Declaration of the Paris Financial Center

Paris, June 22, 2023

Summit for a new global financing pact

Paris financial Center committed

On the occasion of the Summit for a New Global Financing Pact, the Paris financial center confirms its commitment to fighting global warming, preserving biodiversity and social wellbeing, and increasing the financing of growth and decarbonisation in emerging and developing countries. Given the scale of the needs, public funding will not be enough and increased private funding is essential.

The Paris financial center is committed to financing development

Convinced that cooperation is the key to meeting the challenges of development, Paris Europlace has for several years been developing partnerships with leading players in African finance, in particular with the African Development Bank, the Bourse régionale des valeurs mobilières (BRVM) and several African financial centers. Numerous initiatives have been taken in this context, including the setting up of AfricaFinlab and the Observatoire de la finance africaine, and the publication of a report on the disintermediation of corporate finance in Africa.

Infrastructure financing is also one of the priorities identified in Paris Europlace's areas of cooperation in Africa. Infrastructure is both an accelerator of economic emergence in Africa and a driving force behind the success of the dual transition – sustainable and digital. Paris Europlace's reports on these subjects emphasise the need to mobilise private investors, both domestic and international, and to strengthen the administrative and institutional capacities of governments, in order to develop bankable projects. In response to this dual challenge, Paris Europlace has launched a platform for presenting infrastructure projects from emerging countries, particularly in Africa, to international investors as part of Paris Infraweek, one of the most important infrastructure financing events in Europe.

At the same time, Paris Europlace has launched a capacity-building programme with the IFC (World Bank), "Capital Markets for Sustainable and Inclusive Finance, IFC-Europlace-Dauphine", which aims to strengthen the abilities of senior African civil servants in finance and financing.

The Paris financial centre has identified the importance of redirecting capital from the North to the South and of encouraging private investment. In 2021, the IFD (formerly Finance For Tomorrow) published "Cartographie des acteurs français pour le financement du développement", which presents 40 key players in the French ecosystem and their position in the life cycle of a sustainable infrastructure project in a developing country. While this mapping shows that the Paris financial centre brings together all the players in the development chain for infrastructure projects in emerging countries, it also summarises the obstacles encountered and calls for greater synergies to accelerate the transition of these countries.

Speeding up the mobilisation of the private financial sector

Today, financing growth and the climate transition in developing countries still requires the mobilisation of considerable resources. To meet this challenge, French financial players are calling for the implementation of the following solutions, which are necessary to develop the mobilisation of the private sector:

Strengthening the financing facilities granted by public institutions or philanthropic organisations to improve risk-sharing for investments in the ecological transition in emerging countries.

To attract and mobilise private investors in emerging countries, **it is essential to strengthen catalytic capital, which is the only way to de-risk high-impact projects.** In other words, blended financing to direct private capital towards achieving sustainable development objectives by mobilising funds from public or philanthropic sources to attract this capital and create investment opportunities in developing countries. Public or philanthropic institutions capable of investing first in high-risk or low-return projects (in the form of concessional capital, credit assistance, technical assistance funds, subsidies, etc.) have a institutions have a strong driving force on private players. The Private Sector Window (PSW) of the International Development Association (IDA) mobilises funds and provides long-term financing to mitigate investment risks in fragile and low-income countries. Nevertheless, this tool must be able to be used more broadly for climate transition projects in all developing countries and must be used to increase the participation of private financiers, not just development banks and financial institutions. This is why, rather than increasing the funds allocated to the PSW, **the Paris financial center is supporting the creation of a new financing capacity of this type, a Catalytic Climate Finance Facility**, specifically designed to support climate transition projects in emerging countries and developing economies by attracting private capital on a larger scale.

This facility could be inspired by the initiatives launched by the global blended finance platform *Convergence Blended Finance*. This new facility, with its multi-player governance, appears to be an alternative financing solution, which could offer, in addition to technical assistance, funds available for credit enhancement in the form of subordinated tranches or first-loss guarantees.

Redefinition of risk management policies by MDBs and DFIs

To meet the shared objective of helping countries implement their climate roadmaps and Sustainable Development Goals (SDGs), multilateral, regional and national development banks must play an even more effective role in improving risk profiles by systematically seeking to bring in private financial players. In this context, we suggest the use of performance indicators linked to the subsidiarity and complementarity of these institutions' financing with the private sector, such as the proportion of transactions not involving any private financial player, the proportion of transactions in which private financiers account for more than 50% of the amount of financing, or the proportion of the amount provided by private financiers in collaboration with an MDB/DFI in relation to the amount financed by the latter in a given year.

Open access to data on the GEMs platform to all players

Making historical credit performance data accessible to all players is essential to facilitating private finance in emerging and developing economies. As proposed in the preparatory work for the Summit, **there is an urgent need to make the Global Emerging Markets (GEMs) Risk Database Consortium – managed by a large consortium of development banks – immediately available.** Sharing data with all private players, whatever their size or sector, is a key factor in improving risk assessment in developing countries, as well as enhancing the skills of analysts working on the economic and market situation in these countries. This accessibility would also make it possible to improve the quality of ratings for low-income countries with a positive payment track record. This tool, if open to all, would play a key role in our joint effort to mobilise the private sector to finance projects in emerging and developing countries.

Strengthening local capacity to source deals and carry out due diligence in developing countries

Civil servants in developing countries often lack the knowledge and/or experience to design and implement complex infrastructure projects and analyse all their impacts. Similarly, not all institutional investors in emerging countries have the expertise or the teams to source deals and carry out due diligence. These players need credible and competent intermediaries, whether solid funds with credible guarantees or banks offering mixed financing vehicles. To achieve this, we support two types of action: **on the one hand, initiating work to map and identify the players in the field who need support and, on the other, strengthening training programmes** such as the Capital Markets programme (IFC-Europlace-Dauphine) launched at Paris Infraweek in 2021 and the Africa Infrastructure Fellowship Programme (AIFP), initiated and funded by private players. Public financial support for these programmes, which are currently financed by the private sector, is essential in order to scale up these programmes, multiply their impact and economic spin-offs for France, and create the conditions for the emergence of profitable projects on which industrial and financial players can position themselves.

Developing a voluntary and rigorous "Nature market"

The Paris financial centre calls for the definition of a market framework for carbon credits with high environmental and social value and the development of a voluntary market for biodiversity certificates or positive contributions to nature and mankind, and for the adoption, at international level, of a consensual definition of these biodiversity certificates/biocredits/positive contributions.

Official discussions have recently begun at international level, which should bring together all the public and private players thinking about structuring such a market, in order to define the ambitious and robust framework within which this "Nature market" will emerge, and which should be integrated into the avoid-reduce-compensate (ARC) sequence and in application of the principles of the Science Based Target Network for nature (SBTN).

Alongside the creation of a new voluntary market linked to biodiversity, it is also very important for the Paris financial center to play an active role in developing the use of capital markets to direct substantial investments towards conservation projects in emerging countries, notably via enhanced sovereign bond issues (Debt for Nature Swaps NBS). The French financial eco-system needs to be organised so that it can effectively support any Nature-based Solution-type project designed to maximise the eco-benefits for biodiversity and local communities.

Creation of a forum of committed players within the Institute for Sustainable Finance, to give concrete expression to the increased mobilisation of the private sector and contribute to the "Paris Dialogue"

To encourage collaboration and accelerate the flow of private finance to developing and emerging countries, the Paris financial centre has decided to create a dedicated forum within the Institute for Sustainable Finance (IFD), bringing together all stakeholders.

An ecosystem approach, involving all the stakeholders – public development banks, banks, investment fund managers, institutional investors, rating agencies, training programmes, public authorities, regional agencies, consultants, etc. – is essential if the right incentives are to be put in place and if we are to act collectively and coherently. In France, the Institute for Sustainable Finance is the place where this ecosystem comes together. This is why the Paris financial center is proposing to host this **"climate finance, biodiversity and development" forum.**

This dedicated forum, which will act as a privileged interlocutor for the public authorities, will be fully in line with the Paris Dialogue on sustainable development solutions proposed by the international institutions resident in Paris. It will enable existing initiatives to be implemented more quickly and more fluidly, and will strengthen blended-finance initiatives by initiating a collective debate on the most effective mechanisms to catalyse private-sector financing through official development assistance, thereby helping to redirect flows to developing countries to finance the ecological transition.

The main objectives of this ecosystem could be:

- Optimising the use of public funds for development through direct access to this catalytic capital for banks and private investors and effective monitoring of private investor mobilisation KPIs for all MDBs and DFIs receiving French public funds.

- Pooling the resources of the French financial center by sharing information, economic research, track records, etc., in order to create genuine cooperation that will make the French financial sector more efficient, effective and competitive.

- Massively expanding existing initiatives to train more professionals and decision-makers in developing countries in order to create the conditions necessary for the design of bankable and sustainable projects (ministries, design offices) and for the rise of local long-term investors (pension funds, sovereign wealth funds, insurers, etc.) in the financing of these national infrastructure projects in local currencies.

- The introduction of indicators for monitoring financing, provided by Europlace, to intended for developing and emerging countries.