



Public Development Banks and Philanthropies: No Longer Strangers

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Summary

This paper explores the potential opportunities for collaboration between Public Development Banks (PDBs) and philanthropies, highlighting how a well-designed blended finance framework can align both types of actors and scale up climate investments in emerging economies. It also defines challenges in creating effective synergies between these two types of development finance actors.

The financing gaps to address development needs are enormous and directing capital to the most pressing development needs is critical. For the climate challenges alone, only a small share of global climate finance goes to developing countries nowadays. The private sector currently funds only 14% of green investments in Africa and in non-OECD countries the average is around 35%.

Governments across the globe have recognized that the scale and diversity of private investment needed require new approaches to mobilize all forms of finance—public, private and philanthropic—in complementary ways. Therefore, PDBs play a crucial role in unlocking additional private climate financing and in assisting developing country governments to help domestic financial systems align with the goals of the Paris Agreement. Following the 2015 Addis Ababa Agenda Call to Action, like traditional bilateral donors, large philanthropic organizations also became increasingly aware of the need to use their funding to catalyse new sources of finance for the Sustainable Development Goals (SDGs), as well as tackling climate change.

This paper makes the case for PDBs and philanthropies to work hand-in-hand to mobilize financing and apply technical tools to respond to the call for more collaboration in developing and emerging markets. PDBs and philanthropies have similar investment goals - to focus on advancing development that is responsive to the economic and social priorities of a country in a just and inclusive manner. While these different sources of funding have largely operated independently of each other, this paper argues that the investment needs of our time offer potential for more strategic and effective cooperation, and “blending” between the philanthropic sector and PDBs. In particular, blended finance solutions leveraging philanthropies and PDBs to scale up climate investments in emerging economies is an essential opportunity. Philanthropic resources, combined with financing from public and private sources, can contribute to maximizing the available resources and minimizing costs and risks through developing investment vehicles (via equity, concessional loans and guarantees) and financial structures that maximize the leverage power of the public sector and optimize the use of philanthropic funds.

Five case studies in this paper show existing and new opportunities for PDBs and philanthropies to engage in strategic partnerships to increase the supply of green finance and draw in private investments by, using examples from the Latin America and Caribbean (LAC) region.

Beyond blended finance solutions, PDBs and philanthropies can engage in various other collaborations. This can also drive change within the philanthropic sector, moving a larger number of philanthropic actors to mobilise catalytic capital towards new development finance and use their funding to address the SDGs at a larger scale.

This paper makes recommendations for both PDBs and philanthropies that can underpin collaboration. It also provides a set of recommendations on how PDBs and philanthropies can become more 'engagement ready', making use of blended finance solutions.

1

The need for public and private financial solutions to mobilize the investments needed to respond to the climate and environmental crisis and boost sustainable development

Mobilizing capital for climate action is one of the most important levers to drive sustainable development, preventing catastrophic warming and protecting critical ecosystems. Much of this capital is needed for investment in low-carbon and climate-resilient infrastructure, sustainable agriculture, and nature-based solutions in developing countries.

The Summary of the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) launched in March 2023¹ calls attention to the high likelihood for global temperatures to rise over 1.5 C before 2030, raising the urgency for scaling global efforts to achieve the Climate Change Convention Paris Agreement ambition. The impacts of climate change – ranging from sea level rise, melting ice caps and glaciers, severe weather events, drought, flooding, warming, subtle changes in ecosystems – will impinge on every aspect of society and economic life. The costs of inaction, or delayed action, will more than outweigh the costs of preventive action. There is only a narrow window of opportunity to redress the situation.

Considering the economic life of infrastructure and technology, investments undertaken today will have a large impact on opportunities to achieve lower stabilization levels and have the potential to reduce major climate change impacts over the next 15-20 years. Failure to mitigate now through modifications in development pathways will lock the

1. AR6 Synthesis Report: Climate Change 2023 – IPCC

world into culminating scenarios of emissions, implying more adverse climate change impacts, thereby leading to higher costs for adaptation.

Underpinning this urgent need to modify development and emission pathways is the role of technology and the need to shift and scale up financing and investments. It is estimated that the cost of transitioning economies to become carbon neutral by 2030 is at least USD 4.3 trillion per year² of which at least US\$1 trillion should take place in emerging economies (excluding China). At the same time, emerging countries have been receiving less than 27% of needed investment and financial flows to address climate change³. According to Convergence (2021), the use of blended finance as a tool by investors remained limited despite its potential. Approximately USD 39.1 billion of blended finance from 2015-2020 was directed towards climate-focused opportunities.

The current polycrisis scenario of global recession, energy, production and food crises, due to the disruption of international value chains, as well as the conflict in Ukraine, have resulted in enormous fiscal pressure. Not coincidentally, the need to rethink the global development finance system in order to mobilize resources to end extreme poverty and mitigate the effects of climate change has been central to all recent global forums, including the G20, the Conference of the Parties on Global Climate Change (COP27), the Biodiversity Conference (COP15), and the World Economic Forum. Heads of State in the recent Paris Summit for a new global financing pact⁴ have called therefore the need to work together for a “world where poverty is eliminated and the planet preserved; a world where vulnerable countries are better equipped to face the crises from climate change and conflicts” and highlighted in this context the importance to leverage all sources of finance, including official development assistance, domestic resources, and private investment⁵. Leaders, ministers, heads of institutions and development banks expressed new levels of ambition to change how our finance system delivers capacity to develop and address climate change.⁶

It is therefore urgent to rethink how we should combine public and private financial solutions to leverage investments needed to respond to the climate and environmental crisis to boost sustainable development.

2. <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/>

3. Transitioning to a green economy will cost the world another \$3.5 trillion a year | World Economic Forum (weforum.org); <https://www.rockefellerfoundation.org/wp-content/uploads/2022/11/Climate-Finance-Funding-Flows-and-Opportunities-What-Gets-Measured-Gets-Financed-Report-Final.pdf>; <https://www.mckinsey.com/capabilities/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring>; Just in time | Standard Chartered (sc.com).

4. <https://nouveaupactefinancier.org/en.php>

5. <https://www.elysee.fr/en/emmanuel-macron/2023/06/23/the-paris-agenda-for-people-and-the-planet>

6. <https://www.e3g.org/news/paris-summit-roadmap-raises-expectations-for-finance-system-transformation/>

2

Role of Public Development Banks

Finance In Common offers an opportunity to recognise how PDBs are already playing a key role in providing the critical impetus to support vulnerable economies, as well as catalysing and scaling up private capital flows both to transform emerging and developing economies for a net-zero and nature-positive world and to reduce inequalities more efficiently.

There is more to be done in the development of various forms of new development finance, however, and new partnerships are needed to overcome specific challenges.

Given their unique mandate, PDBs can continue playing a strategic role in supporting coordination between various actors in the financial sector (including philanthropies), as well as combining their concessionary resources and structuring innovative financial instruments and solutions, acting as important actors to scale green investments.⁷

The Development Bank of Southern Africa, for example, positions itself as being policy-responsive, integrating climate and development concerns into how they finance and support beneficiaries. They offer project development support and direct investment flows, but also pilot programmes with other forms of capital (such as philanthropies, and international sources of finance or private sector) that focus on bespoke development or climate challenges.

In similar support in Latin America, multilateral and PDBs have provided long-term financing when crises have hit the region. The Inter-American Development Bank (IDB), the Development Bank of Latin America and the Caribbean (CAF), the Brazilian

7. Özlem Taskin, Valentina Bellesi, Carolyn Neunuebel and Lasse Moller, DAC Network on Environment and Development Co-operation, The role of domestic DFIs in using blended finance for sustainable development and climate action , OECD, 2020,

Development Bank (BNDES), the Development of Minas Gerais (BDMG) and other PDBs have responded to the COVID-19 pandemic and previous crises by providing resources and advice to mitigate the negative shocks' immediate effects, shorten the downfall and strengthen recovery.⁸

A critical problem with global climate finance today is that only a small share of it goes to developing countries. The private sector currently funds approximately 78% of climate investment in high-income countries, but less than 40% in emerging economies, sinking as low as 14% in some regions.⁹ Therefore, the role of PDBs in unlocking private climate financing and in assisting developing country governments to help domestic financial systems align with the goals of the Paris Agreement is of critical importance. PDBs can provide private sector investors with access to country level market intelligence, including on-the-ground insights on the local investment landscape and investor connections.

In Latin America and the Caribbean (LAC), for example, development banks are “essential to filling a \$260 billion-dollar annual infrastructure gap and a \$110 billion annual gap in financing for climate change”. However, it is estimated that they provide “just \$8.7 billion per year in terms of green finance in general, and climate finance in particular is just \$5.9 billion per year.” This shows the potential to scale up green financial flows from development banks to help accelerate sustainable development and achieve the SDGs, in particular when it comes to financing sustainable energy and infrastructure outcomes.¹⁰

In addition to projects in renewable energy and low-carbon transport, more financing can also be made available to sectors sometimes overlooked such as water and waste management, sustainable agriculture, coastal rehabilitation and sustainable infrastructure. At the Paris Summit it was recognized¹¹ that the scale and diversity of the private investment needed requires new approaches to secure the mobilization of all forms of finance, public, private and philanthropic, in complementary ways. The Paris Summit agreed that new and rapidly emerging low-carbon technologies require targeted, long-term efforts and support at a faster rate from PDBs to help governments in developing and emerging countries to understand the latest trends and policy levers available to address market uncertainties.

There are also positive developments to be mentioned. Many development banks have already pledged to increase finance for sustainable development and low carbon development. For example, the “World Bank pledged to increase climate finance to \$29 billion (an increase by one third) by 2025 and the Inter-American Development Bank pledged to make climate finance 25-30 percent of total lending by that time.”¹² However, much more work is needed to respond to the main obstacles and barriers limiting privately financed investments in climate adaptation and mitigation projects in developing and emerging markets.

PDBs' role needs to be expanded to provide support such as long-term loans in particular in local currencies, the provision of risk mitigation by offering different tranches and hedging local currencies to make them more appealing to institutional investors. When PDBs take on more

8. P. Fleiss, “Multilateral development banks in Latin America: recent trends, the response to the pandemic, and the forthcoming role”, Studies and Perspectives series, No. 21, UN Economic Commission for Latin America and the Caribbean (ECLAC), 2021 at https://repositorio.cepal.org/bitstream/handle/11362/46916/S2100262_en.pdf?sequence=1&isAllowed=y

9. Martin Wolf: The green transition won't happen without financing for developing countries, Financial Times, June 20, 2023; CPI, Landscape of Climate Finance in Africa, 2022. <https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-in-africa>

10. https://www.bu.edu/pardeeschool/files/2014/12/Greening.Development.Final_.pdf

See FIC/ GFANZ declaration: <https://financeincommon.org/sites/default/files/2023-06/Declaration%20GT3.pdf>

12. https://www.bu.edu/pardeeschool/files/2014/12/Greening.Development.Final_.pdf

risk, providing capital while protecting their shareholders' value, the right amount of capital is unleashed.

Another key barrier is bridging a perception gap between investment according to sustainability criteria such as the environmental, social and governance (ESG) framework and additional volume of investment that these challenges require. Impact investing and ESG evaluation are starting to be concepts that people see as a way to ask for low profitability.

Yet a PDB in its activities can reinforce a perception of these as competitive through collaboration with philanthropy. In new development finance and private sector engagement, addressing crises will involve mobilising the required capital to solve climate action or social change challenges by increasing its perception as a truly profitable activity for private sector investors. A key role of PDBs can be to support the path to profitability of such types of vehicles and investments through building legitimacy and trust by balancing impact-generation with profitability.

With their strong in-country presence, connections with governments, and access to global developments on emerging climate technologies, PDBs can play a critical role in advancing the policy dialogue in this area at the national level. In this context, as noted in the FICs' declaration for a new pact between public and private investors¹³ PDBs, private investors, and philanthropies need to work together to mobilize financing and apply technical tools to respond to the call for more collaboration in developing and emerging markets¹⁴.

13. <https://financeincommon.org/sites/default/files/2023-06/Declaration%20GT3.pdf>

14. <https://financeincommon.org/sites/default/files/2023-06/Declaration%20GT3.pdf>

3

Role of Philanthropies

While much of the capital to address climate change currently comes from governments, global climate funds, PDBs and private investors, there is no question that philanthropy can play a vital role in the world's response to climate change by targeting geographies, sectors, and co-sponsoring solutions, utilising a range of their assets such as funding, networks, influence, expertise, risk appetite - to support, pilot and scale solutions. This includes both larger philanthropic organisations based in high- and upper-middle-income countries, and smaller local philanthropic organisations found in low- and lower-middle-income countries.

The term *philanthropies* or *philanthropic organisations* is used in this paper to capture a wide range of philanthropic activities, practices and organisations. Along with individual donors in those countries, they also share a distinctive ability to deploy nimble, risk-tolerant, patient capital in ways that can support high-value interventions directly and can attract more funding from other sources.

What is philanthropy?

Philanthropy refers to the practice of giving time, money, experience, skills and or talent, all with the altruistic objective of improving human welfare. It includes individual giving by everyday givers and high net-worth individuals, or institutional giving through corporates, foundations and other specialized institutions.

From "Understanding the Meaning of Terms - Definitions and Taxonomy", WINGS, September 2021

According to a 2021, OECD Report taking stock of Philanthropy Contribution to Development¹⁵, the number of philanthropic organizations operating in emerging markets increased from 143 in 2015 to 205 in 2019 and contributed \$42.5Bn to development outcomes between 2016-2019. In addition, local philanthropic organizations make sizable contributions to local development initiatives, particularly in middle income countries such as Colombia.

Not only are philanthropic investments growing, but more and more philanthropic organizations are expanding beyond traditional development investments in health care, education and basic shelter and sanitation. Philanthropic organizations now play a stronger role in supporting the development of more vibrant private and financial sectors in lower- and middle-income countries. They are also using private sector approaches to scale up innovations in health care, agriculture and climate change.

By virtue of their origins, most private foundations understand the important role private sector development plays in creating sustainable businesses, employment and livelihoods. Often philanthropic organizations have roots in the private sector: seasoned executives take seats on the boards of Non-Governmental Organizations; business leaders establish philanthropic arms to invest in charitable activities and high-net worth individuals make angel investments in social impact businesses in low to middle income countries¹⁶.

Following the 2015 Addis Ababa Agenda Call to Action, like traditional bilateral donors, large philanthropic organizations also became increasingly aware of the need to use their funding to catalyse new sources of finance for the Sustainable Development Goals. Climate finance, health innovations and financial inclusion became focus themes for philanthropic efforts to mobilize private sector resources¹⁷.

Philanthropies engagement and positioning to address climate change has been increasing significantly in the last years¹⁸. In 2019, philanthropic organizations raised \$1.5 billion for climate finance¹⁹. In November 2021, at COP 26, a total investment of \$10 billion was announced by a partnership formed between philanthropic institutions, investors, innovators, energy companies and governments. The philanthropic sector has taken the lead and mobilized public and private capital, thereby avoiding the emission of four (4) billion tons of CO₂ over the next decade. The initiative seeks to address the lack of access of 3.6 billion people to electricity abundantly and reliably, which compromises their ability to communicate, study, irrigate the crop, refrigerate food and make factories run. It seeks to catalyse a just energy transition by mobilizing public and private capital to make clean energy reach one (1) billion people distributed across multiple continents.²⁰

These are positive developments and significant philanthropic investments made. However, there is scope for more philanthropies to join such existing or new collective efforts. Cooperation between philanthropies and PDBs can thereby help moving a larger number of philanthropic

15. https://www.oecd-ilibrary.org/development/private-philanthropy-for-development-second-edition_4f3e7f68-en

16. <https://www.rockefellerfoundation.org/news/global-philanthropies-create-new-multilateral-development-banks-challenge-fund-to-increase-investment-in-developing-countries/>; <https://www.i-financialconsulting.com/projects/development-finance-landscape-report/>; <https://worldwaterweek.org/event/10641-siwi-seminar-water-related-investments-and-economic-development-23>

17. <https://www.rockefellerfoundation.org/wp-content/uploads/2023/02/Tapping-the-Potential-of-Borrower-Led-Multilateral-Development-Banks-Report-Final.pdf>;

18. McKinsey (2021): It's time for philanthropy to step up the fight against climate change

19. <https://www.rockefellerfoundation.org/wp-content/uploads/2023/02/Tapping-the-Potential-of-Borrower-Led-Multilateral-Development-Banks-Report-Final.pdf>;

20. The Rockefeller Foundation. "Global Energy Alliance for People and Planet (GEAPP)".

actors to mobilise catalytic capital towards new development finance and using their funding to address the SDGs at a larger scale - driving change within the philanthropic sector as well.

In addition to big financial philanthropic contributions to climate projects, there is also change within the philanthropic sector. The #PhilanthropyForClimate movement brings together over 650+ foundations focusing on scaling up philanthropic engagement around climate change, including changes to their own programme implementation, operations, use of endowment and assets, as well as advocacy.²¹

While philanthropy cannot replace governments or businesses in delivering the vast amount of resources needed to tackle the climate crisis, it can play a significant role in catalysing policy change and improving overall resource allocation. A recent example is the Methane Pledge (20 philanthropies, 223 million collectively) ahead of COP26. The alliance also supported the diplomatic effort spearheaded by the United States and the European Union's Global Methane Pledge. It helped create momentum for countries to step in a strong political declaration to reduce Methane related emissions.

As private philanthropy has become an integral part of the development finance landscape, collaborative work in partnership with all multilateral and bilateral funders and international institutions has grown. The European Council recently called²² for multilateral development banks - as well as national and regional ones - "to take responsible steps to do much more with existing resources and to increase financing capacity and private capital mobilisation", and to "work together as an ecosystem, closely with other public agencies and streamlined vertical funds - and, where appropriate, with philanthropists, sovereign wealth funds, private finance and civil society - to deliver the greatest impact."

At the Summit on a New Global Financing Pact²³ in June 2023, world leaders put forward a vision²⁴ for multilateral development banks to work more integrated "as a system, also in cooperation with regional and national development banks as well as UN agencies and philanthropies, forming the heart of a wider global financial architecture, based on comparative advantages, supported by civil society".

21. <https://philanthropyforclimate.org/about-us/>

22. European Council, "A green transition that leaves no one behind": world leaders release open letter", 23 June 2023, at <https://www.consilium.europa.eu/en/european-council/president/news/2023/06/23/20230622-op-ed-on-green-transition/>

23. Summit on a New Global Financing Pact, 22-23 June 2023, at <https://www.elysee.fr/en/emmanuel-macron/summit-on-a-new-global-financing-pact>

24. Presidency of France: Multilateral Development Banks vision statement", 23 June 2023, at <https://www.elysee.fr/en/emmanuel-macron/2023/06/23/multilateral-development-banks-vision-statement>

4

Potential of blended solutions between Public Development Banks and Philanthropies

PDBs and philanthropies have similar investment goals - to focus on advancing development that is responsive to the economic and social priorities of a country in a just and inclusive manner. They have typically done so by applying a patient capital lens that is also nimble and reflexive. While these different sources of funding have largely operated independently of each other, the investment needs of our time increase the potential of more strategic and effective cooperation, and “blending” between the philanthropic sector and PDBs.

Developing blended finance solutions between philanthropies and PDBs to scale up climate investments in emerging economies is therefore an essential opportunity to explore²⁵.

Definitions of blended finance usually translate on as a mixed, or hybrid, financing that combines different types of capital, such as private, public, and philanthropic.

25. <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2021/11/Blended-Finance-for-Scaling-Up-Climate-and-Nature-Investments-1.pdf>

Definitions of blended finance

“The use of development funds to mobilize additional private financing for investment in the UN Sustainable Development Goals (SDGs).”

– Blended Finance Taskforce²⁶

“Blended finance is the strategic use of development funds for the mobilization of additional capital flows for sustainable development in developing countries.”

– OECD.²⁷

Further resources

The Inter-American Development Bank (IDB) Invest issued a paper (*Beyond Leverage Ratios - A strategic approach to Blended Finance*) on how and to what end blended finance mobilizes private investment towards the SDGs, including where blended finance approaches are justified and effective, as well as blended finance investment strategies.

Convergence is the global network for blended finance which includes public, private, and philanthropic investors as well as sponsors of transactions and funds.

According to Convergence, blended finance has mobilized around \$198 billion in capital towards sustainable development in developing countries to-date.²⁸ From their database of 1800 unique investors which participated in one or more blended finance transactions, around 16% came from the philanthropic sector. According to their data, the most active philanthropic investors in blended finance include Shell Foundation, Bill & Melinda Gates Foundation, Omidyar Network, and Oikocredit.²⁹

Blended finance, however, is not limited to a simple financial architecture or financing structure, but has enormous potential in bringing together actors that still operate in a more isolated way. Developing an integrated strategic vision that combines not only financial resources, but also the main assets that each of these actors can offer, such as, *inter alia*, convening power, market positioning, capacity, networks and knowledge.

Climate mitigation and adaptation in developing and emerging countries provides a strong investment opportunity. Climate action can be a major driver of economic growth and provide new economic activity. New green economic sectors can provide opportunities for economic development that can create new jobs, better access and quality of food, cleaner air and increased access to energy among other benefits. The key challenge is that private capital is currently not flowing fast enough, nor at the required scale, and blended finance can target this challenge.

When considering blended finance projects or innovative initiatives to promote sustainable

26. Blended Finance Taskforce, 2023.

27. OECD “Making Blended Finance work for the Sustainable Development Goals”. OECD, Paris: January, 2018.

28. <https://www.convergence.finance/blended-finance>

29. <https://www.convergence.finance/blended-finance>

finance, it is crucial to avoid the business-as-usual approach of siloed investing. Once an investment opportunity has been identified - such as land restoration, reduced deforestation, development of adaptive capacity, improving infrastructure resilience, scaling up of a clean technology solution, reduction of inequalities, addressing of poor infrastructure for bioeconomy products, among others - tailored financial solutions can be developed, assuming the specific risks and technical gaps associated with the implementation of innovative and disruptive solutions. A proper financial strategy combining dedicated financial solutions and capacities of entities willing to take higher risks and with development mandates, such as philanthropies and PDBs, with incentives for the development of a bankable pipeline of projects can result in investments in projects that function as proof of concept, testing hypothesis assumed from studies and consultations with experts, which can involve both academia and local partners.

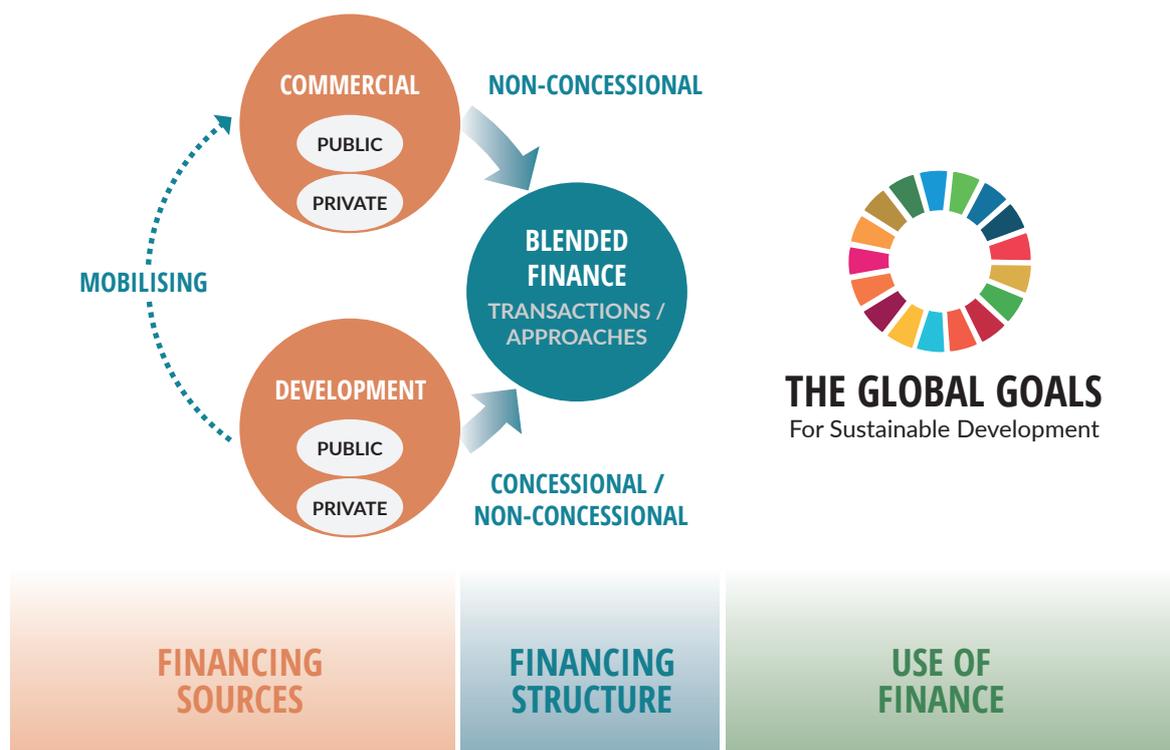
The private sector, in turn, has a greater capacity to scale solutions with positive socio-environmental impact and proven financial returns. Innovative business solutions can improve livelihood conditions in rural areas, promote a more sustainable lifestyle, develop cutting-edge technology for climate mitigation such as carbon capture and sequestration, design zero-GHG emission programs for cities - these are some of many more examples. Private companies can change the current rules of the game by working collaboratively to improve business models, and by incorporating into decision-making processes the true value associated with natural and social capital.

Private banks may be unwilling to take risks for certain projects and could improve the financing structure of higher-risk transactions to promote credit in a more innovative way, with differentiated financing lines. Private investors need to prioritize investments with a positive socio-environmental impact. Family offices can redirect their investment portfolios. Private companies with the ability to scale solutions can invest in their construction from the beginning of the process. PDBs can operate with greater risk appetite and provide long-term financing, despite limitations on how much risk can be taken (because it is regulated), considering the potential to promote financial innovation. Leveraging these strengths, there is greater opportunity to work in collaboration through blended finance solutions.

It is clear how much progress could be made if the cooperation among different financial actors were to be closer and more coordinated. For example, public development funds or philanthropic capital can be redirected, taking into account a needs-based approach, the relationship between risk and return - from the perspective of each of the actors involved - and using patient, or concessional, capital to attract commercial capital.

Blended finance can also be very useful as a financial solution, subsidizing resources when operating at below market rates, or with non-reimbursable resources, such as through donations for the development and structuring of projects, reducing transaction risk and interest rate, or providing guarantees and insurance for the first stages of implementation. This can help unlock important national agendas and address issues - such as planting quality cocoa by family farmers and businesses with a socio-environmental impact in the Amazon, among others. Although it can consist of different elements, in general the concept of blending has as pillars: a) the leverage of capital, b) positive socio-environmental impact and c) balance of risks and financial return. From these pillars, operations should be designed considering the perspectives of the sources of funds and the parties involved, financial structures and the use of resources.³⁰

30. Financial Innovation Lab, "Financing to Achieve the SDGs: The Blended Finance Agenda in Brazil". Rio de Janeiro, May, 2022.



Source: OECD

In particular, the latest global discussions highlighted the need for the financial systems, and in particular PDBs, to develop and offer de-risking mechanisms to crowd in private sector finance and investment³¹. The development of blended strategies for risk reduction to effectively attract private capital is a particularly important area where PDBs and philanthropies could join forces.

Risk reduction can take many forms, such as setting up a pool of funds that can provide and scale collateral, as well as institutions that operate with first-loss instruments, offering technical assistance and advisory services, limiting exposure to losses, improving credibility, and eliminating funding gaps. Philanthropic resources, combined with those public and private sources of funds, can contribute to maximizing the available resources and minimizing costs and risks, through developing investment vehicles (via equity, concessional loans and guarantees) and financial structures that maximize the leverage power of the private sector and optimize the use of philanthropic funds. This reduces the risk of high-impact projects that would not otherwise be seen as amenable to investment. Current funding activities of philanthropic organisations shows their wider potential to engage with blended finance solutions. According to the OECD, 89% of philanthropic organisations make contributions through donations; 49% implement their own projects, 40% match their resources, when an amount equivalent to that of a financing partner is contributed; 28% work with equity; 26% with loans and 15% with guarantees.

31. <https://www.elysee.fr/en/emmanuel-macron/2023/06/23/the-paris-agenda-for-people-and-the-planet>

5

Engagement of Public Development Banks and Philanthropies - leveraging comparative advantages

The time is ripe to deepen the engagement between philanthropies and PDBs. The types of global challenges ahead require new approaches and the development of partnerships which are new in terms of the quality and technical design of programs. They should be rooted in partners coming together on an equal-footing and be based on the principle of co-creation of tools - financial and otherwise - that leverage both public and private resources, and the potential of Public-Private-Philanthropic-Partnerships.

While PDBs and philanthropies may share common goals, it should be noted that both types of actors are rooted in different institutional settings which can affect cooperation between PDBs and philanthropies and represent barriers. For example:

- **Differences in the ability to act:** Philanthropic organisations and PDBs may operate along different timelines, which could increase the need to coordinate more around common efforts and initiatives.
- **Bureaucracy and reporting burdens:** Development banks, in fulfilling different accountability and transparency obligations by virtue of using taxpayers' money, can have more bureaucratic processes and higher reporting requirements (internal and external). This could increase the administrative burden and costs for philanthropies when entering collaborations.

- **Balancing short-term and long-term perspectives:** There is a wider need to balance achieving short-term results and focusing on long-term visions. Tackling the global challenges at hand requires both. Determining how to direct activities to achieve and measure in particular systemic changes is essential - but they are also hard to achieve and to capture. This will require additional efforts to find common ground on which activities matter and when.
- **Differences in impact assessment methodologies:** Philanthropic organisations and PDBs may have different approaches to evaluating the impact of their projects, which can lead to discrepancies in their views and decision-making processes, definitions of success and, importantly, resource allocation.

Collaborations will be stronger if they take note of these potential barriers but also leverage the specific comparative advantages of philanthropic organizations to help PDBs better execute their mandates particularly in support of the urgent need for a just energy transition globally, including with:

- **Technical skills and expertise:** Philanthropic organisations can access technical experts that can help improve the viability and technical soundness of underlying investments.
- **Access to new networks:** Philanthropic organisations can often bring in new networks and partnerships that not only bring in finance, but also technical and entrepreneurial skills needed to build investor confidence. (e.g. RENEW Ethiopia, Angel investments in building investment ready businesses and growing financial acumen, GSG and the NABs, Latimpato, GDPE, CEMEFI, AFE, GIFE, and other networks that gather philanthropists worldwide with a clear understanding on the local needs).
- **Innovation:** Many philanthropic organisations support new ways of working and delivering finance to incubate innovative technology (e.g. Gates Global Health Investment Fund), as well as test and incubate new ways of working.
- **Agility and Flexibility:** Philanthropic organisations are not often hindered by the bureaucracy that traditional bilateral donors face and can work with new partners and in ways that unlock new forms of local expertise and capital and take more risks with new start-ups.
- **Advocacy and Influence:** Philanthropies and their leadership often have influential voices and can provide significant global leadership to galvanize public support for key issues.

6

Placing collaboration in the global context

Engagement between PDBs and philanthropies should aim at enhancing and accelerating progress of work done under existing multilateral frameworks – most notably the UN Financing for Development process – to connect new collaborative projects and programs through innovation.

New collaborations and financing vehicles can be linked to work done under open government and open knowledge reform processes. This can enable a broad spectrum of societal actors to harness and benefit from future investments made. They are also able to incorporate learning from the rise of ESG investment as a driving force behind financial market reform and development. New financing vehicles solve the “last mile of investments” which are key particularly when dealing with very grassroots impact vehicles that don’t have the scale to be sufficiently attractive to private investors, or sometimes even to the PDBs. An example is the “Fondo Mayor” in Colombia³² that has been providing seed capital and technical support to entrepreneurs over 60 years of age, within their Silver Economy strategy. Another is Plataforma Parceiros pela Amazonia³³ led by Idesam philanthropic entity in Brazil and the Green Catalytic Funds (see Box 4).

Structuring collaborative approaches for PDBs and philanthropies to engage and scale their potential requires concerted and targeted action on both sides. As is discussed later, critical to this is the creation of collaboration fora that can provide opportunities for creating stronger links and awareness building, leading to partnerships in concrete transactions. An open dialogue between the different actors is important so that the solutions are built collectively and transparently, making use of what each one must contribute to optimize the use of resources, and, above all, maximize the scope of impact.

32. Plan Mayor - Fundación Saldarriaga Concha - Colombia at <https://www.saldarriagaconcha.org/plan-mayor-4/>

33. Plataforma Parceiros pela Amazônia (PPA) at <https://ppa.org.br/>

7

Recommendations on how public development banks and philanthropies can collaborate

Working in partnership for global impact

PDBs can recognise philanthropies as equal partners and value their role as key players in delivering transformative social, economic and environmental change in societies; delivering sustainable development impact; and increasing private capital mobilization towards the SDGs. New collaborations can harness and strengthen “synergies between public finance and private philanthropies to leverage investments, provide strategic support around SDG’s priorities, and unlock further investments for climate in low- and middle-income countries, while remaining fully committed to alleviate poverty and inequality,” according to the statement from the chair at the Macron Summit on a New Global Financing Pact in 2023.³⁴

Exploring the nature of collaboration and valuing each actors’ relative expertise

Cooperation and collaboration between philanthropies and PDBs has been successful when based on the complementarity of experiences and capacities of philanthropies and PDBs. Beyond statements of good intentions, collaboration should result in concrete innovative solutions in new projects and programs, including co-investment and the development of new financial vehicles, and to shape public policy for an enabling environment.

³⁴. Summit on a New Global Financing Pact, 22-23 June 2023: Chair’s summary of discussions at the Summit on a New Global Financing Pact, at <https://www.elysee.fr/admin/upload/default/0001/15/ae591f67adb68240e785486564ee0da587ff9b8e.pdf>

Philanthropies need an increased understanding (and effort to learn) about the investment structures and methodologies that are implemented by PDBs. This might entail increasing capacity building of philanthropic sectors around impact investing and blended finance (such as new financial tools and innovations) so they can be better equipped to engage. Though many philanthropic actors are doing very advanced work in this sub-field, philanthropy as a sector recognises that bringing more foundations and philanthropy support organisations on board with this engagement can deepen joint work with PDBs.

Tested and proven solutions in pilot format can be designed by philanthropic institutions together with PDBs and other partners of the financial system and private initiatives in the national context. In this way, philanthropy maintains its catalytic character and assumes the risks that private investors are not willing to incur but invites the private sector to think about solutions from the beginning, facilitating the subsequent process of contributing more expressive volume of resources so that the solutions gain scale, without having to go through a long process of convincing.

PDBs need to understand that philanthropies play various roles – being part of civil society as well as its funder. They also hold different levels of power. Similar to PDBs, philanthropy can be an insider to public policy making as well as an outside advocate with significant independence to mediate between market and state. Philanthropies can ensure that projects and programs they engage together with PDBs allow for mutual learning from mistakes and adjustments, ensuring that both sides can open up their organisational process towards each and share information in a trust-based relationship.

Sharing the common goal of private resource mobilisation

For all actors seized with the urgency of meeting the Paris Agreement and achieving the SDGs by 2030, private resource mobilisation is of critical importance. Philanthropies' expertise includes shaping policy and providing guidance across investment areas where appropriate. PDBs can aim at collaborations being long-term and strategic, rather than ad hoc and one-off, and open to adjustments and involvement of new partners. When collaborating closely, philanthropies can be involved across the whole life-cycle of projects and programs i.e. in the design, implementation, monitoring, adjustments, evaluation and dissemination of learning.

Foundations and philanthropic institutions need to explore blended finance mechanisms strategically and to a large extent, exercising their convening power to mobilize public and private capital at scale. Several international experiences have already proven the enormous impact that can be achieved, whether in relation to the well-being and improvement of the quality of life of the population through increased income and access to quality services, as well as for the environment, with strategies of conservation, restoration, reduction of deforestation, improvement of water quality and habitat in general.

Exploring targeted joint initiatives

Blended resources and joint initiatives between philanthropies and PDBs can provide for integrated and holistic approaches to scale up investments addressing climate change, such as for the case of nature-based solutions and JTEPs, as they can:

- promote market development, e.g. in new sectors and emerging industries;
- develop long-standing relationships with local private financial institutions and investors and hence address risks and barriers that they confront when financing underserved sectors; and
- can aggregate large numbers of small-scale projects by adopting a portfolio approach when assessing credit risk, while streamlining the application process, which minimizes transaction costs and encourages local financial institutions (LFIs) to participate.

In particular ‘*blended finance*’ as an approach has huge potential but is still underutilised and needs to be further developed. The opportunity exists to pilot innovative approaches and scale investments in riskier sectors / technologies, achieving higher mobilization ratios. Integrating impact/KPIs within financial solutions to measure climate change adaptation and mitigation externalities would be required.

Incorporating engagement processes

Ideally PDBs need internal capacity to bring in philanthropies strategically, capture learnings about engagement with the sector, and mainstream involvement of philanthropies across portfolios. This could also help with finding common ground and overcoming differences in approaches to impact measurement, how decision-making processes are structured (sign-off and speed), strategic priorities (short-term vs long-term action required to tackle challenges at hand) and other barriers to collaboration. PDBs can communicate externally about the value of collaboration and incorporate learnings into strategic organisational and programmatic development.

Utilising civil society engagement processes

PDBs can build on existing frameworks for civil society engagement and include outreach, information disclosure, dialogue, consultations. They capitalise on new opportunities to enhance the dialogue with civil society and cross-sector collaboration, working with philanthropies to build bridges to all parts of society through the convening power of philanthropy to bring in trusted partners to the table.

Policy learning and impact on adjunct policy areas

Collaborations should utilise and incorporate lessons learned and best practices of existing and future blended finance solutions. PDBs can harness insights on policy learnings from the diversity of philanthropy, which includes corporate philanthropy of: banks; private banks offering philanthropy advice; social and cooperative banks, as well as banks providing services to civil society (e.g. Triodos and Charities Aid Foundation (CAF) Bank) and impact investors. Additionally, public institutions and governments should work together with philanthropy, not only when it comes to resource mobilisation. Collaboration with philanthropies can be more impactful if financial and other resources can be mobilised across borders in an enabling environment, without undue impediments and harmful regulation or the unintended negative consequences/harmful implementation of well-intended regulation.

Building on existing philanthropy infrastructure

Philanthropies can ensure that strategic engagement with PDBs shall harness the diversity of the philanthropy ecosystem. A range of platforms and hubs have been set up to align work across sectors and generate new financing tools. Many existing forums and networks bring together diverse philanthropic actors (across the wider philanthropic field, sub-sections and cause-based) on the national, regional and global levels that can play a central role in galvanising and enhancing collaboration with PDBs.

Enhancing voice of the Global South

Philanthropies can work together with PDBs to strengthen representation and voice of under-represented communities, regions and philanthropy (as well as civil society) stakeholders – in particular from the Global South, as well as ensuring that the diversity of philanthropy is engaged and represented in processes. This can be done by opening up processes to bring philanthropy and other stakeholders on board, as well as the development of new forums and decision-making processes. Integrating the involvement of philanthropic actors into existing processes and forums set up by PDBs can create a more coordinated and joined up voice of philanthropy when speaking to PDBs, as well as on the global stage.

Harnessing existing and developing new financial tools

Philanthropies can collate and harness the existing knowledge on new financial tools along the spectrum of capital and impact (including venture philanthropy, social and impact investment, blended finance in development) and look for opportunities to align Mission Related Investments with projects and programs collaboratively designed. Insights about work with PDBs will be shared across the national, regional and global levels (making use of existing philanthropy infrastructure) to allow for best practice development and dissemination, strategic alignment of work done in different parts of the world and enabling new philanthropic actors to adjust their own practices and engage with PDBs.

Keeping ongoing communication

Engaging philanthropic networks and PDBs in established and regular communication channels will facilitate the flow of information and sharing of opportunities. PDBs being aware of the existence of global networks (such as WINGS) and regional and national networks can make collaboration easier.

An ongoing dialogue group under the aegis of FICS can keep the discussion going by bringing together philanthropy and banks to talk about best practices in collaboration. PDBs can sponsor and attend regional and global events that are key to the philanthropic sectors (e.g. Latimacto's regional conference, the Africa Venture Philanthropy Network annual conference, etc.)

8

Proposed Calls to Action

National governments and policy makers should:

- Ensure the enabling conditions are in place for PDBs to blend resources with philanthropies and for philanthropies to be able allocate resources to and engage more with financial solutions and new financing vehicles - including regulation, incentives, technical assistance, etc.
- Support match-making platforms to channel the various blended finance opportunities to PDBs, making it easier for these to find appropriate philanthropic and private sector partners, while having a more agile flow of information.
- Promote universities and think tanks to increase research and knowledge around innovative finance and the role that PDBs and philanthropy can take to scale such partnerships.

PDBs should:

- Define internal TA needs to strengthen their own capacity to deliver impact and take their place as key financing instruments to help deliver on National Development Plans.
- Through their unparalleled local knowledge, develop a pipeline of potential projects for joint initiatives to work with philanthropies.
- Reinforce non-financial components to define bankability and secure profitability of these projects, so impact is sustainable and more attractive for private investors that are moving towards a more sustainable and responsible investment thesis.
- Engage with existing vehicles (such as the Multilateral Development Bank Challenge Fund)³⁵ and enhance engagement with philanthropies to set up new and similar initiatives.
- Create clearer channels to participate in blended finance initiatives: philanthropic and private sector actors need clear procedures and pathways when looking for institutions with which to partner.

35. <https://www.rockefellerfoundation.org/news/global-philanthropies-create-new-multilateral-development-banks-challenge-fund-to-increase-investment-in-developing-countries/>

Philanthropies should:

- Change from an assistance-focused approach to one that creates opportunities (to generate income, create impact, and access education).
- Expand the use of grants towards a de-risking model³⁶ or concessional capital and guarantees to attract other forms of financing. This can also support policy de-risking approaches.
- Value the concept of the capital continuum to understand complementary models between different sources of capital. By doing so, philanthropy and PDBs can establish a common framework for understanding the objectives and scope of their joint projects. There is a wide spectrum of philanthropic capital that can be deployed and blended finance, while having huge potential, being one of many approaches possible.
- Make best use of philanthropy, using its USP as enabler, bridge builder, provider of catalytic capital, influencer, multiplier, convenor of unusual gatherings, using the power to demonstrate the validity of innovative solutions, to fail and learn, supporting civil society resilience and shaping domestic processes. Philanthropy has expertise, flexibility, access to networks of power, capacity to see the big picture and provide guidance and advice - all of which can be leveraged as well in the engagement with PDBs.
- Work with governments on national, regional and global levels to strengthen understanding of, and to improve the enabling environment for philanthropy which underpins philanthropies ability to enter successful collaborations with various actors, including PDBs (WINGS for example will start building such capacity under an EU Framework partnership agreement).³⁷
- Increase civil society's awareness on new development finance and strengthen its participation in securing a safe growth and development of such financial instruments.

BOX 1. **Scaling up Public Development Banks and Philanthropy efforts to support Nature-Based Solutions**

The business case for action in supporting investments in Nature-Based Solutions is straightforward. Over 30% of global GDP is estimated to be dependent on nature and its services. In fact, the latest global analyses, have shown that developing sustainable food and land-use business models could be worth up to an additional US\$ 2.3 trillion per year and provide over 70 million new jobs by 2030³⁸. Further, there is an array of other bioeconomy sectors besides agriculture (i.e. fisheries, aquaculture, forestry,

36. On how to view philanthropy as risk capital and steps for implementation see: WINGS - The Philanthropy Transformation Initiative Report (2023), at <https://wings.issuelab.org/resource/the-philanthropy-transformation-initiative-report.html>

37. The EU is funding a new \$5m partnership with WINGS to support national advocacy in 32 low- and middle-income countries.

38. World Economic Forum (2020), *Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy*; Lago, C., Caldés, N., & Lechón, Y. (Eds.). (2018). *The Role of Bioenergy in the Emerging Bioeconomy: Resources, Technologies, Sustainability and Policy*. Academic Press

renewable energy, among others) that can also benefit from sustainable and modern business models for the use of renewable natural resources³⁹. Additionally, global assessments suggest that ecosystem services are valued at US\$ 125-140 trillion per year⁴⁰. However, despite their high economic value, these ecosystem services are not considered in the national accounts of countries, undervaluing the economic potential and wealth of nations. In fact, both the degradation of biodiversity and the deterioration of their underlying ecosystem services are leading to significant economic losses for countries, businesses, and financial organizations that depend on the proper functioning of natural capital, but due to its lack of proper accounting, often goes unnoticed.

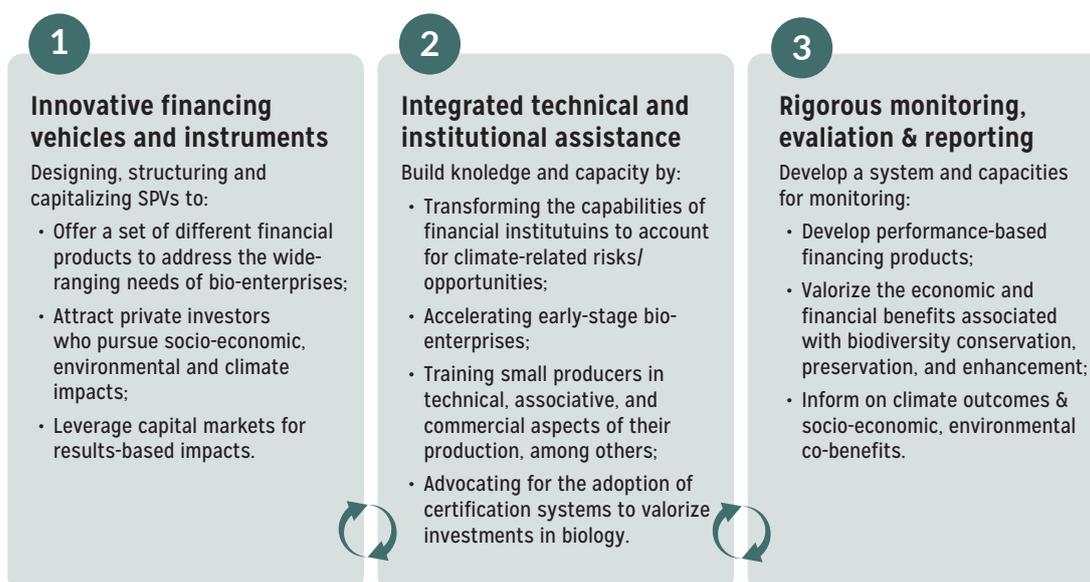
Several institutional and market failures, as well as other barriers, hinder the region's ability to capture the potential socio-economic and environmental benefits identified for the bioeconomy in Latin America and the Caribbean (LAC). These include incomplete policy and regulatory frameworks, financial and economic barriers, technical constraints, difficulty in aggregating business pipelines, and knowledge gaps.

To tackle these barriers, and to scale up public and private investment in the Nature Based Solutions it is paramount to leverage strategic partnerships with PDBs, philanthropies, and technical back stopper organizations to reach qualified small, medium, and large bio-enterprises and promote integrated and tailored financial approaches addressing technical barriers and specific risks from nature-based investments. Such a strategy should provide private investors with the tools and required knowledge to invest and to finance bio-ventures while also addressing associated financial risks. By designing upstream custom-built investment vehicles, as well as supporting the development of natural capital project pipelines, private investors will have more reliable avenues for allocating funds to bioeconomic projects. Blended resources should also seek to develop metrics to transparently monitor, evaluate, and report results with the aim of integrating bioeconomic principles into decision-making. Specifically, it would meet the needs of: i) investors who seek Environmental, Social and Governance (ESG) investment opportunities and call for metrics to measure the impacts of those investments, as well as their risk exposure in bioeconomy ventures, and ii) financial regulators who call for the mainstreaming of natural capital into investment.

39. New Climate Economy (2018). *Unlocking the Inclusive Growth Story of The 21st Century: Accelerating Climate Action In Urgent Times* based on Business and Sustainable Development Commission (2016). *Valuing the SDG Prize in Food and Agriculture - Unlocking Business Opportunities to Accelerate Sustainable and Inclusive Growth*.

40. OECD (2019), *Biodiversity: Finance and the Economic and Business Case for Action* - A report prepared by the OECD for the French G7 Presidency and the G7 Environment Ministers' Meeting, 5-6 May 2019 - based on Kering (2017) and DNB (2019).

Components for a holistic integrated framework for Nature Based Investments



In 2022, the Brazilian Development Bank (BNDES) published a notice to encourage the development of projects and programs with a financial structure based on the blended finance mechanism to support, among others, forest bioeconomy. The objective is to “test and develop new hybrid financial models and instruments (Blended Finance), on a pilot, experimental and innovative basis, for socio-environmental projects. The idea is to unite the philanthropy sectors with the business world.” With a capital of about USD 20 million non-reimbursable resources of the BNDES, the initiative called for proposals with global leverage in the hybrid structure of at least four (4) times with regard to BNDES support, in addition to the contribution to the strengthening of the ecosystem of socio-environmental impact businesses. The initiative was very well received by the market and marks an important approach of the bank with the philanthropic sector and project developers to diversify financial solutions and promote the creation of new instruments, selecting 11 projects leveraging over US\$ 260 million⁴¹.

41. BNDES Blended Finance. Resultado Final do Processo Seletivo, 2023. <https://www.bndes.gov.br/wps/portal/site/home/desenvolvimento-sustentavel/parcerias/blended-finance>

BOX 2. Opportunities for Philanthropies and Public Development Banks to Support Just Energy Transition Partnerships

Just Energy Transition Partnerships (JETPs) represent a novel approach to financing the energy transitions in emerging economies⁴². JETPs have been positioned as country platforms⁴³ offering financial support to advance three primary goals: 1) facilitate the early decommissioning of coal-fired power plants; 2) mobilize private sector capital to finance decarbonization efforts; and 3) enable a “just transition” for affected livelihoods. This form of multi-donor engagement aims to adopt a needs-based, and system-wide approach to energy transition by supporting the economic and social decarbonization challenges with an aligned policy response.

PDBs could play an important role supporting the mobilization of private sector capital to finance decarbonization efforts. PDBs can develop blended finance solutions to achieve mobilization of private capital at scale. Philanthropies can support PDBs to catalyse private investment to accelerate the decarbonization agenda, particularly in emerging markets and developing economies.

First, philanthropies can be important partners in developing a pipeline of feasibility energy transition projects, which is a challenge for many development banks. Philanthropies though often fragmented and smaller in scale can be channelled through national business networks to raise awareness of new innovations, support innovation challenge funds and bring in skills and networks to facilitate project development. More deliberate partnerships with philanthropies and private business associations can help ensure their work is aligned to national development objectives for just energy transition policies.

Second, philanthropies can bring in flexible risk management tools. Their funds can be deployed in ways that have a strong catalytic impact such as guarantees, first loss facilities, or grants to offset cost of capital if the project achieves higher impact projects in more isolated communities. Traditional donors are often too risk adverse to deploy these innovations directly through local financial institutions.

Finally, philanthropies have influence and networks that can be leveraged to advance country interests and advocacy on policies and international finance for energy transition projects as well as bringing in new sources of funding as financial transactions mature.

Philanthropies can be strategic partners to PDBs, still given their smaller size and lower levels of public accountability, philanthropies should ensure they apply blended finance principles to avoid distorting market principles, ensure development additionality and align objectives to local context. This will reduce reputation risks and reinforce the catalytic and value-added role that philanthropies play in the global development finance landscape.

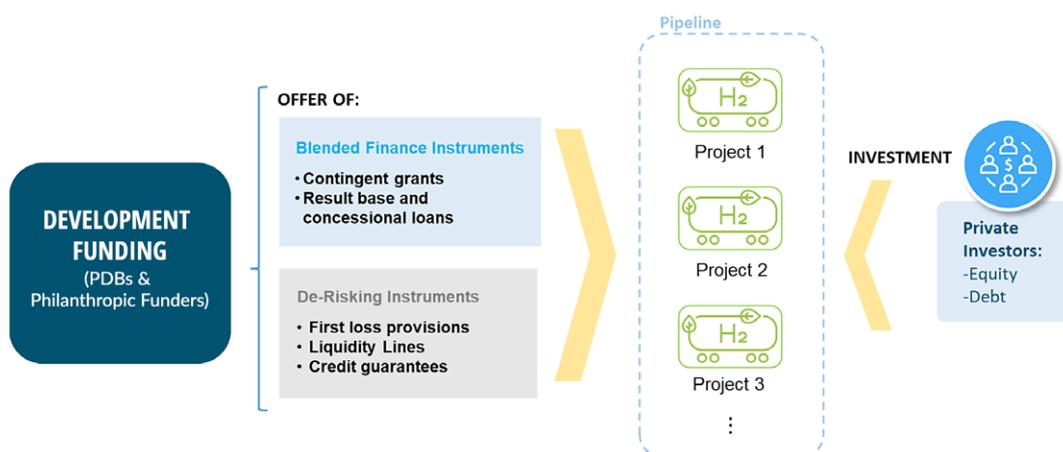
42. Just Energy Transition Partnership with South Africa (europa.eu)

43. https://cdn.odi.org/media/documents/ODI_Emerging_analysis_Country_platforms_for_climate_action.pdf

Collaboration between public banks and philanthropies can be essential to support the mobilization of private capital for the decarbonization of economies and achieving environmental sustainability. Decarbonization can be achieved through approaches in three specific areas, which are: (i) the generation of new sources of clean energy through renewable energy projects and energy efficiency solutions; (ii) the transformation of decarbonized industrial production chains and the development of a circular economy; and (iii) the promotion of new forms of transportation that do not use fossil fuels, such as electromobility.

PDBs and philanthropies can together or in parallel develop financial instruments that can serve as catalysts to boost private investment in decarbonization projects. The use of blended financial instruments, such as grants, contingent grants, results base and concessional loans, and equity - can help improve the cost of capital and make projects with high environmental and social impact bankable. Also, the offer of de-risking instruments can help to balance the risk/return profiles of projects, especially in cases where private investors perceive a high degree of investment risk, due to uncertainties derived from political, macroeconomic, business, and/or technical factors. These risk mitigation instruments include: first-loss provisions, contingent credit lines, guarantees, and structured mechanisms to overcome specific issues such as currency risk and liquidity.

For example, in the case of generation of clean energy PDBs interventions should transition from traditional renewable projects that are commercially viable to encourage the development of projects in new sectors, such as green hydrogen. PDBs and philanthropies can offer finance instruments to cushion the high initial costs associated with the new application of technology in the production phase and to reduce the risks of investment related to the uncertainty of an industry in the process of development and with no track record of performance. Thanks to an offer of blended finance and de-risking instruments (see graph below), private investment in new technologies can take off and help with the decarbonization of economies.



The Development Bank of South Africa⁴⁴, for example, has created an innovative green hydrogen fund (SA-H2 Fund) with support from Netherlands and Denmark. The Fund aims to raise \$1 billion in funding from national and international sources, through a “blended finance” partnership of public and private entities. The country’s Just Energy Transition Investment Plan (2023-2027) earmarked green hydrogen as an important “green industrial sector” to be further advanced, and this Fund offers a useful mechanism to fast track these ambitions. The development of a green hydrogen sector, and the role of major private players in the South African landscape has come under criticism by civil society – hence the Fund and any contributors thereto would have to navigate the social justice elements of how this sector is further developed.

BOX 3: Public Good Incentives in private business

Currently, the Group of Foundations and Enterprises (GDFE) in Argentina is working in 10 Argentinian cities, exploring the methodology of Public Good Incentives. This approach recognizes and rewards companies that align their social investments with local priorities and significantly engage in addressing broader challenges in the Latin American and Caribbean (LAC) region. These incentives could include better credit rates, tax discounts, reputational recognition, and priority in public procurement, among other benefits.

Public Good Incentives can also recognize and award companies or foundations that contribute philanthropic resources to create blended finance instruments targeting poverty, inequality, health care, housing, sanitation, and other pressing issues. Additionally, institutions committed to strengthening Civil Society Organizations (CSO) can receive support through such incentives. Establishing new governance models in cities to encourage multi-stakeholder participation will be a crucial innovation to avoid disparities on the ground.

GDFE believes that the sum of individualistic approaches, including Corporate Social Responsibility (CSR) and private social investment, is insufficient to solve structural problems. Instead, we aim to align all individual efforts and commitments with the main priorities identified by the community, including Civil Society Organizations (CSO), businesses, and government. This can be an example of how to work collaboratively with PDBs for a broader, more transformative vision.

To achieve the SDGs and bridge the financing gap by 2030, it is not possible to rely solely on public budgets and philanthropic resources. PDBs and philanthropies can together transform traditional businesses into impact models that can deliver development.

44. <https://www.dbsa.org/press-releases/unveiling-sa-h2-fund-south-africas-dedicated-green-hydrogen-fund>

BOX 4: IDB Lab and Latimpacto launch the “Green Catalytic Innovation Fund”

As a novel instrument of collective impact, leading philanthropic organisations from Latin America and the world are working together with the InterAmerican Development Bank (IDB) Lab to create a pooled fund that will support decarbonization solutions, mixing technology and nature approaches. The Green Catalytic Fund⁴⁵ will be a US\$ 5 million -minimum- venture philanthropy fund initiative co-led by Latimpacto and the IDB Lab, together with potential partners involving corporate philanthropy and major foundations working in the region.

The fund aims to reduce or avoid 6.2 million tons of carbon dioxide equivalent that are captured through the different projects supported. At least 40% of up to 500 entrepreneurs and startups working with the fund will be women-led or with women in leadership positions. And some 2.5 million hectares of land or forests will be placed under improved and effective management that contributes to CO₂ emission reductions.

Venture philanthropy assumes risks that traditional or impact investors may be unwilling to take. This includes financing projects and pilot programs to test new ideas and innovative approaches. By doing so, successful proof of concepts can be generated, attracting more substantial investments from, among others, PDBs.

The overarching topic of the Fund will be decarbonization and net-zero projects through impactful solutions that support the identification, strategy-making and implementation of green transformation of Micro-, Small and Medium-sized Enterprises (MSMEs) in corporate value chains, while also supporting Net-Zero initiatives that support economic development through mitigation activities, especially in the Amazon basin.⁴⁶ The Fund will have a regional geographic intervention covering Latin America and the Caribbean (LAC), while also allocating important funds to the Amazon basin, focused mainly on biology and soil-based solutions for decarbonization.

By identifying and developing opportunities in markets, the fund will bring together impact investment, venture capitalists (VCs), and private equity firms in the future, always under a model of generating impact. Combined with Contingent Recovery Instruments, such as debt or equity investments, partners in PDBs providing flexible and patient capital can generate financial returns. These instruments can take various forms depending on the nature of the project, the risk profile of the donor, and the agreement between the parties involved.

In this case, Latimpacto is the actor that helps articulate, harmonise, and align the interests of the PDB (IDB Lab) and the philanthropic actors participating in the Fund.

45. Coalition for Human Rights in Development, <https://ewsddata.rightsindevelopment.org/projects/rg-g1050-green-catalytic-innovation-fund-digital-circular/>

46. Carbon Trust, “What are Scope 3 emissions?” at <https://www.carbontrust.com/our-work-and-impact/guides-reports-and-tools/briefing-what-are-scope-3-emissions>

To make the process and life of the Fund seamless, communication is made more efficient and commonalities around expectations and methodologies are identified and become the 'guiding light' of the Fund.

Finally, Latimpacto also acts as the organization that handles knowledge creation and the visibility of the Fund to external parties, emphasizing the structure of the Fund, the impact it can create and its collaborative qualities. With this intermediary model, the Fund becomes the center of the partnership and solves potential imbalances, fostering true ownership and understanding from both sides.

BOX 5. A platform to host profitable vehicles for impact

Various actors are every day increasingly interested in the sustainable / responsible investment agendas. In fact, both impact investing and Environmental, Social and Governance (ESG) investing forecasts continue to advance, despite the mild macroeconomic conditions of markets. The Global Impact Investing Network (GIIN) states in its latest report: "Over the next five years, a third of investors plan to increase allocations to sub-Saharan Africa and a quarter plan to increase allocations to Latin America and the Caribbean, reflecting clear investor interest in these emerging market regions." Nonetheless, closing the gap between demand and supply for such capital in those regions is a demanding topic. Expectations vary often, giving room for new financial vehicles to close such gaps, particularly in the investment "last mile" and for earlier stages. Getting different actors together under common vehicles is still a major challenge. For new international investors, finding the information and reliable actors is challenging.

In Latin America, Innpactia has created an investment platform that facilitates the deployment of such vehicles. It provides support to various actors who are creating vehicles that can improve investment conditions in terms of ticket sizes, risk and profitability, while still investing in smaller, earlier stage companies. This helps new investors have a broader set of investment options, compatible with their investment thesis. Innpactia's mid-term vision is to facilitate the emergence of a market of vehicles that range from Nature-based solutions, to social enterprises portfolios and social impact bonds. "Investors expanding to our region must have an easy job finding the right vehicles to invest in, through an easy interface that links them to the most reliable actors in the region," says Jorge Reyes, Chief Product Officer. In the past 2 years, Innpactia has facilitated access to investment capital for 148 woman-led impact enterprises, 30 of these in rural areas, through such vehicles.

The platform has partnered with both profit-first and impact-first entities, including the Global Steering Group for Impact Investment's (GSG) National Advisory Board (NAB) in Colombia, the Radical Flexibility Fund and Cube Ventures. In the second half of 2023, together with the latter and Athena Impacto, a blended finance debt fund



is being launched to provide early-stage access to capital for Women-led technology impact enterprises across Latin America and the Caribbean (LAC). Simultaneously, a GSG NAB-led fund to promote the growth of impact investing in Colombia will start identifying potential investors and donors to start deployment in early 2024.

The key around the model has been to support the design of the vehicles with data – to structure demand-driven opportunities – and later on to facilitate fundraising efforts by delivering the opportunities to those investors that wish to receive them through the platform. As time goes by, a wider offer of vehicles will be providing a more mature set of opportunities for that quarter of new impact investors interested in deploying capital in this region.

9

Concluding remarks

The overall potential of enhanced cooperation between PDBs and philanthropies is limited by the lack of a formal structure to create such strategic collaboration.

Using FICS as a platform, regular processes for information sharing, either through new, formal processes or using existing vehicles and platforms, can be used to develop and implement new programs. These can be also used to expand the range of actors involved. A concrete outcome from the Finance in Common Summit 2023 in Cartagena can be an ongoing dialogue group under the aegis of FICS to stimulate the discussion by bringing together philanthropy and PDBs to explore collaboration, share best practices and lessons learned, and discuss concrete action, such as:

- Undertaking further joint research to identify hurdles and propose solutions to expand collaboration between PDBs and philanthropies.
- Exploring means to solve the challenge of “last mile investments”, addressing the differences between available ESG-focused grants and overall investment required with innovative solutions.
- Calling for the launch of a PDB & Philanthropy Co-Investment Lab at FICs to address the barriers to private sector investment in developing and emerging markets, and in parallel use existing accelerators with track records, such as the [Global Innovation Lab for Climate Finance](#), to crowdsource and develop tailored financial solutions.



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