financing model as well as Climate Investor One’s innovative approach to include institutional and commercial investors at an earlier age:

Exhibit 3: Regular Project finance lifecycle, associated risks & position of investors

Exhibit 4: Innovative Blended Financing Approach Climate Investor One (CIO)
Despite an uptake of innovative financing structures by Dutch actors, significant barriers to greater SDG investment exist. We identified the following obstacles to scaling up SDG investing:

1. **MARKET APPETITE**
   Existing investment mandates are restrictive, e.g., re emerging markets or illiquid investments. Asset owners’ SDG ambitions are not sufficiently reflected in or enabled by mandates. Risk perception tends to be inflated due to lack of understanding of new markets or products.

2. ** INCENTIVES**
   Investment teams are not incentivized to explore new opportunities. In fact, excessive focus on cost control may inhibit innovation.

3. **TRUST/COLLABORATION**
   Parties are not always able to find each other in an open and constructive exploration of opportunities. Abroad, the Danish Climate Investment Fund, set up in a collaborative effort by the Danish government, the Danish development finance institution and Danish pension funds, shows that it is possible to attract institutional funding to SDG projects in developing countries.

4. **RISK-RETURN**
   Investors qualify risk-return characteristics of many sustainable development opportunities as unattractive. It can be debated whether this is due to an inflated risk perception. Regardless, the illiquidity premium is not always sufficiently clear. Typical risks associated with long-term investing include: Political risk, currency risk, inflation risk, and illiquidity risk.

5. **COMPLEXITY AND LACK OF SCALE**
   Project structuring capacity is required, especially in case of infrastructure projects. Due diligence costs can be high. Relative small scale of projects often falls below large institutions’ minimum investment size.

How can blended finance address these obstacles? Not all of these obstacles can be removed or reduced by blended finance. However, if blended lending can address the particular challenges seen by most investors as most pressing: risk-return, complexity and lack of scale:

**Risk-return**

When investing in developing markets, specific country, political and currency risks arise that are difficult to assess by financial institutions who do not have specific emerging markets expertise. The result is that only a small part of bank balance sheets and institutional investment mandates are allocated to developing market opportunities. Existing blended finance structures are mainly focused on direct government investing through government funds, and on corporate export transactions. Facilities that mitigate specific developing market investment risks would facilitate a change in risk perception of institutional investors and should facilitate more direct investments in SDG projects in developing countries.

A successful example: the Dutch government has been contributing to blended finance for years through funds like ‘Massif’, where public capital is typically applied to fund young institutions with a relatively high-risk profile, that are subsequently – once risk is lower - funded by private capital e.g. through microfinance funds.

Also in developed markets such as The Netherlands there are initiatives that are in such an early stage that they don’t meet the risk-return requirements of institutional investors. Examples are drilling for Dutch geothermal projects in the development phase that don’t get to the Build, Grow and Mature phase as represented in the graph above, or pilot projects for LED-lighting solutions for Dutch cities and roads due to the fact that there is no standardization (see also the examples mentioned in the appendix).

**Complexity**

Public funds can be used to fund feasibility studies which can also be considered blending, as it reduces the costs stemming from project complexity.

**Scale**

Blending can take place at various levels. When applied at fund level, e.g., in the form of a subordinated tranche as was provided by the Swedish Development Agency SIDA for IFC’s recent Infrastructure facility invested in by Allianz, blending can address the issue of scale.
Blending in The Netherlands

The notion of blending public and private sources of capital is not new. Exhibit 5 provides a non-exhaustive overview of existing risk coverage facilities and other blending-like initiatives available to Dutch financial institutions. The overview indicates that most existing blending initiatives focus on emerging markets, and oftentimes do not extend across an investment’s or project’s lifecycle. The Exhibit is followed by two case studies with two more illustrative blended finance vehicles that were reviewed as part of this initiative.

Despite these examples, it is clear that existing blending facilities and investment instruments have not been able to attract the level of institutional financing towards the SDGs that is needed.

The focus on emerging markets, which are often-times not (sufficiently) reflected in investment mandates, may be an explanation for this. The remaining aforementioned obstacles to SDG financing also remain in effect. The recommendations in the next section are aimed at increasing and improving the use of blended finance for SDG investment.

Exhibit 5: Illustrative Overview of Dutch Blending Facilities & Investment Vehicles

<table>
<thead>
<tr>
<th>Facility / Vehicle Name</th>
<th>Description</th>
<th>Resource / Market Segment</th>
<th>Geographical Focus</th>
<th>Owner / Lead</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environmental</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to Energy Fund (ADF)</td>
<td>Facility which supports energy generation, transmission and distribution projects in developing countries</td>
<td>7, 12, 13</td>
<td>Preparing</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>Infrastructure Development Fund (IDF)</td>
<td>Facility targeted in order to finance infrastructure projects to positively impact social-economic development or make significant improvements in areas such as agriculture, water, transport, and environment in developing countries</td>
<td>12, 13, 15</td>
<td>Preparing, Transitioning</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>Environmental Investment Relevance (EIR)</td>
<td>Facility which offers a fiscal advantage to investment related to environmental topics to encounter climate change in the Netherlands</td>
<td>7, 11, 12</td>
<td>Facilitating</td>
<td>Ministry of Foreign Affairs, RVO</td>
</tr>
<tr>
<td>Green Regulations (Groen Regelingen)</td>
<td>Facility targeted at stimulating investment in environmental-related topics in order to encounter climate change, circular economy, and sustainable energy</td>
<td>7, 11, 12, 13</td>
<td>Preparing, Transitioning</td>
<td>Ministry of Foreign Affairs, RVO</td>
</tr>
<tr>
<td>Renewable Energy Subsidy</td>
<td>Facility targeted at subsidizing projects which are focused on developing renewable energy sources in developing countries</td>
<td>7, 11, 12, 13</td>
<td>Preparing</td>
<td>Ministry of Foreign Affairs, RVO</td>
</tr>
<tr>
<td>Multiple Agreements on energy efficiency (MJA)</td>
<td>Facility targeted to involve private sector’s investments in projects related to energy efficiency (CO2-emission) in the Netherlands</td>
<td>7, 11, 12, 13, 14</td>
<td>Transitioning</td>
<td>Ministry of Foreign Affairs, RVO</td>
</tr>
<tr>
<td>Green Climate Fund</td>
<td>Facility targeted to expand collective human action in correspondence to climate change. The Fund aims to mobilize funding at scale to invest in low-emission and climate-resilient development globally</td>
<td>7, 11, 12, 13, 15</td>
<td>Preparing, Transitioning</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td><strong>Socio</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Sustainable Water (FOW)</td>
<td>Facility focused on public-private partnerships in order to improve water facilities and sanitation in developing countries</td>
<td>3, 6, 13, 15</td>
<td>Pioneering, Facilitating</td>
<td>Ministry of Foreign Affairs, RVO</td>
</tr>
<tr>
<td>Facility for Entrepreneurship and Agrifood Program (FODIV)</td>
<td>Facility focused on public-private partnerships in order to improve food security and private sector development in developing countries</td>
<td>3, 8</td>
<td>Pioneering, Facilitating</td>
<td>Ministry of Foreign Affairs, RVO</td>
</tr>
<tr>
<td>Product Development Partnerships (PDP)</td>
<td>Facility focused on public-private partnerships to improve health care, technology-related systems and products in developing countries</td>
<td>3, 8</td>
<td>Preparing</td>
<td>Ministry of Foreign Affairs, RVO</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Massief</td>
<td>Facility which provides financial resources to small businesses and micro-entrepreneurs (MSMEs) in developing countries by supporting the local financial intermediaries and institutions that can contribute to their development</td>
<td>1, 8, 10</td>
<td>Pioneering, Facilitating</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>Dutch Trade &amp; Investment Fund (DTIF)</td>
<td>Facility targeted at stimulating Dutch investors to invest in foreign markets</td>
<td>1, 8</td>
<td>Facilitating</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>Dutch Good Growth Fund (track 1)</td>
<td>Facility targeted at stimulating Dutch investors to invest in emerging markets’ developing markets</td>
<td>1, 8, 10</td>
<td>Facilitating</td>
<td>Ministry of Foreign Affairs, Africa, Asia</td>
</tr>
<tr>
<td>Dutch Good Growth Fund (track 2)</td>
<td>Facility targeted at stimulating Dutch investors to invest in foreign markets’ developing markets</td>
<td>1, 8, 10</td>
<td>Facilitating</td>
<td>Ministry of Foreign Affairs, Africa, Asia</td>
</tr>
<tr>
<td>Development Related Investment Vehicle (DRIV)</td>
<td>Facility targeted at stimulating Dutch investors to invest in infrastructural projects in developing countries</td>
<td>8, 9, 10</td>
<td>Pioneering, Facilitating</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>Growth Facility (Groen Facilit)</td>
<td>Facility targeted at enabling corporations to take risk-carrying investments by offering guarantees over their assets</td>
<td>8, 9</td>
<td>Transitioning</td>
<td>Ministry of Economic Affairs</td>
</tr>
<tr>
<td>SBEI Capital</td>
<td>Facility targeted at stimulating Dutch investors to invest in innovative and creative start-ups</td>
<td>8, 9</td>
<td>Pioneering</td>
<td>Ministry of Economic Affairs</td>
</tr>
<tr>
<td>World Bank Global Infrastructure Facility</td>
<td>Facility focused on stimulating investment in infrastructural projects in developing countries</td>
<td>9</td>
<td>Pioneering</td>
<td>World Bank</td>
</tr>
<tr>
<td>Export Credit Insurance (EIX)</td>
<td>Facility focused on providing corporations with risk-carrying support services with a credit insurance in order to stimulate export to non-European countries</td>
<td>8, 9</td>
<td>Facilitating</td>
<td>Ministry of Foreign Affairs, RVO</td>
</tr>
<tr>
<td><strong>Investment Vehicles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate Investor I</td>
<td>Facility focused on stimulating foreign investors to invest in renewable energy sources in emerging markets</td>
<td>7, 11, 12, 13</td>
<td>All market segments</td>
<td>Emerging</td>
</tr>
<tr>
<td>Conflict-Affected &amp; Fragile Economies Facility (CAF)</td>
<td>Facility targeted at stimulating the most fragile economies by providing political risk insurance for foreign investors</td>
<td>1, 8, 11</td>
<td>Pioneering</td>
<td>World Bank</td>
</tr>
<tr>
<td>Global Agriculture Food Security Program (GAFSP)</td>
<td>Facility focused on stimulating foreign investment in agricultural programs and food security in developing countries</td>
<td>1, 2, 8, 11</td>
<td>Facilitating</td>
<td>International Financial Corporation</td>
</tr>
<tr>
<td>Rabobank Sustainable Supply Chains &amp; Agriculture</td>
<td>Facility which provides a partial risk guarantee in order to finance agricultural companies in developing countries as well as providing for certification of their farming processes and products</td>
<td>12, 14, 15, 12</td>
<td>Facilitating, Emerging</td>
<td>Rabobank</td>
</tr>
<tr>
<td>Eurofin2</td>
<td>Facility with a focus on investment in research center with a special focus on strategic topics which are relevant for both the EU government and the financial sector</td>
<td>9</td>
<td>Pioneering</td>
<td>European Union</td>
</tr>
<tr>
<td>European Fund for Strategic Investment (EFSI)</td>
<td>Facility targeted at stimulating strategic and sustainable investments in order to achieve structural economic growth in the European Union</td>
<td>11, 12, 13</td>
<td>Facilitating</td>
<td>European Union</td>
</tr>
</tbody>
</table>

Source: FMO / PGGM / government desk research (2016); Blended Finance Toolkit, WEF (2015)
CASE STUDY:
Dutch Smart Cities

BACKGROUND
Worldwide 54 per cent of the population lives in urban areas, a proportion that is expected to increase to 66 per cent by 2050. In the Netherlands 83% of the population lives in urbanized areas. In terms of sustainable development, the sustainability of cities is there for one of the key challenges we are facing. Smart cities, in which technology and urbanization are combined to realize more livable, sustainable and efficient cities offer many sustainable investment opportunities and contribute directly to SDG 11 – sustainable cities and communities.

Investing in sustainable cities offers many investment opportunities connected to technology, waste management, public transport, public spaces and more. A quick win in the space of creating sustainable Dutch cities could be city lighting. Rijkswaterstaat has recently replaced all highway lights with LED-lights. The same could be done for cities to realize significant energy savings.

STRUCTURE
To create enough volume lighting projects for different cities all these projects should be bundled in one larger product. Investment would be done by pension fund, the project could be executed by a company like Philips.

CHALLENGES AND OPPORTUNITIES
- The organizational structure of many city administrations has proven to be a challenge in the process of coming up with integrated solutions for cities. Traditionally city administrations are divided in divisions that have their own area of responsibility (ie. Waste management, safety, public space, etc.). Smart cities need integrated solutions that go beyond division boundaries.
- To attract capital for investments in cities, scalability is key. Most projects for cities and communities are too small for large investors to step in. In addition the differences between cities doesn’t enable a standard approach for city projects.

SOLUTIONS
A standardized approach for smart city projects offers a solution to the scalability challenge. For lightning in a group of cities a standardized approach would enable bundling of these projects in a larger fund or product that is investable for the financial sector. Possible one large city could develop a standard project format for LED-city lighting that can be used by other cities.

CASE STUDY:
Energy neutral Dutch Housing (‘nul-op-de-meter’)

BACKGROUND
Dutch Institutional investors would be willing and interested to finance energy-neutral residential real estate in their investment portfolio (‘nul-op-de-meter’). At the moment there are several small scale initiatives to experiment and learn how to implement such a strategy. This involves the use of new technological developments, involvement of people that rent houses and apartments in combination with legal requirements such as a.o. defined in the ‘Bouwbesluit’.

It is already clear that there is a difference between investments for energy neutral housing for existing houses and for new to build houses. For new to build houses specific energy-efficient solutions can already be taken into account. There are several pilot programs to learn from these energy neutral housing projects and to test different techniques. Developers also invest themselves in this learning-process. At the moment these energy-neutral investments will result in a lower investment return for investors of these housing projects as the development costs often can’t be translated in higher rental amounts. The expectation is that the number of these energy neutral projects will increase in the future.

STRUCTURE
The challenge around energy neutral housing is to create a legal environment and financing structure that enables further investments in energy neutral housing. This will stimulate housing corporations and developers to contribute to the climate-related SDG’s. There is a great willingness to invest in energy neutral housing by developers, housing corporations and investors. With the right incentives the market will do its own work and contribute to a larger energy neutral Dutch housing sector.

CHALLENGES & SOLUTIONS
At the moment the upfront investments in energy neutral housing are difficult to translate in higher rental costs as the consumer is not willing to pay for this (yet) although it will result in lower energy costs in the future. Even if it would result in net total savings. Therefore it would help if there would be ways to stimulate developers to invest in new technologies that would result in energy neutral housing. The ‘grondkosten’ are an important element in the total ‘stichtingskosten’ for new to build housing projects. Lowering these ‘grondkosten’ would enable and stimulate investments in these new energy neutral techniques. Another suggestion would be to lower fiscal elements like OZB-‘taxes for energy neutral houses. In addition the government could create selection criteria for further sustainability development by law.

An important element is the fact that at the moment the energy that is produced can be given back to the energy network at the same tariffs that are used when energy is used. This structure/facility will expire in 2020. There is currently uncertainty for the period after 2020. Clarity about jurisdiction around energy tariffs and energy taxes after 2020 will stimulate further development and investments in energy neutral housing.

THE OPPORTUNITY
When it is possible to refurbish existing houses to become energy neutral and/or to include energy neutral measures in new to build houses, institutional investors would be willing to allocate a larger part of their mandates to energy neutral houses for rent. This is likely to be several hundred million euros. Precondition is that this will result in investment returns in line with the market returns. It is important that the challenges mentioned above will be addressed and that the technological developments will result in cost-efficient measures.
Participants in this working group have had many conversations around what ambitions and actions are needed for developed and developing markets to make institutional investors invest more in SDGs. We looked at examples at home as well as abroad, most notably in geographies where SDG related investing has materialized more visibly. Based on our analysis and discussions, we recommend the following:

1 **FIN**: Set institutional targets for sustainable or SDG investing as feasible, and proactively address internal barriers to SDGI

2 **FIN/REG**: Pool institutional funds and resources where feasible to enable economies of scale, and further adoption among smaller institutions (e.g., pension funds) and wealth holders

3 **GOV**: Enhance and develop public risk-return enhancing solutions in close consultation with the financial sector, in order to crowd in greater institutional capital towards the SDGI and to leverage government spending

4 **FIN/GOV**: Advance integrated structured financing solutions where feasible that cut across the lifecycle of investments with a focus on more ‘investable’ sectors – energy, infrastructure and water, agrl & food, and healthcare

5 **GOV**: Offer a ‘one-stop-blending-shop’ that guides projects requiring public sector support through government bureaucracies as needed
RECOMMENDATIONS

The Road Ahead

As leads of this working group, FMO and PGGM will continue our joint efforts to explore real life cases of SDG investment opportunities. The publication of this paper is just an intermediate step, and by no means an end result.

We will move from talk to action and seek the active involvement of our fellow SDG signatories, government, and Central Bank. In doing so, we look forward to applying our joint capacity and capability to real SDG investment in the years to come. Each financial institution will need to determine their own level of ambition. We encourage the government to continue to engage with the financial sector in order to get valuable input for the development of new or improved blending instruments.

Together, we can build a better world!
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