

**GREEN
BUSINESS
EVENTS.**

LSFI Summit – Finance for a Sustainable Future

Wednesday, 18th September 2024

LSFI
Luxembourg
Sustainable Finance
Initiative





Discover the Agenda

**GREEN
BUSINESS
EVENTS.**

- **14:00 to 14:10** – Opening remarks by [H.E. Gilles Roth \(Luxembourg Minister of Finance\)](#)
- **14:10 to 14:40** – Keynote speech by [Prof. Dr. Anabel Ternès von Hattburg \(President Club of Budapest Germany & Managing Director Institute for Sustainability Management\)](#)
- **14:45 to 17:45** – Masterclass 1 & 2 (30' break at 15:45)
 - Masterclass 1: Private Investment Mobilisation
 - Masterclass 2: How to Integrate Human Rights Into Investment Decisions
 - Stream A: Dedicated to Banks
 - Stream B: Dedicated to Asset Managers / Investors
- **18:00 to 19:00** – Networking cocktail



Keynote speech

Prof. Dr. Anabel Ternès von Hattburg,
President Club of Budapest Germany &
Managing Director Institute for
Sustainability Management

Awakening to Finance for a Sustainable Future: Turning Trends into Transformational Action

Prof. Dr. Anabel von Preußen – Ternès von Hattburg
LSFI Summit 2024

Oh my God. I am part of the problem.





9/24/2024





Wake-Up Call: The Urgency of Sustainable Finance

- **Current State of Play:** The world is at a critical juncture with climate change, biodiversity loss, and human rights abuses threatening the future.
- **Staggering Numbers:** By 2030, climate disasters could push 120 million more people into poverty (World Bank, 2021). We are running out of time.
- **Shifting Paradigm:** Finance is no longer just about profits—it's about survival. The question isn't *if* but *how* we invest in a sustainable future.



Key Trends Shaping the Future of Sustainable Finance

Green Bonds & ESG Investments: Explosive growth—\$1 trillion in green bond issuance expected by 2025 (Moody's, 2022).

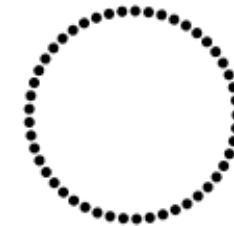
Digital Transformation & AI: AI's role in assessing sustainability and opportunities risks in real-time.

The Rise of Impact Investing: Investors are increasingly demanding measurable social and environmental returns alongside financial gains.



Challenges & Barriers to Sustainable Finance

- **Regulatory Gaps:** A lack of global standardization around ESG metrics and accountability.
- **Short-termism in Investment Strategies:** How immediate profits overshadow long-term sustainability.
- **Data Transparency:** The need for accurate and reliable data to drive responsible investments.





Opportunities: Where We Can Make a Difference

Private Investment Mobilization: How private capital can be a game-changer in scaling sustainable projects.

Integrating Human Rights into Finance: Recognizing that financial decisions have profound impacts on societies.

Biodiversity as an Investment Frontier: The growing recognition that biodiversity protection is crucial for long-term financial stability.

The Role of Stewardship: Moving from passive ownership to active engagement with companies to push for sustainable practices.

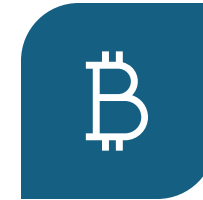
What It Takes to Be Successful in Sustainable Finance



**COLLABORATION
ACROSS SECTORS:**
GOVERNMENTS,
PRIVATE SECTOR, AND
CIVIL SOCIETY MUST
WORK TOGETHER TO
CREATE SOLUTIONS.



**LONG-TERM VISION &
COMMITMENT:**
PATIENCE AND
PERSISTENCE IN
SUSTAINABLE FINANCE
STRATEGIES.



**INNOVATION &
TECHNOLOGY:**
HARNESSING THE
POWER OF FINTECH, AI,
AND BLOCKCHAIN TO
BUILD TRANSPARENT
AND SUSTAINABLE
FINANCIAL SYSTEMS.



**COURAGEOUS
LEADERSHIP:** IT WILL
TAKE BOLD, VISIONARY
LEADERS TO
CHALLENGE THE
STATUS QUO AND DRIVE
MEANINGFUL CHANGE.

This Is Our Moment

- **The Choice Is Ours:** Will we wait for disasters to force our hand, or will we lead the charge for a better, sustainable future?
- **Be Part of the Solution:** Mobilize your investments, engage actively in stewardship, and integrate sustainability into every financial decision you make.
- **Together We Can Transform:** Now is the time for all of us—investors, decision-makers, leaders—to align finance with the future we want to create. Let's not wait until it's too late. Let's act now.



Prof. Dr. Anabel Ternès

Folge mir auf LinkedIn und abonniere mein kostenfreies
LinkedIn-News-Magazin GREEN INSIGHTS →



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YOU
decide
every day,
whether you say
YES,
take the steps
and help create
a livable future.
Do you say YES?







Masterclass

Private Investment Mobilisation



Chris Clubb

Managing Director,
Convergence





PRIVATE INVESTMENT
MOBILIZATION
MASTERCLASS

LUXEMBOURG
SUSTAINBLE FINANCE
INITIATIVE

SEPTEMBER 2024

www.convergence.finance

WHAT IS CONVERGENCE?

Established in 2015 primarily by development community (concurrent with SDG launch).

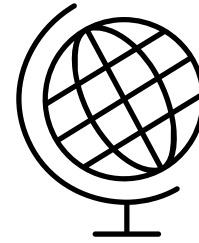
Global network for blended finance.

Mandate: Increase development and climate impact in Developing Countries by increasing total investment through blended finance.

Generate blended finance data, intelligence, and deal flow to increase private sector investment.

Funded from five sources: grants, membership revenues, training revenues, advisory assignments and Design Funding fees.

Global Affairs Canada provided launch funding and remains Convergence's largest funder.



A GLOBAL NETWORK

We have a global [membership](#) of over 160 public, private, & philanthropic institutions



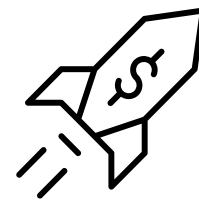
DATA & INTELLIGENCE

Original [content](#) builds the evidence base for blended finance, including **data on 1,123 blended finance deals for \$213 billion investment**, trend reports, case studies, region and sector briefs, and webinars.



DEAL FLOW

An online match-making platform for investors and those seeking capital to connect on active deals.



MARKET ACCELERATION

Our [Design Funding](#) program awards grants for the design of innovative vehicles that aim to attract private capital to global development at scale.

SIGNIFICANT SDG FINANCING GAP

Investment Gap to achieve the SDGs and Paris Agreement in developing countries has increased significantly: Investment needs at \$5 trillion, actual investment at 20% \$4 trillion Gap

SDG funding gaps are in sectors typically funded by private sector in high income countries:

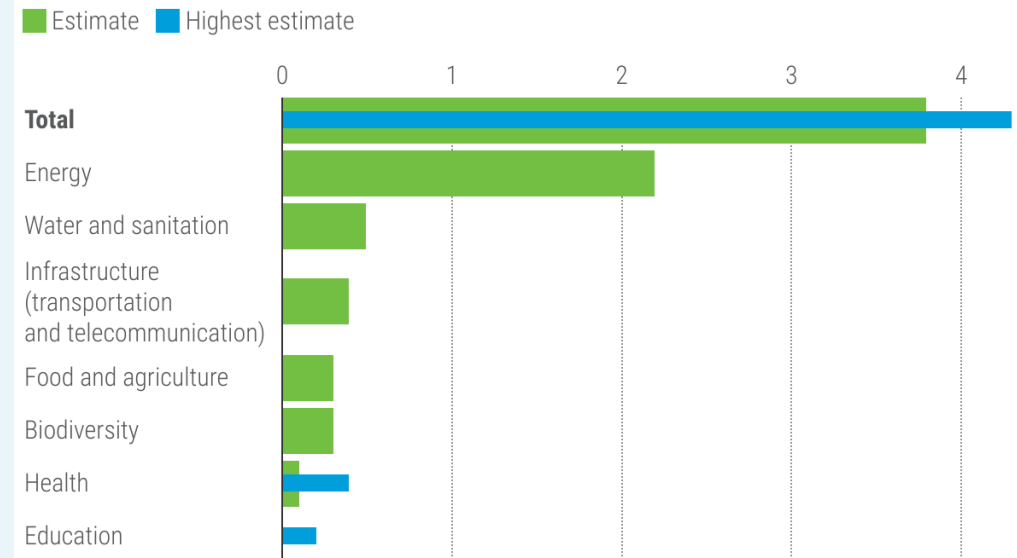
- Power / Climate Mitigation
- Transport
- Telecom
- Agriculture (Food Security)

Net private sector investment flows to developing countries average only \$100 billion (2% of needs)



Sustainable development goals investment gap widens in developing countries

Estimated annual investment gap to reach the SDGs by 2030, total and per sector, capital expenditure, trillions of US dollars



Note: Investment refers to capital expenditure. The range for the health and education sectors reflects uncertainty about the size of the capital expenditure component in the total investment gap for the two sectors, for which the operational expenditure component is expected to be substantial.

Source: UNCTAD SDG Investment Trends Monitor September 2023

NET ANNUAL CROSS BORDER FLOWS TO DEVELOPING COUNTRIES: VERY LOW DUE TO HIGH RISK AND LIMITED INVESTMENT OPPORTUNITIES

- **Foreign Direct Investment** most important: USD 308 billion
- **Long-Term Debt** USD 172 billion: USD 58 billion from Public Creditors and USD 115 billion from Private Creditors
- **Portfolio Equity** Investment has been negative USD 19 billion
- **Private Financial Sector: Net USD 95 Billion per year – Less than 0.25% of Global Financial Assets owned by private sector**

Amounts in USD Billions	All LICs & MICS	China	LICs & MICS (ex-China)
Net financial inflows (Average 2018-2021)			
Net debt inflows			
Use of IMF Credit	24.5	0.0	24.5
Long term:	312.0	139.5	172.5
Official creditors	57.0	-1.0	58.0
Multilaterals	46.3	0.6	45.6
of which WBG	20.3	0.1	20.2
Bilaterals	11.0	-1.6	12.6
Private Creditors	255.3	140.7	114.6
Bondholders	200.5	112.6	88.0
Banks and others	54.8	28.2	26.6
Short term	138.0	103.9	34.1
Net equity inflows			
Foreign Direct Investment	519.3	211.5	307.8
Portfolio equity	48.5	67.2	-18.7

Source: World Bank, International Debt Report 2022

HIGH COUNTRY RISK IN DEVELOPING COUNTRIES: RISK TOO HIGH FOR MOST INVESTORS IMPEDING INVESTMENT

140 Developing Countries:
10% rated Investment Grade
13% rated BB
76% rated B or lower

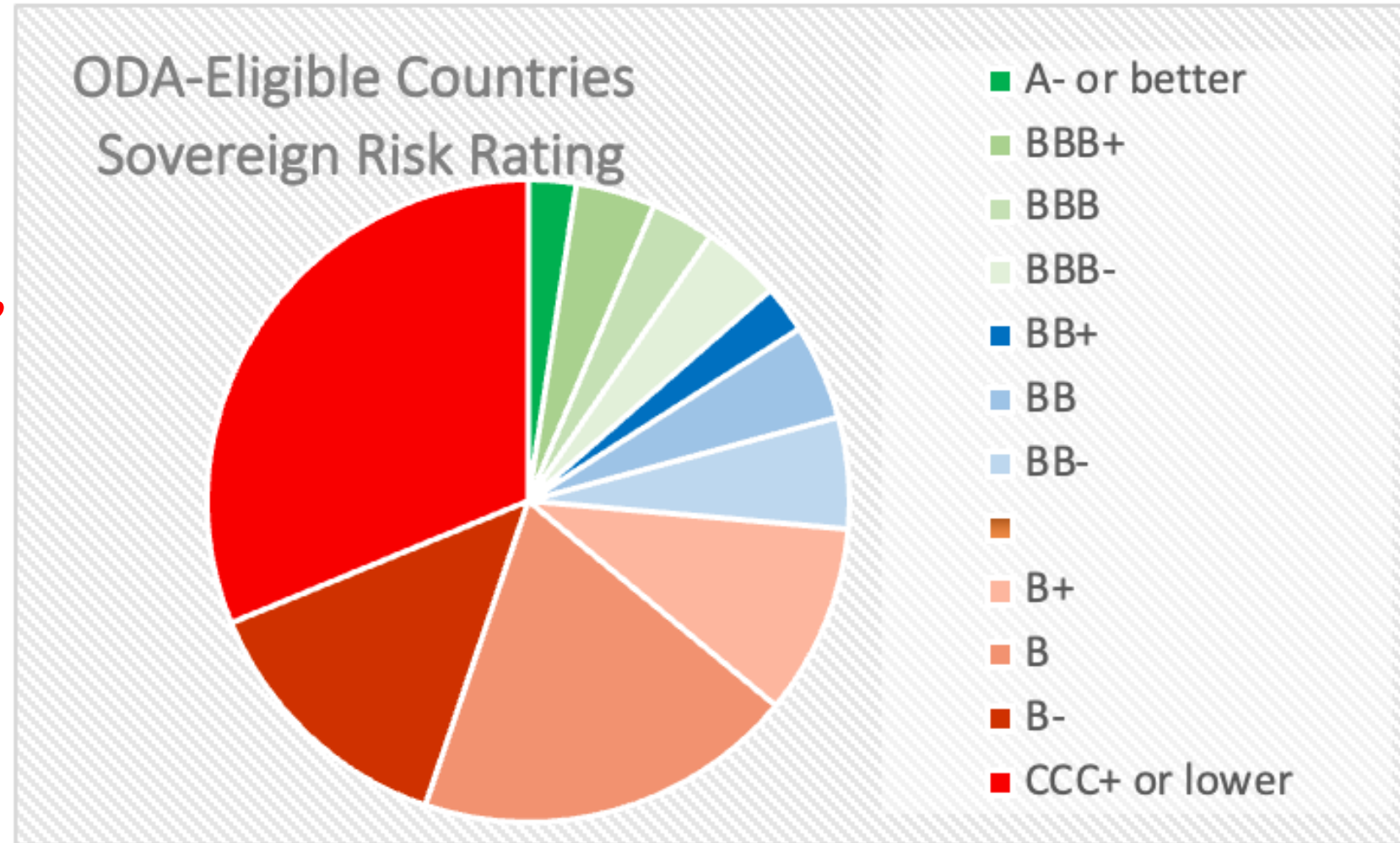
Median sovereign risk is “B”

Highly Speculative

*Majority of private sector “B” or
“CCC”*

**Country and currency risk
too high for most investors**

92 rated by Fitch, Moody’s and S&P
41 rated using OECD ECA ratings
17 not rated



Source: Compiled by Convergence from Fitch, Moody’s, S&P and OECD ECA ratings, 2022

PRIVATE INVESTORS (DEBT) MODELING PROBABILITY OF DEFAULT & EXPECTED LOSS

- Expected loss is a function of probability of default and loss given default
- On comparing BBB to B-, the annual probability of default and expected loss is around 12 times higher; this is far too high for a majority of commercial investors

		Investment Grade Borrowers			Non-Investment Grade Borrowers (Speculative Grade)						
Agency	Statistic	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC to C
Fitch	5-yr cum default rate	0.8%	1.6%	2.7%	5.3%	5.9%	5.4%	8.1%	11.5%	8.6%	35.5%
S&P	5-yr cum default rate	1.1%	1.5%	3.0%	4.1%	6.9%	10.0%	15.0%	18.6%	26.4%	46.4%
Moody's	5-yr cum default rate		1.6%			8.9%			21.9%		35.4%
Average	5-yr cum default rate	0.9%	1.6%	2.9%	4.7%	7.2%	7.7%	11.5%	17.3%	17.5%	39.1%
Annual Probability of Default		0.19%	0.32%	0.58%	0.96%	1.49%	1.59%	2.42%	3.73%	3.78%	9.44%
Assumed Loss Given Default		50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Annual Expected Loss		0.09%	0.16%	0.29%	0.48%	0.75%	0.79%	1.21%	1.87%	1.89%	4.72%

Source: Convergence 2020

CONDITIONS TO MOBILIZE PRIVATE INVESTMENT

- **Private sector investors can only invest if (i) project is viable and investable and (ii) investment meets investor's fiduciary, regulatory and prudential investment obligations**
- **Obligations: (i) Acceptable risk and (ii) Market-equivalent risk-adjusted return**
- **Project-level investability:**
 - Investors prepared to invest in a \$50,000 to \$500 million project in a Developing Country
 - **Project must be fully viable:** Expectation project will earn revenues to repay investors “as is”
 - **Project must be investable:** Project must present acceptable debt and equity investment opportunity
 - If viable and investable, can attract project sponsors, lenders and equity investors prepared to take country risk
- **Portfolio-level investability:**
 - Global North investors (pension funds and insurance companies) usually do not invest at project level: Too small and no local presence/knowledge
 - Global North institutional investors require a portfolio level solution
 - Portfolio-level solutions are excellent to mitigate Developing Country “country risk”: Diversification very powerful
 - Diversification and subordination of public sector funds easily creates acceptable investments for Global North investors

TWO APPROACHES TO MOBILIZE PRIVATE INVESTMENT

APPROACH 1: Mobilize private investment at equal risk-return terms as public funds

- Almost all MDB & DFI mobilization undertaken on equal terms (e.g., *pari passu*)
- Only [3]% of MDB & DFI annual \$140 billion financial commitments de-risk Developing Country investment risk (MIGA exception)
- Generally: MDBs can mobilize at same risk profile in mostly 24% of Developing Countries rated "BB" or better, but very difficult / not possible for 76% of countries rated B or lower

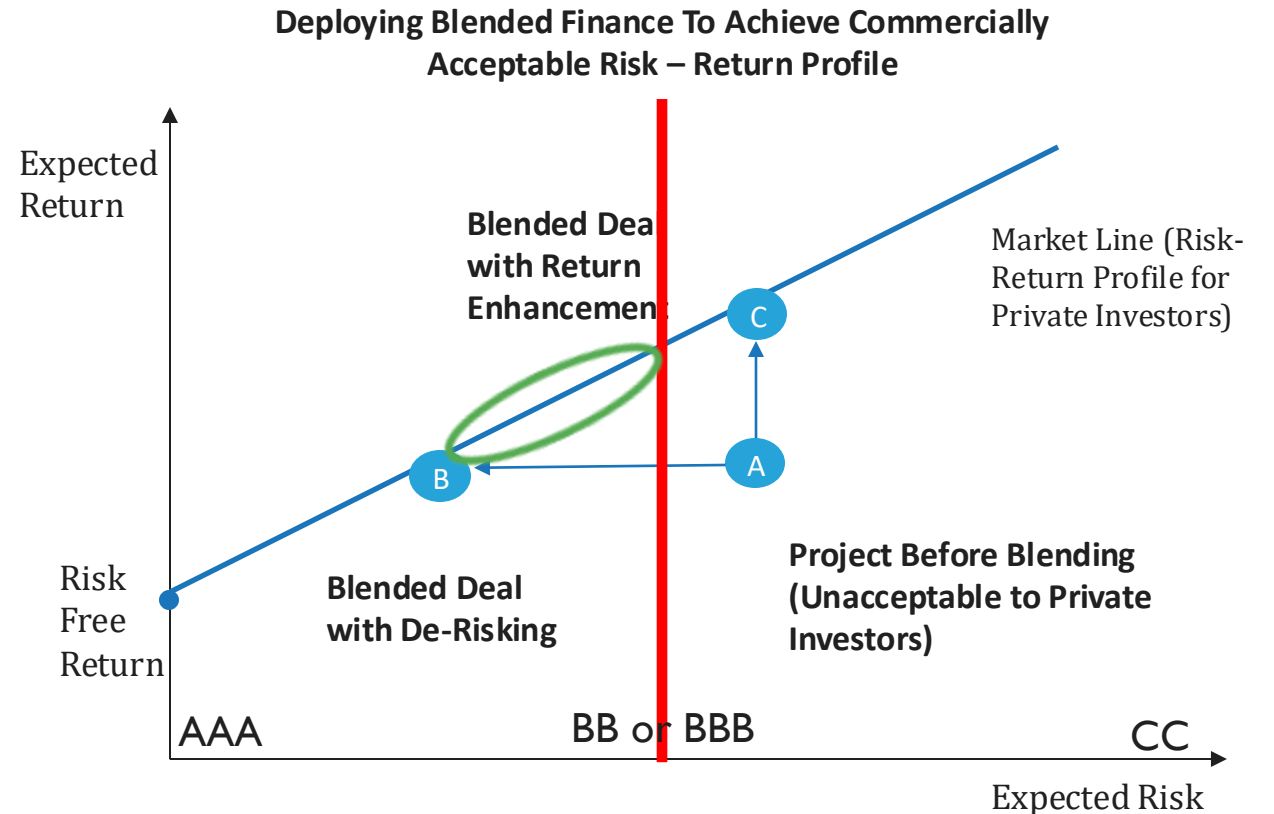
APPROACH 2: Mobilize investment by de-risking investment risk within risk limits

- **Less than [3]% of MDB & DFI commitments and [2]% of ODA commitments de-risk** Developing Country investment risk. [70]% of concessional funds flow to MDBs & DFIS who use for good impact, but nominal mobilization – this is leading reason why mobilization numbers continue to be so low

BLENDING FINANCE TO DE-RISK RISK IN DEVELOPING COUNTRIES

CREATE INVESTMENTS MEETING PRIVATE INVESTORS' FIDUCIARY REQUIREMENTS

- **Blue line** is the CAPM efficient range of risk & return combinations available to debt investors
- **Red line** is “maximum acceptable risk” for an investor (e.g., Investment Grade)
- Investments below blue line and right of red line not acceptable to fiduciary investors
- **Developing Countries risk high: B & CCC**
- Donors can mobilize investors (i) increasing returns and/or (ii) reducing risk to market line
- **Reducing risk to left had side of red line is critical**
- Convergence Historical Deals Database: 800+ transactions demonstrating best approaches - reduce risk (vs. enhance returns)



Blended Finance : Create “**market equivalent**” investments in **green bubble** at acceptable risk to mobilize private sector investment to SDG and climate projects in EMDEs

Source: Convergence 2023

PRIVATE INVESTMENT MOBILIZATION MODELS FRAMEWORK

Public sector funding to create viable projects, investable projects and investable portfolios.

Column #	1	2	3	4	5
Mobilization Level	Project Level - Upstream	Project Level - Investment		Portfolio Level - Investment	
PIMM Description	Upstream Project Level	Project-Level Co-investment	Project-Level De-risking (Investability)	Portfolio-Level Co-investment	Portfolio-Level De-risking (Investability)
De-risking?	Public sector funds may or may not de-risk private investment	No - Public sector funds do not de-risk private investment	Yes - Public sector funds de-risk private investment	No - Public sector funds do not de-risk private investment	Yes - Public sector funds de-risk private investment
Main Purpose of PIMM	Increase the viability of projects assessed by private sector to be fully viable	Co-finance project with private investor(s)	De-risk investment risk to create an acceptable project-level risk-return that meets investors' fiduciary and regulatory obligations	Co-finance portfolio/fund with private investor(s)	De-risk investment risk to create an acceptable portfolio-level risk-return that meets investors' fiduciary and regulatory obligations
Main private sector investors targeted	Domestically active financial institutions (e.g., banks), institutional investors, investors and local capital markets.			Global North institutional investors (e.g., pension funds) and commercial banks	
	Domestically active real-economy companies (e.g., manufacturers)			Regional institutional investors and commercial banks	
	Cross-border financial investors prepared to invest debt and equity in projects (e.g., private equity funds, private debt funds, international commercial banks) and diaspora.			Domestic institutional investors	
	Foreign Direct Investors			Diaspora	

PRIVATE INVESTMENT MOBILIZATION FRAMEWORK

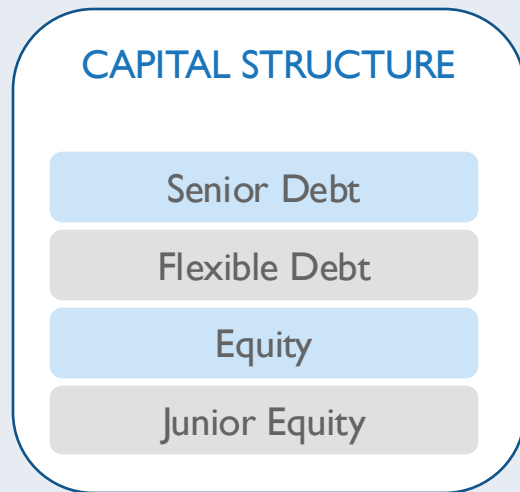
Convergence and other experts have currently identified 26 models where public sector funds mobilize private investment.

Column #	1	2	3	4	5		
Mobilization Level	Project Level - Upstream	Project Level - Investment		Portfolio Level - Investment			
Examples of PIMMs	Public Sector Projects	1. Project Preparation Facilities		3. Project-Level Guarantees	19. Fund investing in public sector debt - one tier of capitalization	20. Fund investing in public sector debt - blended finance with 2 or 3 tiers of capitalization	
			4. Annual Subsidies				
			5. Capital Investment Grants / Viability Gap Funding				
	Private Sector Projects	2. Project Development Funding: Investment in (funding to) project development companies	6. Loan or Equity investment (co-investing with private sector)			21. Fund investing in private sector debt - one tier of capitalization (including ETF?)	
			7. Loan Syndication / Simple Co-financing				22. Fund investing in private sector debt - blended finance 2 or 3 tiers of capitalization
				8. Grants / TA to bear project costs: project funding is fully commercial		23. Securitization of debt	
				9. Project-Level Guarantees		24. Fund investing in equity - one tier of capital	
				10. Mitigation of political risk (e.g., MIGA Political Risk Insurance)			25. Fund investing in equity - blended finance 2 or 3 tiers of capital (including ETF?)
				11. Credit Enhancement / Risk Mitigation of buyers of services in infrastructure projects (e.g., Power Purchase Agreement)			
				12. Guarantees/Risk Sharing with local banks and MFIs on MSME and corporate loans			
			13. Value chain financing directly with real economy (e.g., agriculture and garment manufacturing)				
				14. FDI Mobilization			
			15. Project Level Mezzanine to mobilize private investment in senior debt and equity	16. Results / Outcomes Based Financing			
17. Funding to local banks and MFIs for on-lending to MSMEs for climate projects (equity, tier 2 equity and debt)							
Public and Private Projects		18. Project Level Local Currency Solution (e.g., currency swap, TCX)		26. Portfolio-Level Local Currency Solution			

MAIN ARCHETYPES AND INSTRUMENTS USED IN BLENDED FINANCE

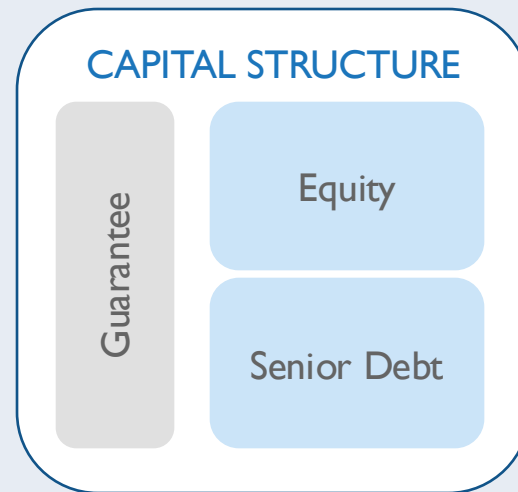
CONCESSIONAL DEBT OR EQUITY

- Public or philanthropic investors are concessional within the capital structure
- Subordinate and/or junior terms compared to co-investors



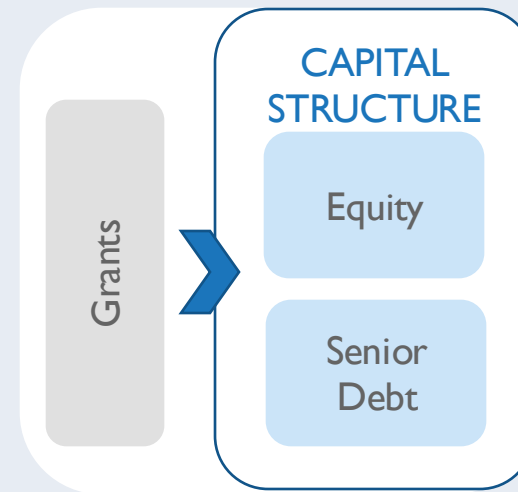
GUARANTEE OR RISK-INSURANCE

- Risk reduction tools that protect investors against capital losses
- Can be event specific as in the case of credit or political risk insurance



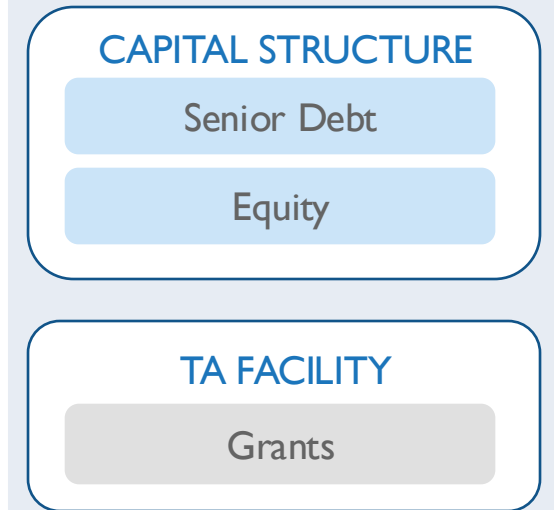
DESIGN / PREPARATION FUNDING

- Grant funding that supports costs and activities that lead to bankability of projects



TECHNICAL ASSISTANCE FUNDS

- Funds to supplement the capacity of investees




EXAMPLES FOR CLIMATE-RELATED TRANSACTIONS

- Funds**

 SUNFUNDER Solar Energy Transformation Fund		
 responsAbility Access to Clean Power Fund		

- Projects**

 Sunref Sustainable Use of Natural Resources and Energy Finance	Lake Turkana Wind Farm Project
	Nam Theun 2 Hydropower Project (NT2)

- Companies**

			
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- Facilities**

			
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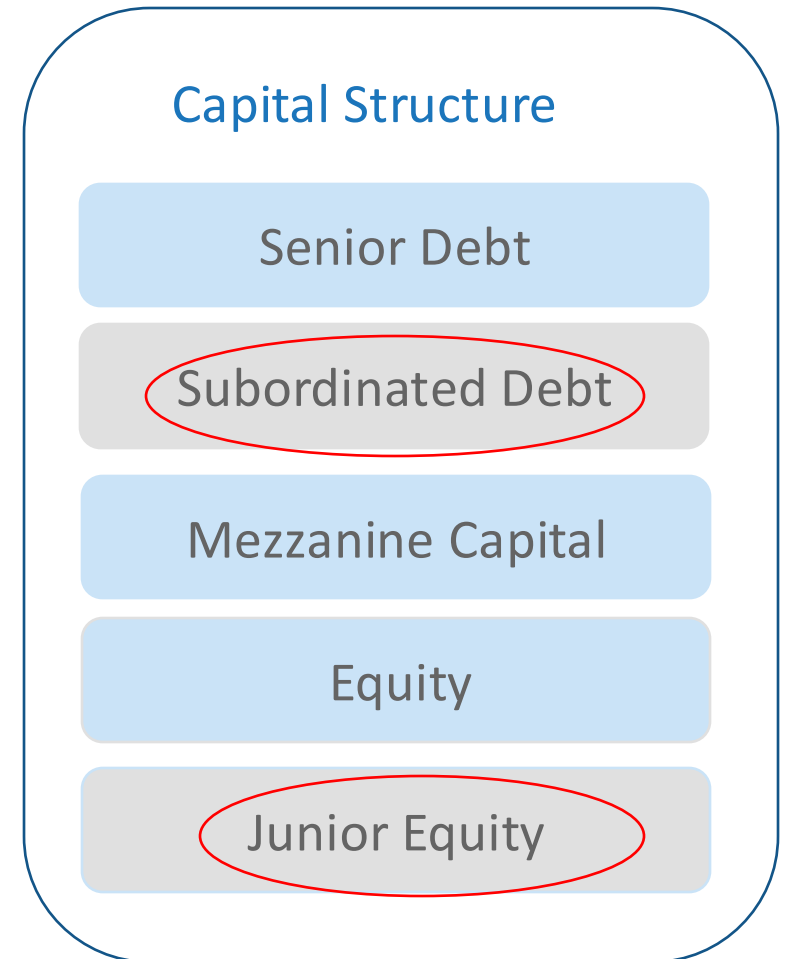
- Bonds**

Fiji Green Bond	Sindicatum Green Bond	Seychelles Blue Bond
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Source: Convergence 2020

FUNDED RISK PARTICIPATION: CONCESSIONAL DEBT & EQUITY (1/2)

- Concessional debt or equity provide **favorable terms** of rates relative to market pricing; developmental capital bears non-market risk-return
- Subordinated (debt) or junior (equity) **protects** senior investors by taking first losses on the value of the security
- The use of direct investment instruments on concessional terms helps shift the risk-return ratio for private investors to an acceptable level
- Concessional finance can help bring down the **weighted average cost of capital** for a project



1. FUNDED RISK PARTICIPATION: CONCESSIONAL DEBT & EQUITY (2/2)

Concessional risk participation to enhance private investor <u>debt</u>	Concessional risk participation to enhance private investor <u>equity</u>
Fund a junior tranche to enhance senior tranche – “first loss”	Two tiers of equity – “senior” equity versus “junior” equity – “first loss”
Subordinate return of principal until all private principal returned – “first loss”	Subordinate return of principal until all private equity returned – “first loss”
Longer maturities versus shorter maturities	Pari passu for investment but asymmetrical returns
Low interest debt to increase IRR for investors	Returns into reserve to create larger risk cushion for private investors
<p>Caveat: Concessional participants target <u>mobilising private investment</u> and not <u>subsidising private sector</u></p>	

FOUR MOST EFFECTIVE BLENDED FINANCE STRUCTURES TO MOBILIZE INVESTMENT AT SCALE BY DE-RISKING – IDENTIFIED BY INVESTORS

Portfolio Level (e.g., fund)

- 1. Mobilize Debt Investors at Portfolio Level:** Fund structure with development funds in subordinate position (e.g., first loss) reducing probability of default and expected loss
- 2. Mobilize Equity Investors at Portfolio Level:** Fund structure with development funds in junior position in rank and distribution waterfall to increase IRR and reduce negative variance
- 3. Aggregation Vehicle to invest in multiple Portfolio Level funds** described above to achieve scale

Project Level

- 4. Mobilize Debt and Equity Investors at Project Level:** Example Guarantee to reduce expected loss

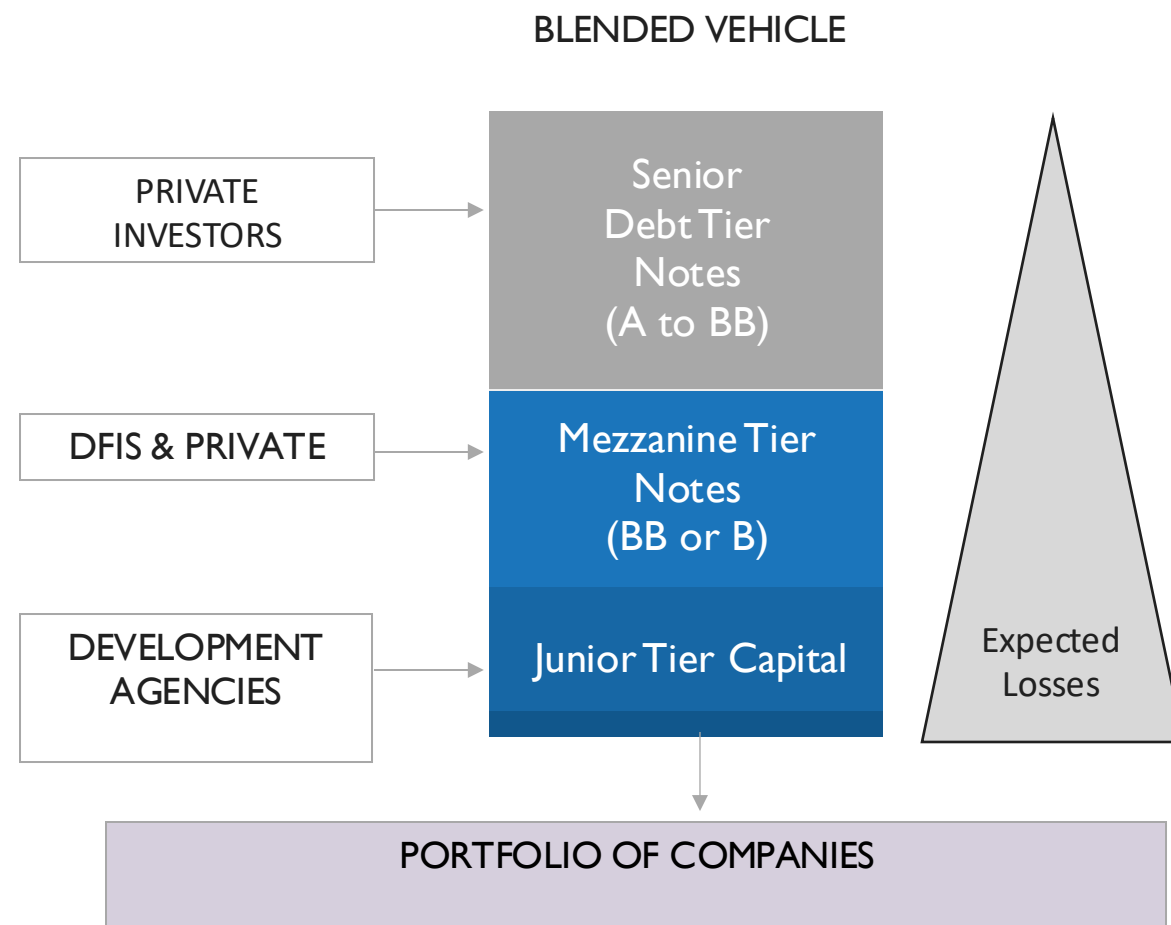
Source: Convergence, How to Mobilize Private Investment in Blended Finance, 2020

MOST EFFECTIVE BLENDED FINANCE STRUCTURES:

STRUCTURE 1:

BLENDED FINANCE VEHICLE PREFERRED BY DEBT INVESTORS

1. Establish Blended Finance Fund with 3 capital tiers
2. Fund with experienced fund manager
3. Fund invests in portfolio of debt investments (loans) typically rated BB and B
4. Diversification (1-2 notch uplift) and subordination (1-6 notch uplift) reduces probability of default and expected losses for senior tier investors.
5. Senior Notes can achieve Investment Grade (e.g., A or BBB) and Mezzanine Notes good-quality non-investment grade investment (e.g., B)
6. Investment grade rating allows a large universe of investors restricted by investment grade mandate



Source: Convergence 2020

STRUCTURE I: BLENDED FINANCE VEHICLE PREFERRED BY DEBT INVESTORS

- Assume Portfolio of 30+ loans to borrowers with “B” risk rating
- Portfolio diversification can enhance risk rating to “BB-”
- Portfolio funded by three tiers of capital: (I) Senior Notes for 85%, (ii) Mezzanine Notes for 10% and Junior for 5%
- Can credit enhance Senior Notes to equivalent of “Investment Grade” “BBB” with enough Mezzanine (“B”) and Junior (“CCC”)
- Junior and Mezzanine must be sufficient to absorb at least (I) the “expected losses” in this case between “BB-” and “BBB” or 0.63% per year (i.e., 0.79% less 0.16%) plus (2) some unexpected loss
- Possible to achieve Investment Grade “BBB” for Senior Notes with around of 15% of subordinate capital (for a 10-year tenor)



Diversification

Rating	Annual Expected Loss
BBB	0.16%
BBB-	0.29%
BB+	0.48%
BB	0.75%
BB-	0.79%
B+	1.21%
B	1.87%
B-	1.89%



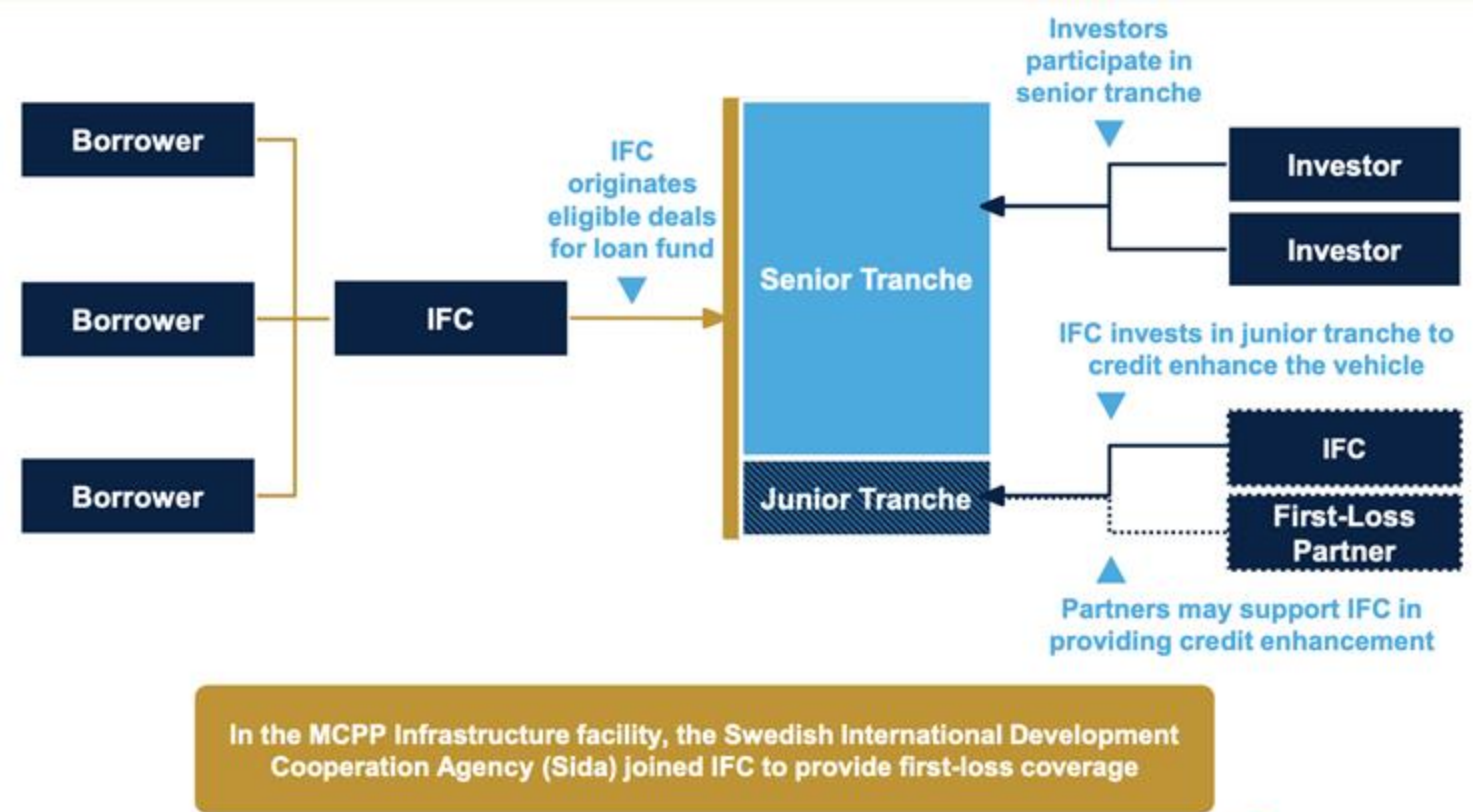
Subordination

Source: Convergence 2020

EXAMPLE: IFC & SIDA MCPP INFRASTRUCTURE PROGRAM

IFC arranges portfolio of senior loans to infrastructure projects

- Loans priced ca. Libor + 3.6%
- Transfer 50% of each loan to Fund
- Fund capitalized 90% by senior notes & 10% junior capital
- \$1.5 billion Senior Notes modelled at BBB/BBB+ invested by Alliance, Axa and Prudential
- Transaction is a unicorn – No MDB has replicated
- Scale: Repeat – Create one Fund - same structure for all MDBs and DFIs

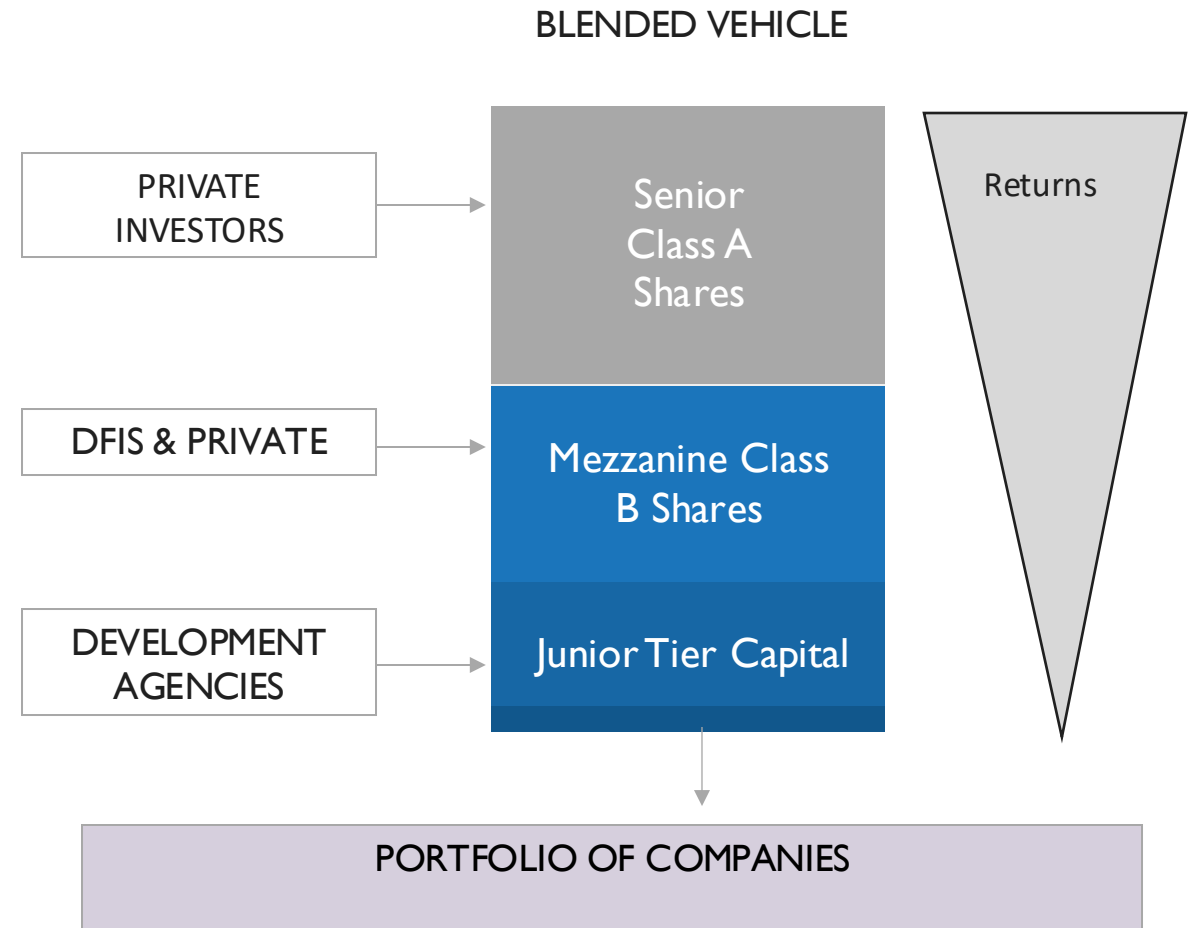


MOST EFFECTIVE BLENDED FINANCE STRUCTURES:

STRUCTURE 2:

BLENDED FINANCE VEHICLE PREFERRED BY EQUITY INVESTORS

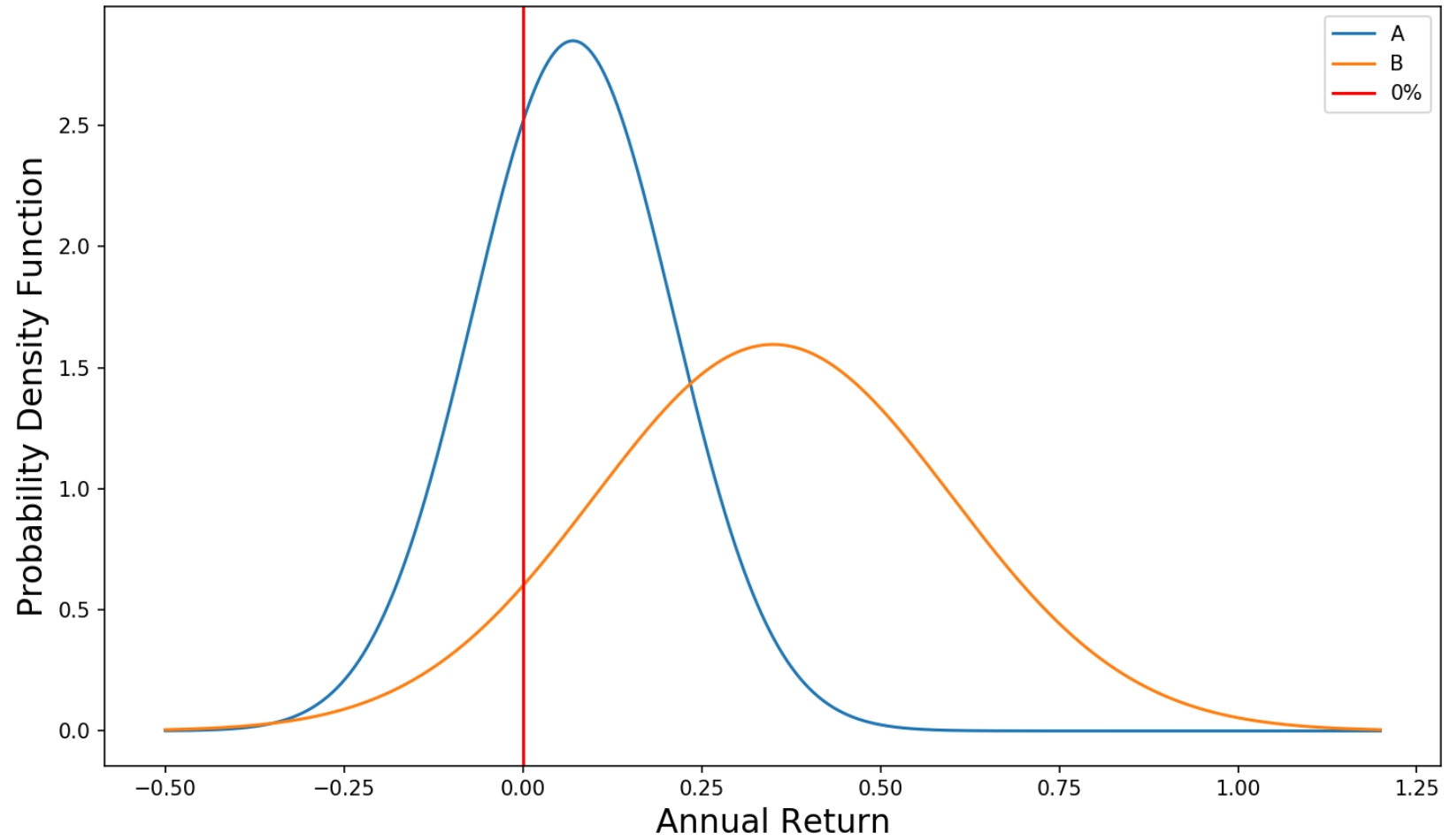
1. Establish Blended Finance Vehicle with 2-3 capital tiers
2. Vehicle typically a fund with experienced fund manager
3. Vehicle invests in portfolio of equity investments in investee companies.
4. Prioritization of waterfall of distributions:
 1. First distributions to Class A until IRR of 0-5%
 2. Second distribution to Class B until IRR of 0%
 3. Third distribution to Junior Capital until IRR of 0%
 4. Fourth distribution to capital providers by negotiation.
5. Waterfall prioritization for Senior Class A Shares: (i) reduces likelihood of losses, (ii) increases likelihood of achieving market benchmark and (iii) increases likelihood of high IRRs



Source: Convergence 2020

STRUCTURE 2: BLENDED FINANCE VEHICLE PREFERRED BY EQUITY INVESTORS

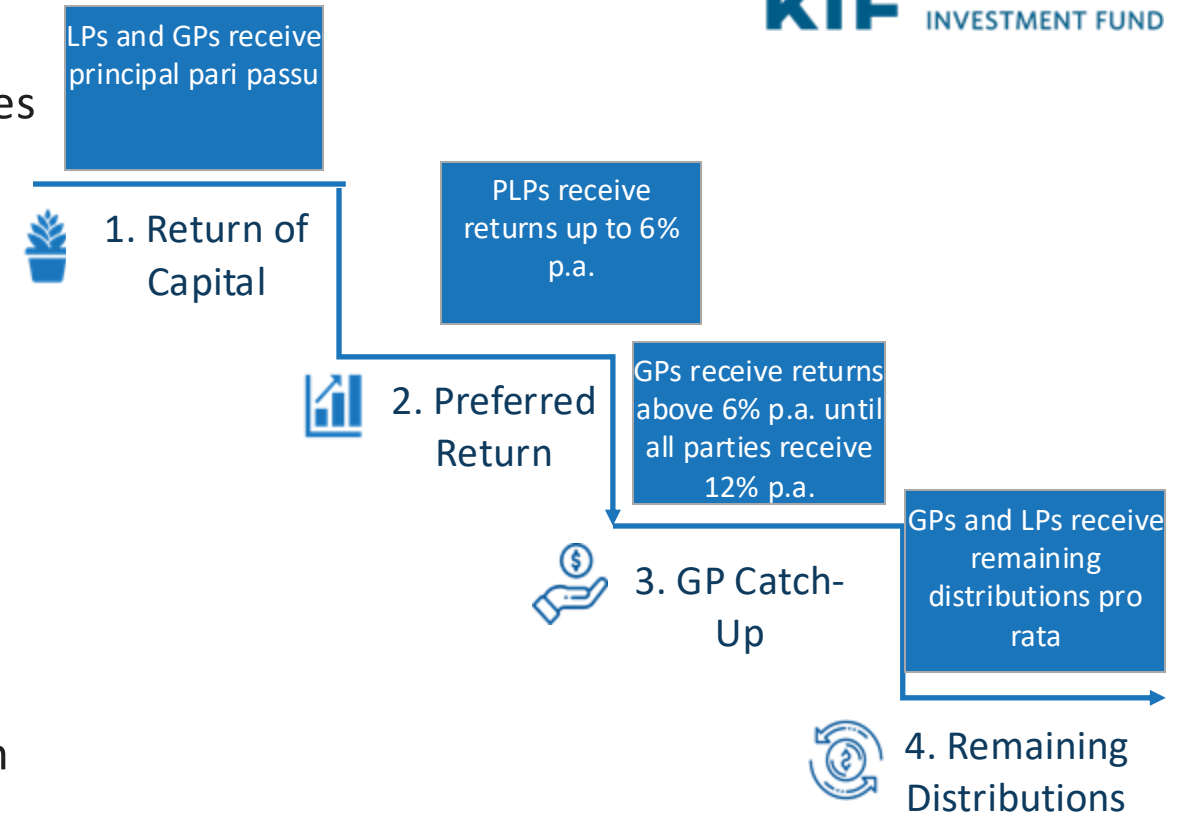
- LPs in conventional PE fund depicted by blue line: Too much distribution with negative IRR and expected IRR too low
- Introduce catalytic concessional funding – senior investors enhanced by junior investors
- LP returns in blended finance structure (orange line): Produces less distribution with negative IRR and higher expected IRR



Source: Convergence, How to Mobilize Private Investment at Scale in Blended Finance, 2020

EXAMPLE: DANISH CLIMATE INVESTMENT FUND

- Danish Climate Investment Fund (KIF) is a private equity fund (USD \$220 million) established by the Danish State and IFU
- Mandate is to invest in projects that reduce greenhouse gases and/or adapting to climate change in developing countries.
- KIF uses a preferred return structure to ensure acceptable risk/return structure for institutional investors:
 - Overall IRR target: 12% per annum (p.a.), with preferred return schedule:
 - All parties receive distributions until invested amounts are returned
 - Returns above 12% p.a. distributed pro rata, with premium to Danish State



Source: Danish Climate Investment Fund Case Study, Convergence, 2017

ALL OFFICIAL DEVELOPMENT FINANCE MOBILIZES ONLY 1% OF SDG & CLIMATE INVESTMENT NEEDS

OECD 2023 Mobilization Report
 Official Development Finance increased private investment mobilization from \$28 billion in 2015 (Pre-SDGs) to \$62 billion in 2021

Only 1% of annual SDG Investment Needs.

Very few MDBs, DFIs and ODA donors have formal private investment mobilization objectives or KPIs.

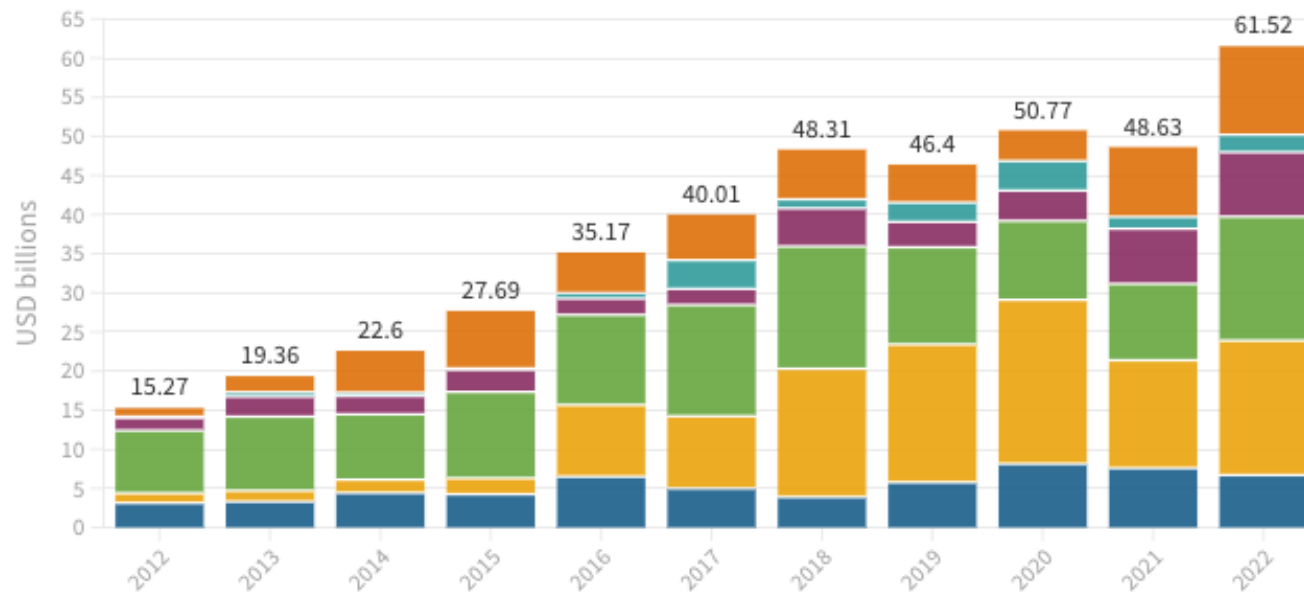
World Bank Group corporate scorecard: Mobilization is measured with no target (\$11 billion in 2023)

Mobilised private finance for sustainable development has been growing since 2012, with direct investment in companies and guarantees playing a central role

Total amount by leveraging mechanism, 2012-2022

*All providers

Leveraging mechanism (select/unselect):
 Credit lines, Direct investment in companies and SPVs, Guarantees, Shares in CIVs, Simple co-financing, Syndicated loans



Data source: [Mobilised private finance for development](#) • SPVs = special purpose vehicles; CIVs = collective investment vehicles.



Source: OECD, MOBILIZATION OF PRIVATE FINANCE PAGE

OECD REPORTING ON DEVELOPED COUNTRIES MEETING \$100 BILLION CLIMATE FINANCE GOAL IN DEVELOPING COUNTRIES

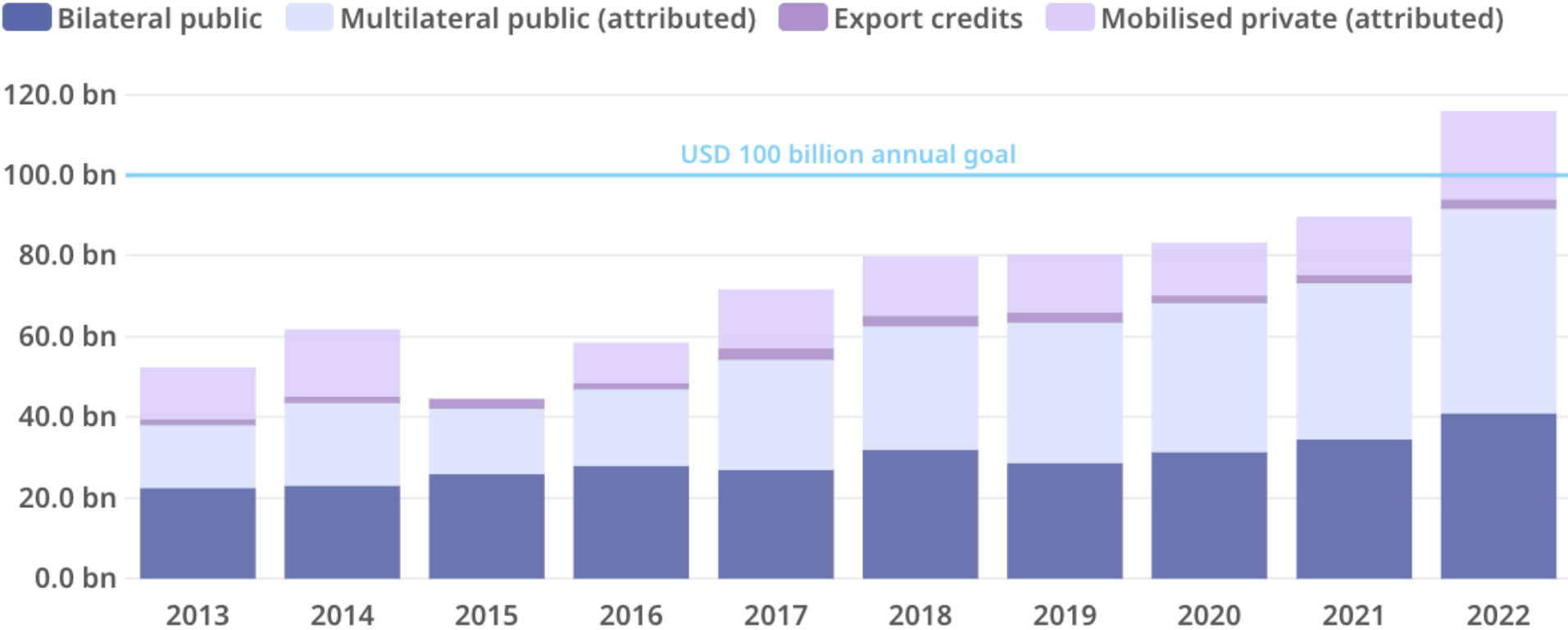
At COP15 in Copenhagen in 2009, Developed Countries committed to a collective goal of mobilising USD 100 billion per year by 2020 for climate action in Developing Countries.

Growth from public sector funding.

Private investment mobilized by blended finance typically around \$14 billion.

Climate finance for developing countries

Amounts provided and mobilised by developed countries, billion USD



Source: OECD, MOBILIZATION OF PRIVATE FINANCE PAGE

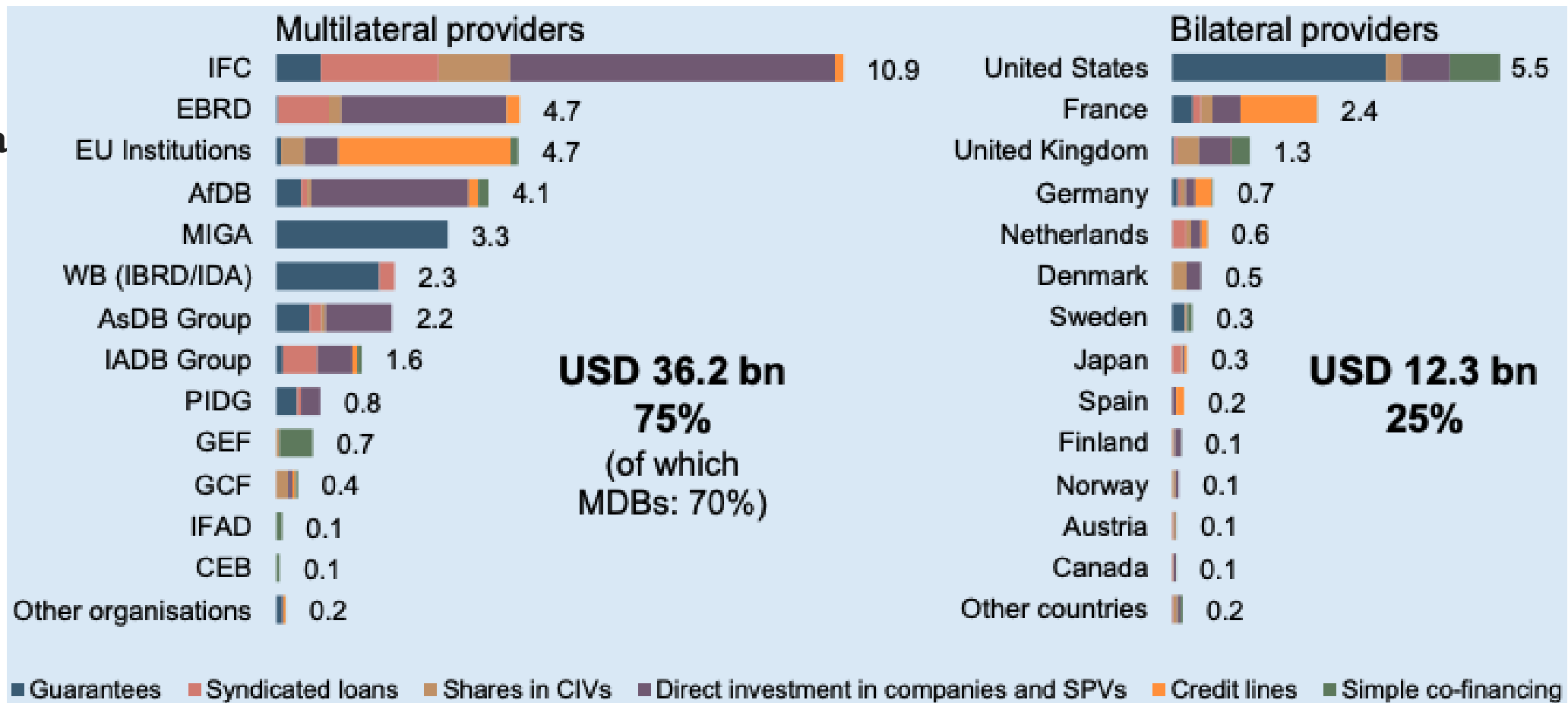
PRIVATE INVESTMENT MOBILIZED BY OFFICIAL DEVELOPMENT FINANCE: OECD 2022 MOBILIZATION REPORT (AVERAGES 2018-20)

Official Development Finance mobilized \$48 billion

Only 1% of annual SDG Investment Needs.

Almost all in private sector operations

Around 75% of concessional public funds flow thru MDBs & DFIs with no/low mobilization



Source: OECD, Amounts mobilized from the private sector for development, 2022

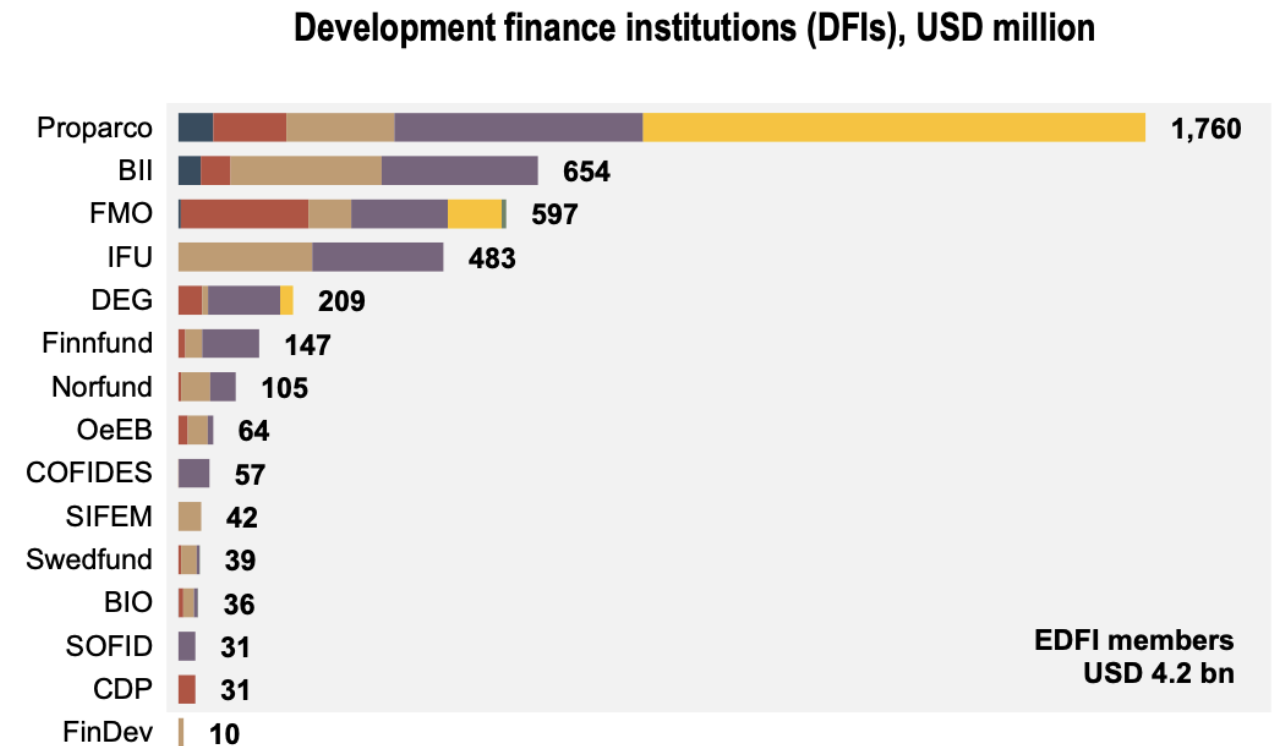
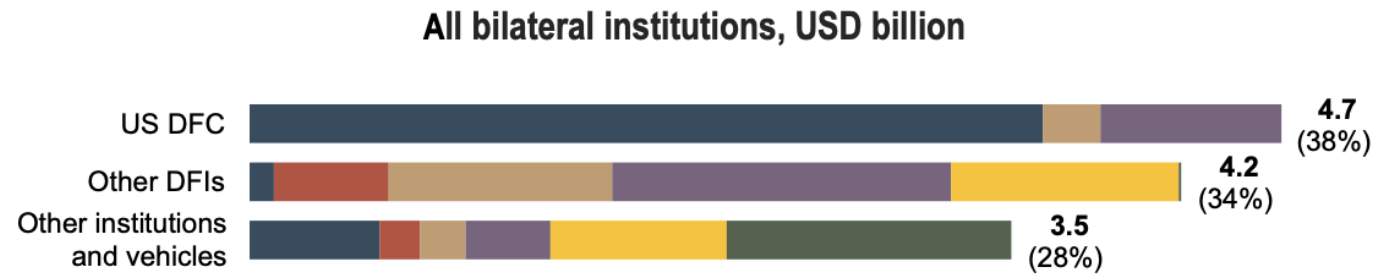
PRIVATE INVESTMENT MOBILIZED BY OFFICIAL DEVELOPMENT FINANCE: OECD 2022 MOBILIZATION REPORT (AVERAGES 2018-20)

US DFC and Proparco only DFIs reporting to mobilize \$1+ billion

Almost all mobilization activities are undertaken in silos – very few “collective mobilization” efforts

OECD captures MDBs and DFIs’ both “Private Direct Mobilization” and “Private Indirect Mobilization”

Figure 1.11. Mobilised private finance by type of bilateral provider institution, 2018-20 average



Source: OECD, Amounts mobilized from the private sector for development, 2022

DFI WORKING GROUP ON BLENDED CONCESSIONAL FINANCE FOR PRIVATE SECTOR OPERATIONS: NOMINAL MOBILIZATION (PDM)

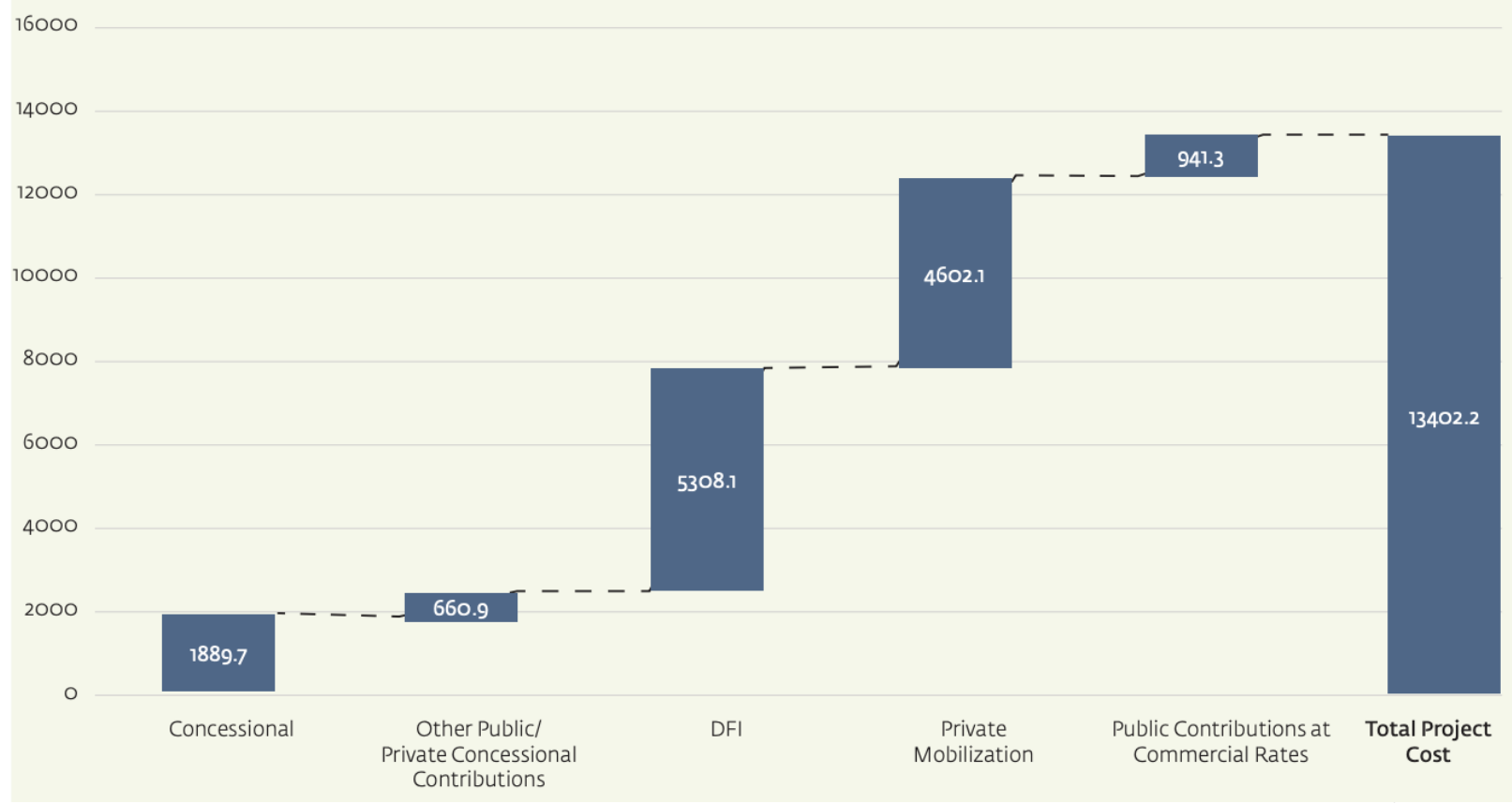
[DFI Working Group Joint Report](#) (2023)

DFIs financed \$13.4 billion of private sector projects using concessional funds:

- \$5.3 billion DFI resources
- \$4.6 billion sponsor co-investment
- \$2.6 billion concessional funds
- \$0.9 billion commercial public

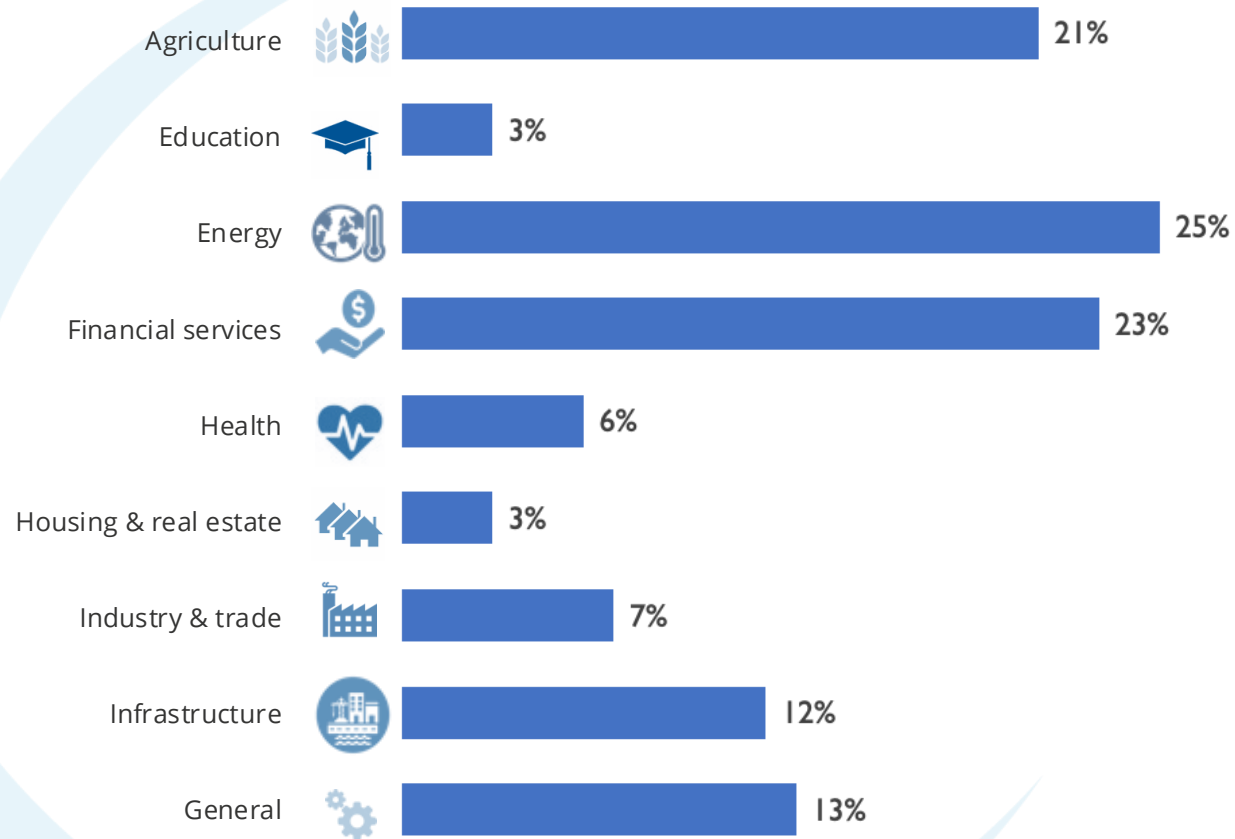
Very low mobilization

Figure 2. DFI Private Sector Blended Concessional Finance New Project Long Term Finance Commitments, 2021 (\$Millions)

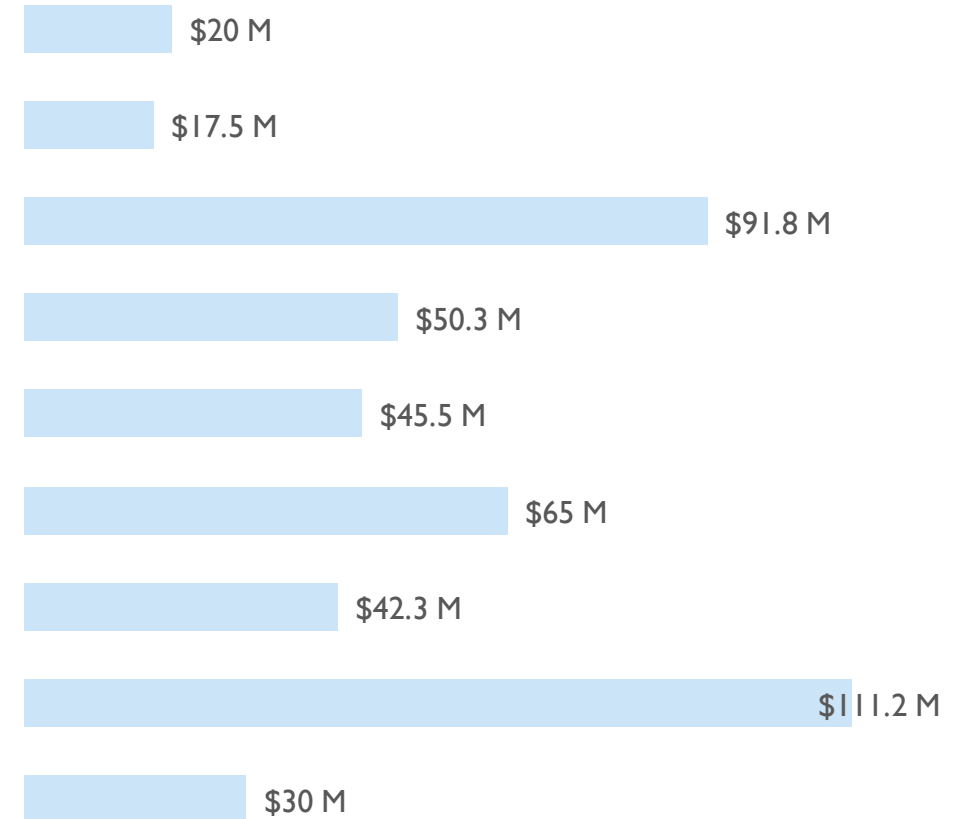


BLENDED FINANCE OVERALL MARKET TRENDS:

Sectors with revenues dominate – source of private sector repayment

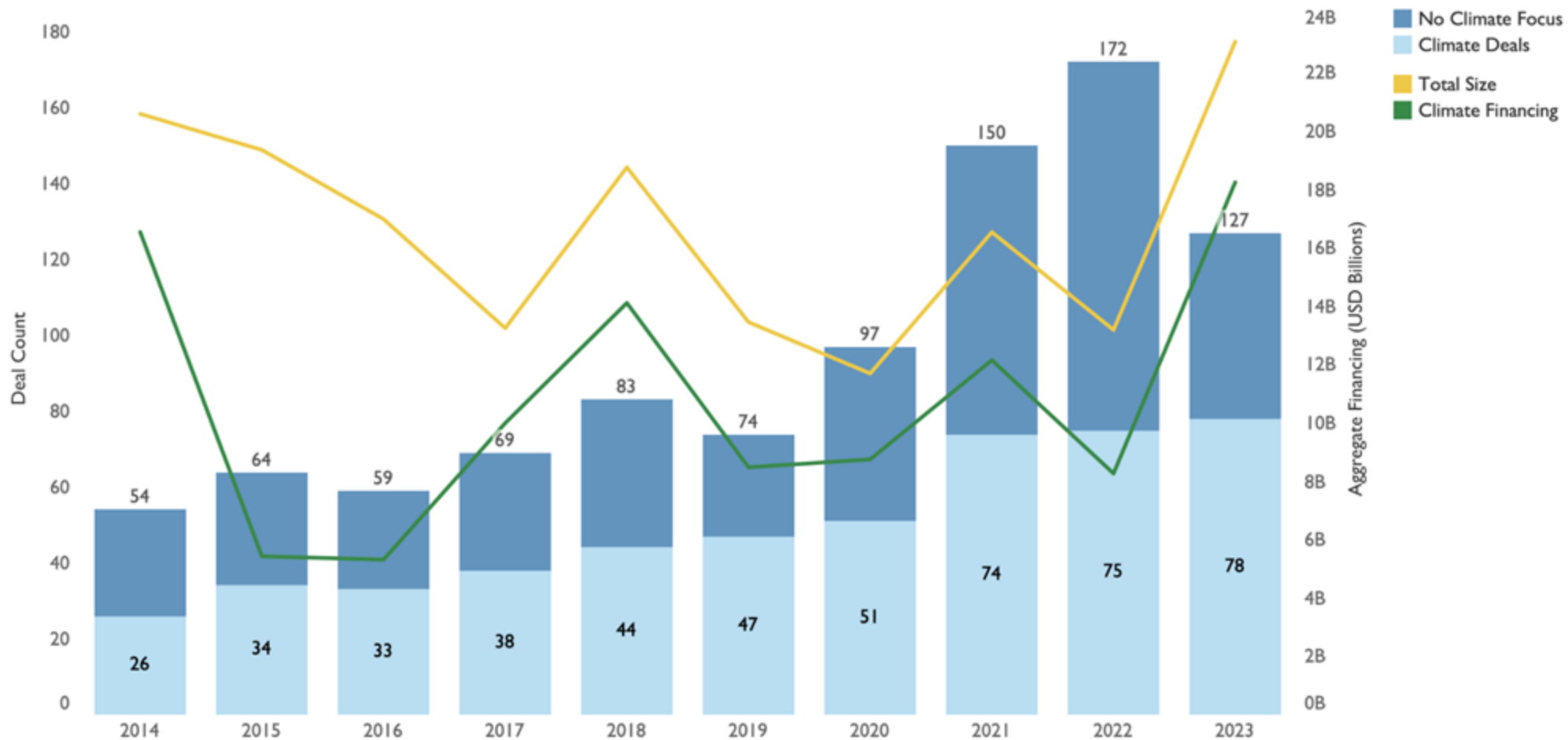


MEDIAN SIZE



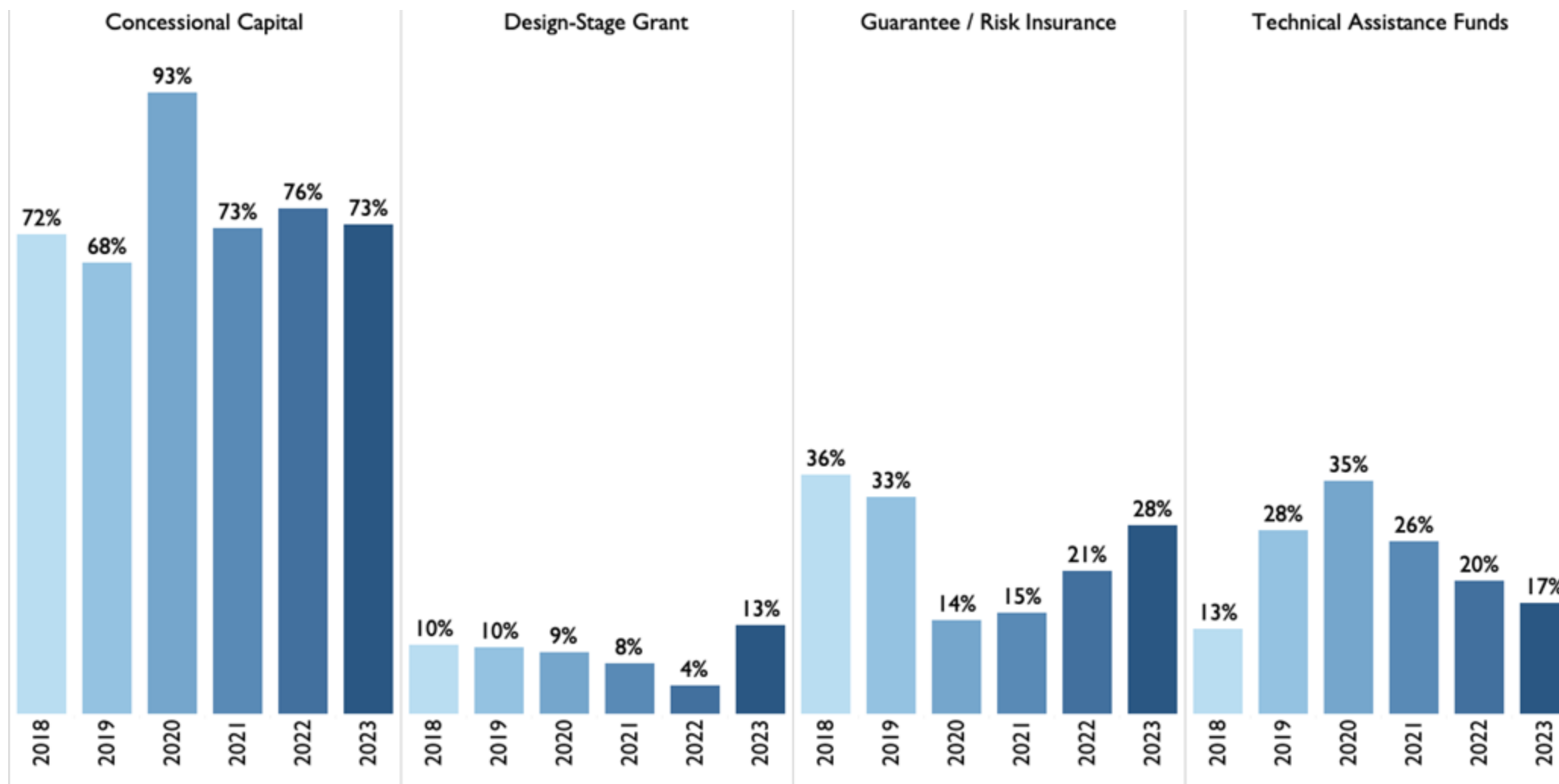
MARKET OVERVIEW – CONVERGECNE DATABASE : BLENDED FINANCE WITH CONCESSIONAL FUNDING AND PRIVATE INVESTMENT

- *Climate blended finance total deal volume equals 132.5B (57% of overall market size) and 610 total recorded deals (50% of all deals recorded)*



CLIMATE - CONCESSIONAL FUNDING ARCHETYPES: Risk-absorbing capital to create fiduciary-compliant investments

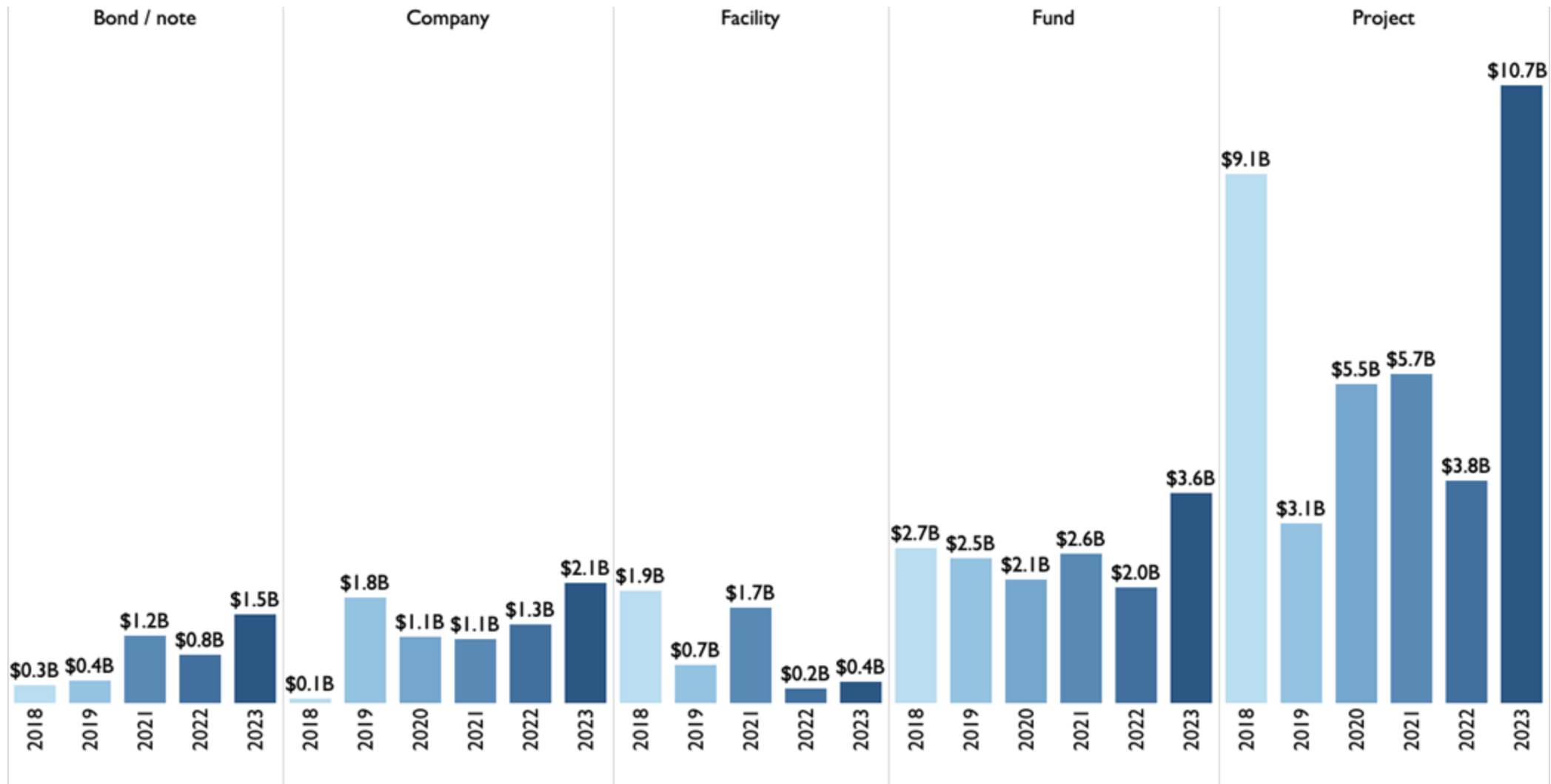
Proportion of climate blended finance transactions by blending archetype, 2018-2023



CLIMATE - VEHICLES

Not enough funds - very efficient for scale investment mobilization

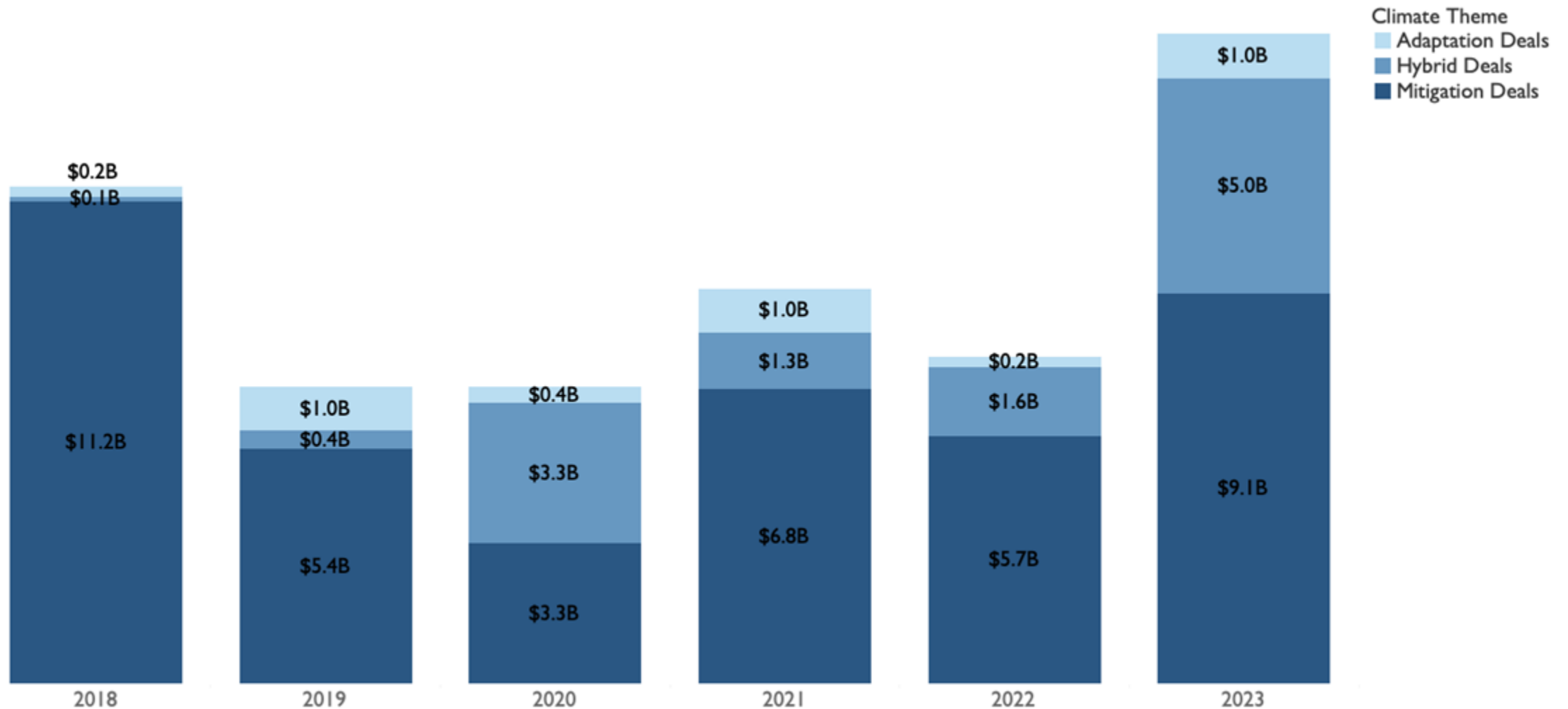
Annual climate deal volume by vehicle type, 2018-2023 (USD Billions)



CLIMATE - BLENDED FINANCE BY CLIMATE THEME

Mitigation continues to dominate

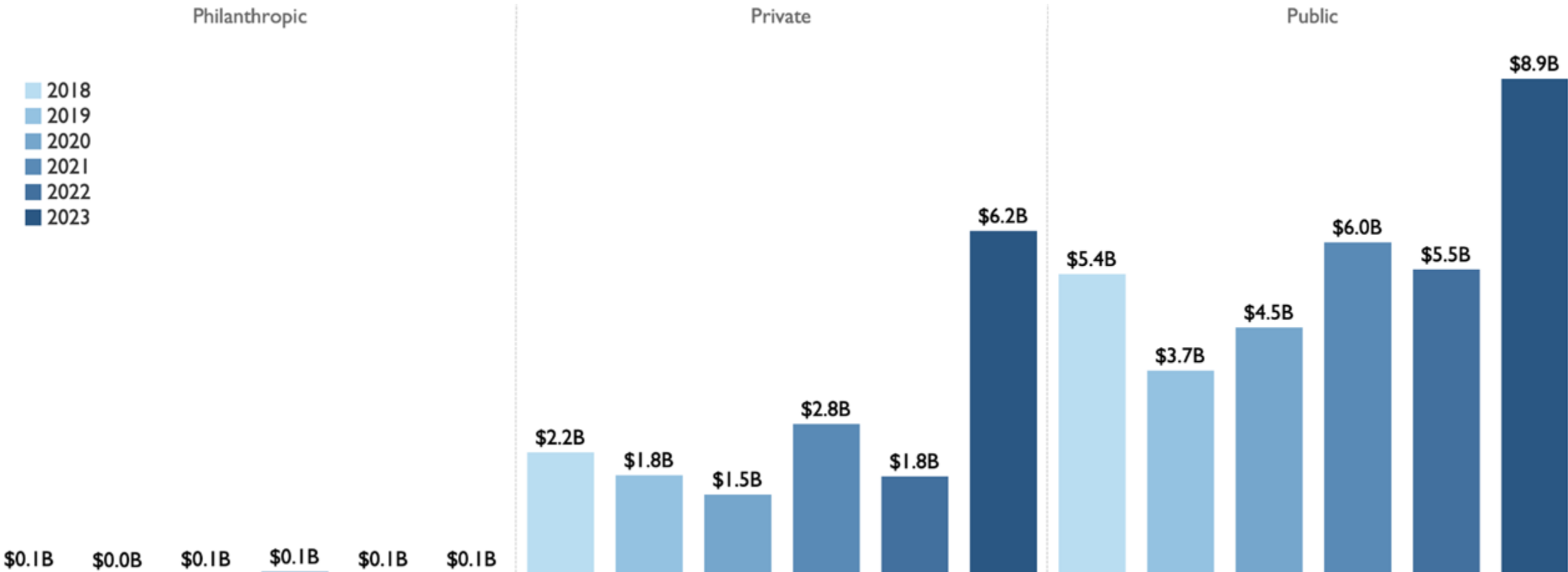
Aggregate annual financing flows to mitigation blended finance, adaptation blended finance, and hybrid blended finance deals, 2014-2023



CLIMATE - FINANCING BY INVESTOR SECTOR:

Blended finance continues to be dominated by MDBs and DFIs with very low private investment mobilization

Aggregate annual financing by investor sector



BENEFITS OF CONVERGENCE MEMBERSHIP

- Generate market insights & understand trends
- Dedicated relationship manager
- Access to detailed interactive historical blended finance data
- Exclusive networking events
- Curated learning programs and workshops (in person & virtual)
- Connection with peers and industry experts
- Read the latest news, knowledge, and case studies in the space
- Tailored dashboard on our platform
- Facilitated introductions and secure messaging on our platform
- Access to live deal flow (for investors only)



CONVERGENCE IS AN INDEPENDENT NON-PROFIT, WITH FUNDING FROM:

Canada

Citi Foundation



MacArthur
Foundation



Australian Government
Department of Foreign Affairs and Trade



UBS Optimus
Foundation



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Martin Ewald

Managing Director and Lead Portfolio Manager,
Allianz Global Investors Ltd

Private Investment Mobilisation Masterclass

Blended Finance Private Equity

Strictly private and confidential and for the intended recipient only - not for onward distribution.

Multi-Asset private impact investments are highly illiquid and designed for professional investors pursuing a long-term investment strategy only.

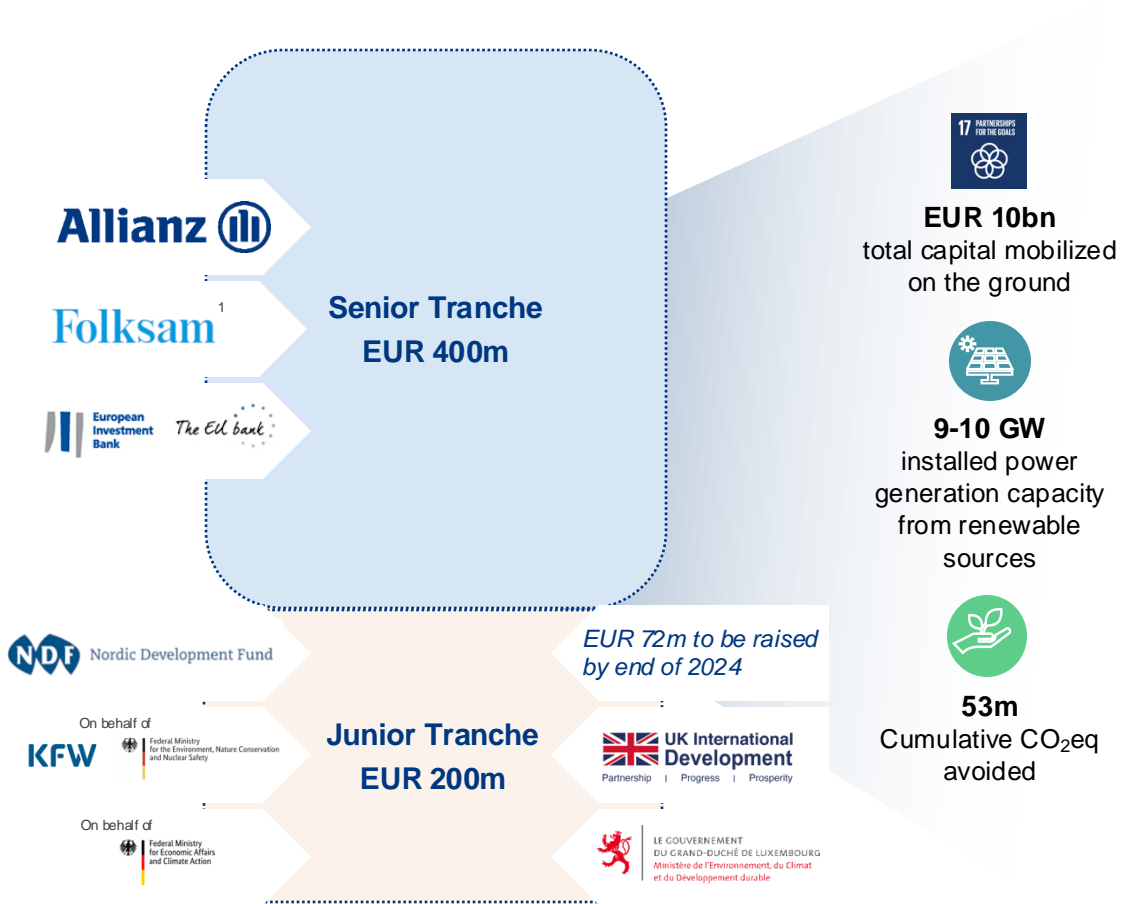
This information contained herein is solely for educational purposes and should not be relied upon as a forecast, research or investment advice and is not a recommendation to adopt any investment strategy.

Blended Finance

Case Study: EMCAF

Insight Emerging Market Climate Action Fund

Public-private partnership for financing climate transition and energy independence **Multiplier of 50x for concessional capital providers** **OECD DAC list countries only with special focus on Africa**

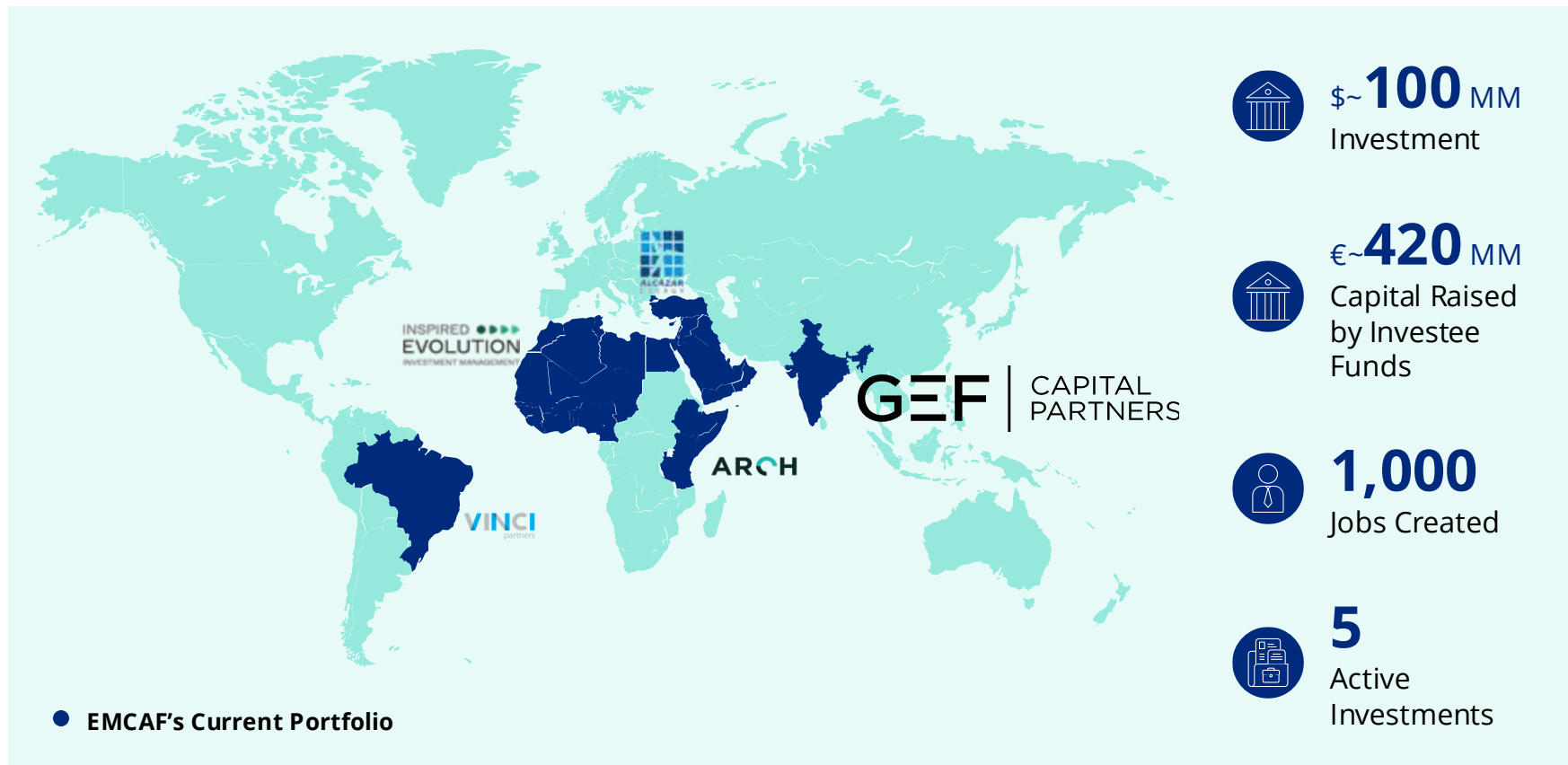


Overview	The Emerging Market Climate Action Fund (EMCAF) is a leading, G7 endorsed, blended finance fund of funds investing in climate mitigation and adaptation opportunities in global emerging & developing markets creating significant impact.
Sectors	Full spectrum of climate mitigation, climate adaptation and environmental projects. Primary focus on renewable energy and energy access. Greenfield mandate.
Geography	OECD DAC list countries with specific focus on Africa (min. 25% of Portfolio) – overall the target is to invest in the fastest growing economies.
Status	Fund raising: Final Close expected end of 2024 (3 rd Year of investment period).
Partners	Managed by Allianz Global Investors (AllianzGI) and advised by the European Investment Bank (EIB).
Current Portfolio	As of June 2024, EMCAF has committed to six target funds, representing a global portfolio of climate investments with significant expected impact.
Returns	Well performing and diversified portfolio, expected to deliver attractive risk adjusted returns and cash flows.

Source: Allianz Global Investors 2024. (1) Swedish regulated insurance company. The information above is provided for the purpose to demonstrate the Fund's investment strategy only, it should not be considered a recommendation to buy or sell any investment product.

Insight Emerging Market Climate Action Fund

EMCAF, through its innovative blended finance fund of funds created by Allianz Global Investors in partnership with the European Investment Bank provides highly catalytic early-stage equity financing to greenfield climate mitigation and adaptation projects

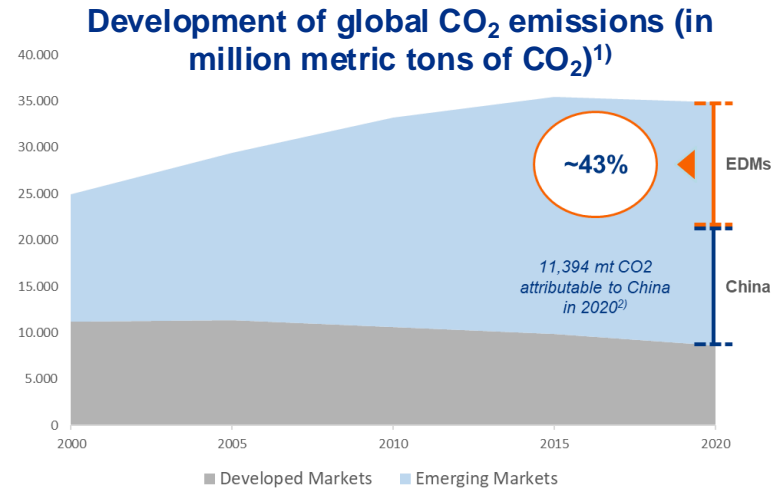


Fund of Funds

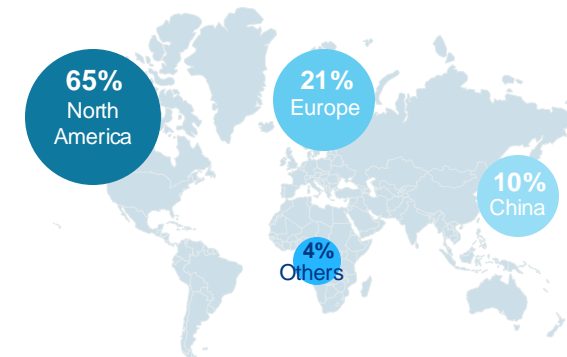
Mobilising Institutional Capital at Scale

Lack of Capital Flows in Emerging and Developing Markets (“EDMs”)

The need for direct investment in EDMs is huge, while at the same time there is still too little private money flowing into emerging and developing countries



Global Distribution Climate-Tech-Investments



Emerging markets and developing economies now account for more than two-thirds of global CO₂ emissions.

CO₂ emissions from advanced economies have fallen **by 1.8 Gt CO₂ since 2000**, and their share in global emissions has declined by twenty percentage points.

The achievement of climate targets will be subject to reducing carbon emissions in EDMs.

Under a Sustainable Development Scenario^{2),3)} **USD 1.1 trillion p.a.** of climate investment in emerging market and developing economies (excluding China) is required.

Climate finance as traditionally been focused on renewables. A **successful decarbonization strategy needs a holistic approach covering multiple sectors and investment types.**

Source: AllianzGI 2023; 1) IEA Global energy review 2021. 2) The Sustainable Development Scenario describes the broad evolution of the energy sector that would be required to reach the key energy-related goals of the United Nations, including the climate goal of the Paris Agreement, amongst others. 3) <https://www.iea.org/data-and-statistics/data-tools/investment-data-explorer>. Emerging and Developed Markets (EDMs).

Large Institutional Investors' Needs

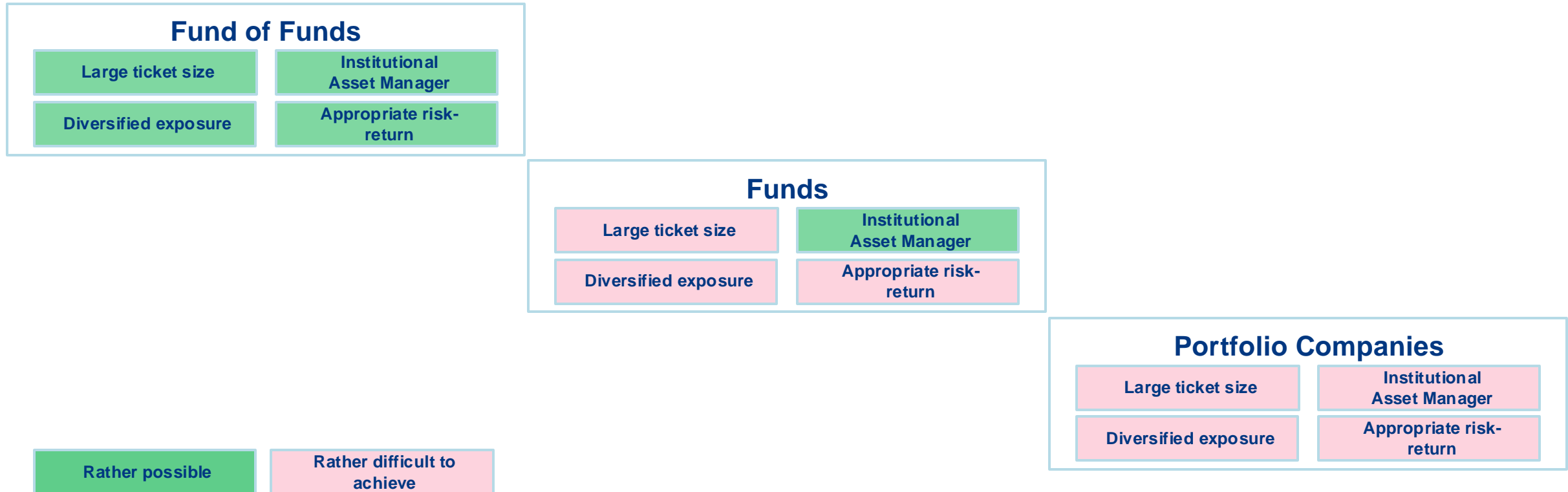
As highlighted in the Net Zero Asset Owner Alliance Scaling Blended Finance Report



It is difficult to meet above criteria in Emerging Markets. However, we believe that correctly structured blended finance is required to unlock private capital.

Fund of Funds have Proven to be the most Effective Structure for Private Equity Capital Mobilization

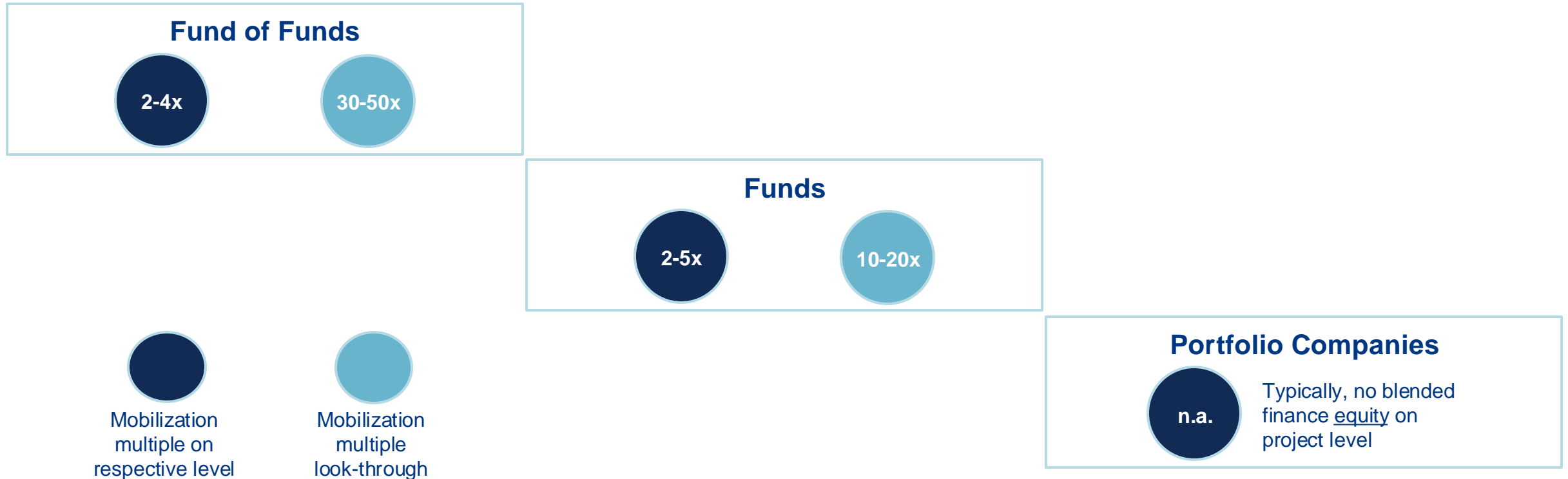
Generic Assessment based on average market characteristics



Providing concessional capital to Funds or Portfolio companies is a sub-optimal allocation, as private investors will despite an adjusted risk-return profile not invest directly on these levels given that other requirements are not fulfilled.

Fund of Funds can Demonstrate Highest Mobilization Levels

Generic Assessment based on average market characteristics

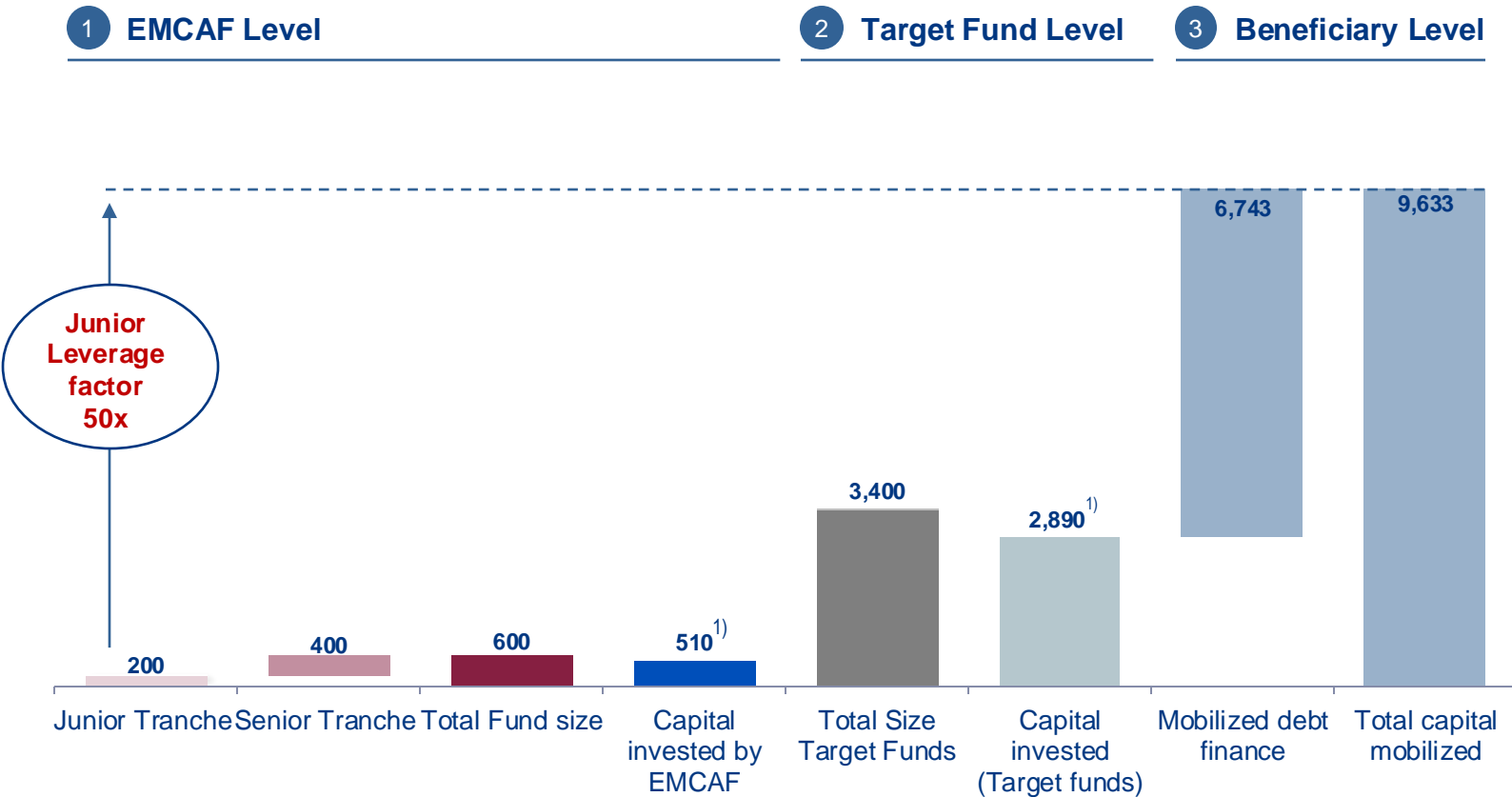


We believe that creating Fund of Funds will ensure a maximum support on actual projects and assets on the Ground.

Example: EMCAF Capital Mobilization Potential

We believe that public investors could benefit from 50x leverage on their capital invested in the junior tranche

In millions EUR



1 EMCAF Level

- EMCAF is financed with a 1/3 junior tranche and 2/3 senior tranche. The Fund has already secured EUR 400m in senior commitments and requires up to EUR 72m of junior capital to complement the existing EUR 128m raised from public investors.

2 Target Fund Level

- EMCAF will aim to act as anchor investor generating additional leverage on the level of the target funds. As EMCAF will on average hold a 15% stake in target funds, EMCAF will contribute to mobilization of approximately EUR 3.4 bn of equity financing.

3 Final Beneficiary Project Level

- Renewable energy assets typically financed by 20 - 30% equity / 70-80% debt. Conservatively assuming an average of 30% equity, the total renewable investments generated by the fund might sum up to EUR 9.6 bn.

Source: AllianzGI 2024 1) Capital invested net of expenses and fees (conservative assumption). Source: European Investment Bank and Allianz Global Investors, March 2024. For illustrative purposes only. Nothing in this presentation constitutes an offer to sell a product and investment.

GEF Capital Partners Seedworks

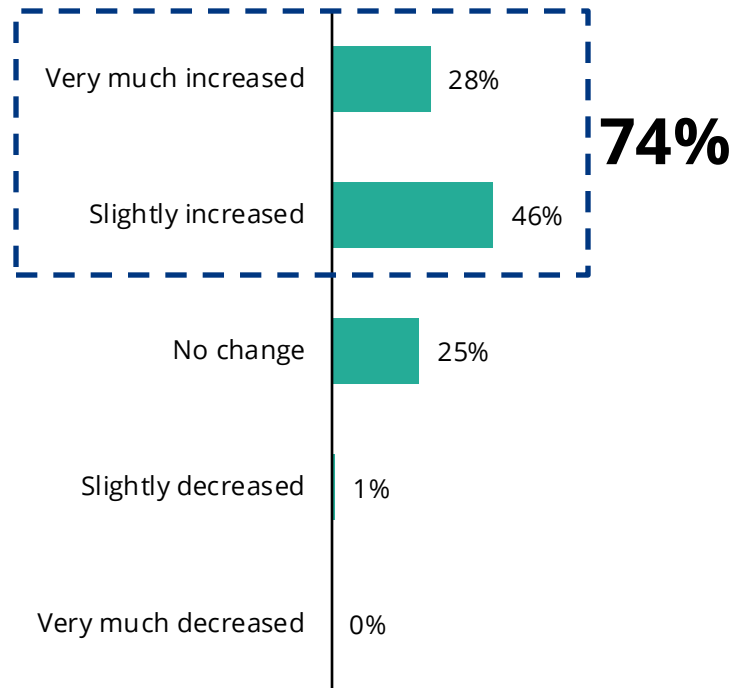
SAGF II Case Study: Seedworks (I/II)

Impact in action: Seedworks catalyzing sustainable agriculture

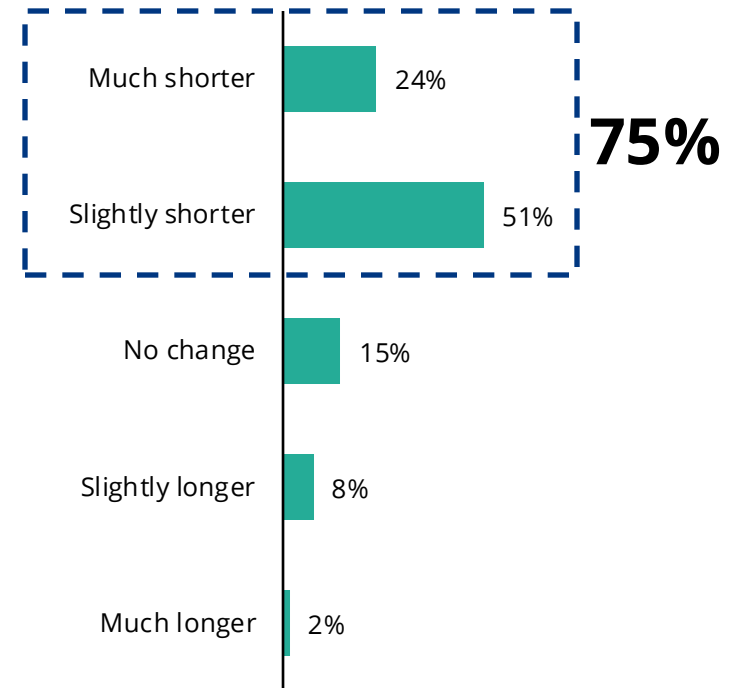
In February 2024, GEF Capital Partners undertook a third-party impact assessment survey of 287 farmers who are direct beneficiaries of Seedworks' hybrid cotton or paddy seeds.

The survey revealed that Seedworks is creating a positive impact on farmers through improved resilience, higher yields, capacity building, and enhanced income

Impact on Farmers' Level of Climate Change Adaptation Knowledge



Impact on Farmers' Expectations on Time Required to Recover from a Climate Shock



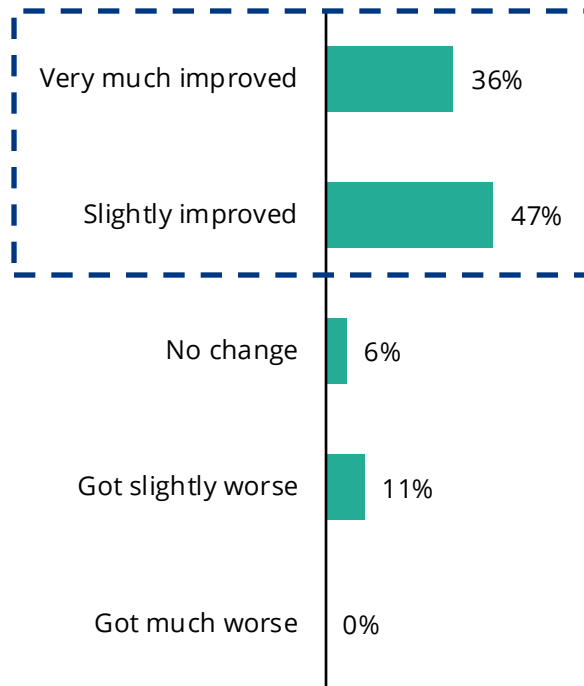
SAGF II Case Study: Seedworks (II/II)

Impact in action: Seedworks catalyzing sustainable agriculture

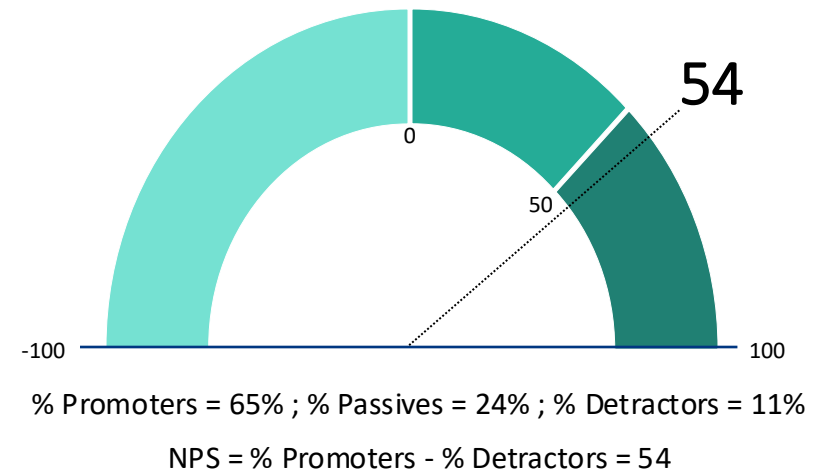
The evaluation showed that 4 / 5 farmers felt that the quality of their produce improved because of Seedworks' inputs.

This is reflected in Seedworks' Net Promoter Score of 54, which is excellent, and an indicator of high customer satisfaction and loyalty

Impact on Farmers' Quality of Produce



Net Promoter Score



Disclaimer

This information contained herein is solely for educational purposes and should not be relied upon as a forecast, research or investment advice and is not a recommendation to adopt any investment strategy.

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August 2024, Admaster: 3797248

Guillaume Bonnel

CEO,
SDG Impact Finance Initiative (SIFI)



A woman wearing a colorful headscarf and a patterned skirt is walking through a vast terraced rice field. She is carrying a large woven basket on her back, filled with harvested rice. The terraces are filled with golden rice, and the background shows rolling green mountains under a cloudy sky. A small wooden house is visible in the distance.

Impact >>>
Finance >>
Initiative >

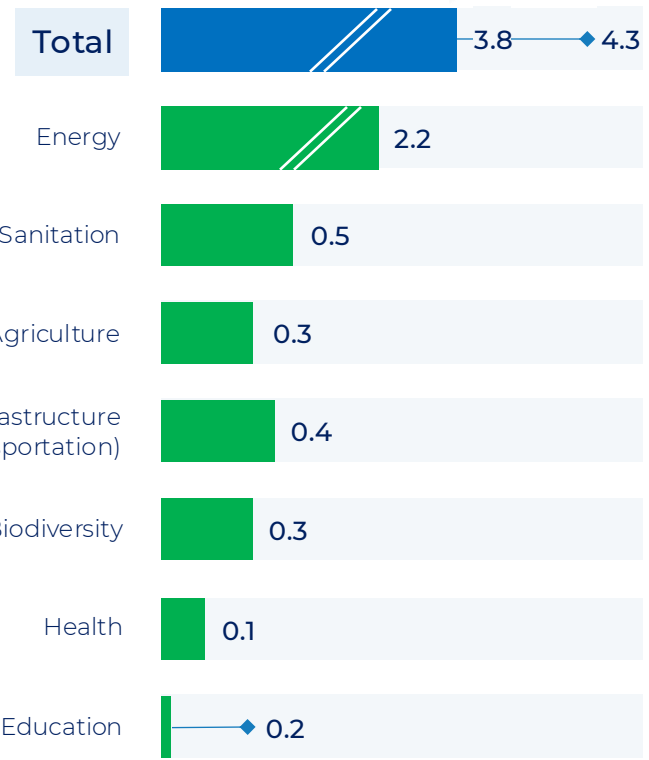
Mobilising private capital for impact

Innovating Finance, Impacting Futures – Together!



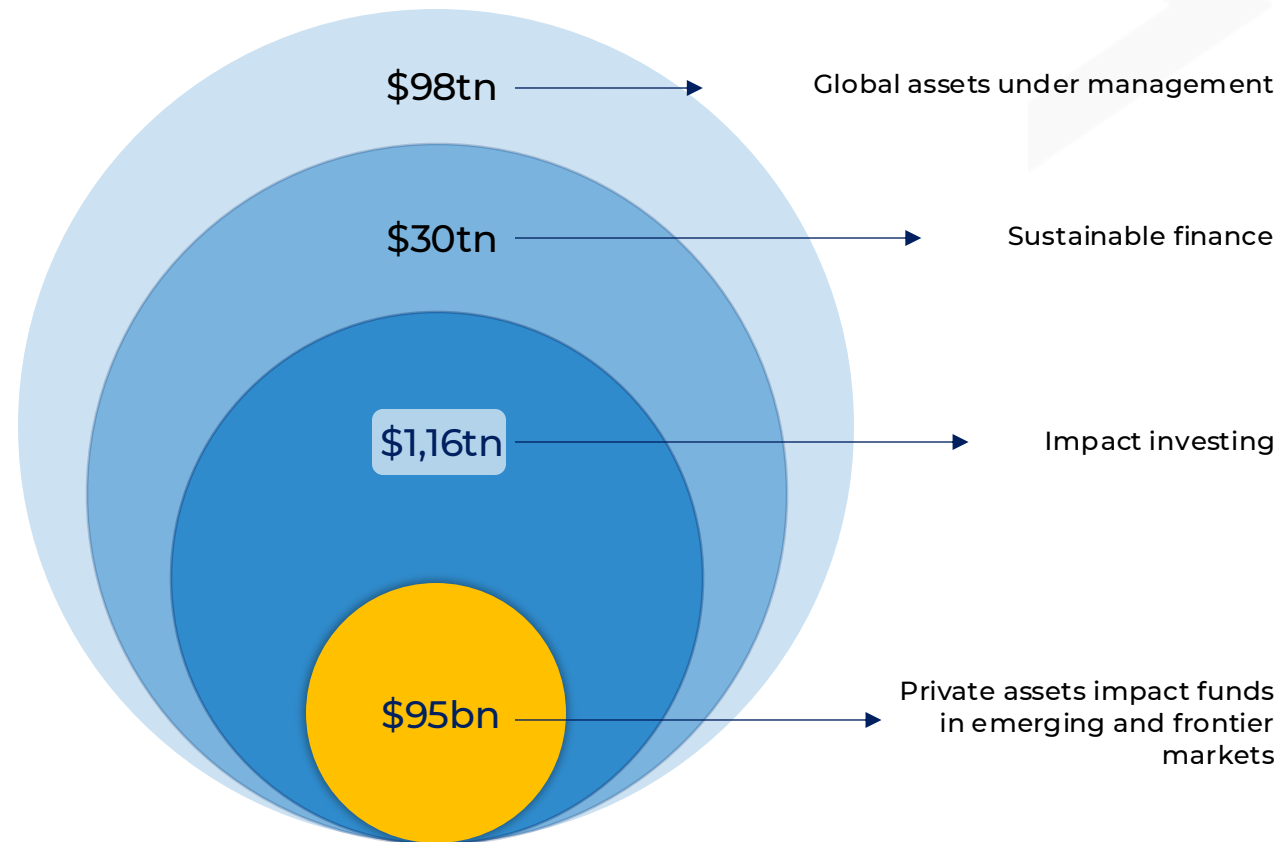
The challenge: big goals, big gaps

Estimated annual investment gap (public and private)
in key SDG sectors (Trillions of US dollars)



Source :UNCTAD 2024

Scaling Impact Investing



Source: Tameo 2023, Private Asset Impact Fund Report

SDG Impact Finance Initiative

Our mission:

To catalyze investment, facilitate public-private collaboration, and build a thriving ecosystem to deliver measurable, sustainable impact in developing countries at scale.

Our aim:

To mobilize CHF 1 billion in private investment to help deliver the SDGs by 2030.

Here's how it works:

We leverage public and philanthropic funds in **a single platform** to bring **more impact financing products** to the market, support **them to become investment ready and to scale by lowering the risks of private investors**. We leverage public and philanthropic funds to ignite private investment, drive innovation and foster growth that reshapes the investment landscape.



UBS Optimus Foundation



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

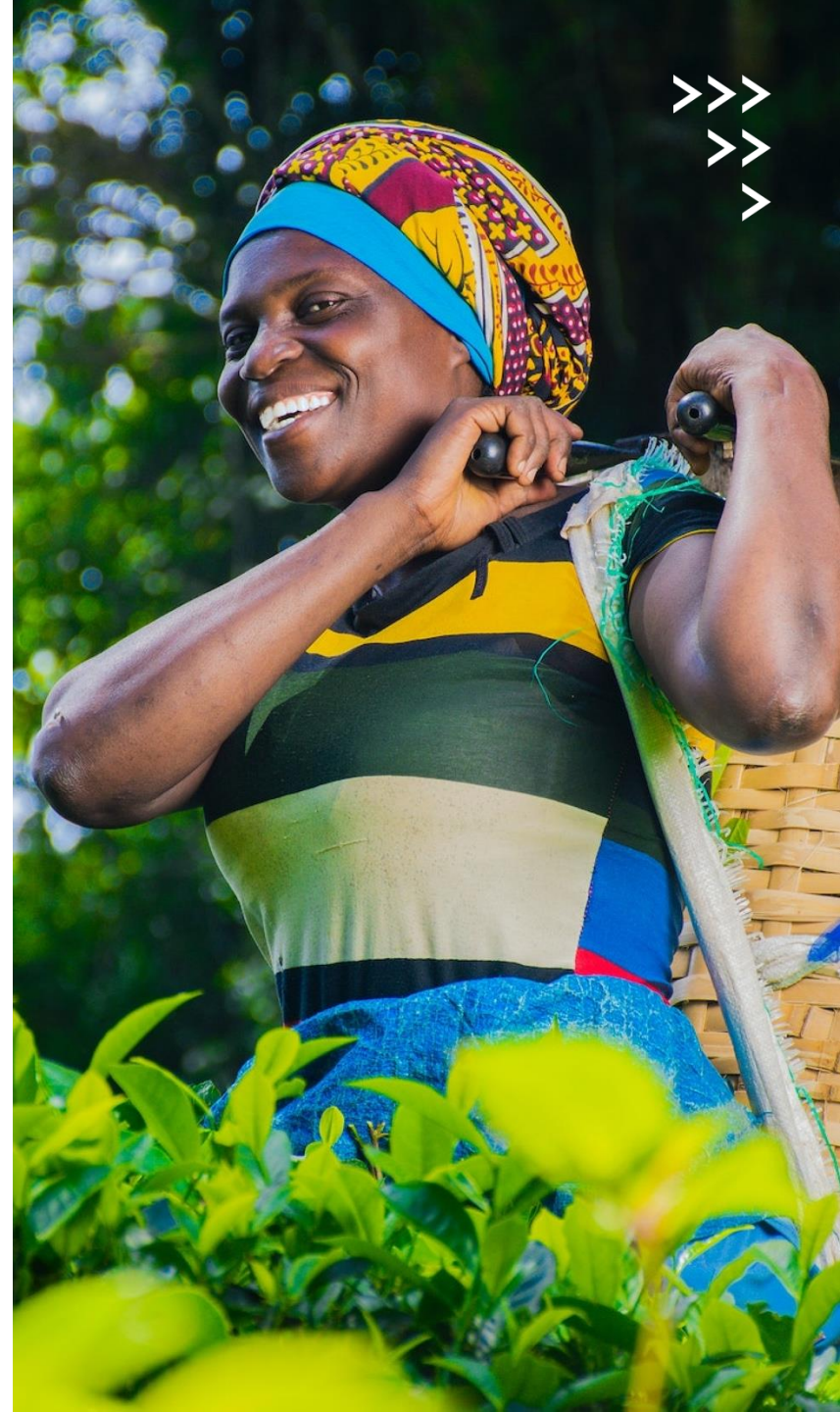
Swiss Agency for Development and Cooperation SDC

State Secretariat for Economic Affairs SECO



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
Ministry of Finance

SDG Impact Finance Initiative



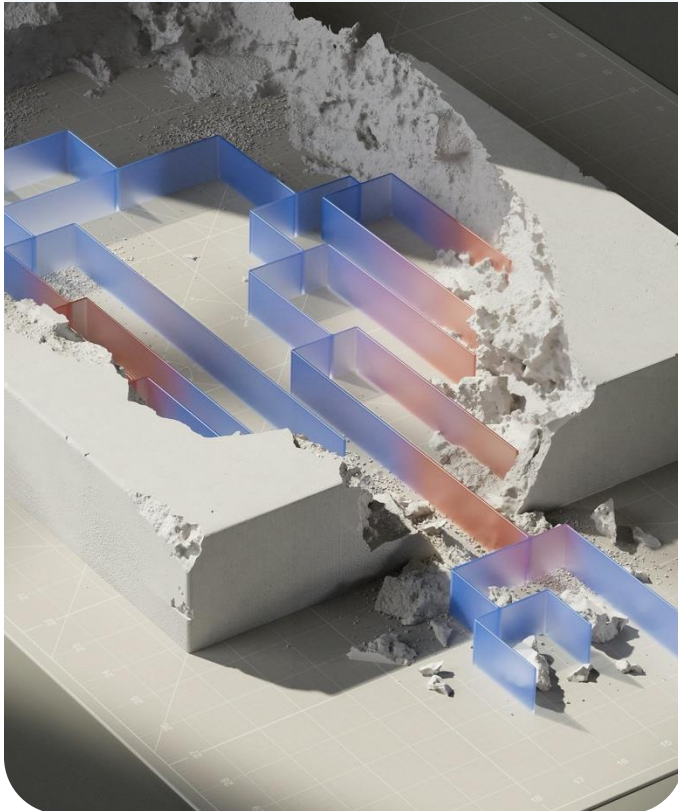


Our solution: the roadmap to impact

Our journey takes three critical pathways to achieve impact and drive positive change.



**SPARKING
INNOVATION**



**FUELLING GROWTH
AND SCALE**



**SHAPING THE
ECOSYSTEM**





Our active portfolio

Innovation Window

Calls: 2 + ongoing selection | Active grants: 14 | Total value: USD 3.32 million

By SDG (number of grants)

SDG	Number of grants
1	1
2	1
3	0
4	2
5	4
6	0
7	1
8	5
9	0
10	0
11	0
12	2
13	6
14	3
15	4
16	0
17	1

■ Indirect SDGs

By region

- Global: USD 1.00m
- LatAm and CA: USD 0.6m
- SSA: USD 1.72m

Our grantees

Product Window

Calls: 1 + ongoing selection | N of investees: 3 | Total value: CHF 5 million

Target SDGs

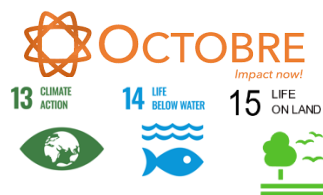
Regions

- Sub-Saharan Africa
- Global

Investees

Innovation

Window



Structure	Liquidity Guarantee Facility	Form of SIFI Capital	Grant
Solution	Guarantee	Investment Amount	CHF 170'000

Octobre's Liquidity Guarantee Facility enables investors to exit their participations in EM&I funds under any circumstances, thereby offering a pathway to liquidity not previously available. This mechanism is expected to catalyze the mobilization of additional private capital by making impact investments more attractive and accessible to a broader range of investors, including asset owners, asset managers, and retail banks.



Fund	AGR13 Fund	Form of SIFI Capital	First-Loss Equity
Asset Class	Partial Guarantees	Investment Amount	CHF 2 million

Cardano Development AGR13 Fund is making strides towards sustainable agricultural practices and forest conservation, aiming to mobilize finance for projects that enhance rural livelihoods and protect natural forests.



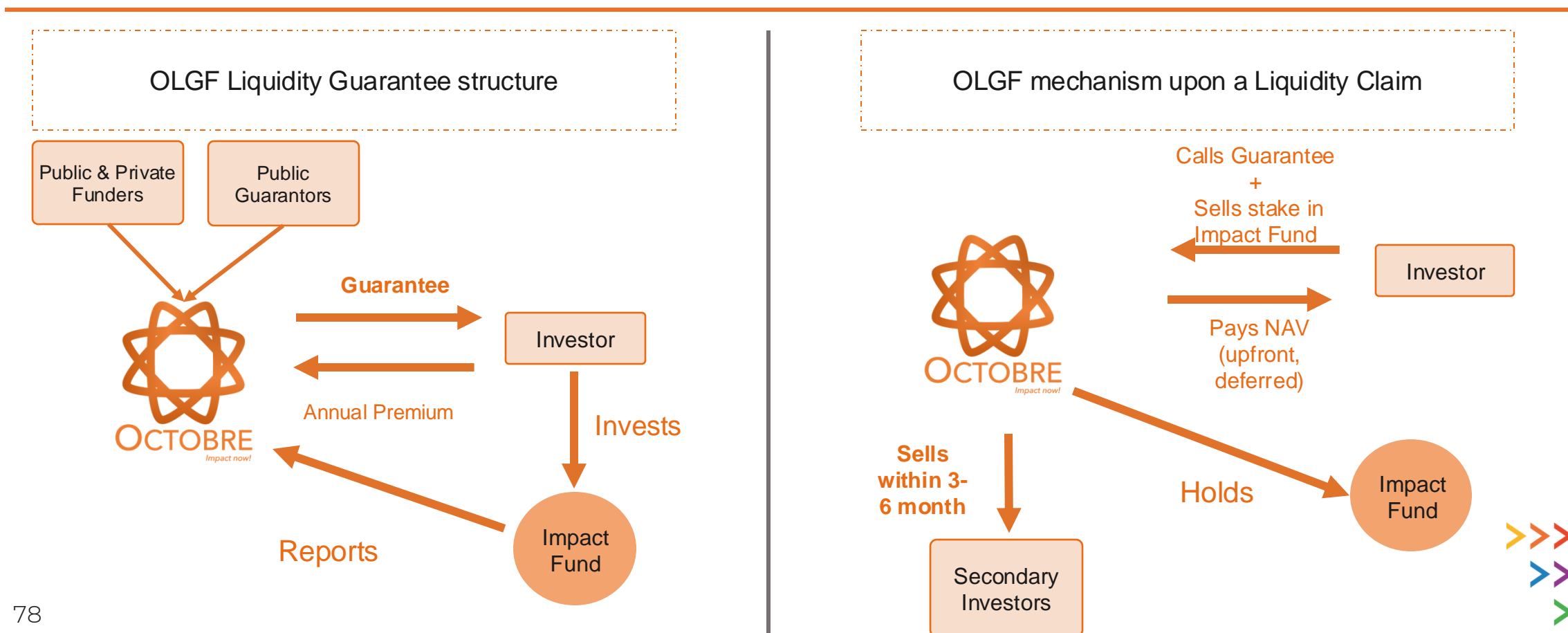
Fund	Liquidity Guarantee Facility	Form of SIFI Capital	Investment
Asset Class	Private Equity	Investment Amount	EUR 2 million

Mirova SLF2 focuses on reversing the adverse effects of deforestation and land degradation through sustainable forestry and agriculture, directly impacting climate resilience and biodiversity



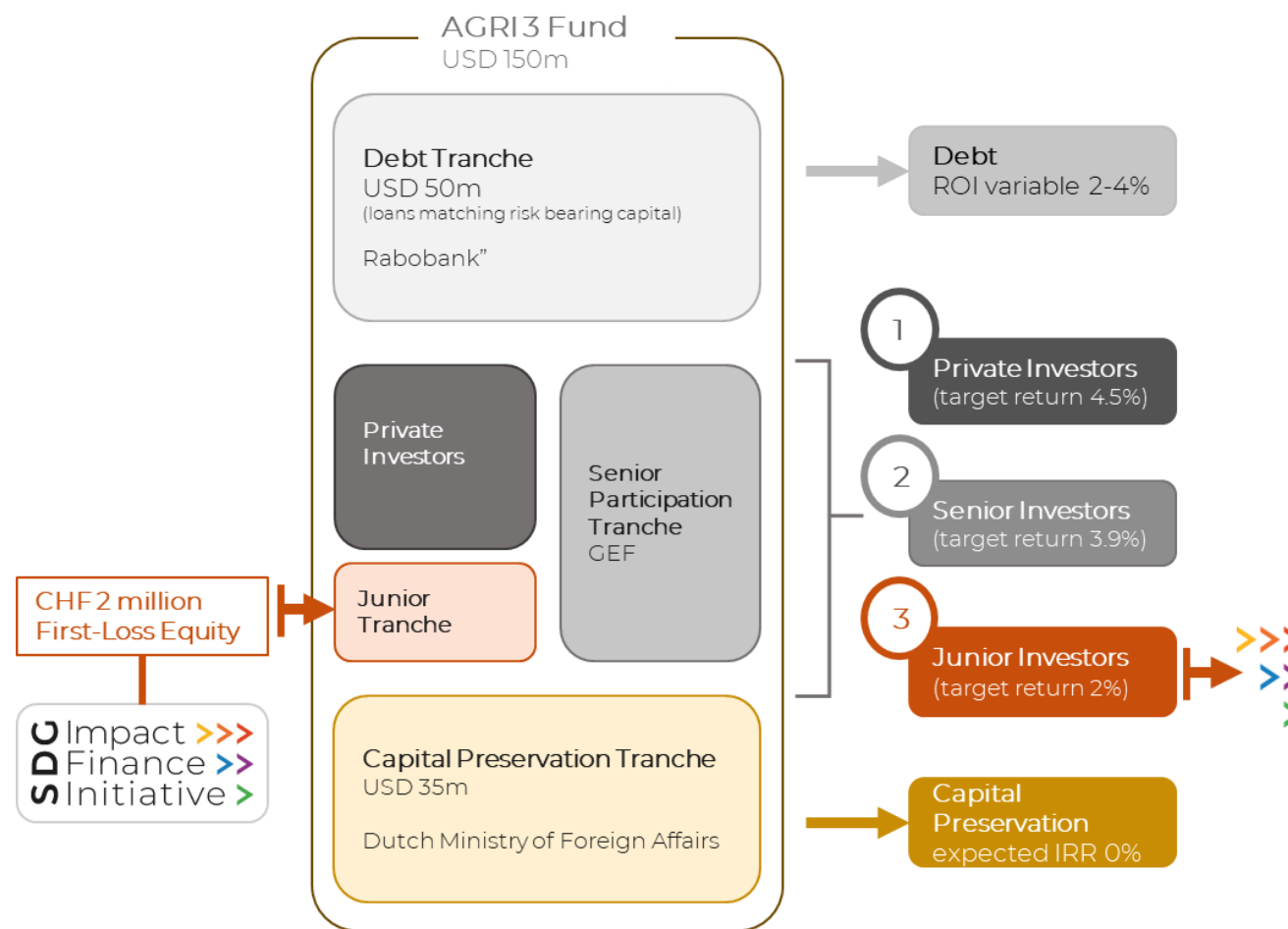
Octobre Liquidity Guarantee Facility

Octobre proposes a liquidity guarantee mechanism that enables investors to exit their participations in impact funds under any circumstances, thereby offering a pathway to liquidity not previously available.



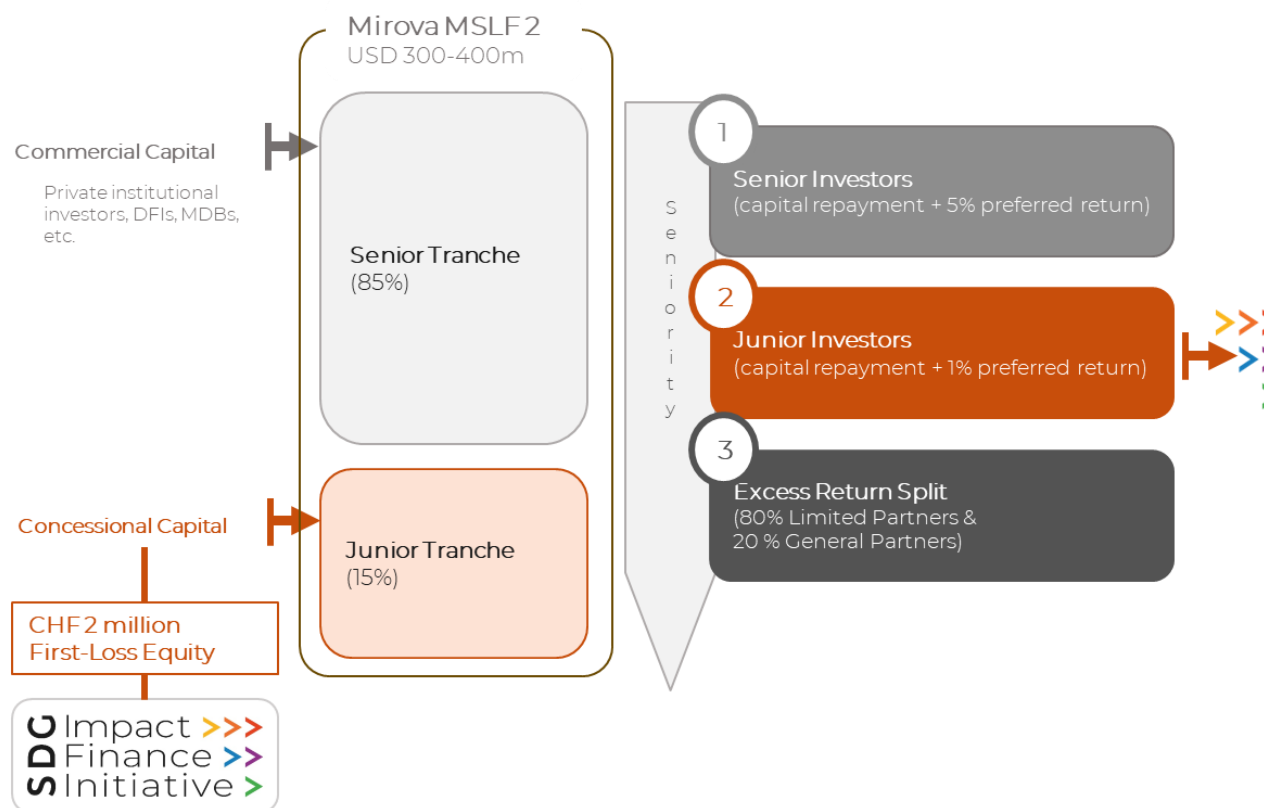
Cardano Development – AGRI3 Fund

AGRI3 provides local currency guarantees and technical assistance to financial institutions to mobilize finance for investment projects that support sustainable agriculture, forest conservation, and rural livelihoods. They aim to mobilize over US\$ 1 billion in capital by 2032, focusing on the protection of natural forests, sustainable farming solutions, and improving rural livelihoods.



Mirova Sustainable Land Fund 2

MSLF2 is an impact investment fund that offers **long-term debt and equity** financing for commercially viable projects in **sustainable agriculture and forestry**, with a focus on **regenerative agriculture, agroforestry, and certified food and fiber production**.



Questions?



How to contact us



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 Impact >>>
Finance >>>
Initiative >



Pierre Oberle

Sustainable Finance and Financial Centre
Development Advisor,
Ministry of Finance - Luxembourg



BLENDED FINANCE INITIATIVES OF THE LUXEMBOURG MINISTRY OF FINANCE

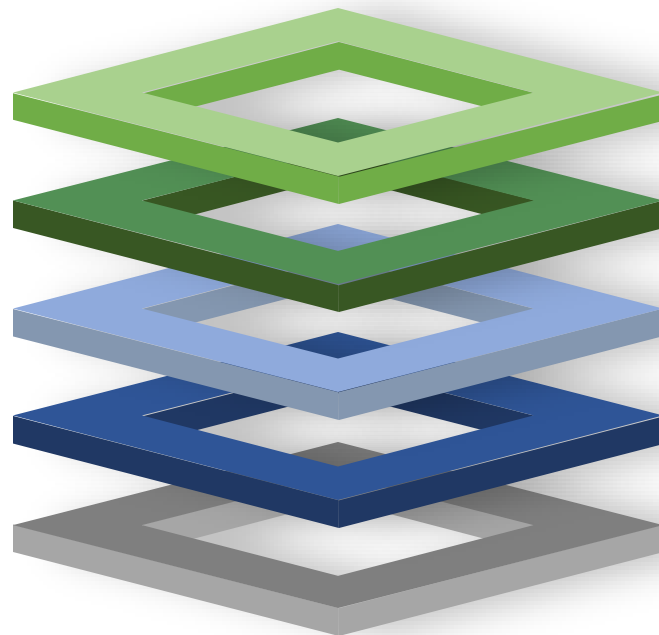


The Luxembourg-EIB Climate Finance Platform (LCFP)

A trust fund to de-risk and mobilize private investments targeting climate change internationally.



An international partnership to close the SDG financing gap by working on design, scaling, and strengthening impact finance solutions.



Forestry and Climate Change Fund

A blended finance fund investing in degraded and secondary forests.



A public-private accelerator for emerging climate fund managers.



An umbrella platform to mobilize private capital towards impact finance.

GB-TAP Green Bond Technical Assistance Program



An international partnership to stimulate the supply of green bonds in emerging markets.

The Luxembourg-EIB Climate Finance Platform (LCFP)

- › The **LCFP** was created by the European Investment Bank (EIB) and the Luxembourgish Government in 2017.
- › Its aim is to **mobilize private investments** targeting the fight against climate change internationally.
- › Investment by the Government of Luxembourg and the EIB.
- › Equity investments in junior tranches of layered funds.
- › To date, **6** climate funds have received investments:

Emerging Market Climate Action Fund
(EMCAF)

Green for Growth Fund (GGF)

Land Degradation Neutrality Fund (LDNF)

Access to Clean Power Fund (ACPF)

Climate Resilience Solutions Fund
(CRAFT)

The Urban Resilience Fund (TURF) B



Forestry and Climate
Change Fund

The Forestry and Climate Change Fund (FCCF)



The FCCF is a blended finance fund investing in the **sustainable management of degraded and secondary forests**. The fund creates environmental impact through enabling **biodiversity-rich forests to recover and support carbon sequestration**.



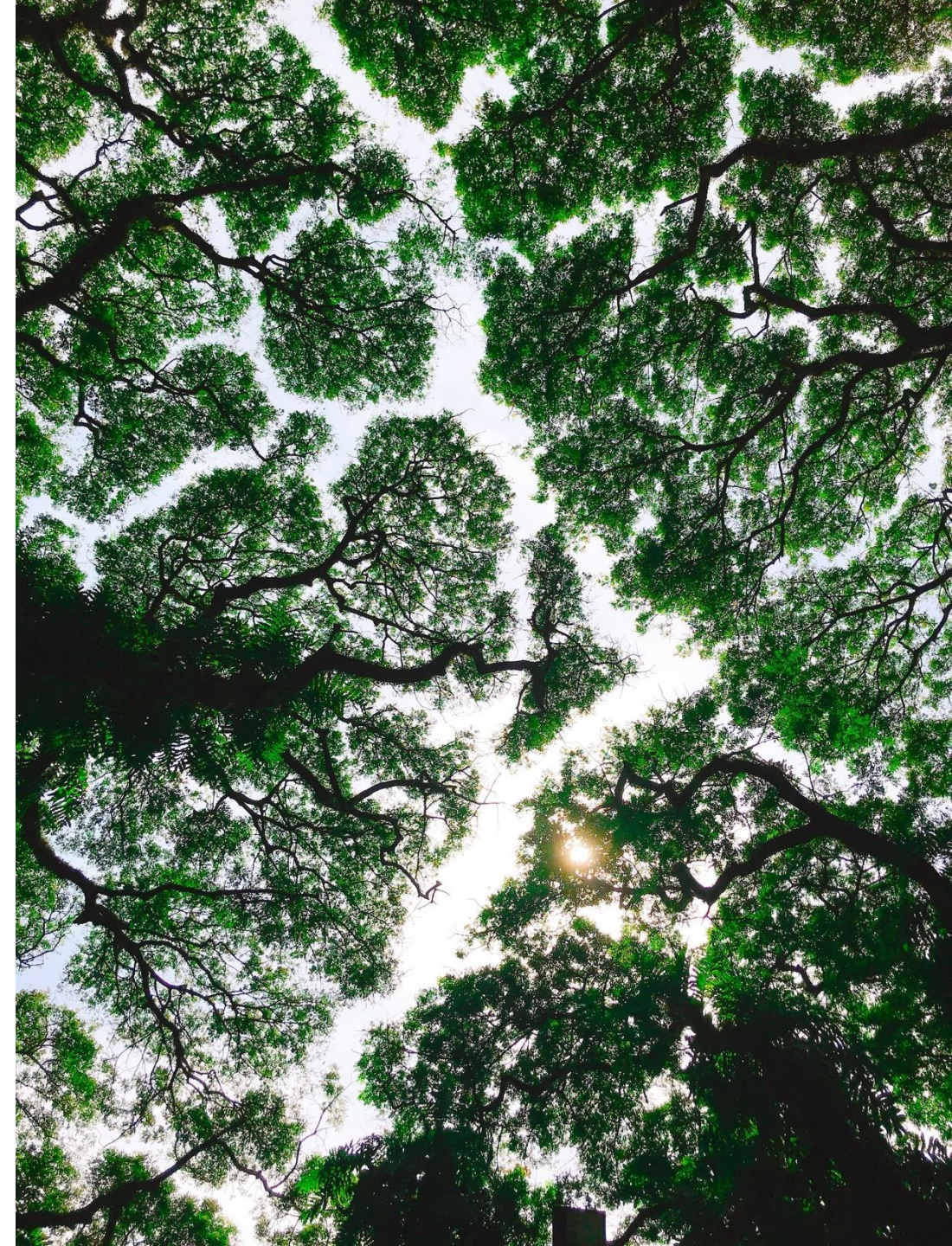
The FCCF aims to create positive social impacts by generating **sustainable income streams** for those living around the forests and secure a **flow of ecosystem services**.



The projects and initiatives **reducing deforestation and forest degradation** are located in **Costa Rica, Guatemala, Mexico and Nicaragua**.



The Luxembourg Government has invested in the fund and is represented in the **Investment Committee**.



Luxembourg Earth Impact Fund (LEIF)

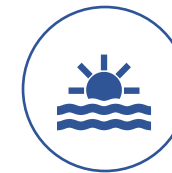
- › Launched by the Ministry of Finance as an **umbrella fund**, which will host further multiple blended finance impact sub-funds with the potential for different investment strategies.
- › Designed to drive sustainable investment and create a positive impact on our planet.
- › Its first sub-fund is the **Green Earth Impact Fund (GEIF)**:
 - Schroders and its impact investment specialist BlueOrchard were selected as the AIFM and IM respectively.
 - The Ministry invested in the junior tranche, to **mobilize the private sector** and **channel investments in emerging and frontier markets** to the following sectors:



Climate
change
mitigation



Climate
change
adaptation



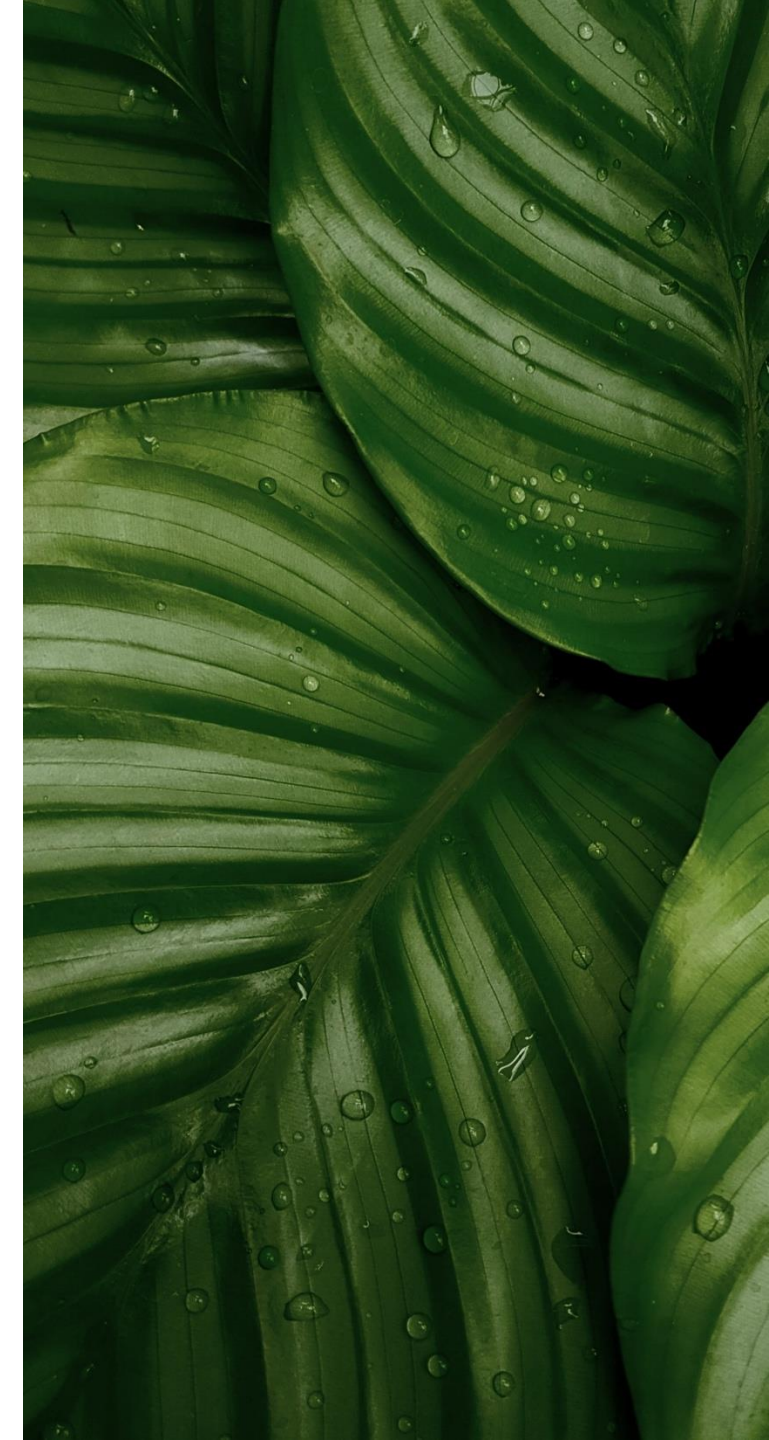
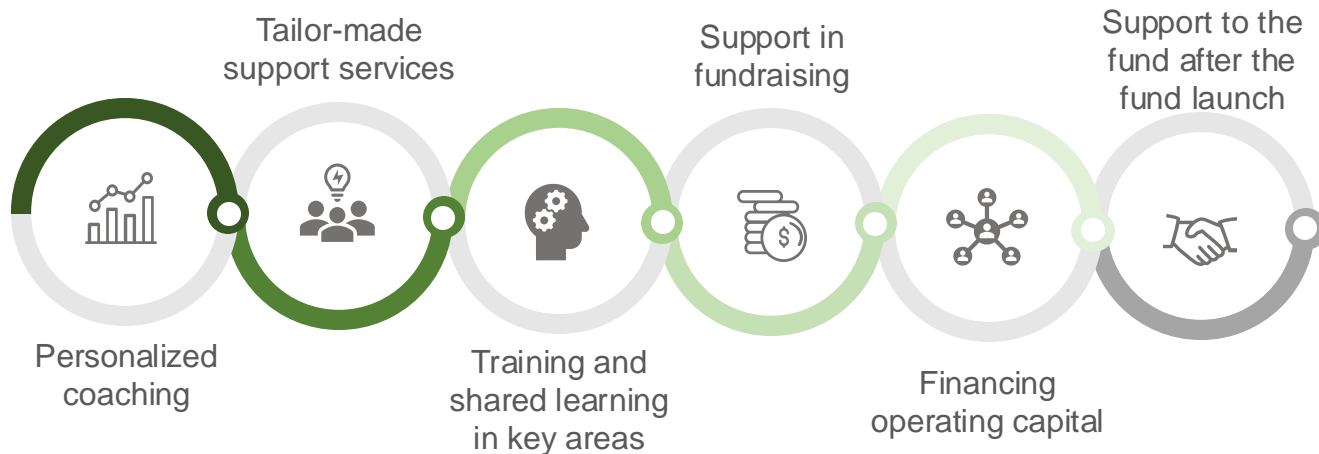
Sustainable
use and
protection of
water and
marine
resources



Protection
and
restoration of
biodiversity
and
ecosystems

The International Climate Finance Accelerator (ICFA)

- › Launched in 2017 as a public-private partnership, the ICFA is an innovative **two-year programme** that **accelerates emerging climate fund managers** and supports them in the different phases leading to the **launch of their impact funds** with positive climate effects.
- › Since its launch, **34 fund managers** were supported (over **239 candidatures** examined) and more than **USD 450 m committed to ICFA fund managers**.





The **International Finance Corporation (IFC)** — a member of the World Bank Group — is the largest global development institution focused on the private sector in emerging markets.

The IFC improves the lives of people in developing countries by investing in private sector growth.

IFC connects economic development with humanitarian needs to create real progress for the people and places that need it most.

Mission:

For more than 60 years, we've leveraged the power of the private sector for global good. Today, we're using that experience to transform ideas into investments for green growth, inclusive jobs, and impactful projects.



Green Bond Technical Assistance Program (GB-TAP)



Launched in 2018 by the IFC with the aim to **create a market for green bonds in developing countries.**



GB-TAP provides **technical assistance** on green bond issuances and delivers **global public goods** through a range of activities and initiatives.



GB-TAP holds a unique **convening platform to bridge developed-market investors and emerging market issuers**



The Ministry of Finance **co-launched** the program and is a **donor**, together with Switzerland and Sweden.





Amundi Planet Emerging Green One Fund (AP EGO)

The IFC originated the Amundi Planet Emerging Green One Fund through this program with the technical assistance of the Ministry of Finance.

Objective of the fund is to stimulate demand for green bonds in emerging markets.

It was the world's largest green bond fund focused on emerging markets at the time (closed at \$1.42 billion in emerging market green bonds)

The GB-TAP complements the sustainable investment demand provided by the Amundi EGO fund to foster the supply of emerging market green bonds

GB-TAP Green Bond Technical Assistance Program



IN PARTNERSHIP WITH



The GB-TA Program is Composed of 6 Components

GLOBAL PUBLIC GOODS

1 TRAINING

- Executive Education
- e-Training/e-Diploma



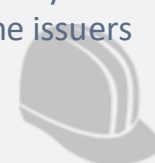
2 GREEN BOND PRINCIPLES DISSEMINATION

- Green Bond Principles Dissemination
- Network of providers for second opinions
- Develop templates for green bonds



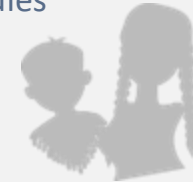
3 CAPACITY BUILDING

- Enhance capacity of Second Opinion providers
- Provide quality review for first time issuers



4 KNOWLEDGE SHARING

- Events/Workshops to educate stakeholders about green bonds
- Case Studies
- Research



DIRECT SUPPORT

5 POLICY SUPPORT

- Advise to policy makers in select EM countries

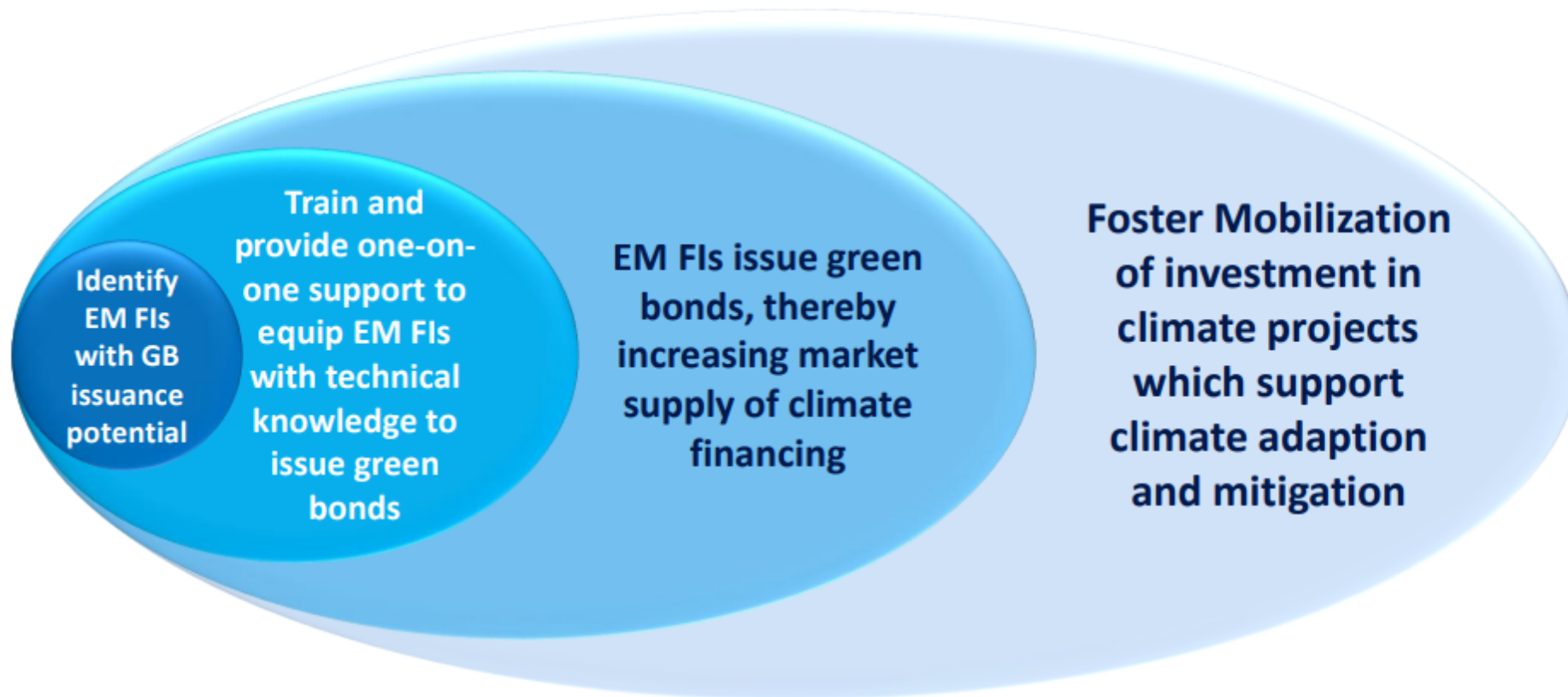


6 DIRECT SUPPORT TO FIs

- Direct support to FI issuing GBs
- Capacity building




The GB-TAP stimulates the growth of climate finance



GB-TAP Green Bond Technical Assistance Program

Six years later our deliveries and impact...


 **34** Executive training cohorts delivered globally with partners

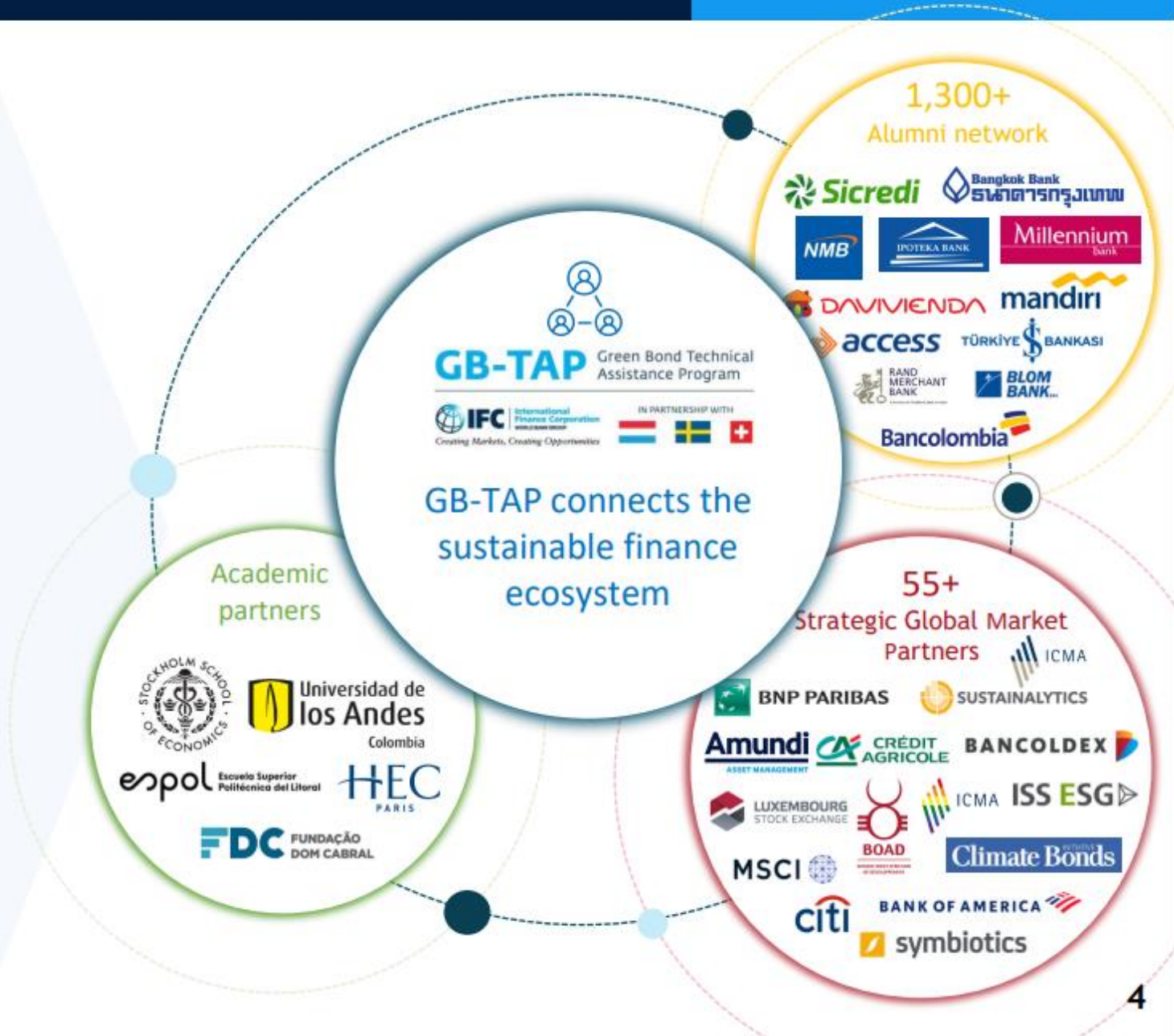
 **1,300+** Trained FIs stakeholders (40%+ women)

 **363** Financial institutions trained

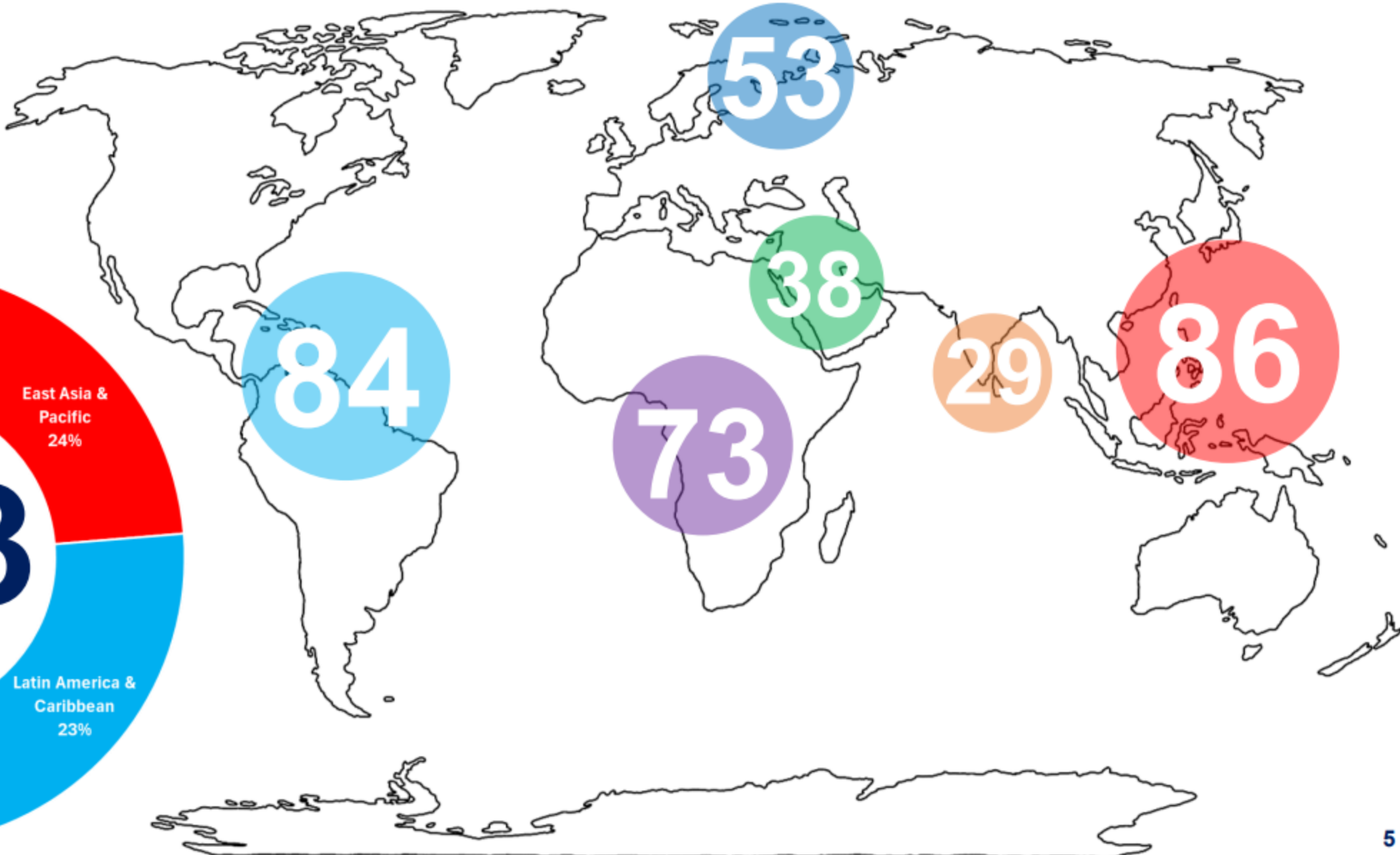
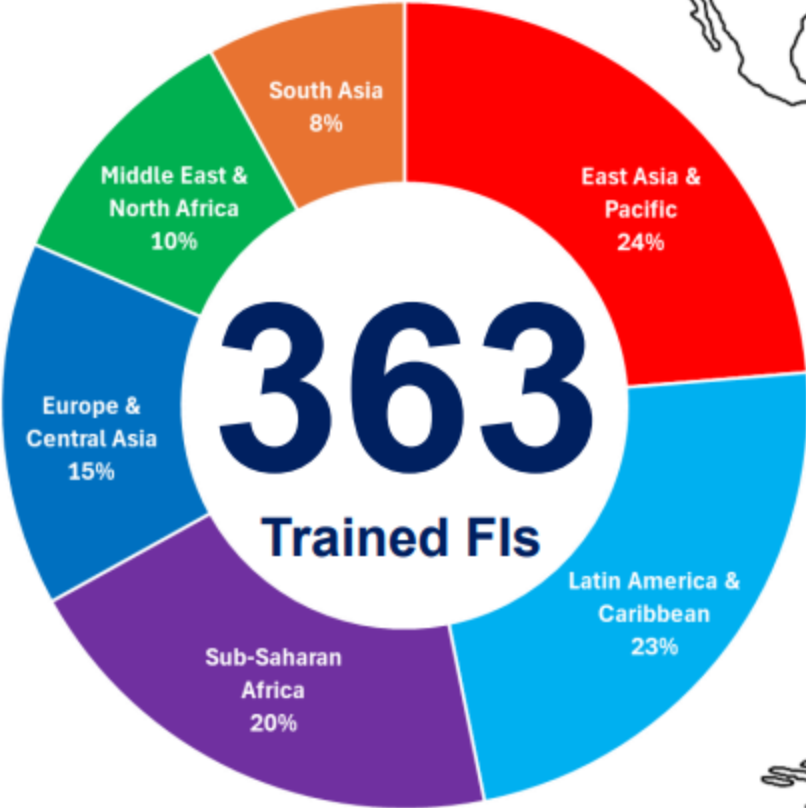
 **80** Emerging market countries' participants trained



 **120** Green, social, and sustainability bond issuances/arranged from alumni
Volume of \$11.8 billion+



Mapping of FIs Trained in Emerging Markets



Sample of FIs we have trained

Latin America & Caribbean



Sub-Saharan Africa



Middle East & North Africa



East Asia & Pacific



South Asia

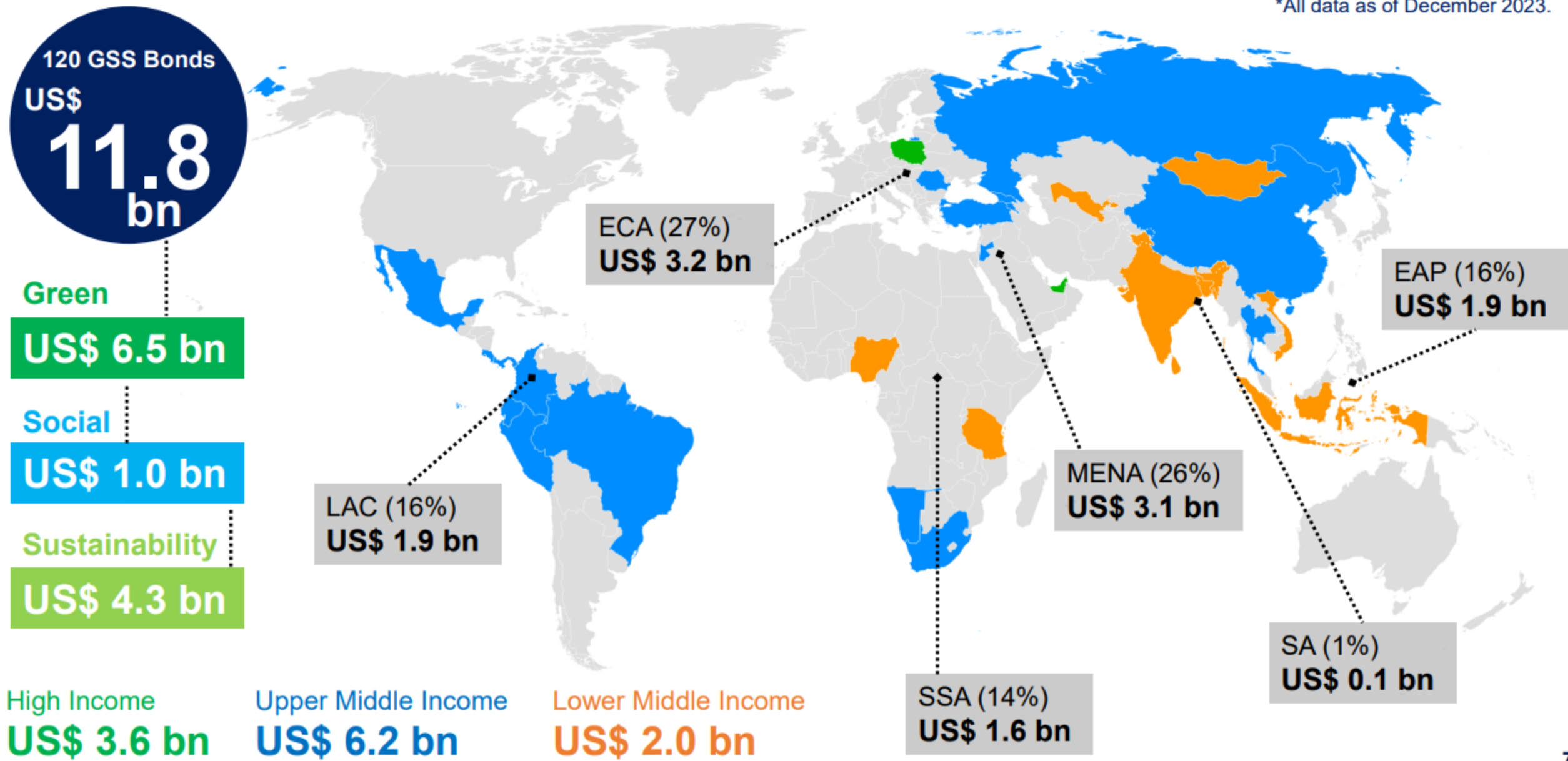


Europe and Central Asia



GSS Bonds Issued/Arranged by GB-TAP Alums

*All data as of December 2023.




GB-TAP GSS Bond Issuance: Impact & SMEs

Tanzania

NMB Bank
Social: ≈ USD 31.7mn
Sub-label: Orange / Gender

- Finance 2,000+ women-owned SME businesses & create jobs
- Part of IFC's "Banking on Women"



IFC Invests in Sub-Saharan Africa's First **Gender Bond** Listed by Tanzania's NMB Bank

Armenia

ACBA Bank
(Through Symbiotics)
Sustainability: ≈ USD 6.8mn

- SME loans
- Generate employment
- Renewable energy
- Energy efficiency
- Clean transportation
- Sustainable agriculture
- Climate-smart farming

Jordan

Jordan Kuwait Bank
Green: USD 50.0mn

- Low-carbon vehicles & transport
- Energy-efficient green buildings
- Renewable energy projects
- Water resources & waste management



Example of green projects which funding was allocated included: clean transportation, solar panels, green buildings, pollution prevention and control projects, sustainable water management, sustainable agriculture and climate-smart farming.

Example of social projects which funding was allocated included: supporting women owned MSMEs, COVID 19 post-pandemic recovery of SMEs and helping households with limited resources to access housing.

Thought leadership and innovation influencing market development and standards





BLENDED FINANCE INITIATIVES OF THE LUXEMBOURG MINISTRY OF FINANCE



The Luxembourg-EIB Climate Finance Platform (LCFP)

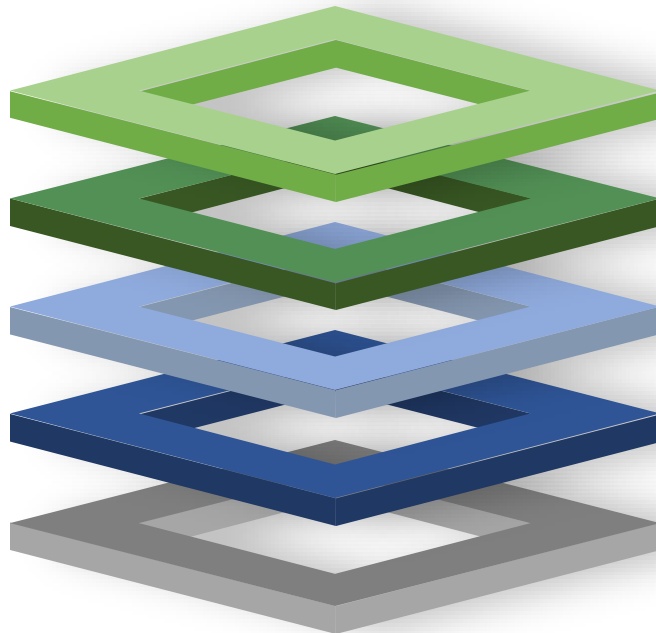
A trust fund to de-risk and mobilize
private investments targeting
climate change internationally.



An international partnership to close the SDG
financing gap by working on design, scaling,
and strengthening impact finance solutions.



An umbrella platform to mobilize
private capital towards impact finance.



Forestry and Climate Change Fund

A blended finance fund investing in
degraded and secondary forests.



A public-private accelerator for
emerging climate fund managers.

GB-TAP Green Bond Technical Assistance Program



An international partnership to stimulate the
supply of green bonds in emerging markets.



Masterclass

How to integrate Human Rights into investment decisions



Dr. Başak Bağlayan

Secretary General of Luxembourg's OECD
National Contact Point for Responsible Business
Conduct (RBC)



How to Integrate Human Rights Into Investment Decisions

INTRODUCTION TO INTERNATIONAL HUMAN RIGHTS FRAMEWORK

LSFI MASTERCLASS, 18TH SEPTEMBER 2024

DR. BAŞAK BAĞLAYAN

CONTENTS

Global Human Rights Framework

- What are human rights?
- The foundation: UDHR
- The two Covenants: ICCPR and ICESCR
- Expanding the scope of protections
- Safeguarding human rights in Europe: ECHR
- Human rights and SDGs

Business and Human Rights

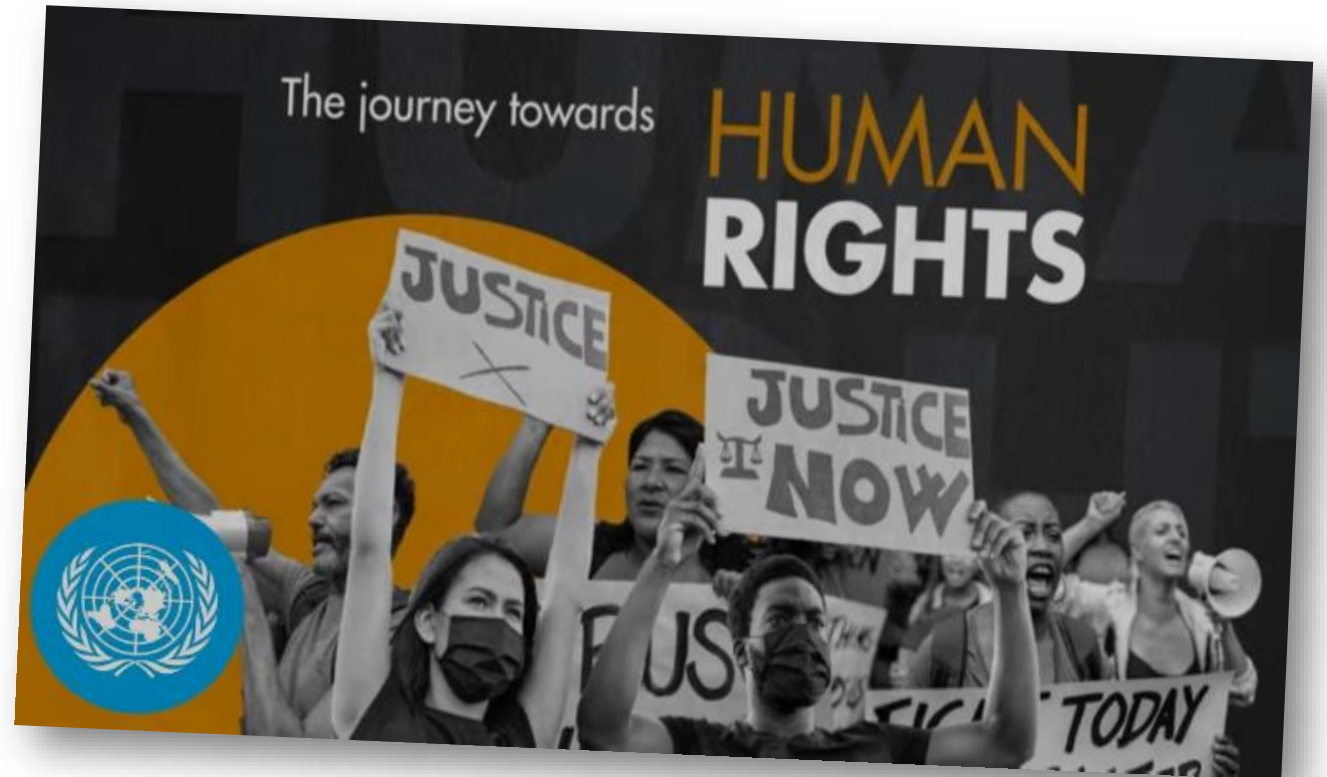
- From State duty to corporate responsibility
- BHR key milestones
- UNGPs
- OECD Guidelines
- OECD National Contact Points for RBC
- Questions?

What are human rights?

Human rights are the **basic rights and freedoms** that every individual is entitled to simply because they are human beings.

Key features

- **Universality**
- **Inalienability**
- **Indivisibility**



Universal Declaration of Human Rights - UDHR

- Adopted by the UN General Assembly in 1948
- Global response to prevent future atrocities after WWII
- Drafted with global input, ensuring cultural and legal diversity
- Comprises 30 articles on civil, political, economic, social, and cultural rights
- Serves as the foundation of international human rights law
- The world's most translated document, with 577 translations



Eleanor Roosevelt, Chair of the UN Commission on Human Rights, presenting the UDHR in 1948.

Building on the UDHR: **The two Covenants**

International Covenant on Civil and Political Rights (ICCPR) – 1966

International Covenant on Economic, Social and Cultural Rights (ICESCR) - 1966

Contents	Civil and political rights (1 st generation)	Economic, social, and cultural rights (2 nd generation)
Monitoring	Human Rights Committee (HRC)	Committee on Economic, Social and Cultural Rights (CESCR)
Ratification	173 countries (2023)	171 countries (2023)



Together with the UDHR, the ICCPR and ICESCR form the **International Bill of Human Rights**.

State Duties in Respect of Human Rights Protections

Three types of human rights duties:

- Respect

- Refrain from infringing on human rights

- Protect

- Safeguard individuals from abuses by third parties

- Fulfil

- Take proactive measures to ensure rights are realized

Additional Considerations:

- Obligations of conduct vs. Obligations of result

Expanding the Scope of Human Rights Protections

Multilateral, regional, and bilateral treaties further the rights in the International Bill of Human Rights:

❑ International Treaties

- Protect **vulnerable groups** (e.g., children, women, minorities)
- Cover **specific rights** (e.g., freedom from discrimination)

❑ Regional Systems

- Reflect **local contexts** and supported by **regional courts and commissions**

❑ ILO Conventions

- Set **minimum standards for workers' rights** across industries

❑ National Protections

- **Constitutions** and **national human rights institutions**

❑ Soft Law

- Non-binding guidelines and declarations shape global human rights practices



Safeguarding Human Rights in Europe

- European Convention on Human Rights (ECHR): The first binding instrument giving effect to UDHR rights (1950)
- The European Court of Human Rights (ECtHR) upholds rights under the ECHR
- Human rights protections are extended to legal persons!



Strasbourg



Luxembourg



Impact of the European Convention on Human Rights

- States must provide redress and prevent future violations.
- Judgments often lead to reforms, benefiting the entire population by enhancing human rights protection.

The Convention provision which has been violated :



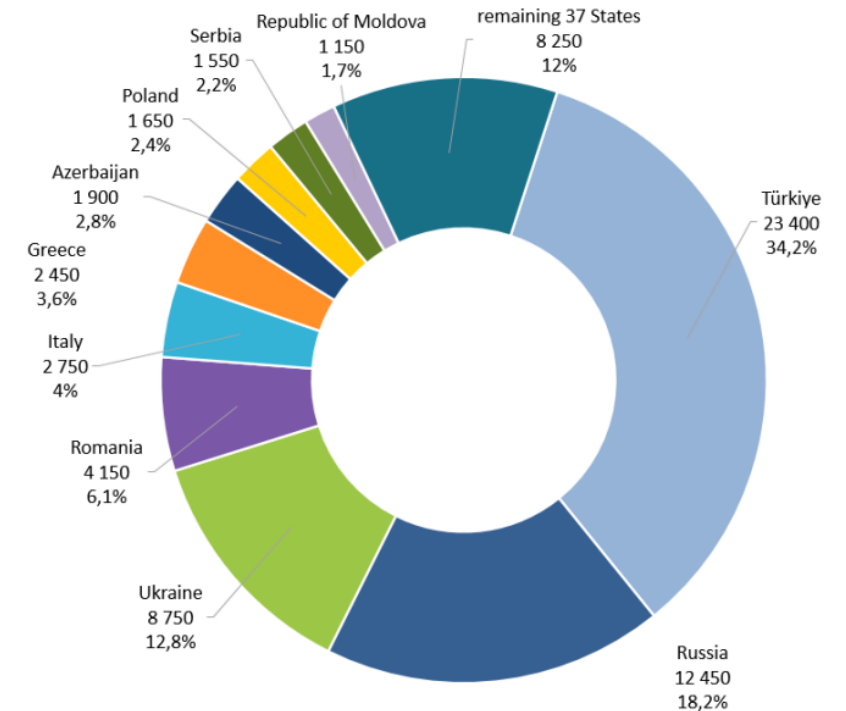
Right to a fair trial



Protection of property



Right to liberty and security



Breakdown of **68,450 pending applications** for the high case-count States

Human Rights and SDGs: A Shared Agenda



- Right to Non-Discrimination (UDHR Art. 2) → SDGs 5 & 10
 - Right to Health (UDHR Art. 25) → SDG 3
 - Right to Education (UDHR Art. 26) → SDG 4
 - Right to Decent Work (UDHR Art. 23) → SDG 8
- Right to Clean Water and Sanitation (UDHR Art. 25) → SDG 6
- Right to a Healthy Environment (Implied under UDHR & ICESCR) → SDG 13
 - Right to Food (UDHR Art. 25) → SDG 2
- Right to Participation in Public Affairs (UDHR Art. 21) → SDG 16
 - Right to Adequate Housing (UDHR Art. 25) → SDG 11

From State Duties to Corporate Responsibilities

- BHR is concerned with how businesses **impact human rights** and how to prevent businesses from causing harm to people.
- Impact is multi-dimensional and context-dependent:
Type of industry, county, local context, etc...
- Other related terms: CSR, BHR, RBC, ESG...



BHR Milestones

1970s...

- UN Commission on Transnational Corporations (1974)
- [OECD Guidelines for Multinational Enterprises](#) (1976)
- [ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy](#) (1977)

1980s and 90s...

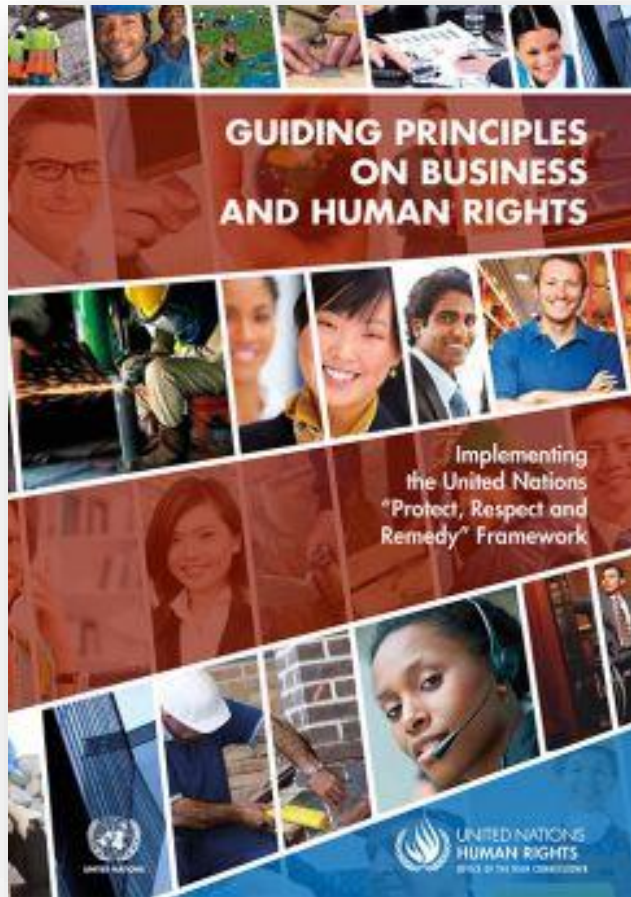
- Increase in company and multi-stakeholder initiatives.

2000s...

- UN Global Compact (2000)
- Draft Norms (2003)
- [UN Guiding Principles on Business and Human Rights](#) (2011)



Global BHR/RBC Standards: UNGPs



THREE PILLARS of the UN GUIDING PRINCIPLES

HUMAN RIGHTS

PROTECT

STATE

duty to
protect

RESPECT

CORPORATE

responsibility
to respect

REMEDY

VICTIMS

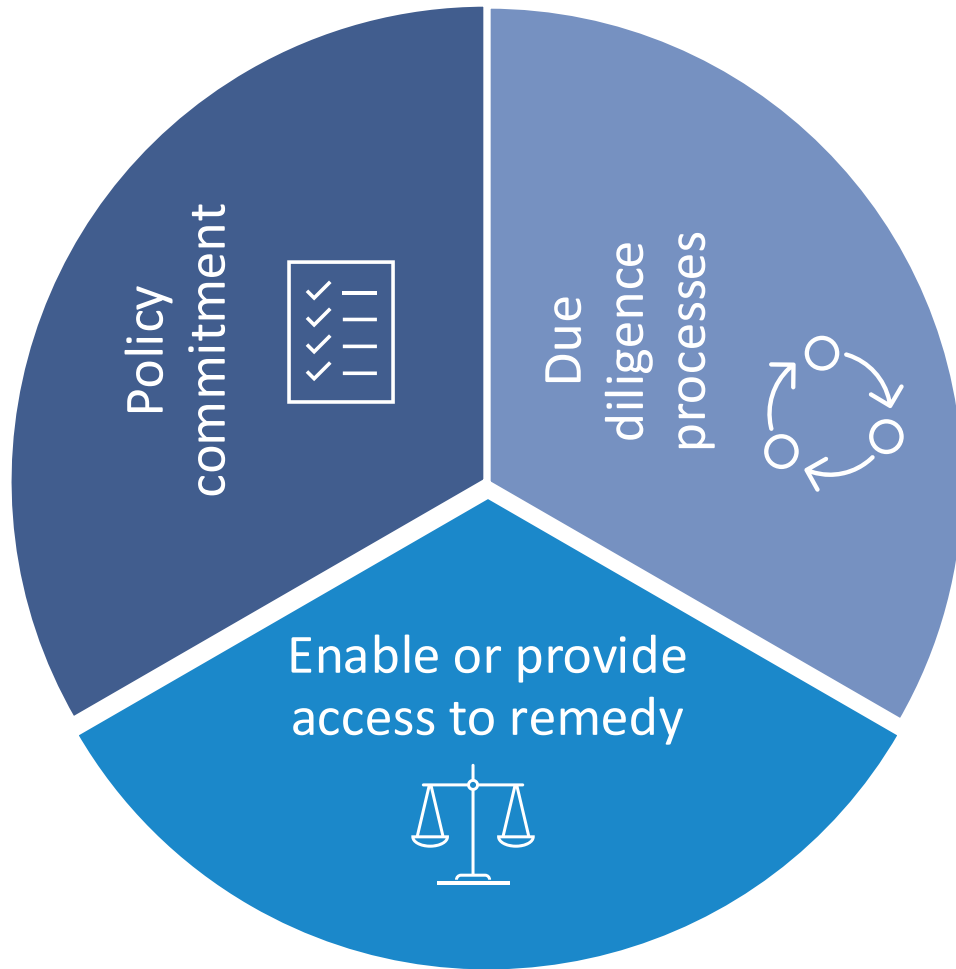
access to
effective remedy

Scope of business human rights responsibilities

- ✓ Applies globally to all businesses
- ✓ Independent of state human rights obligations
- ✓ Applies **beyond compliance with national laws**
- ✓ Covers all internationally recognized human rights
- ✓ Greater attention required for vulnerable groups.
- ✓ Requires **prevention, mitigation** and, where appropriate, **remediation** of impacts



How to respect human rights?



- ✓ **Policy commitment** to meet their responsibility to respect human rights;
- ✓ **Human rights due diligence process** to identify, prevent, mitigate and account for how they address their impacts on human rights;
- ✓ **Processes to enable the remediation.**

OECD Guidelines for MNEs on RBC

- ✓ First adopted in 1976, revised and updated 6 times (latest June 2023)
- ✓ Most **comprehensive** international standard on responsible business conduct
- ✓ Applied in 50+ countries
- ✓ **Unique implementation: National Contact Points**
- ✓ **Aligned with other** international RBC standards
- ✓ Reflected in emerging **domestic/regional laws and regulations**
- ✓ Incorporate **expectation of RBC due diligence**

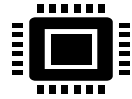


Disclosure	Human Rights	Employment & Industrial Relations
Environment	Consumer interests	Science, Technology and Innovation
Combating Bribery and Other Forms of Corruption	Taxation	Competition

OECD Guidelines: Highlights of the 2023 Updates



Recommendations for enterprises to align with internationally agreed goals on **climate change and biodiversity**



Introduction of due diligence expectations on the development, financing, sale, licensing, trade and use of **technology, including gathering and using data**



Recommendations on how enterprises are expected to conduct **due diligence on impacts and business relationships related to the use of their products and services**



Updated recommendations on **disclosure of responsible business conduct information**



Better protection for **at-risk persons and groups** including those who raise concerns regarding the conduct of businesses



Expanded due diligence recommendations to **all forms of corruption**



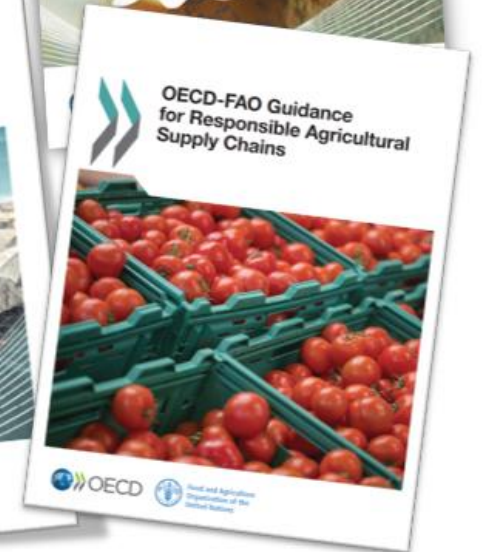
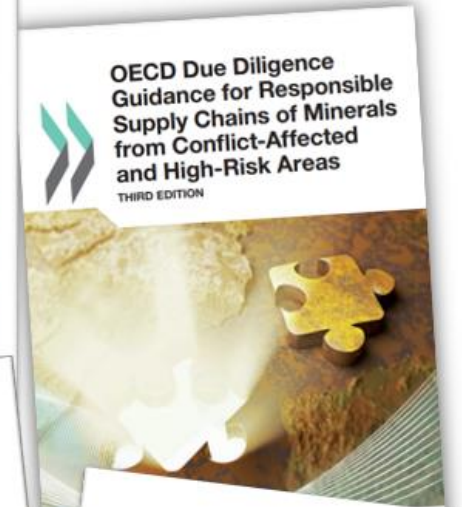
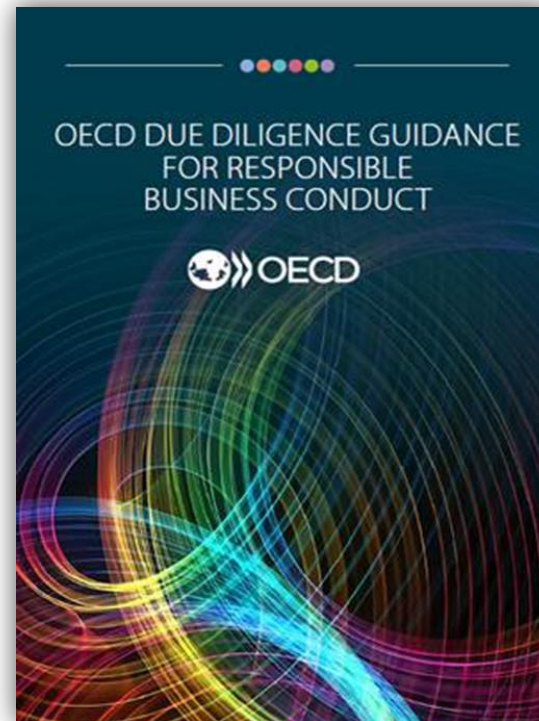
Recommendations for enterprises to ensure **lobbying activities** are consistent with the Guidelines



Strengthened procedures to ensure the visibility, effectiveness, and functional equivalence of **National Contact Points on Responsible Business Conduct**

OECD Due Diligence Guidance

- Updated Guidelines recommend that enterprises carry out risk-based due diligence in line with the OECD's 2018 Due Diligence Guidance.
 - 2018 Guidance identifies cross-cutting due diligence actions and characteristics that are applicable across companies and sectors.
- Ongoing sector projects with more specific sectoral guidance.



OECD Due Diligence Guidance: Finance



Responsible Business Conduct for Institutional Investors (2017)

ENG | GER | SPA | POL | UKR | JPN | THA



Due Diligence for Responsible Corporate Lending and Securities Underwriting (2019)

ENG | SPA | GER | POL | JPN



Responsible Business Conduct Due Diligence for Project and Asset finance transactions

Source: <https://mneguidelines.oecd.org/rbc-financial-sector.htm>



OECD National Contact Points for RBC



- Agencies established by governments to implement the OECD Guidelines
- 51 NCPs vary in terms of form and structure, but all have to comply with the criteria of “functional equivalence”
- Twofold mandate:
 - to **promote awareness and uptake of the Guidelines** and related due diligence guidance
 - to **handle complaints** (known as “specific instances”) as a non-judicial grievance mechanism
- Policy coherence on RBC





NCP Specific Instances: Selected Examples

✓ *Dutch NGOs and ING Bank (2017)*

- Review of ING Bank’s compliance with OECD Guidelines on climate-related issues.

✓ *Society for Threatened Peoples and Credit Suisse (2017)*

- Risks associated with the North Dakota Access Pipeline in the USA.

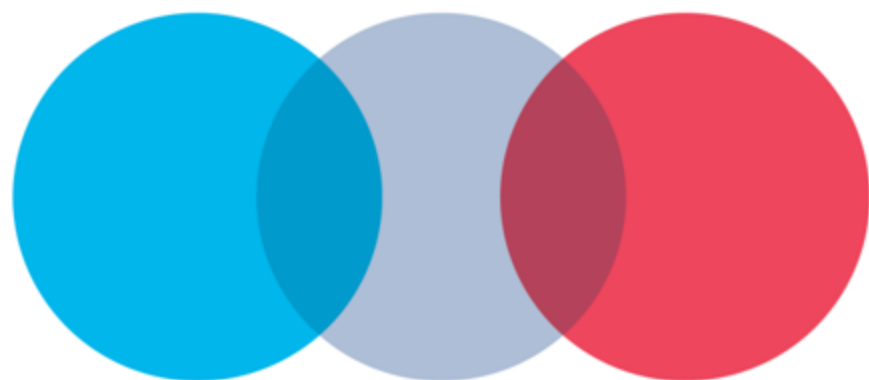
✓ *EC and IDI vs Australia and New Zealand Banking Group (2014)*

- ANZ’s alleged role in displacing & dispossessing Cambodian families.

✓ *Friends of the Earth and Rabobank (2014)*

- Issues regarding Rabobank’s investment in the palm oil sector in Indonesia.





Thank you!

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<https://pcn.gouvernement.lu/fr.html>

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Benjamin Michel

Analyst, OECD

How to integrate human rights into investment decisions?

The role of the OECD Guidelines and Responsible Business Conduct Due Diligence

Master Class for Institutional Investors and Asset Managers

18 September 2024





What are the OECD Guidelines for Multinational Enterprises on RBC?



The **OECD Guidelines for Multinational Enterprises on Responsible Business Conduct** are recommendations by governments for businesses to align their activities with sustainable development and conduct due diligence to avoid adverse impacts on people, planet and society

scope



Disclosure



Human Rights



Employment and Industrial Relations



Environment



Combating Bribery and other Forms of Corruption



Consumer Interests



Science, Technology and Innovation



Competition



Taxation

reach



Adhered to by **51 governments**



Supported by a network of **51 National Contact Points** for RBC, which have handled over 700 cases in 110 countries



75% of OECD countries have some form of **regulation on sustainability due diligence** in the supply chain



How is RBC reflected in regulatory and market developments?



Sustainable Finance Disclosure Regulation (SFDR) requires financial market participants to report on Principle Adverse Impacts, including the share of investments in “*violations of*”—or “*lack of processes to ensure compliance with*”—the **OECD Guidelines**.



Taxonomy Regulation sets out minimum social safeguards to prevent activities and investments from being regarded as “sustainable” if they do not align with minimum standards for RBC, including the **OECD Guidelines**, and requires companies to disclose information related to their “due diligence and remedy procedures”.



Corporate Sustainability Reporting Directive (CSRD) and associated European Sustainability Reporting Standards (ESRS) include disclosure expectations on the undertaking’s due diligence process (GOV-4), including how such process helped inform the materiality assessment (IRO-1). The **OECD Guidelines** are also reflected in topical ESRS (i.e., ESRS S1-17, S2-1, S3-1, S4-1) which relate to “*non-respect of the OECD Guidelines*” with regards to the undertaking’s own workforce, workers in value chains, affected communities, as well as consumers and end-users.



Corporate Sustainability Due Diligence Directive (CS3D) draws on the **OECD Due Diligence Guidance for RBC**, laying out due diligence expectations consistent with the six-step framework and key principles of the risk-based approach. It covers financial undertakings only with regards to their upstream supply chain.

950 asset managers and **235 asset owners** reported using the **OECD Guidelines** to identify human rights outcomes of their investments, representing **USD24 trillion** and **USD10 trillion** in AUM respectively

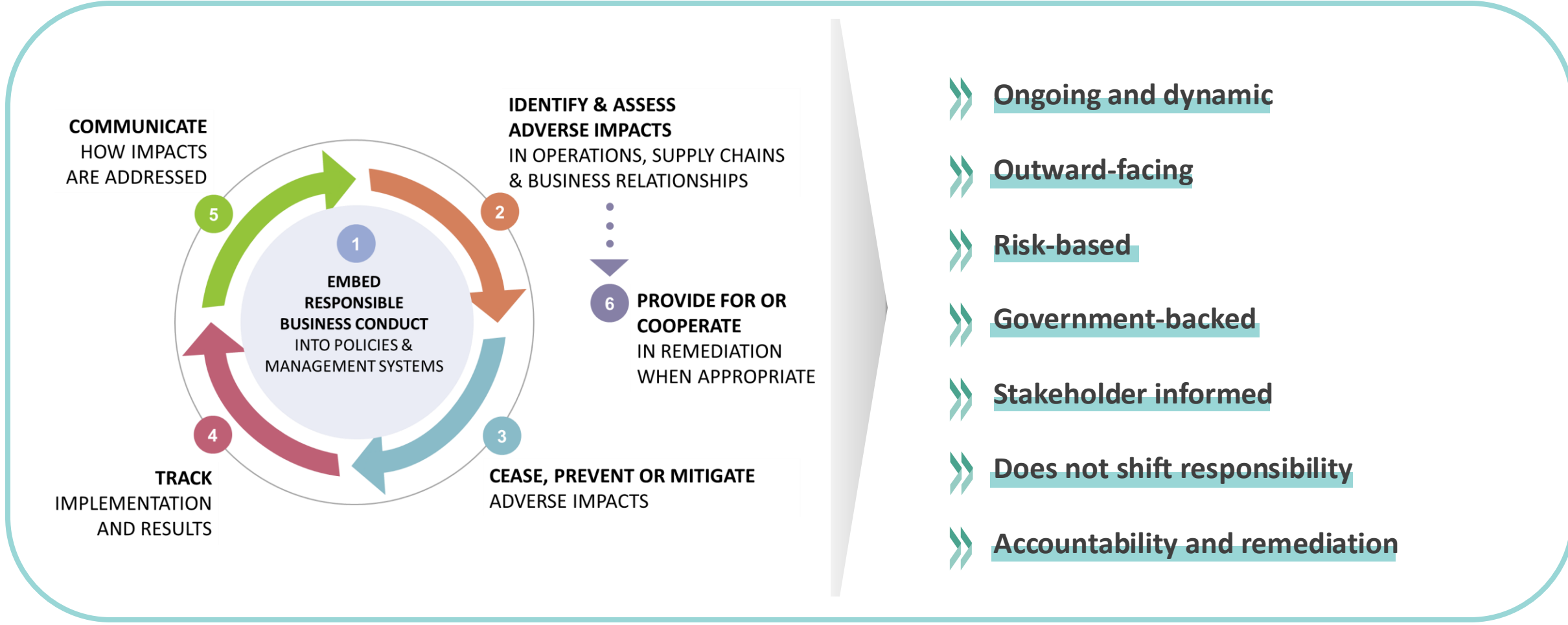


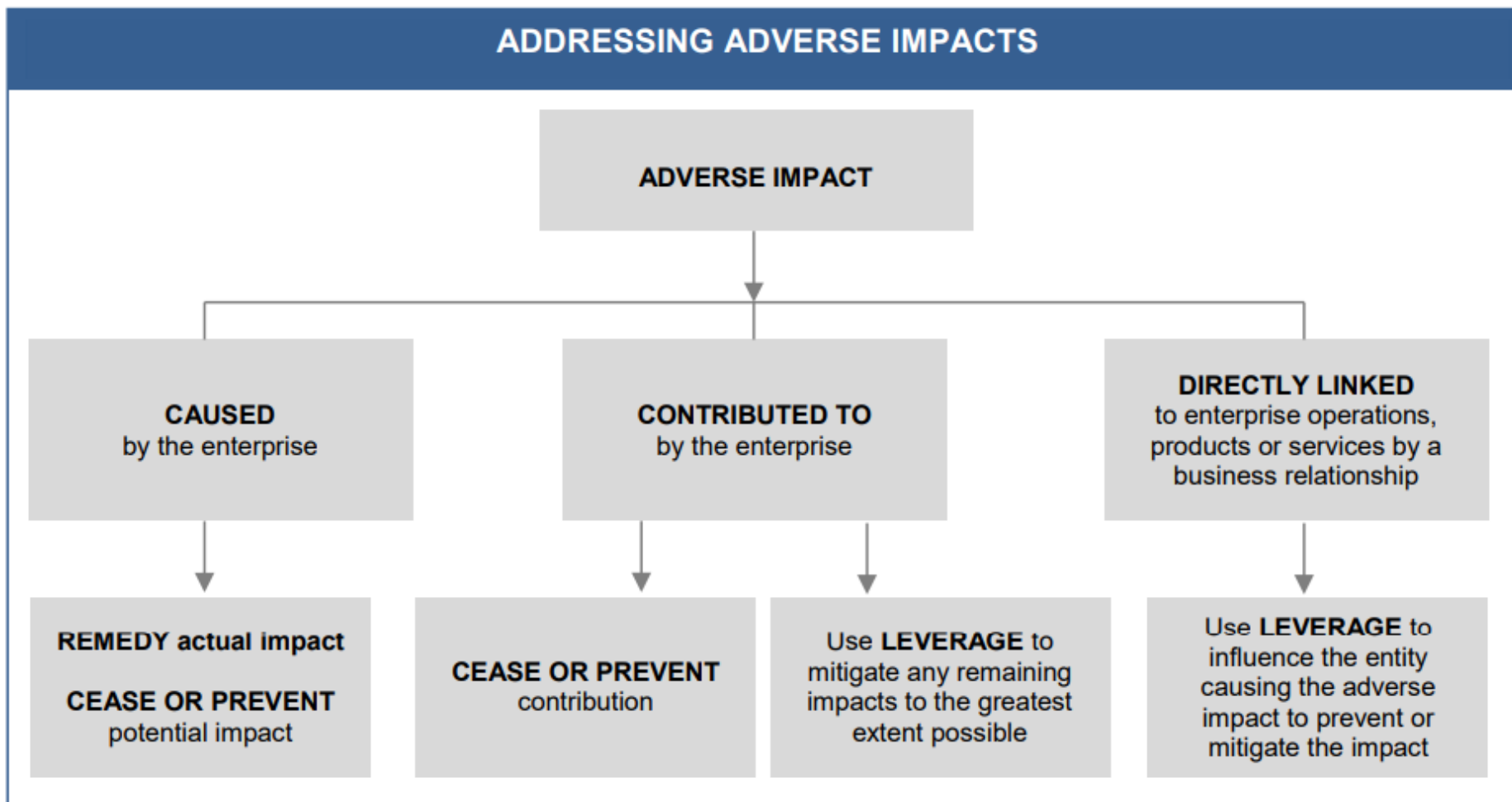


What is the OECD Due Diligence Guidance for Responsible Business Conduct?



Due diligence is the process by which enterprises should **identify, prioritise, prevent, mitigate and account** for how they address adverse impacts **on** people and planet.







Apply a risk-based approach to risk identification, based on severity and likelihood. This can start with identifying general areas where the risk of adverse impacts lies (based on e.g., geography, sectors, products, enterprises, stages of the value chain) and use this information as a basis for more detailed investigation, either individually or collaboratively.

Integrate and expand on existing risk screening process e.g., qualitative and quantitative risk evaluation prior to investment, and to inform investment decision-making and active ownership (as appropriate to the asset class). Regularly reassess portfolio and identified risk areas to capture changes and keep knowledge on risks and impacts up to date.

Find ways to address information deficit and use existing information and a combination of approaches to identify actual and potential impacts e.g., ESG research services and ratings, stakeholder engagement, grievance mechanisms and other reporting platforms can be used to alert investors about “red flag companies” in their portfolio.

Enhance quality and availability of information and consider engaging in individual and collaborative efforts to progressively seek to obtain more information from investee companies, and push for more disclosure on human rights risk. ESG research services and stock exchanges can also play a role in collecting additional information related to human rights risks



RBC due diligence deep-dive: tools for risk identification



Sector risks are prevalent within a sector globally due to the characteristics of the sector, its activities, its products and production processes



Enterprise-level risks are associated with a specific enterprise



Geographic risks are conditions in a particular country which may make sector risks more likely.



Product risks relate to inputs or production processes used in the development or use of specific products



ESG rating products and research can provide useful information on backward-look actual impacts (i.e., controversy screening) but provide little information as to these general areas of risks. It is important to assess the availability of underlying ESG metrics and identify where additional research may be warranted to assess the full extent of potential material risks and impacts.



Grievance mechanisms or **stakeholder/investor platforms** are important sources of complementary information to alert investors about red flag companies in their portfolio.



3 CEASE, PREVENT OR MITIGATE ADVERSE IMPACTS

Prioritise actions based on risk but consider other criteria when taking action including how crucial the investee company is for the investor (informed by materiality); resource implications of engagement and whether engagement efforts are already underway; the credibility of the information as well as practical limitations to effect change.

Build on existing stewardship activities to effect change including through face-to-face meetings, the use of (proxy) voting and the attendance and speaking at AGMs to express views on RBC matters. There are ways to exert legal leverage through contractual provisions in case of company breach of covenants or RBC policies.

Identify leverage limitations, which are determined by factors such as minority shareholding, corporate ownership structures, characteristics of an asset class (e.g., sovereign bonds) or investee location. There are ways to increase leverage using collaborative initiatives, engaging with industry associations or policy makers to address root causes of risks.

Consider divestment as a last resort after failed attempts at mitigation or due to the severity of the adverse impact and after carefully weighing the impact of such a strategy. Temporary divestment or redesign of the investment strategy in the context of passive investment should be considered as alternatives.



Board engagement is a typical form of stewardship strategy which includes meetings, letters, votes and resolutions on RBC-related matters, or filling direct roles in boards and management committees.

- A **UK Asset Manager** has updated its voting policies to automatically vote against the board of companies that score poorly on the World Benchmarking Alliance Social Benchmark
- A **Dutch Asset Manager** co-led a shareholder proposal forcing META to establish a Human Rights Risk Oversight Committee

Collaborative action through investor platforms are useful ways to pool information and resources, increase leverage (in case of minority shareholder) and more effectively address root causes of human rights risks and impacts.

- **UN PRI** established the ***Advance Initiative*** to address human rights risks in 40 minerals supply chains companies through collective stewardship efforts by **265 investors** representing **USD 35 trillion in AUM**
- **135 investors** representing **USD 5.8 trillion AUM** joined forces to directly engage the lowest scoring companies in the ***KnowTheChain*** apparel benchmark regarding their human rights due diligence

Divestment should be considered a last resort and after failed attempt at mitigation. Investors should also consider leverage over the company; how crucial the relationship is; the severity of the impact; and whether terminating the relationship will result in adverse impacts.

- Human rights concerns are the **4th most** cited motivation for exclusion according to the ***Financial Exclusion Tracker***



6

Providing for or
co-operating in
remediation

Financial institutions are expected to have grievance mechanisms in

place that covers:

- Their own, or ones they participate in.
- Not expected to be specific to an individual client or established at the level of the specific operation the bank is financing.
- Some complaints may be referred to external processes.

Financial institutions can enable remediation through:

- Seeking to use leverage to encourage clients/project sponsor to provide for or cooperate in remediation:
- Including expectations regarding remediation as part of financing agreements
- Engagement and encouragement they engage in remediation processes in good faith



Active investments

- » Apply a **risk-based approach** (prior investment)
- » **Screen** the whole public markets portfolio (e.g., listed equities and bonds) and update screening on regular intervals
- » **Triangulate** information to ensure credibility, including by engaging with investee company
- » **Engage** high-risk companies to prevent & address impacts including through collaborative initiatives
- » **Exercise leverage** & use voting rights where appropriate
- » Consider **divestment** as last resort

Passive investments

- » Conduct due diligence on **index provider** and discuss RBC information needs and expectations
- » Use indices to **align investment** with RBC policies and targets
- » **Screen** the public markets portfolio included in index or investment product and update screening on regular intervals
- » Exercise **leverage** over management & consider voting rights where appropriate
- » Seek to **revise indices** to divest from high-risk companies as last resort
- » **Collaborate** in RBC initiatives to address systemic issues

Barbara Bijelic

Head of Regulation and Standards, OECD
Responsible Business Conduct (RBC) Centre



How to integrate human rights into finance

The role of the OECD Guidelines and Responsible Business Conduct Due Diligence

Master Class for Banks

18 September 2024





First screen - Identifying significant areas of risk based on:

- Sectors
- Geography
- Enterprise-level risk
- Client on-boarding
- Periodic reviews
- Alerts on controversies
- Early warning mechanisms

Second screen - Investigating potential issues through:

- engagement with client;
- review of ESIA's;
- looking at independent sources
- Examining actual or potential impacts at activity or project level.

**IDENTIFY &
ASSESS
ADVERSE
IMPACTS**

2

Broadly aligned with **IFC Performance Standards** and **Equator Principles** with some variation in scope and approach.





RBC due diligence: prevent and mitigate impacts

PREVENT

- > Strengthening management systems at bank and client level
- > Exclusionary policies
- > Conditions of finance including payment schedules
- > Training
- > Incentives for clients

MITIGATE

- > Engagement with clients to create action plan for ceasing and remedying impact
- > Collaboration
- > Connecting clients with resources
- > Terminating, suspending, not entering into future relationships

Responding to systemic issues

- > Engagement in industry, multi-stakeholder initiatives oriented at addressing systemic issues
- > Advocacy



What are the triggers for disengagement?

Four triggers for disengagement

The severity of the harm

Severity of harm is the most important consideration when determining whether a company can stay engaged while seeking to mitigate an RBC risk. Red lights include:

- Torture, cruel, inhuman and degrading treatment;
- Forced or compulsory labour;
- Worst forms of child labour;
- Widespread sexual violence;
- War crimes or other serious violations of international humanitarian law, crimes against humanity or genocide; and
- Direct or indirect support to non-state armed groups.

Failed attempts at preventing and mitigating

If attempts at mitigating severe RBC risks **fail**, a company needs to disengage.

For example, the Minerals Guidance expects companies to **suspend or discontinue engagement** with a supplier if there is **no significant measurable improvement on orange-light scenarios within six months** from the adoption of a risk management plan

Irremediable character

Some impacts are **severe, immediate and potentially irremediable** i.e., that it is not possible to **restore** the individual or environment to a situation equivalent to their past situation.

For example, the OECD Garment and Footwear Guidance states that production should not take place at a site if there are severe and immediate occupational health and safety risks to workers.

No reasonable prospect of change

It may not always be possible to prevent or mitigate impacts. For example, **certain products may be innately harmful** or certain risks may only be mitigated **through significant and prohibitive financial investments**.

For example, some investors have exclusion policies regarding companies involved in the production of cluster weapons, anti-personnel (land) mines, chemical and biological weapons, or coal production.

Public Reporting

on:

- RBC policies
- The implementation of policies
- Areas of significant risks and the significant adverse impacts identified, prioritised and assessed, as well as the prioritisation criteria (at the level of client portfolios or business areas).
- For high-risk projects/asset **efforts to prevent and mitigate** actual or potential adverse RBC impacts or cooperation in remediation as relevant, ***including where possible the outcomes of those efforts.***
- **Future RBC plans and targets** (at the level of client portfolios or business areas).
- Exclusionary policies or decisions not to provide support or financing due to RBC issues.

Integrated in:



Dealing with duties of confidentiality:

- ✓ Protect confidential information
- ✓ Clarity about exactly what information can be disclosed, to whom and in what circumstances.
- ✓ Standardizing consent process (i.e. including in of loan covenants or systematically raising it during client onboarding)
- ✓ Anonymise and aggregate



6

Providing for or
co-operating in
remediation

Banks are expected to have grievance mechanisms in place that covers:

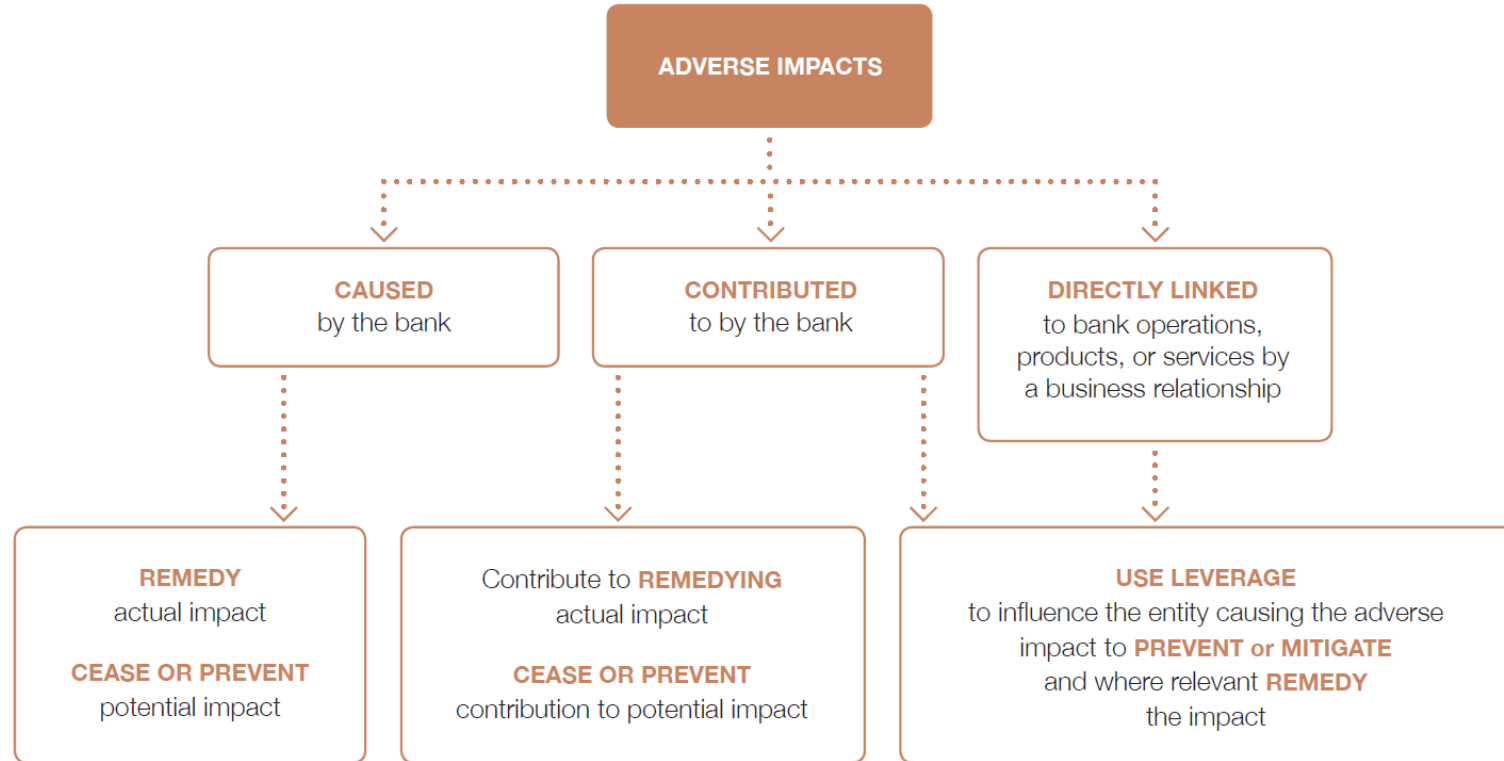
- Their own, or ones they participate in.
- Not expected to be specific to an individual client or established at the level of the specific operation the bank is financing.
- Some complaints may be referred to external processes.

Banks can enable remediation through:

- Seeking to use leverage to encourage clients/project sponsor to provide for or cooperate in remediation:
- Including expectations regarding remediation as part of financing agreements
- Engagement and encouragement they engage in remediation processes in good faith



Understanding bank's relationship to adverse impacts under the OECD Guidelines



The degree to which the bank's activities increased the risk of the impact occurring by **facilitating or incentivizing** a client to cause an adverse impact;

The degree of **foreseeability** of the impact; and

The degree to which actions taken by the bank actually **mitigated or decreased** the risk of that impact.



Milieudefensie/Friends of the Earth Netherlands, WALHI/Friends of the Earth Indonesia and SDI/Friends of the Earth Liberia and ING





Crédit Suisse and Society for Threatened Peoples Switzerland (North Dakota Access Pipeline)





ANZ Banking Group, and Inclusive Development International and Equitable Cambodia





More information:

<https://www.oecd.org/en/topics/responsible-business-conduct.html>

<https://www.oecd.org/en/topics/sub-issues/ue-diligence-guidance-for-responsible-business-conduct/responsible-business-conduct-in-the-financial-sector.html>

Kamil Zabielski

Head of Sustainable Investment,
Storebrand





Human Rights DD for Asset Managers

LSFI Master Class

Kamil Zabielski

Head of Sustainable Investment

Storebrand Asset Management



Survey Questions on HR DD

1. Do you have a HR Policy?

2. Is HR Policy and responsibility anchored in top management?

3. Do you have in-house HR experts to conduct HR DD?

4. Do you screen your portfolios to identify HR risks?

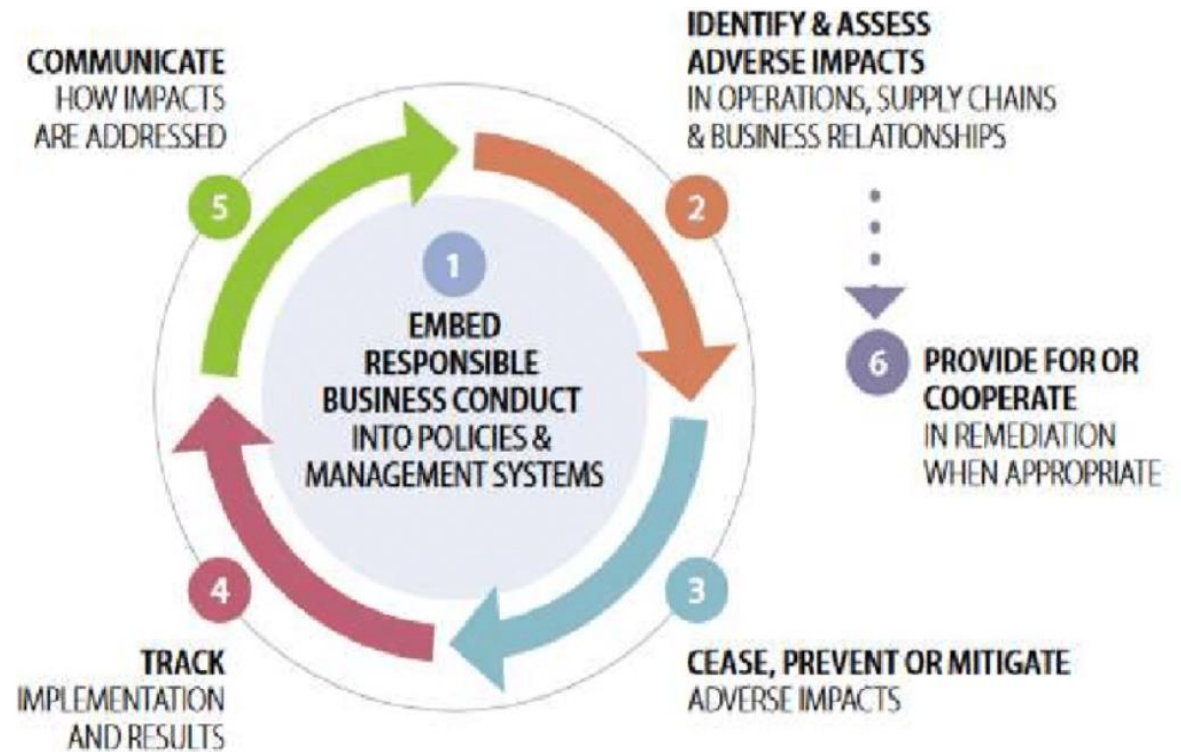
5. How do you manage that risk:

- Do you engage on HR?
 - Investor Coalitions?
- Do you vote on HR related resolutions?
- Do you file/co-file shareholder resolutions on HR?
- Do you exclude based on HR violations/breach of OECD MNE?

6. Do you track & communicate your results?

HR DD Based on:

- **UN Guiding Principles on Business and Human Rights**
 - ILO conventions and international humanitarian law.
 - UN human rights conventions and declarations
- **OECD Guidelines for Multinational Enterprises**
 - OECD Guidelines for Responsible Business Conduct for Institutional Investors
- Norwegian human rights due diligence law (Transparency Act)
- EU Corporate Sustainability Due Diligence Directive (CSDDD)



1 A Human Rights Due Diligence process

Outline:

1. Embed HRs: Internal organization, resources and Policy

2. Identify and assess HRs Risks

3. Managing HRs Risks (cease , prevent, mitigate)

- Engagement on Human Rights
- Escalation and Voting
- Exclusion criteria and process

4.Track and Communicate

5.Challenges

6. Q&A





1. Embed HRs: Policy, Internal organization, and resources

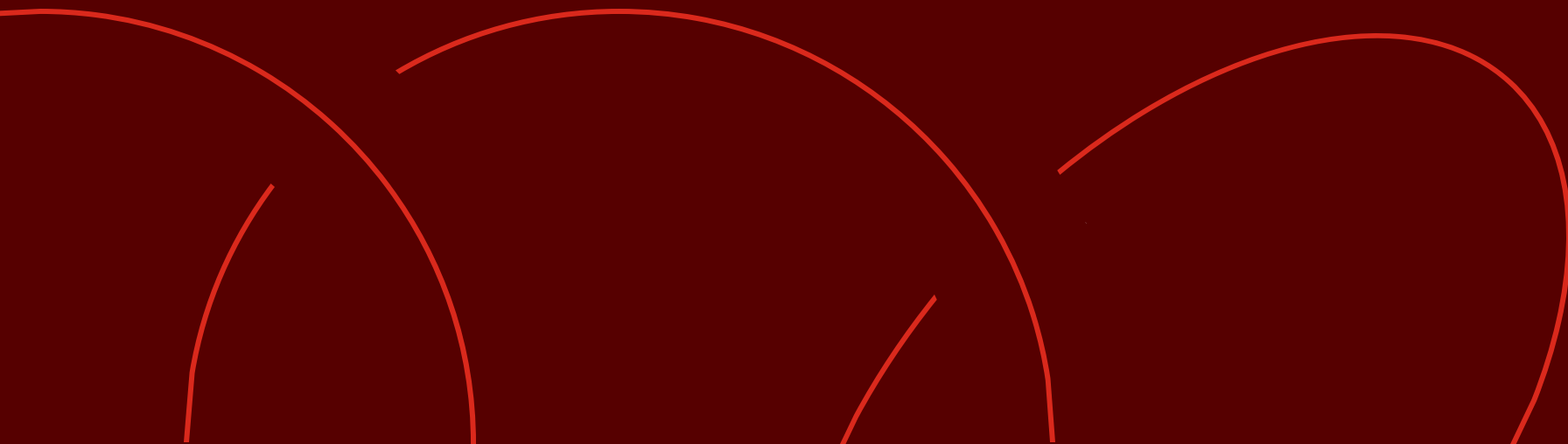




Photo: Johnér

Storebrand Asset Management

Sustainable Investment Policy

Adopted by: Board of Directors, Storebrand Asset Management AS
Date: 20.10.2023
Document owner: CEO, Storebrand Asset Management AS



Storebrand Asset Management

Deforestation Policy

Adopted by: Board of Directors, Storebrand Asset Management AS
Date: 20.10.2023
Document owner: CEO, Storebrand Asset Management AS



Storebrand Asset Management

Human Rights Policy

Adopted by: Board of Directors, Storebrand Asset Management AS
Date: 20.10.2023
Document owner: CEO, Storebrand Asset Management AS



Storebrand Asset Management

Engagement and Voting Policy

Adopted by: Board of Directors, Storebrand Asset Management AS
Date: 20.10.2023
Document owner: CEO, Storebrand Asset Management AS



Photo: Unsplash

Storebrand Asset Management

Exclusion Policy

Adopted by: Board of Directors, Storebrand Asset Management AS
Date: 20.10.2023
Document owner: CEO, Storebrand Asset Management AS

Our approach

Reactive: We will **not invest** in companies that contribute to severe and systematic breaches of international humanitarian law and human rights.

Proactive: We will **promote** the respect of human rights by:

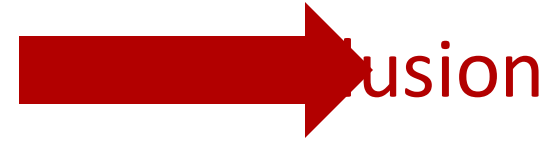
- engaging with investee companies
- policymakers and standard-setting bodies
- to tackle systemic human rights risks
- create enabling environments for responsible business conduct
- grounded in respect for human rights and access to remedy for affected right-holders.



Engagement



Escalation



Divestment

Institutions

Investors engage state-owned companies on Myanmar human rights issues

Governance

Major Nordic investors engage with downstream solar energy companies on human rights concerns

Platform Living Wage Financials

The Platform Living Wage Financials (PLWF) is an unprecedented alliance of 24 financial institutions that encourages, supports and monitors investee companies to enable living wages and living incomes in global supply chains.

More than 200 investors throw weight behind human rights engagement initiative

3M announces exit from PFAS manufacturing

Dec 20, 2022

RESPONSIBLE INVESTING

Storebrand leads investor initiative to stop the deforestation of Brazil's Amazon

NEWS | NORDICS

Storebrand Against the Metaverse

NEWS

Investor coalition urges Amazon to 'come clean' on workers' rights issues

Social

'Not responsive': Investors doubling down on workers' rights at Nike ahead of AGM

It comes as Glass Lewis opposes resolution filed at apparel giant in response to alleged controversies in Cambodia and Thailand.

Social

Big investors back conflict area and child labour resolutions at Mondelez

Active ownership

Storebrand Asset Management places Eolus Vind under observation for human rights risk

Potential human rights violations due to negative impact of wind energy park on indigenous Sámi reindeer herders.

Joint Statement: Call on the European Parliament to adopt the EU's Regulation to prohibit forced labour products on the EU market

Story

Norway: Financial giant Storebrand divests from IBM over human rights concerns

Storebrand Asset Management excludes gaming giant Activision Blizzard

A number of other investors are concerned about the controversies around the company behind Call of Duty and Candy Crush, which is in the process of being acquired by Microsoft

Private investor divests \$34.8m from firms tied to Dakota Access pipeline

Storebrand, a sustainable investment manager in Norway, hopes pulling shares from three groups will 'make some sort of impact' amid Defund DAPL movement

PRESS RELEASE - 1 MARCH 2022 13:25

Storebrand excludes Russian companies from its portfolios

Institutions

UPDATED Storebrand axes Siemens Energy and Enel over Western Sahara links amid ceasefire breach



Storebrand Risk & Ownership Team

- Six core team members with broad and long experience in sustainability-related issues
- Different expertise and competence in the team, contributing to sustainability analysis: human rights and conflict, deforestation, climate, biodiversity, finance, SFDR, ESG data
- Responsible for sustainability analysis of companies, evaluation and management of ESG data, development of ESG tools for portfolio management.
- Primarily working with active ownership strategy, engagement, voting, the exclusion process, and policy development , +++

Kamil Zabielski
Head of Sustainable
Investment



Tulia Machado-Helland
Head of Human Rights



Emine Isciel
Head of Climate and
Environment



Vemund Olsen
Senior Sustainability Analyst



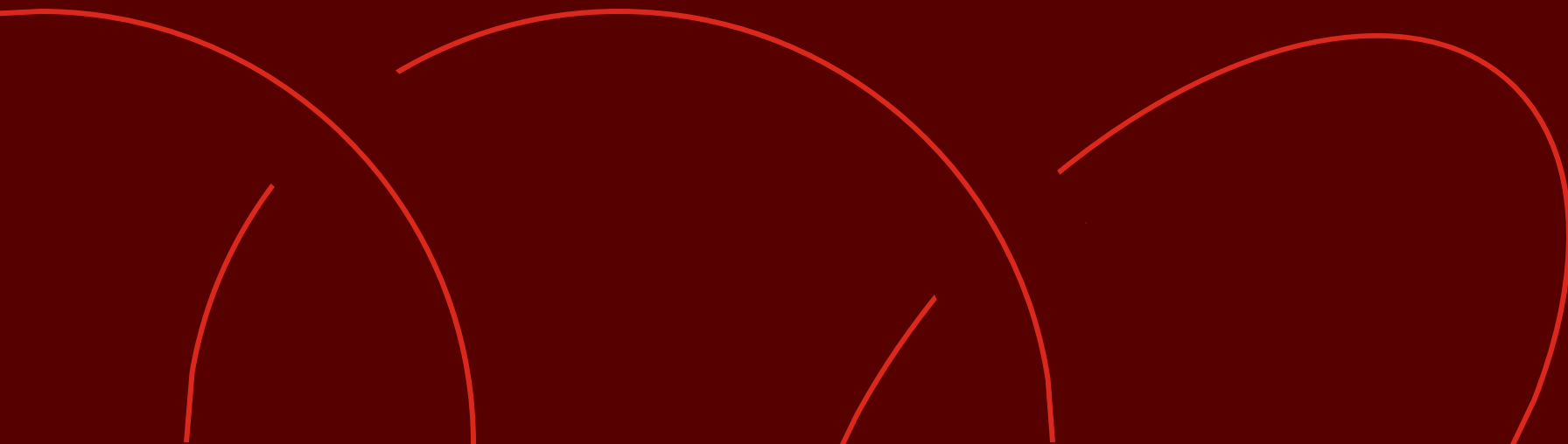
Victoria Lidèn
Senior Sustainability Analyst &
responsible for Active Ownership
Storebrand Fonder AB



Frédéric Landré
Sustainability Analyst & Data
Specialist



2. Identifying and Assessing HR risk



Identifying and Assessing Risk

Identifying risk: Screening portfolio:

1. Controversy screening

- ESG Data providers, CSOs, media.

2. High-risk sector and country analysis

- High exposure sectors
- High risk geographies
- Company risk rating (how are they managing risks)

Assessing Risk (risk to people and not financial risk):

Controversies in breach of HR policy = reactive engagement and evt. exclusion

High risk companies in high-risk sector /countries = proactive engagement

Controversy Screening examples

Indigenous Peoples rights

Workers Rights

Conflict: Ukraine, Myanmar, oPt,
W.Sahara

Product safety

Gender discrimination and sexual
harassment

Country and sector risk example:

Solar Industry

Policy silicon supply chain in Xinjiang.

Risk = forced labour as salient .

Map supply chain and identify
companies.

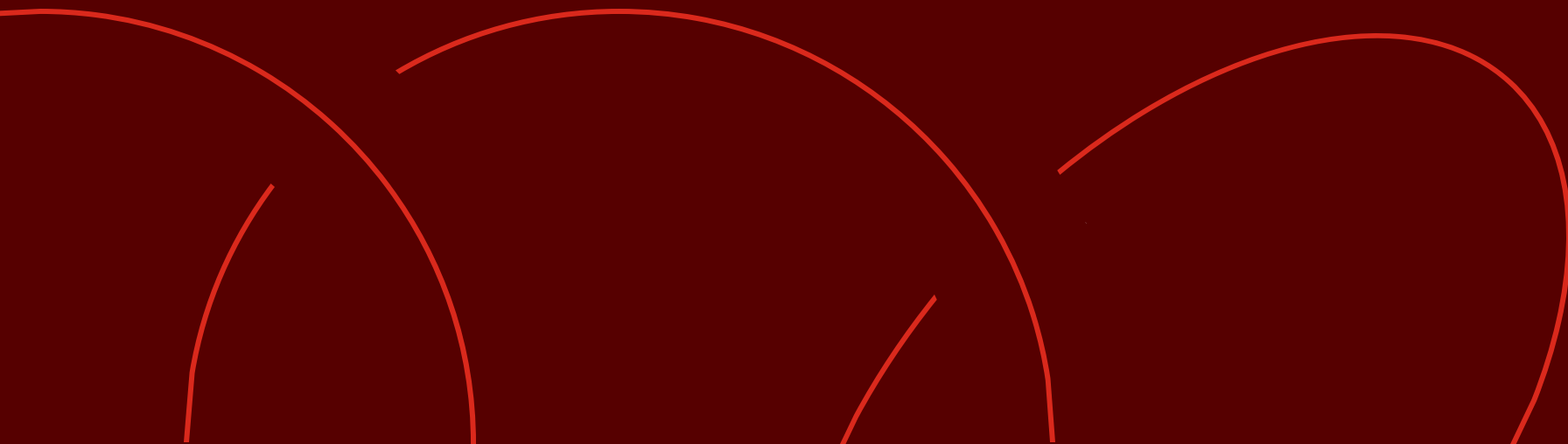
Other examples:

-Cocoa/coffee in W. Africa

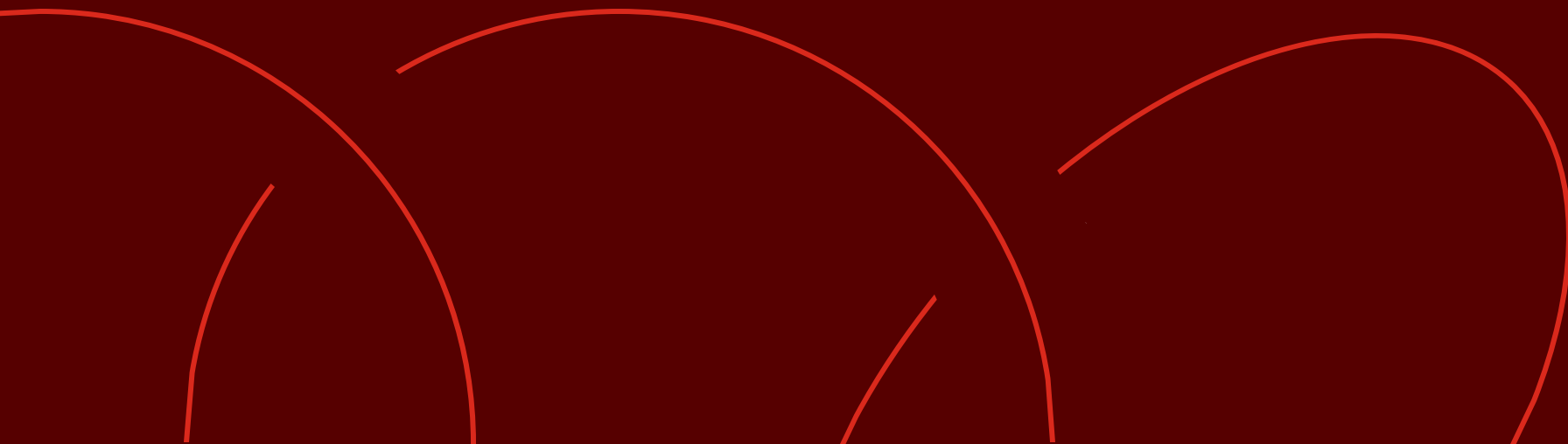
-Cotton and textile sectors (Asia)

-Big tech.... etc.

3. Managing HRs Risks (cease , prevent, mitigate)



Engagement on Human rights



Prevent and mitigate = proactive engagement

General Principles of engagement

- ✓ Creating shareholder value
- ✓ Aiming for positive impact
- ✓ Multi-stakeholder engagement
- ✓ Integrated approach
- ✓ Targeted engagement
- ✓ Leveraging Nordic position

Tools

- ✓ Collaborative engagement
- ✓ Individual engagement
- ✓ Proxy voting
- ✓ Observation list
- ✓ Exclusion

Proactive approach increases shareholder value

Being an active owner entails proactively identifying addressing areas for improvements and risks with an aim of supporting and creating shareholder value

Focus on engagement with Nordic companies

We leverage our strong position in the Nordics to promote change where we can have the highest direct impact

We engage individually or though collaborations

Direct dialogue with companies to call for improved sustainability work and increase responsibility but also collaborate with other investors to achieve greater influence and impact

We involve stakeholders, not only companies

Material and lasting change depends not only on the companies we invest in but the stakeholders making up the environment in which they operate and interact



Engagement Focus areas 2024-2026



Engagement with focus on transition strategy of highest emitters

Climate laggards

Lobbying



Commodity driven deforestation

Sustainable seafood

Extractives in biodiversity sensitive areas



**Reducing inequalities and Just Transition
(living wages, forced labour & supply chains)**

Conflict and High-Risk Countries

Digital Rights



**Sustainability Disclosure
(TCFD and TNFD in line with CSRD, Human Rights DD, SFDR/PAIs)**



**Policy Dialogue
(IPDD, Finance for Biodiversity)**



December 2022:

“3M to end ‘forever chemicals’ production as pressure builds”



Human Rights – Engagement examples

1

Conflict Areas and Occupied Territories (ex. oPt, Myanmar, Ukraine,)

2

Just transition (ex. IP rights, communities, worker rights)

3

Forced labour (ex. Xinjiang)

4

Living Wages (ex. Cocoa in W. Africa)

5

Digital Rights (ex. child rights, mental health, privacy, surveillance, etc.)



Addressing forced labor in the Xinjiang region, China

Storebrand is part of the \$6.58trn **Investor Alliance on Human Rights** engaging with 48 companies to map their supply chains, and to identify and address forced labor: Cotton, textile and solar sectors

Uyghur minority group in Xinjiang victims of forced labor

1+ million Uyghurs detained in camps in Xinjiang region

Several Western countries have imposed sanctions

Several large corporations source material from the region

Xinjiang supplies ~20% of the global cotton production and 35% of the world's polysilicon

Investor Alliance on Human Rights

Number of institutional investors	Combined assets under management
65	\$6.58trn



Storebrand has lead role in engagements with H&M, Burberry, and Scatec Solar

Asks:

- mapping of supply chains, in and outside of China
- disengage suppliers connected with forced labor
- disclose efforts

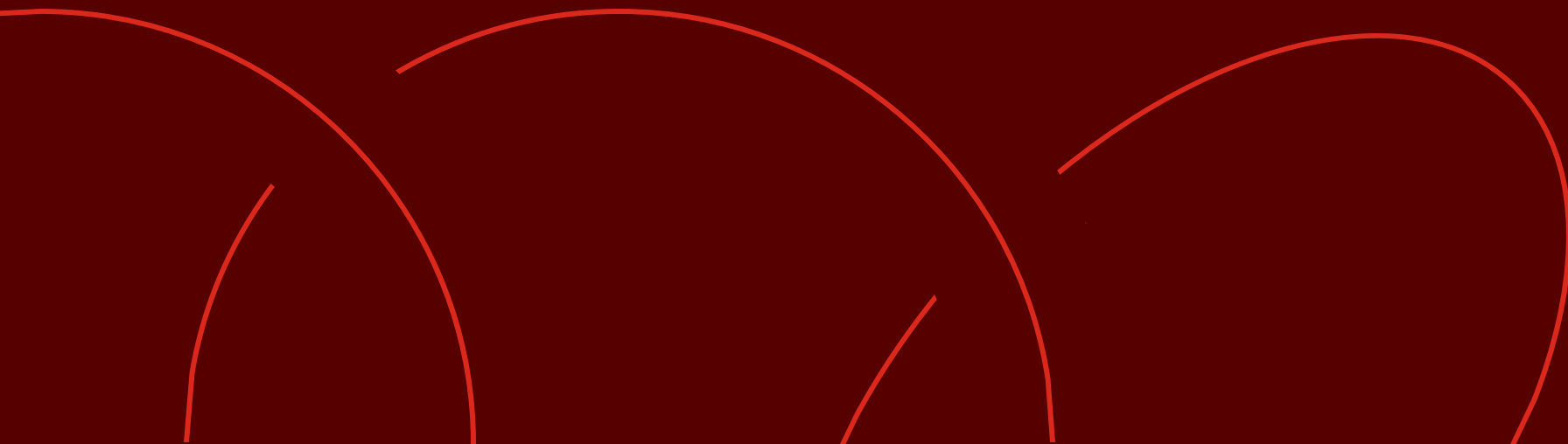
Examples of other companies being actively engaged by alliance

Garment & Apparel

Technology



Escalation and Voting



Voting: part of engagement/escalation process

How Storebrand votes

Voting a complement to our engagement activities

Vote in alignment with Sustainable Investment Policy

2022: votes at AGMs 1348, representing 68,6% of invested capital

2023: votes at 1999 AGMs, representing 90% of invested capital

Increasingly involved in filing/co-filing of shareholder resolutions as an escalation of engagement

Aim to vote at all:

- 1000 largest holdings
- 100 largest NWD and SWD companies
- **All companies with active engagements = escalation**
- All ESG specific resolutions and shareholder resolutions

***Pre-declaration of votes 5 day in advance**



Voting on Social and Human Rights issues

Environmental and social topics

Proposal category	ESG Pillar	No. of proposals voted	No. of proposals voted in alignment with management recommendations	% voted in alignment with management recommendations
Environmental - Management Climate-Related Proposal	E	11	9	82 %
Environmental - Reporting on Climate Transition Plan	E	8	6	75 %
Environmental - Toxic Emissions	E	2	2	100 %
Environmental - Community -Environment Impact	E	3	1	33 %
Environmental - Report on Climate Change	E	22	0	0 %
Environmental - GHG Emissions	E	22	0	0 %
Environmental - Climate Change Action	E	6	4	67 %
Environmental - Restrict Spending on Climate Change-Related Analysis or Actions	E	3	3	100 %
Environmental - Proposals Requesting Non-Binding Advisory Vote On Climate Action Plan	E	7	0	0 %
Environmental - Recycling	E	8	0	0 %
Environmental - Miscellaneous Proposal - Environmental	E	2	2	100 %
Environmental - Disclosure of Fossil Fuel Financing	E	11	0	0 %
Environmental - Restriction of Fossil Fuel Financing	E	17	14	82 %
E&S Blended - Approve/Amend Corporate Social Responsibility Charter/Policy	E, S	2	2	100 %
E&S Blended - Accept/Approve Corporate Social Responsibility Report	E, S	24	23	96 %
E&S Blended - Establish Environmental/Social Issue Board Committee	E, S	1	0	0 %
E&S Blended - Link Executive Pay to Social Criteria	E, S	4	0	0 %
E&S Blended - Genetically Modified Organisms (GMO)	E, S	1	1	100 %
E&S Blended - Product Toxicity and Safety	E, S	5	1	20 %
E&S Blended - Miscellaneous - Environmental & Social Counterproposal	E, S	34	34	100 %
E&S Blended - Miscellaneous Proposal - Environmental & Social	E, S	6	3	50 %
E&S Blended - Climate Change Lobbying	E	7	0	0 %
Social - Approve Charitable Donations	S	16	11	69 %
Social - Approve Political Donations	S	57	57	100 %
Social - Black Economic Empowerment(BEE)Transactions (South Africa)	S	1	1	100 %
Social - Board Diversity	S	4	0	0 %
Social - Human Rights Risk Assessment	S	14	0	0 %
Social - Improve Human Rights Standards or Policies	S	15	1	7 %

Environmental and social topics (continues)

Proposal category	ESG Pillar	No. of proposals voted	No. of proposals voted in alignment with management recommendations	% voted in alignment with management recommendations
Social - Operations in High Risk Countries	S	16	13	81 %
Social - Data Security, Privacy, and Internet Issues	S	5	0	0 %
Social - Racial Equity and/or Civil Rights Audit	S	12	0	0 %
Social - Miscellaneous Proposal - Social	S	22	0	0 %
Social - Political Spending Congruency	S	10	0	0 %
Social - Report on Pay Disparity	S	1	1	100 %
Social - Prepare Tobacco-Related Report	S	2	2	100 %
Social - Avoid Support of Abortion-Related Activities	S	1	1	100 %
Social - Facility Safety	S	3	0	0 %
Social - Weapons - Related	S	2	0	0 %
Social - Review Drug Pricing or Distribution	S	9	0	0 %
Social - Prepare Report on Health Care Reform	S	6	1	17 %
Social - Charitable Contributions	S	2	2	100 %
Social - Political Contributions Disclosure	S	14	4	29 %
Social - Political Lobbying Disclosure	S	15	0	0 %
Social - Political Activities and Action	S	1	1	100 %
Social - Report on EEO	S	8	0	0 %
Social - Labor Issues - Discrimination and Miscellaneous	S	11	2	18 %
Social - Gender Pay Gap	S	11	0	0 %
Social - Workplace Sexual Harassment	S	1	0	0 %
Social - Animal Welfare	S	9	4	44 %
Social - Animal Testing	S	1	1	100 %
Social - Animal Slaughter Methods	S	1	1	100 %
Total		476	208	44 %



Co-filing Human rights resolutions examples

Meta: 3 resolutions

- Dual shareholder class structure
- HR DD on Metaverse
- Content moderation (hate speech)

Amazon: 2 resolutions

- Labour rights and freedom of Association



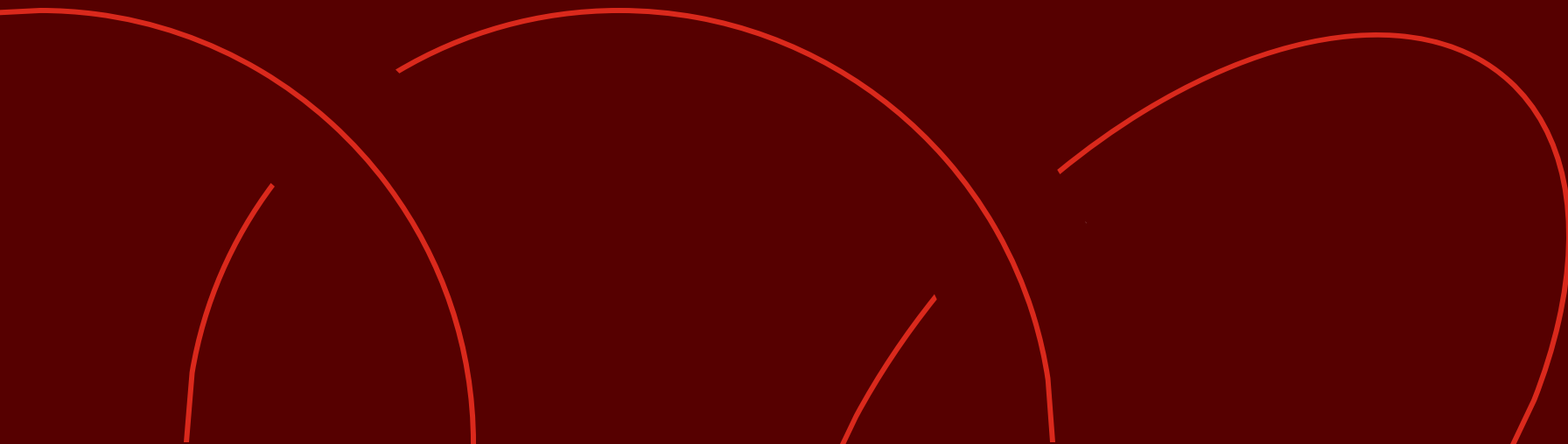
Observation list – Escalation

Storebrand asks Eolus Vind AB to:

- 1) Carry out a new and proper consultation process, with Jillen-Njaarke reindeer herding district, to seek their Free, Prior and Informed Consent (FPIC) about the wind park's continued operation, including mitigating measures that should be taken to allow unhindered access to winter grazing area number 5.
- 2) Adopt a policy on respect for indigenous peoples' rights, to be applied in all the company's projects henceforth.



Exclusions



Firmwide exclusion criteria – applicable for all funds



* Companies may be excluded on the basis of several criteria
 ** For conduct-based exclusions, we have separated the analysis from the decision making. Decisions on exclusion and inclusion are done by a council of group level directors and are presented in an anonymous format to preserve the objectivity in the process. For product-based exclusions, given their binary nature – most of these are automated. In addition, the funds adhere to extended exclusion criteria.
 *** Investment Office is comprised of, inter alia, SAM CEO, all Investment Directors from SAM, and Head of Risk and Ownership (R&O). A decision for exclusion is presented by R&O Team based on previous precedence. Investment Office can send case further for final decision to Investment Committee.



Can lead to exclusion depending on response from company (ex.)

Ongoing serious or systematic violations of:

- Worker and Labour Rights
- Indigenous Peoples rights
- Human rights in conflict: Ukraine, Myanmar, oPt, W.Sahara
- Product safety
- Gender discrimination and sexual harassment

EX. 24 + companies currently excluded for Human Rights violations linked to OpT

Alstom

Bank Hapoalim

Bank Leumi

Cemex

Elbit Systems

Heidelberg Cement AG

Israel Discount Bank

Mizrahi Tefahot Bank

Motorola Solutions

General Electric

Israel Chemicals

Shapir Engineering & Industry Ltd.

Paz Oil

Orbia

Bezeq

Enlight Renewable

Ashtrom Group

Electra Ltd.

Shikun and Binui Ltd.

Shapir engineering

Elco Ltd

Danya Cebus

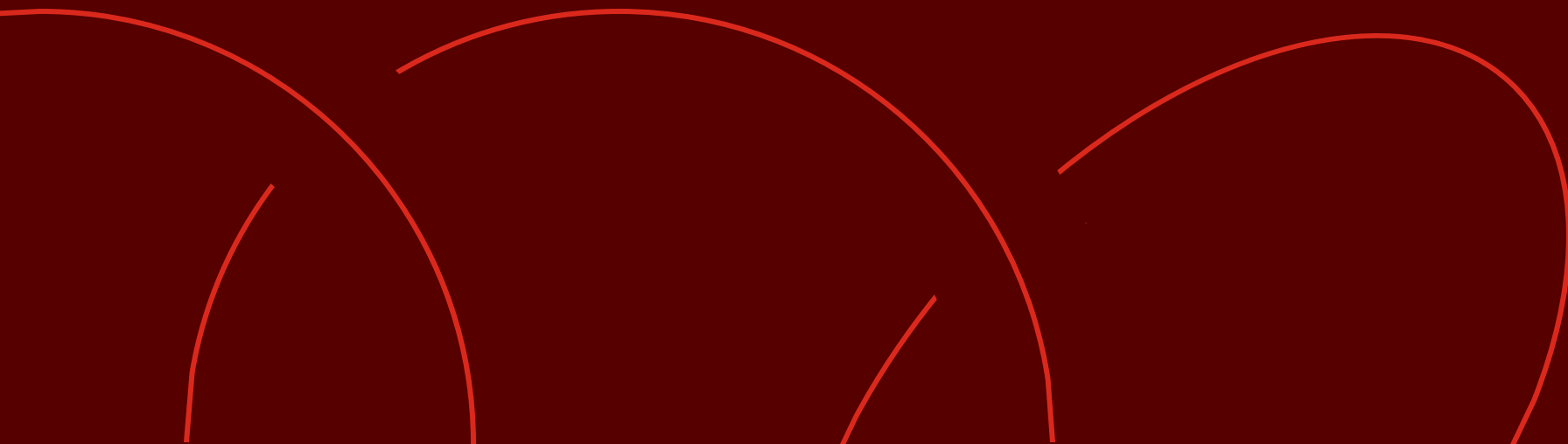
CAF

IBM

NB: Additional companies have been formally excluded but have fallen out of investment universe – therefore not on STBs public exclusion list. Moreover, many companies from various lists (UN, Who Profits, Fagforbundet, ect.) may not be formally and publicly excluded – this can be because we have no investments, the companies are not in our investment universe, we have on-going engagement with the company, or we do not assess them to be in breach of our HR exclusion criteria.



4. Track and Communicate



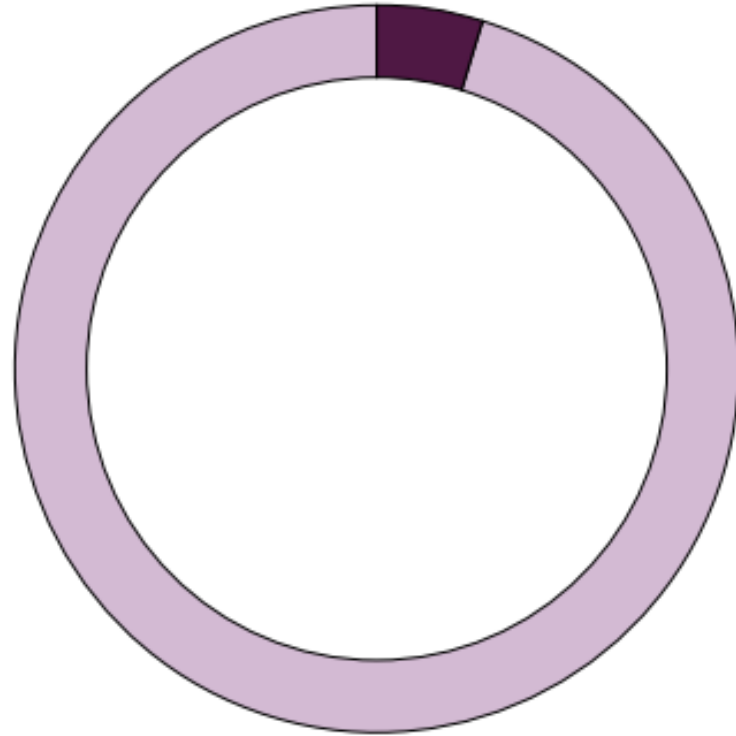
Internal tracking of engagement progress

The screenshot displays the 'esgaia. Analytics' interface. On the left is a navigation sidebar with options: Storebrand, + New, Dashboard, Portfolios, Counterparties, Engagements, Activities, Analytics, Shared, Voting, and Controversies. The main content area features a filter panel at the top with the following settings: 'From' 2024-01-01, 'To' 2027-09-09, 'Countries' (Select), 'Funds' (Select), 'Statuses' (Select), 'Conducted by' (Select), 'ESG categories' set to 'Social', and 'Engagement topics' (Select). A checkbox 'Include all ongoing engagements this period.' is checked. Below the filters are tabs for 'Progress', 'General', 'Counterparties', and 'Custom fields', with 'Progress' selected. An 'Export data' button is in the top right of the main area. The main content shows 'Showing 569 engagements from 2024-01-01 to 2027-09-09'. It is divided into two panels: 'Overview' and 'Status'. The 'Overview' panel contains four metrics: 567 Ongoing engagements, 2 Finished engagements, 442 Counterparties, and 134 Performed activities. The 'Status' panel features a donut chart titled 'Distribution of engagement statuses for all ongoing engagements' with a legend: 1.2% Positive (green), 95.1% Neutral (grey), and 3.5% Negative (red).

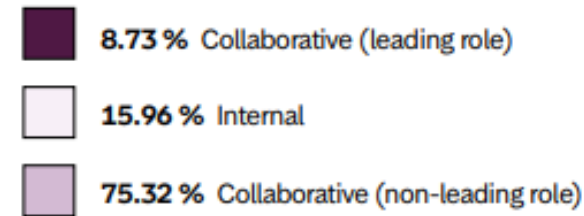
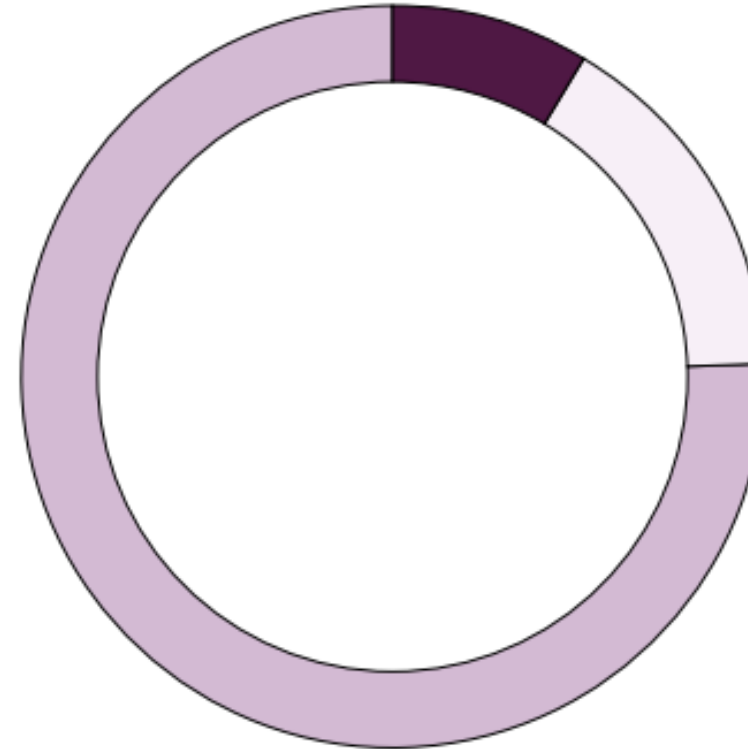


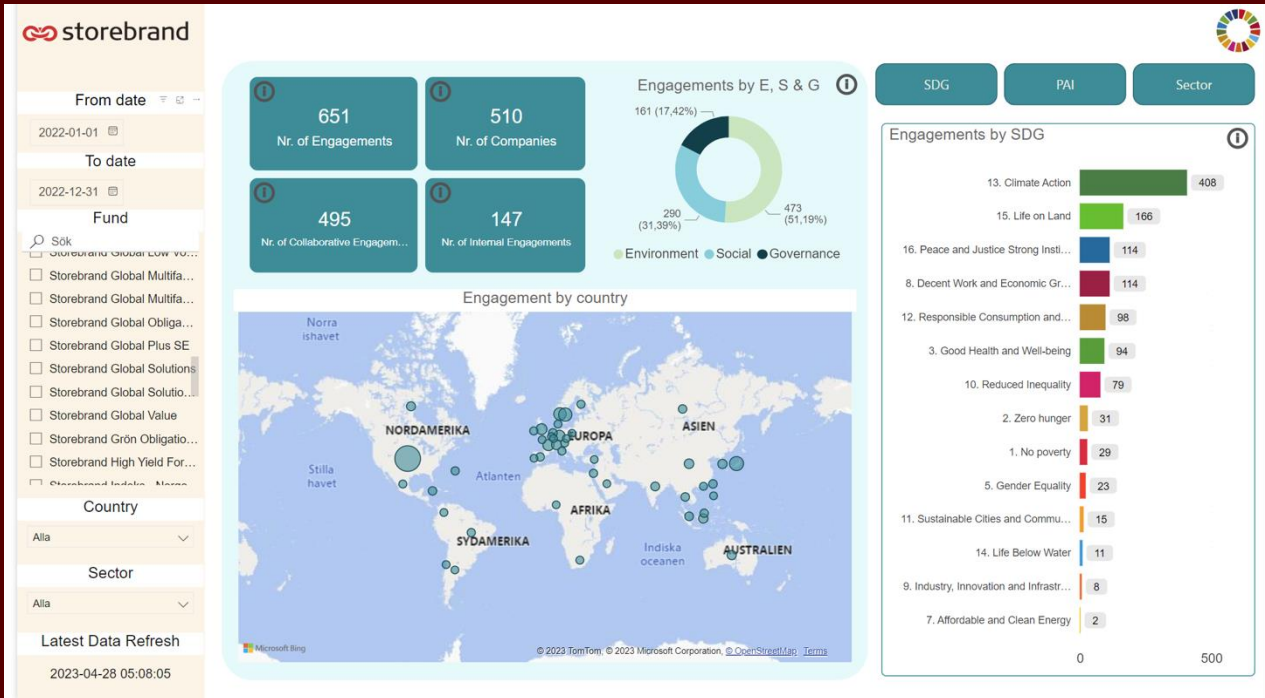
Why and how we engaged

Reasons for engagements



Format of engagements





Our engagement in numbers

Storebrand Engagements

From 06/10/2023 To 06/10/2024 All funds Apply filter

Engagements

Each "engagement" is a planned dialogue with one company, or several companies together, in a structured processes, with predefined objectives, milestones and target timelines. The engagements include touchpoints and actions such as in-person meetings, letters, e-mails and so on, each of which we classify as an "activity". The engagement can be conducted both individually and in direct contact with the company, or in collaboration with other investors.

669 Ongoing engagements	474 Counterparties engaged with	243 Performed activities
-----------------------------------	-------------------------------------------	------------------------------------

Proxy Voting Dashboard

Filters Votes Management Proposal Market Meeting Sector

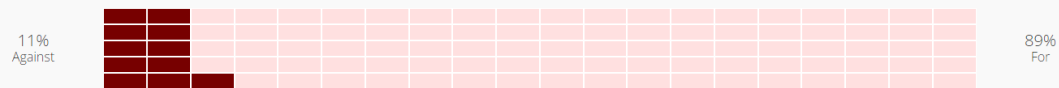
Filters

Meeting Date Range: From 01-Jan-2024 to 15-Jun-2024

Fund: All Funds

Company Search: Name, Security ID, or Ticker Update

Alignment with Management



Expand

Votes cast were in line with management recommendations 89% of the time, with 11% contrary to management recommendations.

Storebrand Exclusion List

Q1 2024

Exclusion category:	
Conduct-based exclusion - Environment	20
Conduct-based exclusion - Corruption and Financial Crime	9
Conduct-based exclusion - Human Rights and International Law	60
Tobacco	27
Controversial weapons	40
Climate - Coal	114
Climate - Oil sands	5
Climate - Lobbying	4
Arctic drilling	0
Deep-sea mining	1
Marine/riverine tailings disposal	4
Deforestation	14
Cannabis	0
State-controlled companies	15
Total number of companies	298*

- SK Inc.
- Southern Copper Corp.
- Tokyo Electric Power Co. Holdings, Inc.
- Vale SA
- Vedanta Ltd.
- Volkswagen AG
- Zijin Mining Group Co., Ltd.

Conduct-based exclusion - Corruption and Financial Crime

- China Railway Group Ltd.
- Gerdau SA
- JBS SA
- Korea Electric Power Corp.
- Leonardo SpA
- Olympus Corp.
- Teva Pharmaceutical Industries Ltd.
- Wirecard AG
- ZTE Corp.

Conduct-based exclusion - Human Rights and International Law

- Activision Blizzard, Inc.
- Alstom SA
- AviChina Industry & Technology Co., Ltd.
- Bank Hapoalim BM
- Bank Leumi Le-Israel Ltd.
- Bayer AG
- Bezeq The Israeli Telecommunication Corp. Ltd.
- Bharat Electronics Ltd.
- CEMEX SAB de CV
- Centrais Elétricas Brasileiras SA
- China Petroleum & Chemical Corp.
- Cognyte Software Ltd.
- Construcciones y Auxiliar de Ferrocarriles SA
- Daewoo International Corp
- Delek Group Ltd
- Dongfeng Motor Group Co., Ltd.

Sustainable Investment Review
Q1 2024

Storebrand Asset Management

SUSTAINABLE INVESTING

10 Guest opinion
PRI's Tim Steinweg on lobbying, deforestation and financial risk

18 Transparency
Kamil Zabielski on what's next after CSRD & CSDDD

35 Active Ownership
Jan Erik Saugestad on our early adoption of TNFD

39 Voting
Vemund Olsen AGM season voting preview

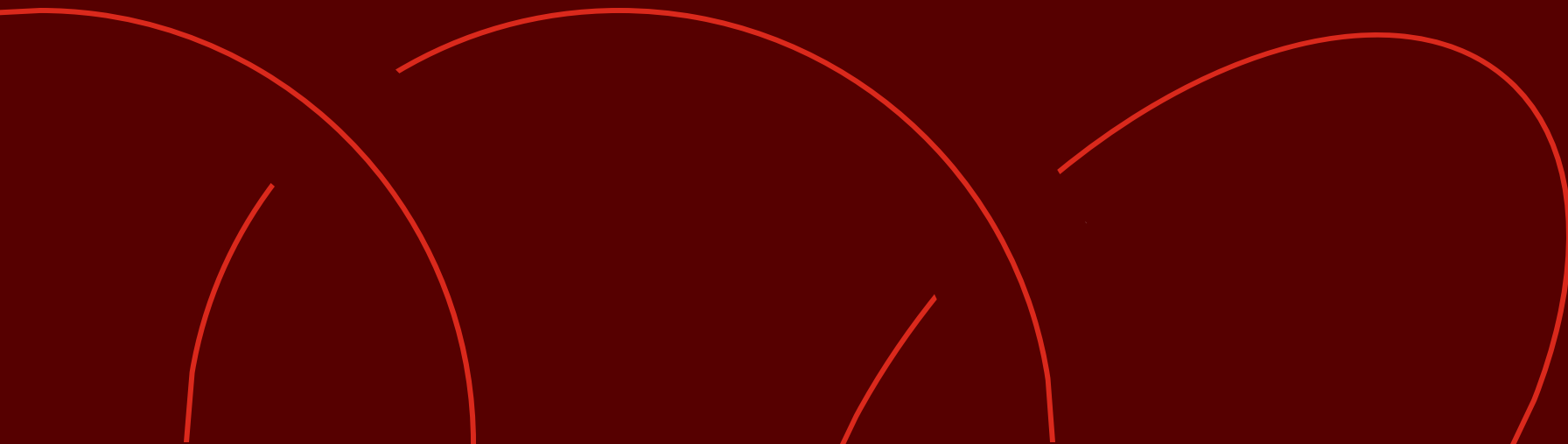
54 Exclusions
IBM excluded for human rights in occupied Palestinian territories



 **Storebrand**



5. Challenges



'We need green energy, but there is an Indigenous people's rights threshold you can't cross'

1.Data and information gaps on human rights risks

- coverage, quality, methodology = varies across the ESG data providers
- do not cover certain conflicts and human rights risk areas
- clients screening against specific data providers

2.Green transition vs. respect for human rights

3.SFDR Regulation

- PAI 10 – Breaches of OECD MNE Guidelines/UNGPS

4. CSDDD

- Asset managers not in scope of regulation however required to disclose and report on human rights risks (SFDR - PAIs)



Patricia Nicolau

Environmental, Social/Human Rights Advisor,
FMO

FMO

Entrepreneurial
Development
Bank

HUMAN RIGHTS IN FMO DECISION MAKING

LSFI | SEPTEMBER 2024



Sucafina coffee | Uganda

Enterprises should carry out human rights due diligence to identify, prevent, mitigate, and account for how they address their impacts on human rights. This involves proactive due diligence, preventing or mitigating adverse impacts, ensuring remediation when necessary, and maintaining transparency and accountability in their practices.

Due diligence should be a continuous process involving:

- Identifying actual and potential human rights risks.
- Integrating and acting on the findings to prevent or mitigate risks.
- Tracking the effectiveness of measures taken.
- Communicating how impacts are being addressed to stakeholders.

2013

we committed to upholding the UNGPs

2016

we signed the Dutch Banking Sector Agreement



2017

launch of our Human Rights (HR) Position Statement

presented implementation plan to civil society

2018

development and testing of direct human rights toolkit

issued our 1st human rights report



2019

development and testing of indirect human rights toolkit

Integrated our 2nd human rights report in our annual report

2020

Issued the 2nd integrated human rights report in our annual report



Launched the human rights defenders protocol

2021

Issued the 3rd integrated human rights report (annual report)

2022

Issued the 4th integrated human rights report in annual report

launch of FMO website on Human Rights

The Implementation of our human rights commitment - FMO

2023

EDFI alignment on human rights guide and toolkit

issued our 5th Integrated human rights report

launch of FMO Supply Chain toolkit with human rights lens

Supply Chain Risk Assessment and Management Toolkit (alliancebioiversityciat.org)

2024

working on:

- Remedy
- Responsible exits
- ICM policy update



I Right to life



IV Right to an adequate standard of living



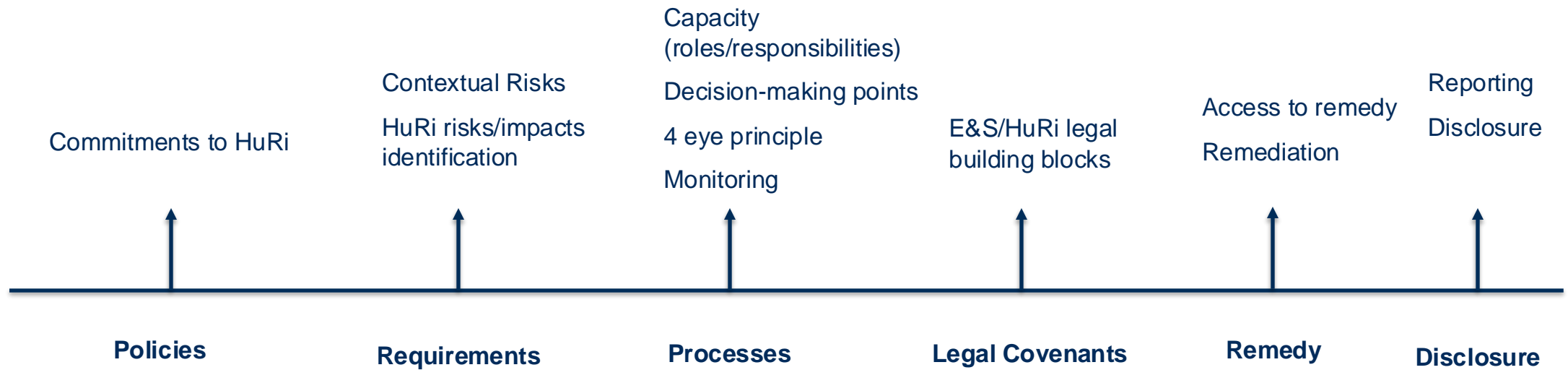
II Right to decent work



III Rights of vulnerable people



V Right to not being subject to cruel and inhumane or degrading treatment

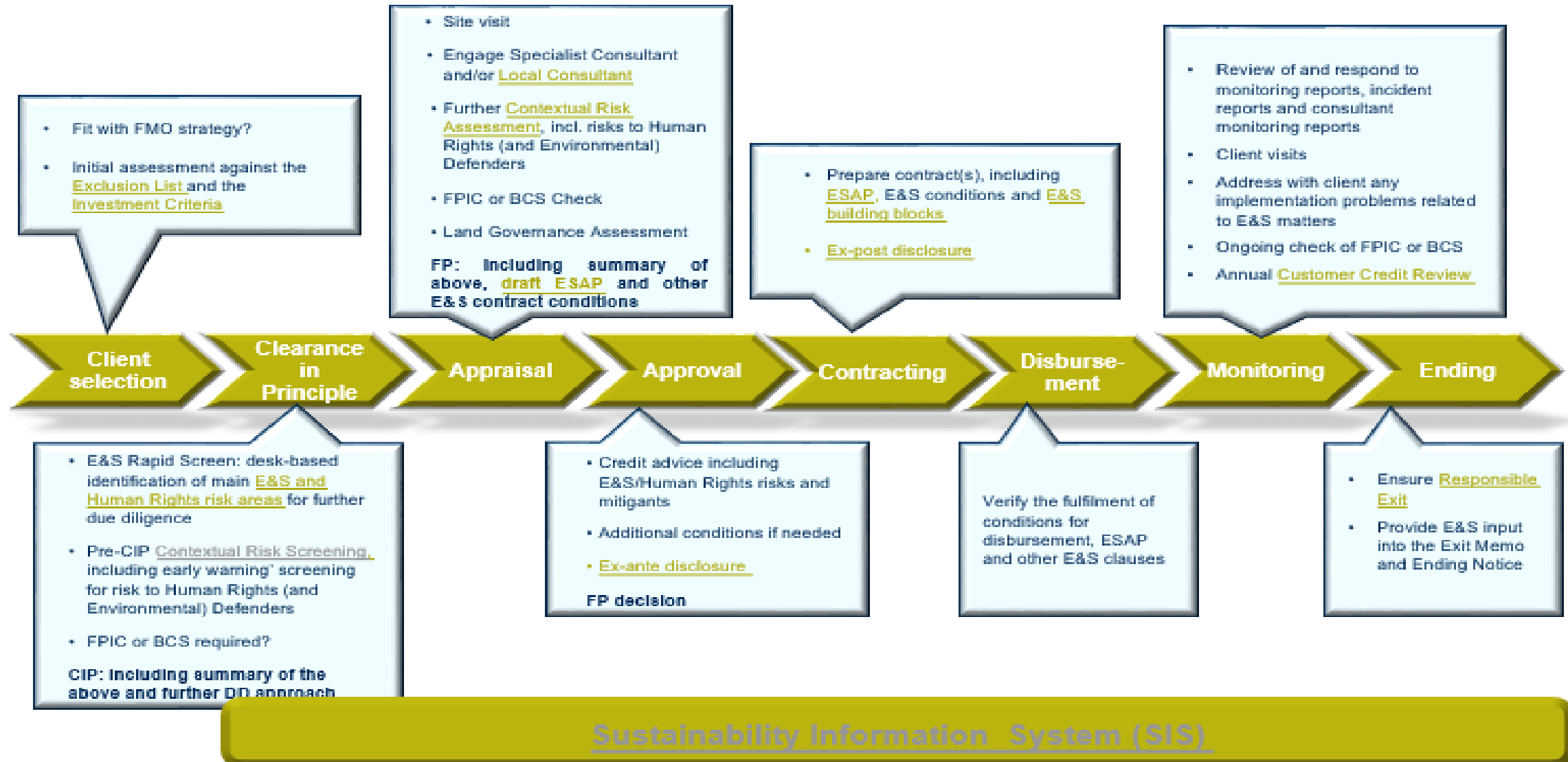


Firm Commitment:

- Implement the United Nations Guiding Principles on Business and Human Rights (UNGPs) & OECD guidelines
- Human Rights Position Statement

Respect human rights by explicitly and systematically addressing human rights in due diligence and across our investment process





We developed human rights toolkits for both indirect and direct

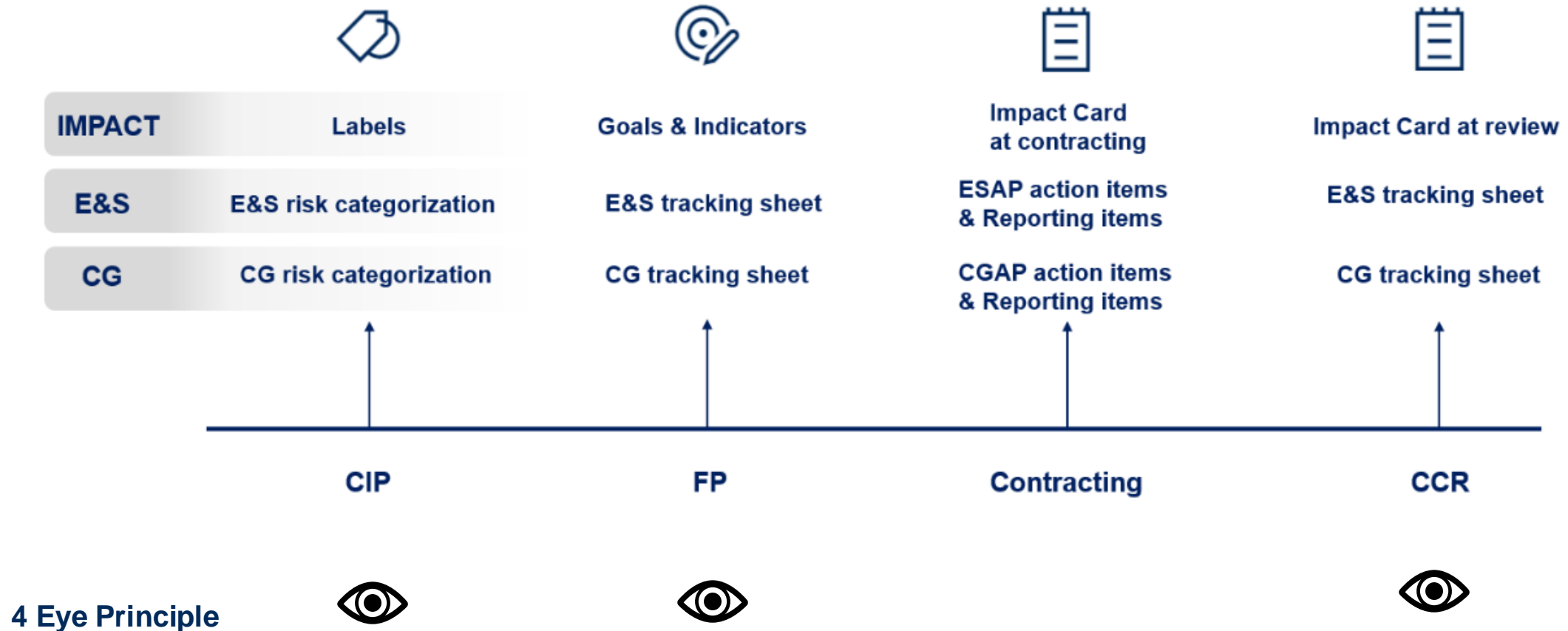
- to ensure systematic and structured implementation of human rights assessment;
- toolkits are complementary to the IFC Performance Standards and for direct investments it includes guidance on **broad community support**, **free prior and informed consent**, **land issues** and **contextual risk analysis**.

We developed trainings on human rights

- FMO staff followed e-learnings on the foundations of human rights (mandatory)
- Environmental & Social officers receive training, job mentoring and coaching on human rights

We systematically include human rights in our due diligence

- We have incorporated human rights assessment and decisions at all levels of FMO's investment process including in our four-eye principle check.



CLEARANCE IN PRINCIPLE

- Conduct contextual risk assessment
- Early-warning screening for risks to human rights defenders
- Assessment of Broad Community Support (BCS) / Free, Prior and Informed Consent (FPIC)
- Human rights risks present

FINANCIAL PROPOSAL

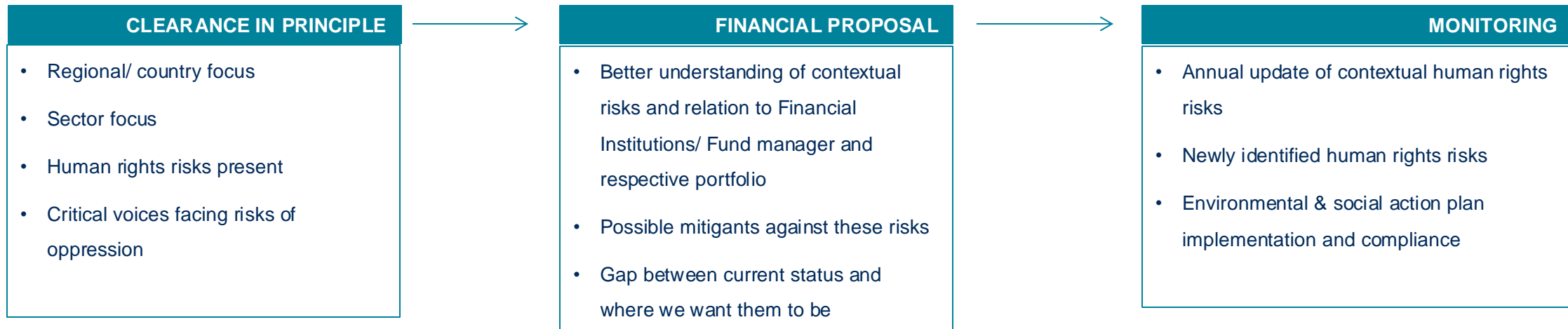
- Due diligence, on the ground
- Further assessment of contextual risk
 - More systematic assessment of BSC and FPIC
 - Further assessment of human rights defenders
 - Environmental & social action plan with human rights mitigation actions lined to contract.

MONITORING

- Addressing problems with implementation of environmental & social /human rights due diligence and human rights emergencies
- For newly identified human rights risks set up corrective action plans



Due diligence visit to sugarcane farmers | India



“We really try to engage with the community and not only donate money but to be a part of those social projects”

Carolina Baltodano, Environmental and Social Coordinator at CMI Energía's wind farms in Cost Rica

The IFC Performance Standards lens

- Materiality
- Looks at project impacts as impacts to people
- Impacts can be traded (offset/ compensated)

The human rights lens -

- Saliency
- Looks rights holders whose rights are infringed by project activities
- Human rights cannot be traded, offset, compensated, but can be prioritized
- Some vulnerable groups that are not as explicit (E.g. Child rights)

The human rights lens complements the IFC Performance Standards providing us with a more holistic, more integrated approach to project impacts & rightsholders.



Disclaimer

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Thank you for your attention.

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