INSPIRING INVESTMENT PARTNERSHIPS TO ACHIEVE GLOBAL GOALS: ATTRACTING THE NECESSARY CAPITAL

A summary of key lessons on the role of private- and public-sector actors in creating successful investment partnerships

CONTENT

Creating successful partnerships to achieve global goals

FOREWORD

ZURICH, FEBRUARY 2019

Swiss Sustainable Finance (SSF) organised its first international conference in January 2018 entitled "Inspiring investment partnerships to achieve global goals". The event was a response to Swiss industry actors within the SSF network calling for more insights and visibility into investment solutions designed to attract funding from the private sector that contribute to achieving global sustainability goals. With over 200 participants from the private and public sector, from 12 countries, the event proved to be a great opportunity to exchange on the topic. Realising that much of the event content is valuable input for the industry, SSF decided to condense the full day conference into this report, which summarises the key findings presented and discussed during the event. It highlights the status of public-private partnerships in Switzerland and beyond, and shows the need for further developments in promoting scalable solutions in impact investment. It also identifies areas for further discussions around blended finance concepts to ensure greater mobilisation of private capital.

We believe that forming effective partnerships is key to achieving success and attracting necessary capital from both the private and public sector to reach the ambitious Sustainable Development Goals. We hope some of the key take-aways from the event will help the industry better understand elements of success, as well as ways to forego failure. We want to take the opportunity to thank all involved parties, especially the members of the SSF workgroup on Investments for Development, who contributed to the great success of the conference. Building on their support, we will continue our work with the aim of addressing barriers in the market, contributing to useful instruments that help mainstream investments for development and further promote existing innovative solutions.

Sabine Döbeli
CEO

Kelly Hess
Senior Project Manager

1 INTRODUCTION

Source: United Nations

Solving global sustainability issues is high on the agenda of governments and increasingly in the spotlight of financial intermediaries and society at large. Over the last few years we have seen the ratification of the Paris climate agreement, binding signatories to no more than a two degree increase in global warming, the mainstreaming of the topic of climate risks and investments through the efforts of the Financial Stability Board (FSB) and its Taskforce on Climate-related Financial Disclosure (TCFD), and the adoption of the Sustainable Development Goals (SDGs) – a set of 17 goals adopted by the 193 UN nations to be achieved by 2030 – providing a comprehensive and impressive blueprint for creating a more sustainable world.

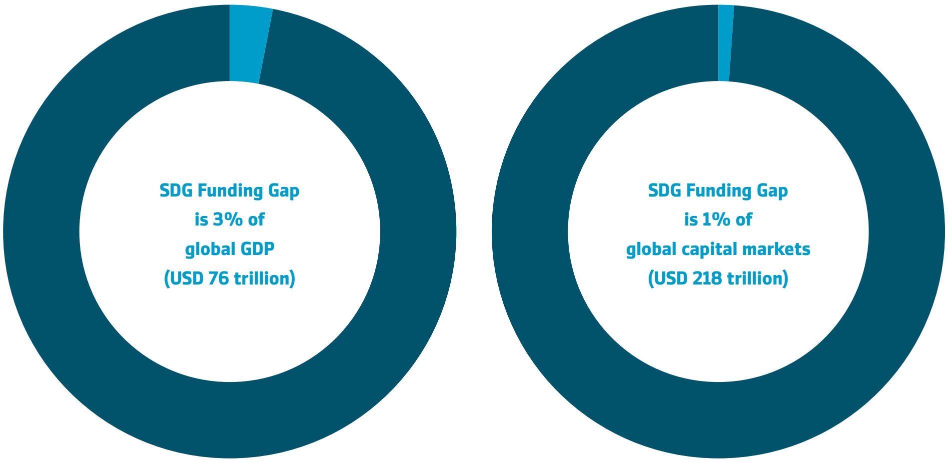
The SDGs in particular are highly motivating, as they help to coordinate and strengthen efforts on a global scale to promote sustainable development. They set a common vision for the future, focusing on ending poverty, protecting the planet, and ensuring prosperity for all. The goals were designed to be deliberately ambitious and transformational. An estimated USD 4 trillion is needed annually to achieve the goals. Currently only about USD 1.4 trillion is flowing into solutions. This leaves an investment gap of about USD 2.5 trillion[1].

SDGs IN BRIEF

"no one gets left behind"
The SDGs apply to both developing and developed countries and ambitiously have a "no one gets left behind" objective. For instance, Goal 2 – Zero Hunger – aims to end ALL forms of malnutrition in both emerging and developed nations. This would be to the benefit of over 800 million (or 10% of the world population) currently suffering from chronic undernourishment. Goal 6 – Clean water and sanitation for all – aims to provide over three billion people currently without adequate and equitable sanitation and hygiene access to these basic human needs. The remaining goals are just as ambitious, and will be a tall order for humanity to fill.

[1] UNCTAD, World Investment Report 2014 – Investing in the SDGs: An Action Plan. https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

Figure 1
SDG FUNDING GAP



Source: Convergence, 2018[4]

Putting the SDG funding gap into perspective
Governments and aid organisations realise they cannot turn the billions into trillions alone. On the level of official development assistance (ODA), for instance, only USD 142 billion[2] was distributed in 2016, nowhere near the scale needed to fill the gap. Indeed, many of the problems to be tackled are on a huge scale and refer to areas where governments traditionally hold responsibility (i.e. water infrastructure, education). However, there are many opportunities for private businesses that realise a sustainable world is linked to many economic advantages[3]. In fact, long before the SDGs, we have already seen many forward-looking players actively developing investment solutions, well aware of the opportunities in the related fields.

Although USD 2.5 trillion sounds immense, this represents only 3% of global GDP or 1% of global capital markets[4], so there is definitely a reason to be hopeful that enough funding can be found. Governments realise that they have a vital role to play in mobilising private capital in order to raise the trillions needed. Their role has recently been focused on helping to form the right kind of partnerships to bring together private-sector players offering innovative investment solutions with actors with the relevant expertise and the means to make investments more attractive for private capital.

SSF's 2018 event on public-private partnerships revolved around these topics and built on the know-how of many development and investment experts and practitioners. This publication aims to outline some of the key findings related to creating successful partnerships to achieve global goals.

2 https://www.oecd-ilibrary.org/docserver/dcr-2017-12-en.pdf?expires=1539596728&id=id&accname=guest&checksum=FFC92702B3A2A32CA5A39AB55435FFD1

3 http://report.businesscommission.org/uploads/BetterBiz-BetterWorld_170215_012417.pdf

4 Convergence, 2018, taken from presentation given at joint SSF/Convergence event. http://www.sustainablefinance.ch/upload/cms/user/20180828_Convergence_Presentation_full.pdf

2 INVESTMENTS FOR DEVELOPMENT

Figure 2

INVESTMENTS FOR DEVELOPMENT AS A SUB-CATEGORY OF IMPACT INVESTING

Investments with a clear intention to improve social/environmental/economic situation

		REGION	
		Industrialised	Developing
FINANCIAL RETURN	Market	Products focused on industrialised economies that generate competitive returns	**Investments for Development** Products focused on developing economies that generate competitive returns
	Below Market	Products focused on industrialised economies that require a below market return	Products focused on developing economies that require a below market return

Source: Swiss Sustainable Finance, 2016

Long before the SDGs were agreed, Switzerland played a pioneering role in developing the industry for impact investing. Within impact investing especially, Switzerland has become a key player in Investments for Development[5,6]. Such investments are directed towards improved social and environmental development and are in direct support of the global development goals.

SSF defines such investments as:

— Investments that demonstrate a clear intention to improve the social, environmental and/or economic situation within the investment region
— Investments that target countries in developing or so-called low- and middle-income frontier countries[7]
— Investments that target a performance in line with the market return.

Such investments can be considered as a sub-set of Impact Investing[8]. Figure 2 depicts how Investments for Development differ from Impact Investing.

The value proposition of such investments clearly resides in the fact that there is a dual outcome. Firstly, investors achieve a market return, whilst secondly, the investments offer a measurable impact on development. In all cases such investments are made under commercial terms in order to ensure that when capital is repaid (for debt and equity) subsequent investments can be made so as to have a continual and sustainable impact.

5 Swiss Investments for a Better World. (2016). SSF and University of Zurich.

6 Investments for Development in Switzerland: A sub-type of Impact Investing with strong growth dynamics. (2018) Positive Impact Investing.

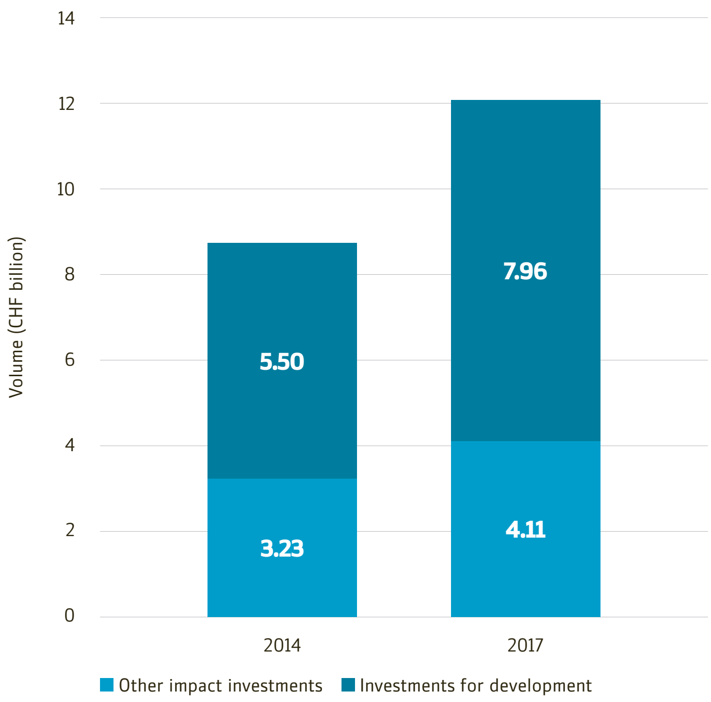
7 The World Bank classification is used to distinguish low-income, (lower and upper) middle-income and high-income countries (World Bank Online, 10.1.2016)

8 Based on the definition of GIIN: Impact investments are investments made in companies, organisations, and funds with the intention to generate a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals.

Swiss market volumes

In 2018, SSF conducted a market study on sustainable investments in Switzerland. As part of the study, specific data on impact investments and investments for development was collected. Based on 64 respondents, Swiss players reported a total of about CHF 12 billion in impact investing. About two thirds of this, or CHF 8 billion, was specifically identified as investments for development.

Figure 3
IMPACT INVESTMENTS IN SWITZERLAND



Sources: Swiss Investments for a Better World. 2016. SSF and University of Zurich and Swiss Sustainable Investment Market Study 2018. 2018. SSF and University of Zurich.

Most investments for development are offered in the form of funds, and only a smaller share are offered as mandates. This is even more the case for the Blended Finance solutions, as funds are versatile and prove to be very good vehicles for handling the various share classes necessary for both public and private partners' different requirements.

Partnerships and Blended Finance

Within the SSF network, investments for development – and impact investing in general – have been identified as a key area where Switzerland can help lead the way to a more sustainable world. We see evidence that such investments are inherently resource intensive and carry certain risks that do not exist for more traditional investment products (i.e. heavy initial investments to identify viable projects, due diligence required on the ground and interaction with local public sectors, dealing with unstable foreign governments, implementing impact measurement frameworks). For this reason, such investments often benefit from the presence of a partner – typically but not necessarily from the public sector – that has the ability to reduce or eliminate the barriers of creating such products and help attract private capital through risk-reducing methods. This is commonly referred to as "Blended Finance" and is being increasingly used for de-risking purposes on both the public and private side of investments. In fact, there are few solutions without an element of a blended finance or partnership.

What is clear from our interactions with our members and partners is that without partnerships, many products would never be launched or attract the volumes needed to be successful.

3 BLENDED FINANCE: THE BUSINESS CASE FOR PARTNERSHIPS

As pointed out by Swiss Federal Councillor Doris Leuthard at the SDG Business Forum at the UNO in New York (July 2018), the private sector plays a central role in reaching the SDG 2030 Agenda. However, the private sector does not always have the means to overcome all the hurdles to attract the necessary flows of private capital. Hence the last, and arguably most important, goal "Global Partnership for Sustainable Development" (Goal 17) is imperative to get right in order to bring different players to the table who can efficiently promote investments towards achieving the remaining 16 goals.

Within the SSF network, this idea was taken up in January 2018 in the form of a one-day international conference looking at investment partnerships to achieve the global goals[9]. During the event, actors from the public and private sector gave input regarding the opportunities and challenges they face when it comes to investments for development. In addition, various case studies were presented throughout the day and are highlighted at the end of this report.
In the two main panel discussions, experts debated the opportunities and challenges of cooperation between the public and the private sector when investing for sustainable development. The panels were organised deliberately in two separate private and public sessions in order to question each respective segment of the industry as well as to address their respective challenges and the required development for scalability.

Lessons from the public sector
From the perspective of the public sector, attractive solutions are those that maximise the mobilisation of private investors, often presenting a lower financial risk (i.e. where risk is transferred to the donors and not the local financial sector), while offering the public sector lower project risks in terms of ensuring achievement of desired impacts (i.e. environmental/social/economic improvements). However, the right conditions need to exist for such solutions to succeed. For instance, certain products have failed in markets that were not suitable and/or where low interest rate environments meant other funding was readily available. This illustrates that it is important for public organisations to look on a country-by-country and sector-by-sector level to define what types of activity they are willing to commit to. This often means that "one-size-fits-all" solutions are difficult to achieve.

Key success factors for the public sector were to build relationships with players, from large banks to multinationals, who are already active on the ground in underserved markets, providing the communication and distribution networks necessary for success. However, choosing opportunities that do not crowd out the private sector in a particular market has a high priority for public actors. In addition, a public-sector exit is also a key measure of success, therefore an appropriate exit strategy should be defined at an early stage.

A key realisation of public sector actors is that the goal of a blended finance solution should be to create simple structures, especially when it comes to financials and impact, making it easier for the private sector to participate in such products. Complex three or four tier structures with similarly complex waterfall pay-out structures are outdated and unattractive for investors. In addition, improved liquidity and standardised impact measurements were also listed as important factors to ensure transparency and mobilise private investments, while still fulfilling the needs of both the public and private sector. Lastly, and very critical for reaching the SDG goals, the public sector may also need to adjust its incentive structures (i.e. link incentives to increased volumes of private dollars invested) in order to motivate teams to raise the percentage of blended solutions within an institution.

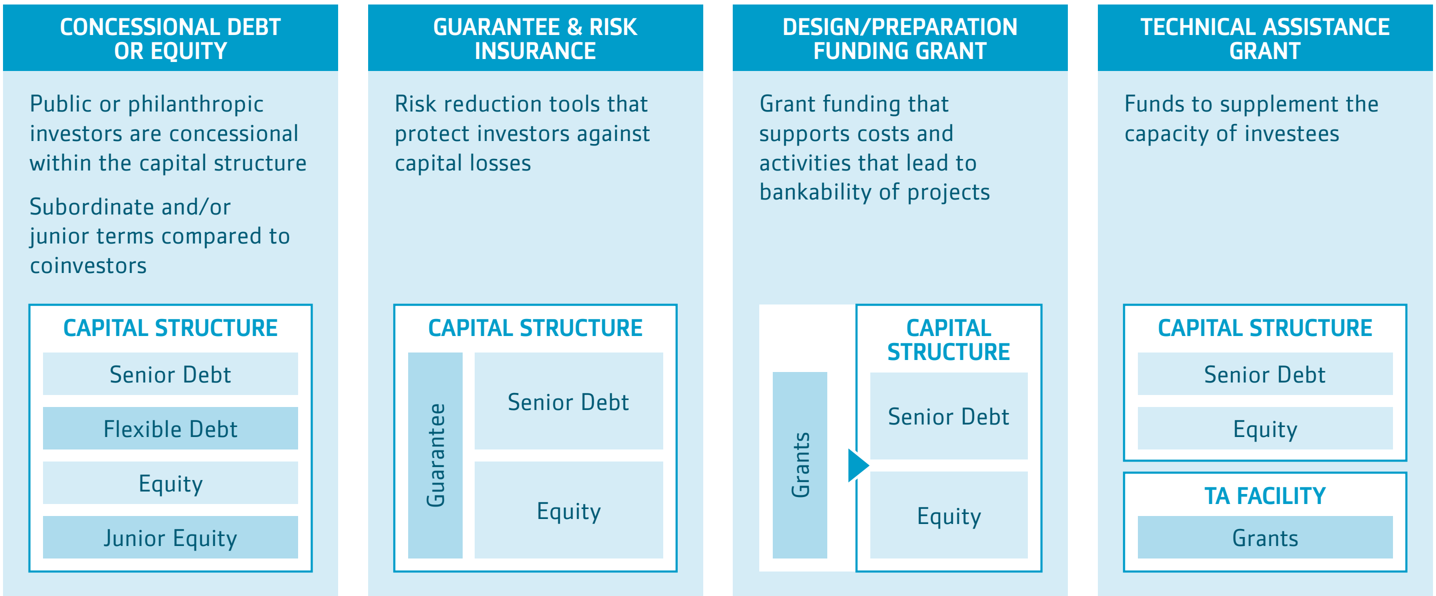
Microfinance was mentioned as one of the success stories over the years that has helped the public sector expand in the field of blended finance. Fifteen years ago, the public sector invested heavily in deals and projects with the private sector to supply microfinance solutions to underserved markets. In the meantime, local structures exist which are robust, and the public sector is often no longer needed in this competitive market.

Lessons from the private sector
Actors from the private sector emphasised a need to overcome cultural barriers. One aspect that has to be dealt with is the public sector's perceived mistrust of the private sector. Here a better level of trust and open communication needs to be established in order to foster an environment for successful partnerships. Private-sector players also felt that actors in some areas are not accustomed to work with partners from other areas – be it other topical backgrounds or other market segments. Mutual understanding of each other should be further strengthened, for example through events and roundtables bringing the different sides together.

Another key realisation is that the public and private sectors work in different political environments. The private sector must come to terms with the fact that the public sector can be driven by political expediency. In other words, agendas can change at short notice, which is not ideal for longer-term projects. In addition, certain new structures (i.e. social impact bonds) implemented by the private sector have created problems for the public sector when it comes to accounting and budgeting. Public budgets need to follow certain guidelines, which may not be flexible enough to deal with spending and income from social impact bonds, which have longer-term pay outs that are hard to fit into the annual budget.

With regards to attracting more private investments into these solutions, there are some key barriers, such as short track records, perceived higher risk, liquidity issues and small ticket sizes. There-

Figure 4
MAIN ARCHETYPES AND INSTRUMENTS USED IN BLENDED FINANCE



Source: Convergence, 2018[4]

fore, the private sector sees a need to better educate the market and train financial professionals in order to be more successful in attracting capital into these solutions.

Lastly, a major concern expressed by the private sector was that certain projects are not scalable, as each project is relatively unique and therefore difficult to launch in different regions and/or sectors. However, certain solutions and methods aimed at reaching larger scales have shown to mediate such challenges (i.e. working with so called "aggregators" – mobile networks, remittance companies, or even faith-based groups). In addition, advances in technology allow faster transfer of data along the investment chains, creating more efficiency along value chains. Here again, education and communication seem essential at various levels.

Combining resources

SSF's 2018 event on partnerships set out to highlight lessons from past failures and successes in order to make sure actors incorporate them into future projects where the private sector is involved in the provision of public goods. The current state of the partnership solutions is very encouraging, but also shows some major challenges ahead in order to achieve scalable and attractive solutions for private investors. Some of the challenges highlight current limitations and indicate that some changes are required in order to move to a more mature industry. The need for sourcing different blended finance solutions and potentially pool actors from the public and non-public sectors (such as foundations) is becoming paramount. In emerging markets in particular, we have witnessed many market failures when it comes to the provision of "public goods", such as education, clean water and transportation infrastructure. Whether this is due to lack of know-how and funding or an unstable/inefficient economic/political situation, the problem needs to be addressed in order to make sure we stay on track to a sustainable world. For years, private actors have identified such failures, realised that additional investments are needed and taken this as an opportunity to fill a gap in the system. They develop attractive investment products with the goal of increasing the volumes of private funds while ensuring healthy returns for investors.

However, in order to achieve risk/return ratios that can attract private investments at scale, such products often enlist the help of aid agencies and governments to provide guarantees, grants and/or concessional debt. Figure 4 shows some of the most commonly used methods of investment partnerships. These range from concessional debt or equity structures (in which subordinate/junior tranches accept more risk in order to allow more risk-averse investors to participate as well), to grants and guarantees, and to technical assistance grants (these grants often are for project feasibility assessments and capacity-building of potential investees).

9 http://www.sustainablefinance.ch/en/past-ssf-events-_content---1--3038.html#anchor_OTPHFR

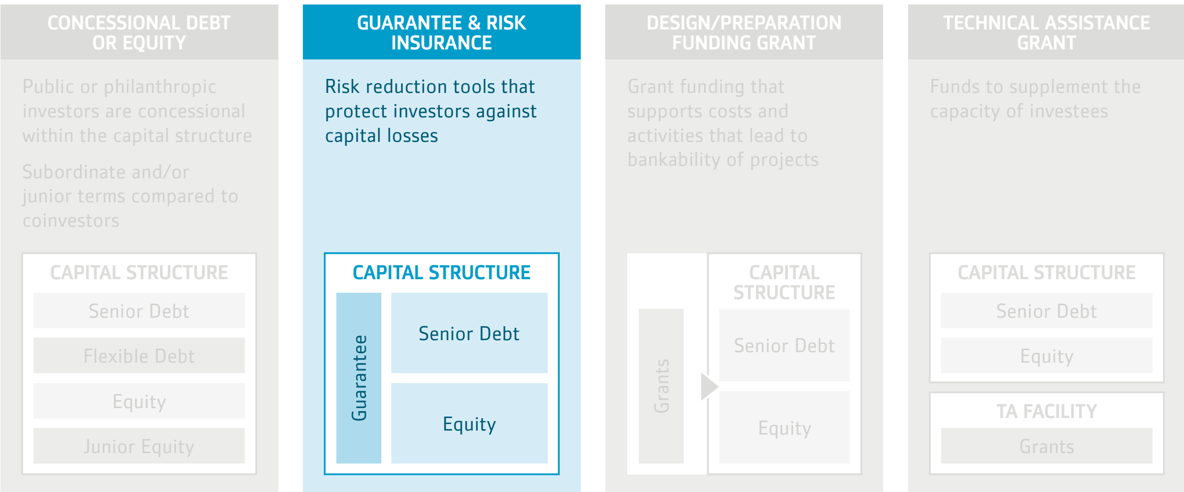
4 BEST PRACTICE IN INVESTMENT PARTNERSHIP SOLUTIONS

In addition to gaining general input from public and private actors, the SSF event also offered partnerships the chance to present concrete investment opportunities during breakout sessions. The smaller breakout sessions allowed participants to gain more in-depth insights into the products and specifically discuss key challenges and successes during the product life-cycle, from inception to launch. In the following section, we present information on each partnership.

The illustrated 5 case studies cover the following topics:

— Investments in innovations to achieve transformational impact
— Emerging-market green bonds to finance the low-carbon economy in developing countries
— Promoting access to climate insurance
— Private Equity investments in context of SDG's and impact investments
— Using fixed income to support the growth of SMEs

4.1 CASE STUDY Investments in innovations to achieve transformational impact



INVOLVED PARTIES

SocialAlpha-Bastion: Impact Fund managed by AlphaMundi Group
USAID – Development Credit Authority Group
SIDA – Swedish International Development Corporation Agency
Fenix International
(referenced only as an example of one of the guarantee companies)

PRODUCT NAME

Household Technology Guarantee Facility

TYPE OF MODEL(S)

Loan guarantee jointly funded by USAID and SIDA covering about 45% of any losses on qualifying loans from the Fund to social enterprises.

BACKGROUND

The partnership was designed to help de-risk/catalyse private capital to social enterprises with a household technology component. The thinking was that a guarantee would incentivise financial intermediaries to invest in companies with a slightly higher risk profile, likely due to new business models and new technologies.

PARTNERSHIP GOALS

From the point of view of USAID and SIDA, the goal was to allow the private sector to determine successful and creditworthy business models rather than "picking winners" with individual loan guarantees. The facility provided guarantees to two additional partners beyond SAIF-Bastion for a 7-year term with a goal of guaranteeing a maximum of USD 100m. From SAIF-Bastion's perspective, the guarantee helped de-risk certain fund investments (approximately 1/3 of the total portfolio) and allowed management to invest a bit more aggressively in certain companies, helping them fast-track their growth.

ROLE OF THE PARTNERS

SAIF-Bastion made initial loans to social enterprises. Using Fenix International, an off-grid solar company headquartered in Uganda, as an example, the Fund started with an initial senior loan, followed by a convertible, then a working capital facility, and an additional loan over a 4-year period.

USAID and SIDA guaranteed the loans (with coverage being removed upon equity conversion).

No impairment or write-off occurred and SAIF-Bastion fully exited the investment in 2018, at which point all principal and interest was returned to the Fund and the loan guarantee was removed.

STRUCTURE OF PRODUCT

From 2014 to 2018 SAIF-Bastion placed USD 1.27 m of loans under the guarantee facility, all covered at 50% less fees to the Fund.

WHAT IS THE MOST INNOVATIVE AND/OR UNIQUE ASPECT OF THE PARTNERSHIP?

The loan guarantee facility was unique in that it was applicable to the entire portfolio of a Fund at a global level. USAID typically works through local missions, so it is unusual to get this type of coverage. The facility was also beneficial to SAIF-Bastion and portfolio companies in fast-tracking growth and catalysing additional private sector capital. After SAIF-Bastion's early debt investments in Fenix International, the company was able to grow rapidly with AlphaMundi helping catalyse an additional USD 2 m+ for the company via co-investors. In March 2018, the company was fully acquired by the French utility company, ENGIE, in a landmark deal for the off-grid energy space in Africa. The gross return to the Fund of debt and equity less guarantee expenses was approximately 12%. Since AlphaMundi's involvement with Fenix, the company has supplied over 220K households with clean energy impacting over 1 million estimated beneficiaries. They have processed 5.7 m in mobile payments and helped customers build credit history for the first time.

WHAT WERE KEY CHALLENGES OF THE PARTNERSHIP?

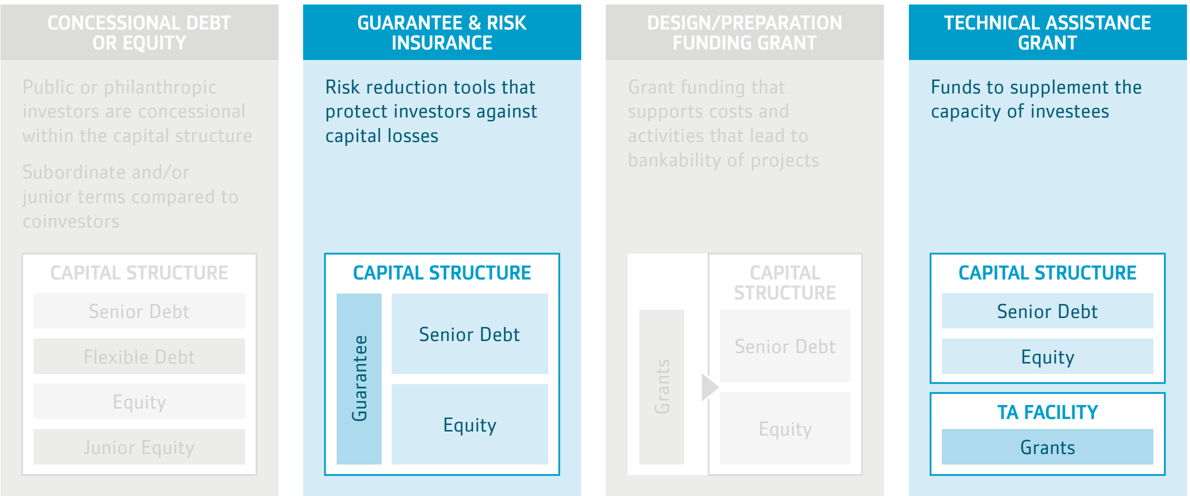
1. It was very time consuming to finalise the terms of collaboration, almost a year from initial conversation to closing.
2. Payment of the only claim filed by the Fund took significantly longer than expected.

There have been no other challenges we have encountered. In the absence of any claims, we report to USAID and SIDA on a quarterly basis following a relatively straightforward process.

Source: AlphaMundi Group

4.2 **CASE STUDY**

Emerging-market green bonds to finance the low-carbon economy in developing countries



INVOLVED PARTIES

Amundi Asset Management
International Finance Corporation (IFC)

PRODUCT NAME

Amundi Planet Emerging Green One

TYPE OF MODEL(S)

Guarantee or risk-insurance and technical assistance fund

BACKGROUND

Amundi Planet Emerging Green One (AP EGO) is a $1.42 bn Layered Capital Green Emerging Market Debt Fund structured and managed by Amundi.

This Fund is part of the International Finance Corporation's (IFC) Green Cornerstone Bond Program for which Amundi was selected as the strategic partner in 2017.

PARTNERSHIP GOALS

This partnership aims to finance the transition towards the low-carbon economy by having launched a Green Bond Fund dedicated to financial institution issuers located in emerging markets which will reach $2 bn over its lifetime.

This Fund is part of the Green Cornerstone Bond Program, which is a unique and ambitious program that aims to facilitate the financing of the energy transition in emerging markets through the creation and development of a local green bond market.

ROLE OF THE PARTNERS

This program builds an innovative platform that combines deep expertise in asset management (Amundi) and private-sector development in emerging markets (IFC) to help developing countries achieve long-term sustainable growth.

IFC's role in the Fund is twofold:

- taking a first-loss position to provide a risk cushion to the senior tranche;
- and operate a technical assistance facility that aims to foster the development of green bonds aligned with international standards (the Green Bond Principles).

Amundi's role consists of

- Raising capital from a range of institutional investors. The campaign raised $US1.42 bn from 16 institutional investors. The committed investor base includes leading pension funds (Alecta, AP3, AP4, APK Pensionskasse, APK Vorsorgekasse AG, ERAFP, MP Pension), insurance companies (Crédit Agricole Assurances, Local Tapiola General Mutual Insurance Company, Local Tapiola Mutual Life Insurance Company), asset managers, international development banks, and other institutions.
- Portfolio management: leveraging Amundi's expertise in emerging market debt, green bonds, and environmental, social and governance analysis.

STRUCTURE OF PRODUCT

Yield-starved institutional investors, who have both the capacity and appetite to deploy significant amounts of capital in emerging countries, are limited in their ability to do so due to the higher risk perception of investing in emerging markets.

This is why the fund was structured as a layered fund with three tranches, offering investors exposure to different risk/return profiles, based on their risk appetite.

The structure of the fund encompasses several types of debt categories: a junior tranche (taken by IFC and other MDBs to provide a first-loss protection), a mezzanine tranche and a senior tranche.

WHAT IS THE MOST INNOVATIVE AND/OR UNIQUE ASPECT OF THE PARTNERSHIP?

AP EGO is the largest green bond fund seeking to deploy $2bn into emerging market green bonds over its lifetime and the first comprehensive program solely focused on emerging-market financial institutions.

Some of the fund's innovative features consist of the following.

Firstly, having raised the major capital from private sector sources, the fund stands as a proof of concept for a new business model of development banks where low levels of their own capital can be used to leverage large amounts of private sector capital.

Secondly, the fund's investment strategy is based on the gradual investment into green bonds over a 7-year ramp-up period and represents a one-of-a-kind initiative. It has been designed to ensure the portfolio manager only selects green bonds aligned with international best practices and that the investment universe is of sufficient size as IFC works on developing the supply side.

Thirdly, the fund's ESG policy, developed alongside IFC with input from EBRD and EIB, is based on three key pillars which represent current market best practices in green bond investing and will be an integral element for the investment decision-making process.

The fund is complemented by the Green Cornerstone Bond Fund Support Program, a technical assistance program managed by IFC and expected to run until 2025, supporting the creation of new markets for climate finance in emerging economies by developing green-bond policies, training bankers and executives, and helping countries adopt the Green Bond Principles and other best practices. The program is funded by Switzerland (through the State Secretariat for Economic Affairs SECO), Luxemburg and Sweden. The Fund will create demand for green bonds; the Program will create emerging market green bond supply, with appropriate quality and independent verification mechanisms.

WHAT WERE KEY CHALLENGES OF THE PARTNERSHIP?

1 Overcoming investor risk perceptions of emerging markets and infrastructure
2 Building a green investment solution with scalability.
3 Ensuring a positive impact on the energy transition in countries where it is most needed.

Of these, the main challenge and accomplishment for AP EGO was to overcome common institutional investor perception that both emerging markets and infrastructure are "too risky". Amundi used a pragmatic approach to overcome this challenge.

The fund combines (i) IFC's risk-sharing mechanism in the junior tranche that offered private institutional investors an appropriate risk/return from the senior tranche in line with emerging-market debt premium and (ii) a strategic focus on current and prospective domestic financial institutions issuing green bonds. With the Fund's focus on green bonds issued by banks, investors are only exposed to the risk associated with the financial institution of issuance and not the infrastructure projects themselves. Financial institutions play the roles of intermediaries, offer some diversification, do the due diligence, implement the necessary currency swaps, etc.

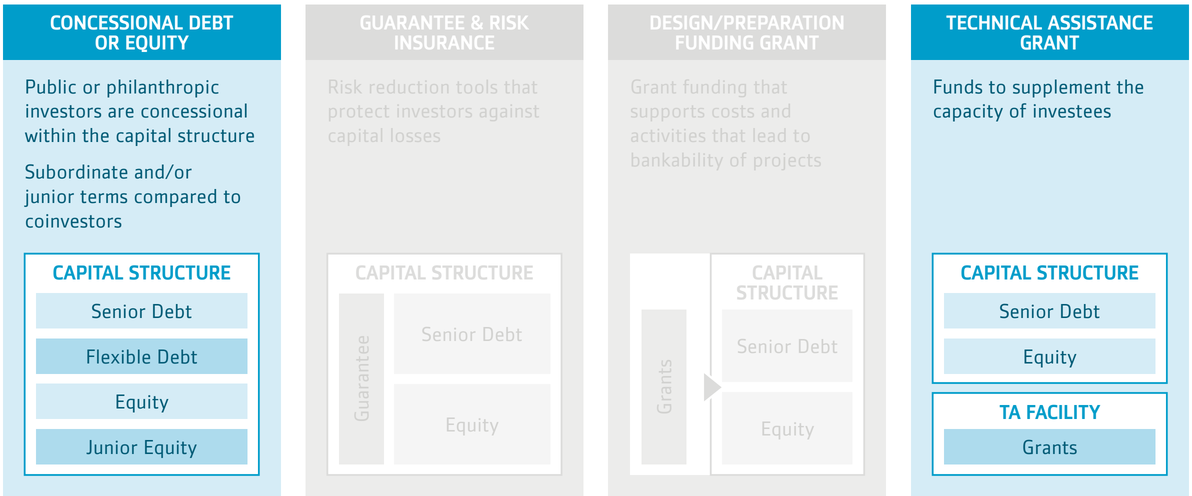
Thus, investors can now enter into emerging markets and in green infrastructure financing, both of which are commonly labelled as "too risky".

AP EGO has underlined the critical role that financial innovation can play in the fight against climate change.

With that in mind, the Fund was able to offer investors:
(i) An opportunity to invest at scale;
(ii) With exposure to emerging markets yields;
(iii) With protection given by the junior tranches; and
(iv) A positive impact on the energy transition in countries where it is most needed

Source: Amundi Asset Management

4.3 **CASE STUDY** Promoting access to climate insurance



INVOLVED PARTIES

German Federal Ministry for Economic Cooperation and Development (BMZ)

KfW

BlueOrchard Finance Ltd

CelsiusPro

PRODUCT NAME

InsuResilience Investment Fund (IIF)

TYPE OF MODEL(S)

The Fund combines private debt and private equity investments in two separately investible sub-funds. It also provides technical assistance.

BACKGROUND

The IIF is a PPP under the G20 InsuResilience Global Partnership, aiming at increasing the resilience of the poor and vulnerable to extreme weather events in developing countries.

The impact fund is open to private investors since July 2017, following a proof-of-concept phase. Besides offering first loss protection, the Fund provides grant-funded technical assistance and premium support facilities.

PARTNERSHIP GOALS

This partnership aims at protecting more than 100 million of the most vulnerable people in developing countries against the impacts of climate change – through commercial insurance offerings. The goal is to improve the resilience of poor and vulnerable households as well as micro, small and medium enterprises. IIF connects the value chain, provides technical assistance and funding for the development of markets for climate insurance. The Fund finances qualified corporates along the value chain of insurance (e.g. insurers, brokers, aggregators) with main operations in ODA recipient countries.

ROLE OF THE PARTNERS

KfW acting on behalf of BMZ is the initiator and sponsor. BMZ provides USD 64.3m of first loss protection for private investors. Furthermore, it offers EUR 11m for the Technical Assistance Facility and EUR 6m for the Premium Support Facility supporting the investees.

BlueOrchard is the investment manager and responsible for deal sourcing, due diligence, monitoring & value creation, the exits, and managing the Premium Support Facility.

CelsiusPro is the Technical Assistance Facility manager.

STRUCTURE OF PRODUCT

The Fund combines two separately investible sub-funds. The debt sub-fund focuses on financial institutions and aggregators active or looking to become active in the distribution of climate insurance products.

The equity sub-fund provides growth capital to insurers, brokers and service providers looking to develop or grow their offering of climate insurance products.

Investees are eligible to receive support from a dedicated Technical Assistance Facility of EUR 11m, fully funded by BMZ. The facility provides know-how and expertise for the development and distribution of climate insurance products.

In addition, BMZ has established a Premium Support Facility of EUR 6m to support climate insurance products of the Funds' investees throughout their launch phase.

WHAT IS THE MOST INNOVATIVE AND/OR UNIQUE ASPECT OF THE PARTNERSHIP?

The InsuResilience Investment Fund provides investors with the unique opportunity to

- Participate in the fast growth of the insurance sector in developing markets
- Invest in target markets that generally exhibit high GDP growth
- Contribute to the protection of the poor and vulnerable from climate risks
- Benefit from first loss protection and technical assistance by the German government
- Invest along the whole insurance value chain
- Participate in blended finance investments

Three leading reinsurers – Swiss Re, Munich Re and Hannover Re – are business partners of the IIF, supporting origination, providing expertise and industry contacts to investees and offering reinsurance underwriting capacity.

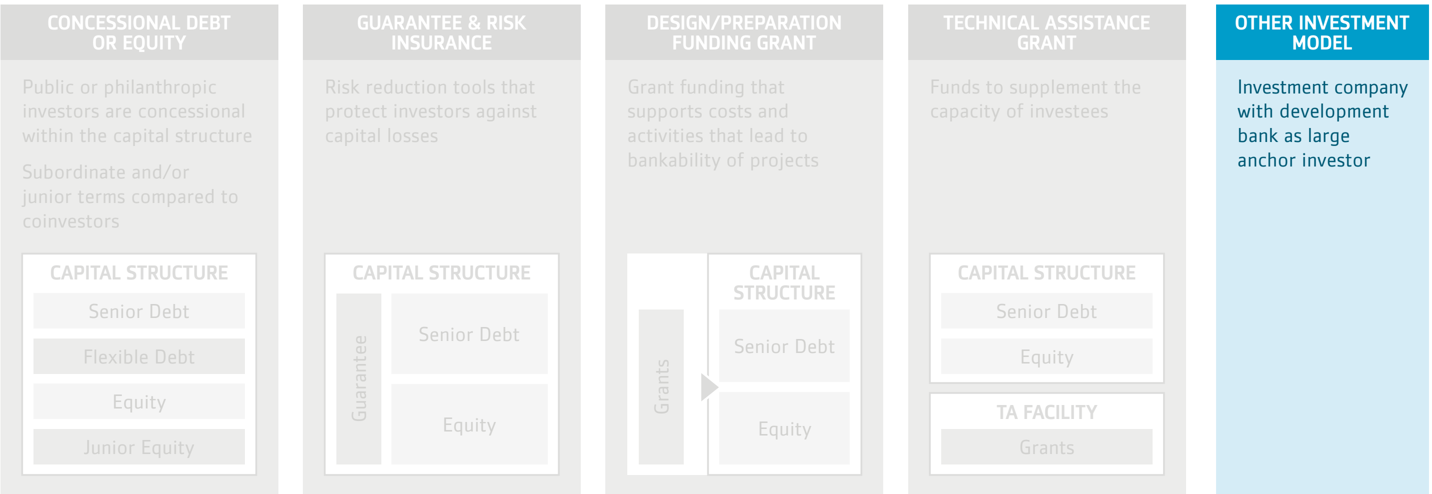
WHAT WERE KEY CHALLENGES OF THE PARTNERSHIP?

1 Origination of investments
2 Development of climate insurance products by the investees
3 Measuring impact

Source: BlueOrchard Finance Ltd

4.4 **CASE STUDY**

Private Equity investments in context of SDG's and impact investments



INVOLVED PARTIES

responsAbility Investments AG

KfW Kreditanstalt für Wiederaufbau

PRODUCT NAME

responsAbility Participations AG ("rAP")

TYPE OF MODEL(S)

The responsAbility-managed private equity holding, a company limited by shares created under Swiss law, is a private equity investment vehicle of an evergreen nature. The vehicle is seeking to support financial sector development through investments in financial institutions with potential for impact through growth thereby generating respective returns at the point of exit.

At the same time, the company aims at distributing ordinary and extraordinary dividends from its investment activity to its shareholders. There is only one share class for all investors.

BACKGROUND

The company invests in the rapidly growing sector of financial institutions in emerging and transition markets that target low-income households and micro, small and medium-sized enterprises. Emerging and transition economies offer a significant catch-up opportunity for financial services to the unserved and underserved majority. Financial sector growth and financial inclusion will support economic convergence and generate a positive development impact on the overall economy.

PARTNERSHIP GOALS

Attractive private equity engagement for portfolio companies:
The partnership goal is to provide a structure which allows for sufficient flexibility to enter into long-term engagements with portfolio companies in a private equity market often characterised by limited life engagements, and a need for private equity players to sell assets after a constrained or defined holding period. The company is in a position to time its exit from investments in a sustainable and optimised manner following value creation for both portfolio companies and investors. The company can also hold attractive assets over a long term, benefiting from their growth and dividend income generated.

Create an attractive product offering for private institutional investors
KfW, the German development bank, came in as an investor during the second closing of the company in 2013, and increased their commitment to a cumulative total of CHF 27 m during the third closing in 2015 – representing 19.23% of the company's committed capital at the time. With its expertise in the financial inclusion space as well as emerging and frontier markets, KfW effectively underwrote the company's investment offering to private institutional investors.

ROLE OF THE PARTNERS

responsAbility Investments AG's role in the partnership:

- **Initiation, structuring and setup** of the company, which was financed through capital commitments from long-term partners and shareholders of responsAbility Investments.
- **Operational management:** managing the complete cycle of investment activities together with a team of professionals on the ground, covering pipeline building, investment analysis and execution with rA frequently taking a seat in the board of the portfolio company.

KfW's role in the partnership: unlock private investor's interest by contributing:

- **Strong capital base:** KfW's commitment to invest 19.23% of the company's total capital was key to unlocking the interests of private investors and to facilitate the entry of additional institutional investors, in particular Swiss pension funds and Norway's biggest foundation. KfW is the investor with the highest single commitment and is the only development bank invested in the company.
- **Subject matter expertise:** Due to its own comprehensive and large-scale investment involvement in emerging and frontier markets and its long track record of financial sector development, KfW is a subject-matter expert investor regarding the company's investment focus.
- **Governance and control:** KfW continues to play a key role in the governance of the company, through nomination of an (independent) board member for the company's Board of Directors, the key decision-making body. The Board is responsible for all fundamental decisions related to investments as such but also with regards to the strategic decision for the investment company itself.

STRUCTURE OF PRODUCT

As of 30 September 2018, the holding company had a committed capital of CHF 138.9 million, which was fully paid-in. The company's open-ended evergreen structure allows for recurring capital increases. In case of capital increases, shareholders have pro-rata pre-emptive rights to participate in any capital. The company's Board of Directors, which comprises at least three members, exercises ultimate authority over the company.

WHAT IS THE MOST INNOVATIVE AND/OR UNIQUE ASPECT OF THE PARTNERSHIP?

The company's evergreen structure marks a key difference to other private equity investment vehicles, which are typically closed-ended structures. This open-ended structure which foresees recurring capital increases ensures that the company can keep up with the increasing capital need of its portfolio companies and supports them through pivotal points of transition.

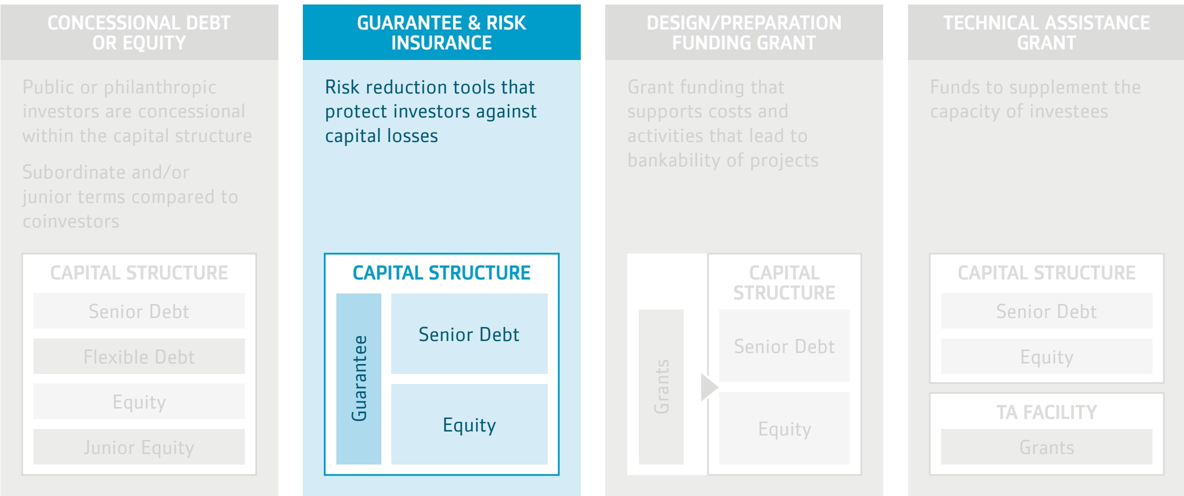
Due to the open time horizon, the vehicle has the capacity to do later stage follow-on investments which allows for a full support of continuously growing portfolio companies with additional capital over a longer period of time, and when needed.

WHAT WERE KEY CHALLENGES OF THE PARTNERSHIP?

Given the structure of the vehicle and the alignment of the involved investors – be it in terms of investment criteria, development impact or risk and return profile –, there have been no significant challenges

Source: responsAbility Investments AG

4.5 CASE STUDY Using fixed income to support the growth of SMEs



INVOLVED PARTIES

Swiss State Secretariat for Economic Affairs (SECO)
UBS AG
Symbiotics SA

PRODUCT NAME

Symbiotics Sicav (Lux.) – SME Finance Loans for Growth

TYPE OF MODEL(S)

The fund includes a subordinated first-loss absorption tranche of 10% of the committed capital to reduce the risk profile of the fund.

BACKGROUND

Small and medium enterprises (SMEs) are the economic backbone of virtually every economy in the world. SMEs promote innovation, help deliver goods and services, and are the largest source of formal employment in most developing economies. However, in many low and middle-income countries the SMEs are absent – referred to as the missing middle. These SMEs face significant obstacles to fulfilling their growth potential when it comes to obtaining access to finance. The Loans for Growth fund helps these SMEs – the missing middle – to grow by alleviating their financial constraints.

PARTNERSHIP GOALS

This partnership will address the "missing middle," by financing local banks and finance companies specialised in the SME sector. The fund will thus contribute to the development of inclusive local financial markets, promote SMEs' financial inclusion, job creation and entrepreneurship. In addition, Symbiotics has agreed with UBS and SECO to produce annual independent impact measurement reporting. It will document the measurable social return, alongside the anticipated financial return to investors.

ROLE OF THE PARTNERS

The SME Finance Loans for Growth is a public-private partnership model which aims to attract private sector capital towards sustainable development goals. The fund's capital structure offers stable returns and adequate liquidity, and is well suited to the needs of private investors.

UBS supports and contributes to this public-private partnership by co-conceiving, seeding, providing half of the first loss risk protection, and promoting and attracting private investors.

SECO supports and contributes to this public-private partnership by seeding and providing half of the first loss absorption. In addition, as a development organisation it provides an impetus to make further inroads in the area of impact measurement.

Symbiotics co-conceived and created the investment structure and manages the fund, providing investment access to SMEs.

STRUCTURE OF PRODUCT

The SME Finance Loans for Growth is a 4-year closed-ended fund of USD 50 million. The structure of the fund encompasses two types of securities.

— The Certificates account for 10% of the fund, they are first loss risk protection co-funded equally by UBS and the Swiss State Secretariat for Economic Affairs.
— The Shares, representing 90% of the fund, are funded by UBS clients.

The two categories of securities represent a different level of risk, since the Certificates are subordinated to the Shares. In addition, the two categories of securities have a different target return, as only the Shareholder is entitled to receive distributions in excess of a return on its contribution.

WHAT IS THE MOST INNOVATIVE AND/OR UNIQUE ASPECT OF THE PARTNERSHIP?

The fund finances an innovative annual impact assessment report. The first annual impact report was based on primary data, collected through surveys conducted with 506 SMEs in 12 low- and middle-income countries in 2017. Using survey data from the end-clients of the fund, the impact report looks at new ways to grasp and to measure key economic and social outcomes at the SME level, such as business performance, jobs and safety of the work environment.

WHAT WERE KEY CHALLENGES OF THE PARTNERSHIP?

1 Time to build a partnership between agencies with different sizes, missions and cultures. The set-up and structuring was time consuming in order to achieve a common understanding and convergence of objectives.
2 Ensuring ongoing participation of the SMEs in the annual impact assessment
3 Matching the tenor of the investments to the fund's life, given the closed ended structure of the fund.

Source: Symbiotics SA

5 CONCLUSION AND OUTLOOK

The event "Inspiring investment partnerships to achieve global goals" brought together a broad set of experts and practitioners in investments for development. Participants from both the public and the private sector used the opportunity to exchange know-how on successful partnerships and challenge each other about the need for further efforts.

The public sector reinforced the idea that there has been a shift towards partnering and joining forces to achieve the SDGs. Its representatives seem to now be more committed than ever to mobilise private capital. The means for achieving this goal may however not be fully aligned, as blending financing decisions are subject to lengthy processes and incentives may not be in place within public institutions to ensure the creation of numerous and scalable structures in a relative short time frame.

A number of key challenges remain that need addressing within the public institutions:

- Difficulty in proving that subsidised projects could not have gone ahead without public support – or so called "additionality"
- For governments, deciding on the allocation of concessional finance for leveraging private investment compared to using it for other objectives (i.e. social needs)
- Difficulty in determining best exit strategies so that subsidies to the private sector can eventually be phased out and the capital may be used for projects in greater need of funds
- Dealing with the particularly low returns linked to serving the poorest communities – thus far there are a relatively low number of PPPs in low-income countries [10].

Regarding the private sector, it was striking to observe that very few initiatives were initiated by private players or asset managers and that most solutions were in fact designed by public players. Given the new SDG goals and the willingness of each party to search for scalable solutions, it is clear that more initiative and product design have to come from the private sector.

Blended Finance is definitely a growing trend and private sector mobilisation is at the core of any discussion of development finance today. Various initiatives exist that attempt to document and establish standards in blended finance, such as the OECD [11] or GIIN [12].

As the current pressure to achieve the SDG goals is most likely going to increase further, we can expect that this will ultimately lead to stronger motivation and further incentives for the private sector to come up with new investment for development solutions. SSF will continue to work on providing background information and facilitating a continuous exchange on promising forms of partnerships to achieve global goals.

10 https://www.oecd-ilibrary.org/development/making-blended-finance-work-for-the-sustainable-development-goals_9789264288768-en

11 OECD principles: https://www.edfi.eu/wp/wp-content/uploads/2018/01/20180118-OECD-DAC-Blended-Finance-Principles.pdf

12 GIIN Blended Finance Working Group: https://thegiin.org/blended-finance-working-group

IMPRINT

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Swiss Sustainable Finance (SSF) strengthens the position of Switzerland in the global marketplace for sustainable finance by informing, educating and catalysing growth. The association, founded in 2014, has representative offices in Zurich, Geneva and Lugano. Currently SSF unites 110 members and network partners from financial service providers, investors, universities and business schools, public sector entities and other interested organisations.

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