WORLD RESOURCES INSTITUTE

UNLOCKING EARLY-STAGE FINANCING FOR SDG PARTNERSHIPS

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P4G
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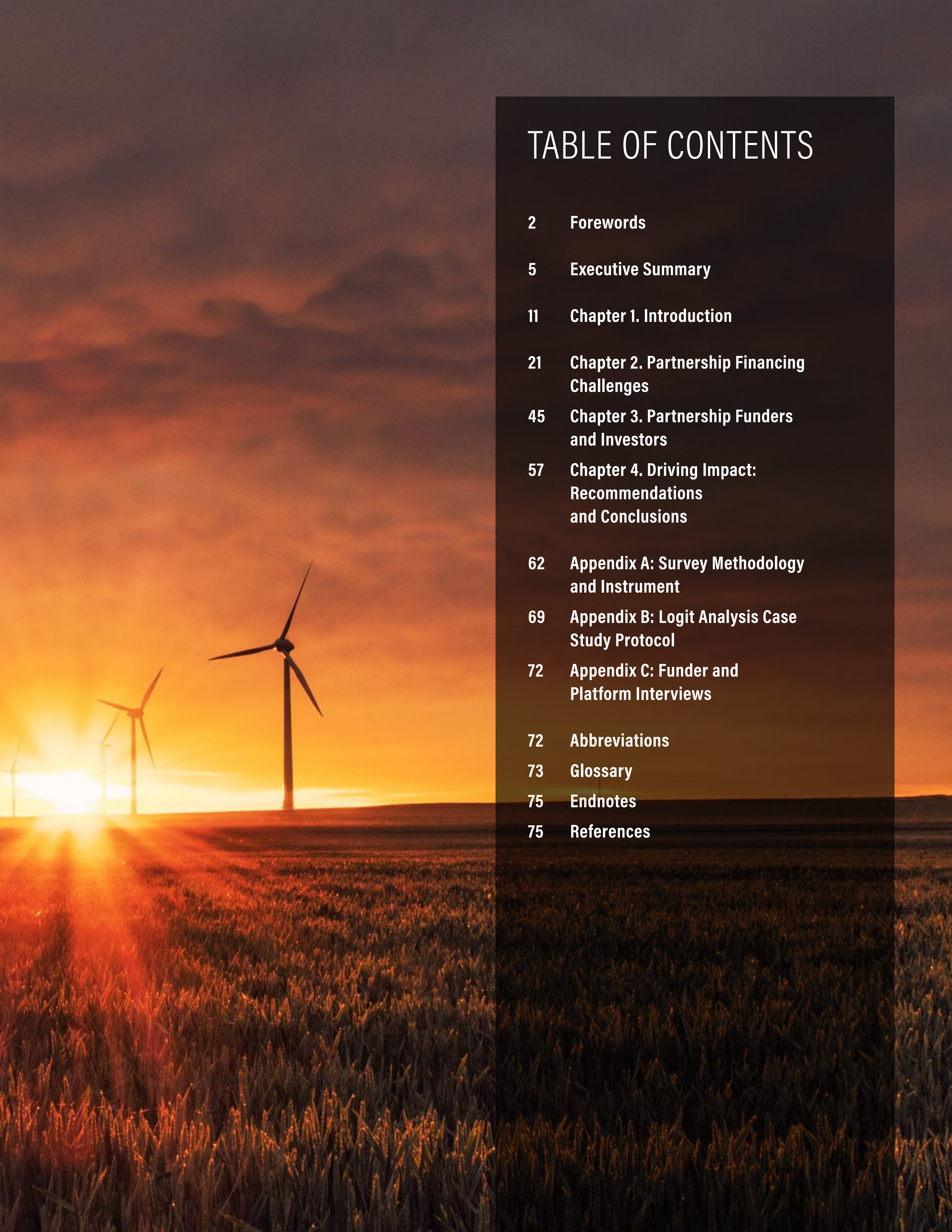

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FOREWORD BY AMIT BOURI

It has been my pleasure to know the World Resources Institute (WRI) since my earliest days in impact investing, even before I co-founded the Global Impact Investing Network (GIIN) in 2009. The World Resources Institute and the Global Impact Investing Network (the GIIN) have long shared a belief in the power of innovation to help build better systems for protecting the planet and its people.

Solving the generational challenges we face requires a hands-on approach from all of us. The United Nations created the Sustainable Development Goals (SDGs) to provide us with a blueprint to overcome these challenges and build a more sustainable and inclusive world for all. Despite the clear targets laid out by the SDGs, the annual financing gap needed to meet them stands at approximately $4.2 trillion USD.

Yet, there are positive signals that funders—including grant funders and public and private investors—are committed to closing the gap. Today, the impact investing industry is valued at over $715 billion and is expected to continue to grow. At the GIIN, our goal is to ensure that all investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

It was only natural that when WRI invited the GIIN to support and co-author this report, *Unlocking Early-Stage Financing for SDG Partnerships*, we were honored to accept.

This report provides recommendations for how commercially driven partnerships and funders, particularly impact investors, working to advance SDGs can overcome the "missing middle."

Readers of this report will learn from case studies highlighting six partnerships that have successfully overcome or are on their way to overcoming the missing middle. They will discover that while there is not a one-size-fits-all approach to successful partnerships, there are clear steps funders can take to improve the breadth and depth of the industry.

The WRI and the GIIN partnered on this report, so it's no surprise that this report recommends funders align with each other on standard principles and impact measurement systems, and that they share data—positive and negative—on social and environmental performance as well as financial performance.

The report also outlines how we must be willing to explore and discuss lessons learned across the industry, regardless of the outcome. By identifying the roadblocks preventing us from addressing the SDG financing gap, this report shows us steps funders can take to ensure our world and its inhabitants are healthy for generations to come.

Because of funders' willingness to share their stories for this report, we can provide meaningful recommendations. For that, we are incredibly grateful. Only through our collective learning and action can we achieve the vision of the world imagined by the SDGs.

Amit Bouri
Chief Executive Officer
GIIN

FOREWORD BY ANI DASGUPTA

The Sustainable Development Goals and Paris Agreement have given the world direction and ambition to reduce hunger, end poverty, protect nature, and align on a 1.5° C climate pathway. But the fact is, the financial support meant to make this sweeping transition a reality is simply not enough. The current estimated SDG financing gap—the difference between what is needed and what is committed—is $4.2 trillion a year, according to the OECD. Filling that yawning gap will require imagination, innovation, and particularly partnership, because no one entity can do it alone. As the United Nations put it so bluntly: “Every company, every financial firm, every bank, insurer and investor will need to change.”

Those companies, financial firms, banks, insurers, and investors may hold the key to the solution, and the potential to prosper as a result. While insufficient funds have been committed to the SDGs and the Paris climate goals, the money is there, with institutional asset owners holding over $100 trillion. So far, though, business-as-usual investments have captured the lion’s share of these funds, as they seek to minimize risk but miss out on potentially huge rewards.

There is a better way.

All financial players must make the transition to a sustainable economy and prioritize impact over financial returns. SDG-focused partnerships between companies, governments, and civil society actors that are seeking transformative change offer a clear path forward and an exciting investment opportunity. These partnerships are set up uniquely to remove market barriers and scale innovative business models with a real potential for change. At the World Resources Institute, we recognize collaboration as a key ingredient for success; it is also a driving force behind several of our partnerships and platforms, especially the P4G platform (Partnering for Green Growth and the Global Goals), which provides technical and financial assistance to SDG partnerships.

These partnerships can work to help meet the SDGs. However, one of their biggest challenges is delivering financing to all stages of project development. Grants often fund the initial stages of projects and commercial investment takes over at the end, but financing for the transitory phase between the two is essential if these important projects are to survive and thrive.

In this report, WRI and P4G, together with the Global Impact Investing Network (the GIIN), examine this lack of funding at a crucial phase of development and suggest innovative financing approaches that prioritize innovation and impact to deliver rewards to all partners.

Investors can use this report to understand how to better support SDG partnerships and build a strong pipeline of projects for investment, while partnerships can use it to help reduce perceived risk and attract more funding. When partners have the vision to act boldly, the returns—economic, developmental, and environmental—can be tremendous.

Ani Dasgupta
President & CEO
WRI

EXECUTIVE SUMMARY

Mobilizing finance and multistakeholder partnerships are key priorities for the global community to accelerate the SDGs. Yet, many partnerships are not able to reach their ambitions because they cannot access early-stage financing.

This report aims to help partnerships and their funders effectively manage and mobilize finance to achieve SDG impact by: exploring partnership funding challenges and lessons learned; examining innovative funding approaches; and providing tangible recommendations to partnerships and funders on how to drive SDG impact more effectively.

HIGHLIGHTS

- The UN Sustainable Development Goals (SDGs) and the Glasgow Financial Alliance for Net Zero recognize the potential of multistakeholder partnerships for catalyzing private finance to meet the SDG financing gap of US$4.2 trillion annually. This report defines *partnerships* as informal or formal voluntary collaborations between parties whereby stakeholders agree to share resources, accountability, risks, leadership, and benefits to meet a specific SDG-related objective (UN DESA 2015).
- Partnerships are struggling to meet their potential, becoming mired in the "missing middle"—the transitory period in which they have outgrown grant funding but are considered too early for commercial investment.
- At the core of the issue is the prioritization and demonstration of impact. Partnership investment challenges identified through a survey of 66 partnerships indicate that grant funders and investors prioritize their own concerns (e.g., reputation, risk tolerance) over impact.
- We recommend that (1) grant funders and investors adopt approaches to financing that stretch beyond their comfort level, (2) grant funders and investors be more open in how they make investment decisions and more flexible with their funding requirements, (3) investors be more transparent and increase their accountability to better optimize impact, and (4) partnerships focus on building a high-quality funder and incubation network.

Financing for the SDGs

An estimated $4.2 trillion will be needed to finance the work still needed to achieve the SDGs in developing countries, a mammoth amount that multilateral development institutions alone cannot fulfill (OECD 2021b). The good news is that capital to finance this radical change is available and interest in impact investment is growing substantially, even with the COVID-19 pandemic. For example, the impact investment market has grown to $715 billion as of 2020 (Hand et al. 2020). The levels of capital at play are staggering: institutional investors, for example, hold $100 trillion in assets (OECD 2021a). However, channeling finance towards high-impact, viable SDG investments remains a challenge. In this space, commercially oriented multistakeholder partnerships, with ambitions to transform a sector or market through the launch of a new business venture, can be one way to tap into this funding pool.

SDG 17 envisages the key role partnerships can play in catalyzing private sector finance to accelerate the SDGs in this "Decade of Action." Yet partnerships are frequently mired in the "missing middle," the transitory period in which a partnership is too large, too close to commercialization, and/or too mature for the comfort level of grant funding but is also too small or immature for commercial investment. This report aims to help commercially driven partnerships and their financiers accelerate the SDGs by examining new approaches to funding and exploring lessons learned from partnerships in their funding journey.

About This Report

This report, authored by World Resources Institute, discusses how commercially driven partnerships and their grant funders and investors can accelerate the SDGs and overcome the missing middle challenge by examining new approaches of funding and exploring lessons learned from partnership funding journeys. Funded by the Danish government, this report has been developed in collaboration with the Global Impact Investing Network, a prominent champion of

impact investing, as well as Partnering for Green Growth and the Global Goals 2030, the global partnership accelerator.

This report draws its findings from several sources: an analysis of existing research on development financing and multistakeholder partnerships; 35 interviews of grant funders, private investors, and partnerships; and a comprehensive survey of 66 commercially driven partnerships that seek returnable investment. It also deep dives into six partnerships, presenting case studies on how they have successfully overcome some of the challenges partnerships face when seeking grant funding and investment.

Through our research, our team's understanding of partnerships has evolved. Initially viewed as a formal construct between multiple stakeholders, we have adopted a looser understanding of partnerships—that is, an informal or formal, voluntary collaboration between parties whereby stakeholders agree to share resources, accountability, risks, leadership, and benefits to meet a specific SDG-related objective (adapted from UN DESA 2015).

Key Findings and Recommendations

We find that partnerships struggle to get appropriate investment because grant funders and investors prioritize matters—such as political capital, reputation, risk, and bureaucracy—over achieving and demonstrating impact. This complicates their ability to provide the optimum financing to support partnerships in their journeys to accelerate the SDGs. Likewise, commercially driven partnerships struggle to demonstrate impact, partially because it is difficult to attract financing to scale their activities but also because it is not easy to adopt the best practices recognized as important for partnerships to drive transformative change. All of this inhibits the path to impact. To overcome these barriers, we provide four recommendations:

1. **Grant funders and investors should adopt approaches to financing that stretch beyond their comfort level.** This first recommendation is not a new one—essentially, partnerships need more catalytic capital, and grant funders and investors need to provide it. For example, donor governments should increase the proportion of their disbursed funding dedicated to catalytic structures, and development finance institutions should increase their risk tolerance to provide funding to early-stage ventures (as opposed to larger commercial, established investment opportunities).

2. **Funders and investors should be more open in how they make investment decisions and more flexible with their funding requirements.** If funders and investors can adopt leaner requirements on matters such as reporting, investment criteria, and SDG goals, they can enable partnerships to have greater freedom to achieve proof of concept. For example, funders may want to collaborate with other funders to align on reporting metrics and processes.

3. **Investors should be more transparent and increase their accountability to better optimize impact.** Investors may find it hard to prioritize impact over other

considerations partially because assessing impact is difficult and expensive. Investors can aim to improve public reporting of their positive and negative impacts, impact measurement and management frameworks, funding opportunities, and lessons learned. Investors can also improve accountability through verifications or third-party audits. Finally, investors can use leading impact measurement and management frameworks such as IRIS+ and the SDGs to track impact performance in a way that is standardized and comparable with other investors.

4. **Partnerships should focus on building a high-quality funder and incubation network.** The onus is on partnerships to show that they can have impact as well. For example, we found that the best-in-class partnerships—those that successfully sought returnable investment—tended to collaborate with a partnership acceleration program.

How to Use This Report

The findings and recommendations of this report are intended to help partnerships, their grant funders, and investors.

- Partnerships may be interested in reviewing the in-depth case studies in Chapter 2, which illustrate how other partnerships have accessed returnable investment. They may also explore how funders and investors are starting to take new approaches to financing in Chapter 3; these approaches are more amenable to early-stage commercially driven partnerships, and the partnerships can seek out funders and investors who are adopting such approaches.
- Funders and investors may review the partnership funding challenges illustrated in Chapter 2 and understand how they can help partnerships overcome such barriers. They can also look to Chapter 3 and consider adopting the financing approaches offered by other financiers.
- All stakeholders can review the findings and recommendations in Chapter 4 to see how they can adapt their existing behavior to help accelerate proper financing for the SDGs.

CHAPTER 1

INTRODUCTION

We are interested in commercially driven partnerships—that is, partnerships with transformative ambition that aim to affect market systems through profit-generating models. These partnerships are struggling to meet their potential, becoming mired in the "missing middle"—the transitory period in which they have outgrown grant funding but are still too early-stage for commercial investment. In this chapter, we set the stage by defining partnerships and their funding environments, and by laying out key knowledge gaps.

1.1 Background

This report aims to help commercially driven partnerships, grant funders, and investors more effectively drive transformative Sustainable Development Goal (SDG) action by highlighting new approaches to finance. It is a follow-on publication to *A Time for Transformative Partnerships*, a World Resources Institute (WRI) report that identified the key success factors of transformative partnerships (Li et al. 2020). This report is coauthored with the Global Impact Investing Network (GIIN), a prominent champion of impact investing that provides infrastructure, activities, education, and research to accelerate the development of a coherent impact investing industry, as well as with Partnering for Green Growth and the Global Goals 2030 (P4G), the global partnership accelerator.

With an estimated US$4.2 trillion required annually to finance the work still needed to achieve the SDGs in developing countries (OECD 2020, 2021b), it is urgent that we rethink conventional approaches to development finance. Even with the myriad of admirable initiatives driving progress towards the SDGs— for instance, the global population without access to electricity has declined by over 30 percent in the last decade—advancement in this "Decade of Action" has slowed without sufficient funding to address the SDGs at a sufficient level of scale and pace of impact (Sun et al. 2021; UNCTAD 2020; UNSG 2019).

This financing gap is being exacerbated by the COVID-19 pandemic. In 2020 alone, international private sector investment in developing and transitioning the economy fell by one-third (UNCTAD 2020), and the protracted and pervasive nature of the pandemic suggests that relief will not come easily.

To find the required finance and move beyond the status quo, innovative approaches are necessary, especially in developing countries. Traditional approaches to development grants alone are insufficient, and opportunities provided by private sector finance—for instance, when used in conjunction with public sources—are now recognized as essential for bringing forth innovative, transformative solutions (Tan 2019; Türkelli 2021). The global community recognizes this as well, with SDG 17 noting that governments can catalyze finance and innovation by partnering with private sector partners. Although partnerships are considered to be critical, definitions vary widely. During more than three years of research, our team's understanding of partnerships has evolved. Initially viewed as a formal construct between multiple stakeholders, we have adopted a looser definition of partnerships throughout this report—that is, an informal or formal, voluntary collaboration between parties whereby stakeholders agree to share resources, accountability, risks, leadership, and benefits to meet a specific SDG-related objective (UN DESA 2015).

Securing scaled funding has been a perpetual challenge for partnerships that seek to drive the systemic, sustained transformation needed to address the SDGs (Li et al. 2020; World Economic Forum 2019). Research suggests that such partnerships often have trouble moving past their predominantly grant-based start-up and early growth phases to commerciality because they struggle to attract next-stage investment from more commercially minded investors (Runde et al. 2019; World Economic Forum 2019).

And it is not that this capital is lacking. Institutional investors alone, for example, hold $100 trillion in assets globally (OECD 2021a). Even just 4 percent of these assets would be sufficient to fill the SDG financing gap if channeled towards viable investments that address development goals. And despite COVID-19, 72 percent of investors have noted that they plan to either maintain or increase the volume of capital dedicated to impact investing (Hand et al. 2020).

The challenge is in mobilizing these investments. Private sector financing has traditionally not been aligned with the SDGs or low-emissions, climate-resilient development pathways (OECD 2020) over concerns such as high deal-transaction costs, smaller ticket sizes that erode profit margins, maturity mismatch, emerging untested technologies, specific country risks, and local currency volatility (Convergence 2020b; Gornitzka and Wilson 2020). Additionally, emerging countries are often underfinanced compared to developed countries.

Despite a growing interest in impact investing (Convergence 2020b; Godeke and Briaud 2020; Lewis et al. 2016), hesitancy remains over the early-stage nature of partnerships with transformative SDG ambitions (OECD and UNCDF 2019). Therefore, once they have exhausted available public sector funding, partnerships are frequently mired in the "missing middle"—a term that assumes many interpretations but, for the purposes of this report, describes the transitory period in which a partnership is too large, too close to commercialization, and/or too mature for the comfort level of grant funding but is also too small and immature for commercial investment. In assessing the partnerships that participated in our research, the missing middle is the $3–$5 million investment gap that partnerships need to overcome between early-stage funding (which is anything under $2 million) and investments from development finance institutions (DFIs) or other mid- and large-ticket investors (which start around $10 million). For more on partnership funding stages and the missing middle, see the "Stages of the partnership funding journey" later in this chapter.

1.1.1 Setting the stage

We pause here to focus on three concepts that are germane to understanding this report: partnerships, grant funders and investors, and the partnership funding environment.

Partnerships

We are interested in partnerships that have transformative ambition and are commercially driven.

- **Transformative ambition:** These partnerships are working to make changes that are systemic, long term and sustained, and disruptive of the status quo, such that they align with the SDGs (Li et al. 2020).
- **Commercially driven:** These are partnerships with transformative ambition that aim to affect market systems through profit-generating models.

These are a few of the common business models we have observed among partnerships with these two qualities:

- **New business venture** partnerships that seek to launch and scale a new commercial product, service, or business model. New business venture partnerships seek to create new markets or systematically change existing markets to better align with the SDGs.
- **Financial instrument** partnerships that seek to tackle investment barriers through new funding mechanisms such as guarantees or insurance instruments that help to catalyze funding to riskier markets and/or de-risk investment that could be geared to advancing the SDGs.
- **Project developer** partnerships that seek to advance innovative business ideas or create a pipeline of investable projects or initiatives. Project developers often aim to help governments, businesses, and other entities make sustainability a core part of their operations by aligning them on standards of practice or commitments.

Throughout this paper, we consider a "partnership" to be both commercially driven and have transformative SDG ambition.

Grant funders and investors

Partnerships receive capital from grant funders and investors, collectively referred to as *financiers*. Here, we discuss seven types of grant funders and investors framed through the lens of public, private, and philanthropic funders.

Public sector grant funders or investors are accountable to donors, governments, or relevant taxpayers and have a mandate to work for the greater public good. Public sector funding is often available for the earlier stage of an engagement and can serve as a risk mitigator to catalyze the transformative ambitions of a partnership. It can also provide sustainable, long-term support; offer flexible investment terms; and be patient. Most importantly, these financiers typically expect some positive environmental, social, or economic impact as a consequence of their funding. Read more about how these financiers work with partnerships in Chapter 3.

Examples of public sector grant funders and investors include the following:

- *Donor governments:* Any government agency or ministry providing development aid funding, such as the U.S. Agency for International Development (USAID), as well as associated programs such as USAID's Development Innovation Ventures (DIV). Donor governments predominantly provide grant funding to partnerships, but they also may provide equity or debt investment. Funding from these donor governments is typically geared towards start-up or pilot projects.
- *DFIs:* These are essentially the investment arm of a donor government, such as FMO, the Dutch entrepreneurial development bank. DFIs are affiliated with donor governments, but they operate independently and may partner with private sector actors such as commercial banks. DFIs focus on engaging the private sector in order to mobilize sustainable development investments. Unlike donor government funding, DFI investment targets more established projects with existing operational and investment track records. DFIs typically function as self-sustaining institutions and source funding from development funds and government guarantees (Crishna Morgado and Lasfargues 2017).
- *Multilateral development banks (MDBs):* Organizations that have donor or member countries that finance economic development in emerging economies. Examples of MDBs include the World Bank and Inter-American Development Bank (ITA n.d.). Although MDBs work in similar space to DFIs, such as the African Development Bank, this report will focus predominantly on the role of DFIs because partnerships in our sample had more contact with this group.

Private sector grant funders or investors are accountable to individual owners or managers. These actors may require a market-rate financial return on investment that may or may not include social elements. Regardless of their impact return expectations, environmental and social factors are primarily considered in risk-return analysis because they may materially (and negatively) affect the financial outcomes for the investor.

Examples of private sector grant funders and investors include the following:

- *Financial intermediaries:* These early-stage venture funds, private equity and debt funds, private family offices, angel investors, and friends and family raise capital from other types of private investors, institutional investors, or other sources. For the purposes of this report, these parties will be referred to as *early-stage private sector investors*.
- *Institutional investors:*[1] These large financial institutions, such as insurance companies and sovereign wealth funds, invest either directly into companies or through financial intermediaries. Because they often provide capital to financial intermediaries, they influence where a venture fund, for example, invests.

- *Financial institutions*. These businesses, such as commercial banks, investment banks, and credit unions, provide financial services or facilitate monetary transactions.

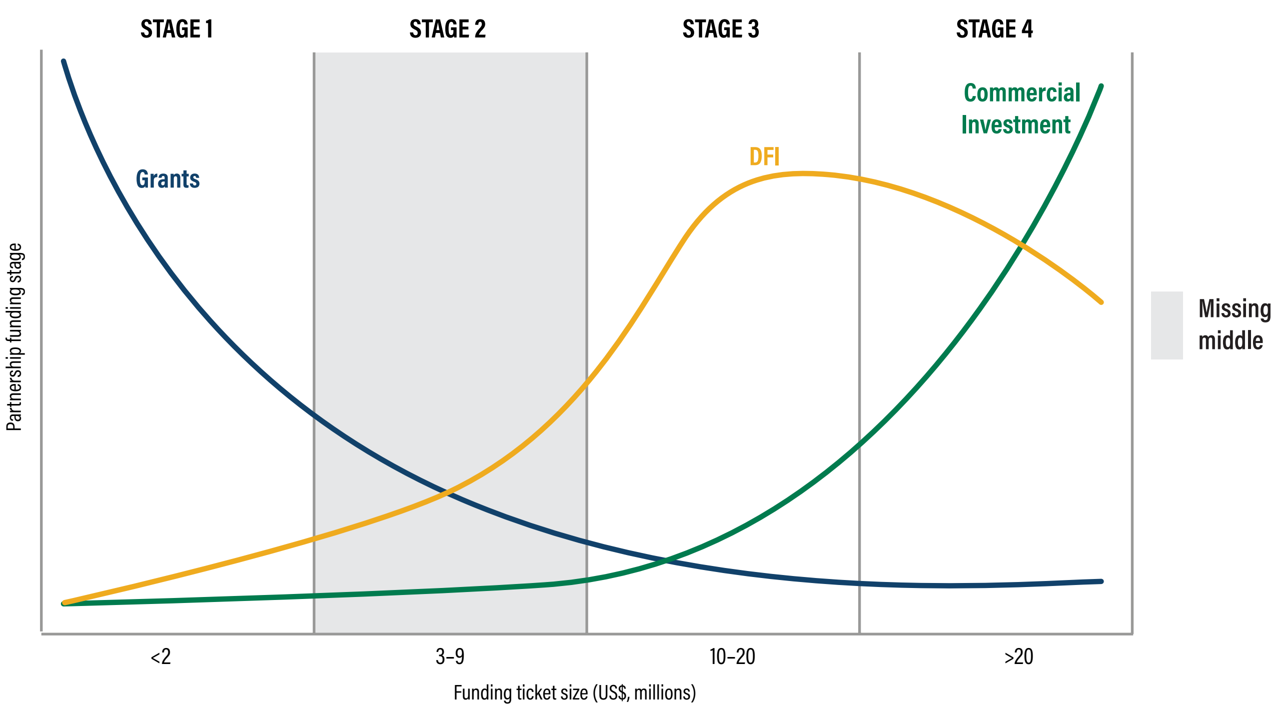
Philanthropic grant funders or investors are mission-driven organizations that can be part of the public or private sector. They include civil society organizations (CSOs), nongovernmental organizations (NGOs), and nonprofits as well as family or corporate foundations and charities. Most commonly, philanthropic organizations work as grant funders, but they can also provide catalytic capital as investment.

Stages of the partnership funding journey

The following section illustrates the four main stages of the partnership funding journey (Figure 1). The stages reflect our interpretation of the types of funding that partnerships may seek as they progress towards commerciality, based on how the funding cycle is discussed in existing research (Alibhai et al. 2017; Runde et al. 2019) as well as our primary research, which involved a survey of 66 partnerships. Common funding structures noted for each stage are not exhaustive and will depend on partnership organizational structure, financial goal, or other partnership-specific circumstances. Box 1 provides an overview of key financing terms referenced below, including catalytic finance, blended finance, and impact investing.

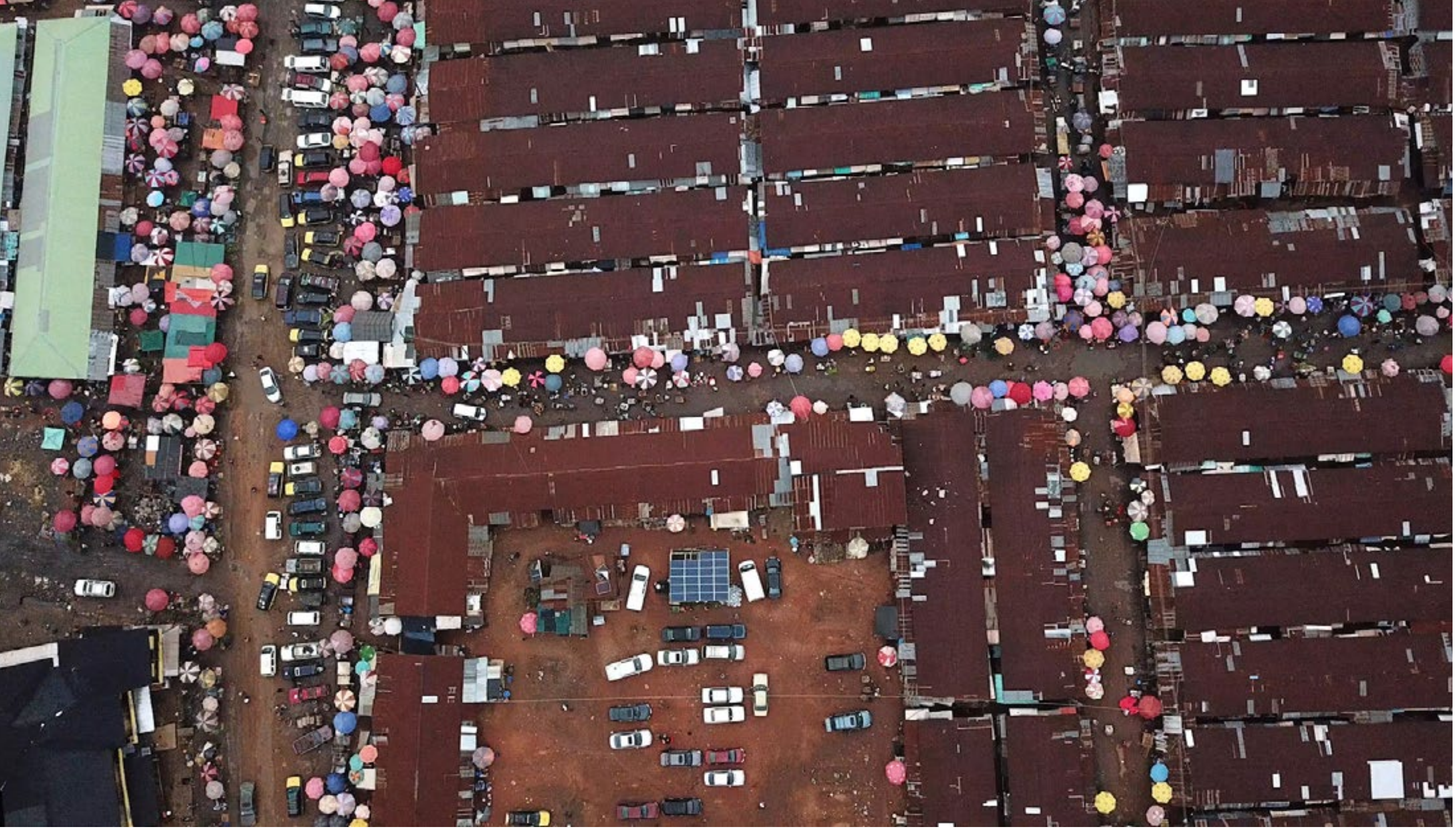
Stage 1: Partnerships in the first funding stage tend to be start-ups or in their early growth phases. Stage 1 funding typically comprises grant funding, founder equity, or small-ticket investment from impact investors and platforms. Investors at this stage are often impact oriented and comfortable with a high risk-return ratio and long return timeline (Alibhai et al. 2017). Funding from philanthropies and donor governments in Stage 1 may be particularly attractive to new partnerships because their return expectations may be more flexible than private sector investors. Stage 1 funding was the easiest to secure for partnerships in our sample: 46 partnerships surveyed had at

Figure 1 | Funding Stages



Note: DFI = development finance institution.

Source: Authors, adapted from 2021 The Partnering Institute analysis for Partnering for Green Growth and the Global Goals 2030.



least one round of funding under $2 million, and 31 partnerships received multiple grant or investment rounds at this ticket size.

- **Ticket size:** <$2 million
- **Primary funders:** philanthropies, donor governments, platforms (i.e., P4G), early-stage venture capital (VC), and impact investors
- **Common funding structures:** grants, equity, convertible debt, concessional finance
- **Partnership activities:** ideation, research and development, establishing proof of concept, launching pilots/prototypes, working to create an enabling environment for launch

Stage 2: This is the missing middle, a stage defined by risks that cannot still be fully resolved or mitigated and thus require financing/investment solutions that are innovative. Partnerships seeking Stage 2 funding are often too large, too close to commercialization, and/or too mature for the comfort level of grant funders, but they are also too small and immature for commercial investment. Partnerships in this stage have not been operational for long enough to establish the track record DFIs are looking for or may not have all enabling conditions in place to operate successfully (Hornberger et al. 2020). In Stage 2, catalytic capital and blended finance arrangements can be particularly helpful to partnerships working to scale operations and crowd in private investment. Only six partnerships—less than 10 percent of our sample—received funding over $5 million, illustrating how challenging it can be to transition out of Stage 1 funding.

- **Ticket size:** $3–$9 million
- **Funders:** because the missing middle is "missing" funders, there are no primary funders; funders would just be any financiers willing to provide catalytic capital
- **Common funding structures:** grants, blended finance, other catalytic capital
- **Partnership activities:** working to scale, refining and strengthening internal processes and governance, establishing a track record of profitability

Stage 3: Partnerships at this stage are profitable or have a clear path to profitability in the near future, with an established customer base or market segment. Investors at this stage are looking for a 5–10 year track record of operational success and invest at higher ticket sizes than investors in Stages 1 and 2. The threshold for receiving investment at this level tends to be too high for many partnerships

BOX 1 | Defining Catalytic Capital, Blended Finance, and Impact Investing

- **Catalytic capital** is central to innovative financing. Taking the form of grant, debt, equity, or guarantees, it is patient, risk tolerant, concessionary, and flexible in ways that differ from conventional investments. It can help to bridge the missing middle and prove new and innovative concepts, particularly in developing countries.[a] As a tool to overcome the missing middle, one dollar of risk-tolerant catalytic capital can help mobilize four to five dollars from other sources.[b]
- **Blended finance** is typically the use of catalytic capital from public or philanthropic sector financing sources to increase private sector investment in developing countries to realize the Sustainable Development Goals.[c] In effect, public sector financiers participate alongside private sector financiers to structure an investment. Both types of financiers have different risk and return tolerances, but their collaboration catalyzes investment to fill the missing middle—an opportunity that the private investor might not have entered into were it not for the blending to mitigate risk (perceived or real).
- **Impact investing** intentionally moves beyond positive financial returns to generate positive and measurable social and environmental impacts.[d] Investors—and how they manage their capital, set timing and terms of investments, and engage with stakeholders—are critical to impact investing. The GIIN has defined four core characteristics of impact investing:[e]

1. Intentionality: Impact investing is marked by an intention to contribute to measurable social or environmental benefit. Impact investors aim to solve problems and address opportunities. This is at the heart of what differentiates impact investing from other investment approaches which may incorporate impact considerations.
2. Use Evidence and Impact Data in Impact Design: Investments cannot be designed on hunches, and impact investing needs to use evidence and data where available to drive intelligent investment data that will be useful in contributing to social and environmental benefits.
3. Manage Impact Performance: Impact investing comes with a specific intention and necessitates that investments be managed towards that intention. This includes having feedback loops in place and communicating performance information to support others in the investment chain to manage towards impact.
4. Contribute to the Growth of the Industry: Investors with credible impact investing practices use shared industry terms, conventions, and indicators for describing their impact strategies, goals, and performance. They also share learnings where possible to enable others to learn from their experience as to what actually contributes to social and environmental benefit.

Sources: a. MacArthur Foundation n.d.; b. Convergence 2018; c. Convergence 2021; d. Hand et al. 2020; e. GIIN n.d.a.

given their business development and size—only five partnerships in our sample received funding over $15 million.

- **Ticket size:** $10–$20 million
- **Primary funders:** DFIs, VCs
- **Investment structure:** equity, debt, blended finance
- **Partnership activities:** working to build out operations by expanding to new customer segments or markets

Stage 4: Partnerships seeking Stage 4 funding are fully profitable and operational at a commercial scale. No partnerships in our sample had reached this funding stage at the time of our survey. Securing Stage 4 funding is very difficult, and there are few examples of multistakeholder partnerships with Stage 4 funding (e.g., Gavi, the Vaccine Alliance).

- **Ticket size:** >$20 million
- **Primary funders:** institutional investors, financial intermediaries
- **Investment structure:** equity
- **Partnership activities:** expanding operations or launching new products

1.2 Knowledge Gaps

The funding journey is tricky to navigate, especially at Stage 2, the missing middle. To better address what is still not understood around bridging the missing middle, we have identified three knowledge gaps. Two of them are in areas that have to date been unexplored, and the third one is a call for more evidence.

1. **What role do partnerships play in development financing?** We have not seen financing research that specifically looks at the role of partnerships, despite SDG 17, which envisages the key role that partnerships can play in catalyzing private sector finance to meet the SDGs.

2. **How can grant funders mobilize private sector finance?** Not much has been written about how grant funders (typically donor governments and philanthropies) can help partnerships overcome the missing middle, particularly in blended structures. But at the starting end of the financing journey, their influence is inevitable.

3. **What is the effectiveness of blended finance?** If there were greater evidence of how blended finance is actually being used—how it is structured, executed, and, most importantly, performing—more funders could have greater confidence in entering blended finance arrangements themselves (Carney 2020; Convergence 2020b; Crishna Morgado and Lasfargues 2017; Development Initiatives 2019; Ellersiek 2018; OECD DAC 2018; Runde et al. 2019; Saarinen and Godfrey 2019).

To address these knowledge gaps, this report examines partnerships across select SDGs. We adopt P4G's original SDGs of interest: SDG 2 (Zero Hunger), SDG 6 (Clean Water and Sanitation),

SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities and Communities), SDG 12 (Responsible Consumption and Production). Through a comprehensive survey and case study analysis of partnerships sourced from nine accelerator platforms (including P4G—more details in Appendix A), we follow partnerships in their journeys to find returnable investment and aim to answer the following research questions:

- What challenges do partnerships face in their financing journeys on both the grant and investment side? (This addresses Knowledge Gaps 1 and 2.)
- What partnership practices and characteristics might lead to greater financing success? (This addresses Knowledge Gap 1.)
- What can grant funders and investors do differently to better catalyze finance? (This addresses Knowledge Gaps 2 and 3.)

We ultimately hope our research can help achieve the major systems transformations needed to meet the SDGs, such as aligning the world on a 1.5°C climate pathway in this Decade of Action. For partnerships, this means providing them with the confidence to seek long-term investment as they walk the path to self-sufficiency; for grant funders, this means providing the inspiration to approach early-stage funding with a refreshed light; and for private sector investors, this means dispelling hesitancies around the early-stage nature of SDG-focused partnerships.

1.3 Report Organization

This report is organized into three subsequent chapters. Our observations are framed through the view of partnerships, grant funders, and investors. In Chapter 2, we examine common financing challenges through a partnership lens, using results from our survey of 66 commercially driven partnerships. Most of these challenges occur at Stage 1 of the funding journey. We also discuss six best-in-class partnerships that have been able to overcome some of these challenges at different stages of their funding journeys.

In Chapter 3, we explore how different types of partnership funders—donor governments, philanthropy, DFIs, and private sector investors—are tackling these financing challenges in ways that can help partnerships secure Stage 2 funding and beyond. Here, too, we feature the rich insights of the GIIN.

Chapter 4 provides a summary of the themes drawn from our observations of partnerships, funders, and investors, alongside our recommended actions for all actors.

1.4 Report Methodology

The research in this report reflects findings from a comprehensive literature review; 35 interviews with senior leaders in government, foundations, private equity, DFIs, partnerships, and academia; and a survey of 66 commercially driven partnerships. The survey objective was to understand factors most frequently associated with partnerships that have successfully secured returnable investment, both from their perspective and that of their funders. More details are available in Appendices A–C.


Hubs
Keeping it fresh!
MILK
FRUIT
MILK
EAT
D STORAGE
OUNTRIES

CHAPTER 2

PARTNERSHIP FINANCING CHALLENGES

Partnerships have consistently had difficulty securing funding—it was a repeated theme in our first report on transformative partnerships and has inspired the partnership financing focus of this follow on report. Here, we surveyed 66 commercially driven partnerships to better understand their experiences navigating the financing journey—providing a perspective that may be helpful for funders to consider as they make investment decisions. We also provide six partnership case studies to add color to these challenges and present ways partnerships are working to overcome the missing middle.

2.1 Background

To overcome the missing middle and maximize their transformative potential, commercially driven partnerships need capital and more funding flexibility. Partnerships quickly run into roadblocks in their funding journeys because developing new business models or refining old business models can be viewed as risky and often necessitates a long runway (e.g., three to eight years) for Stage 1 activities. In this chapter, we examine common grant and investment challenges through the lens of commercially driven partnerships. As this partnership lens is new to this area of research, we draw primarily from the experiences of partnerships in our survey pool, focusing on challenges that span multiple SDG areas and partnership business models. The second half of this chapter provides six case studies of partnerships at various stages of maturity, detailing their funding journeys and presenting lessons learned and recommendations for how to address these challenges.

2.2 Partnership Profile

The research in this chapter presents findings from a survey of 66 commercially driven partnerships sourced from nine partnership platforms. P4G is the best-represented platform in our sample because the majority of P4G's partnerships fit our partnership criteria (multistakeholder, with transformative potential, and focused on the SDGs) as compared to other partnership platforms. Partnerships also focus on at least one of our five SDGs of interest: SDG 2 (Zero Hunger), SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities and Communities), and SDG 12 (Responsible Consumption and Production). As Figure 2 shows, partnerships are also distributed across different business models, geographic regions, and stages of maturity. Partnerships included in our analysis have secured returnable investment, are actively seeking investment, or plan to seek investment in the near future. Figure 3 shows how funding was structured across our 66 partnerships, with each dot representing an individual funding source. Overall, this figure highlights that grants were the predominant source of funding for the 66 partnerships, with most grants being $2 million or less. Additionally, there is a big drop-off after $2 million for any funding type, highlighting the missing middle challenge. Our case study partnerships represent a subset of these partnerships that have been successful in achieving some level of investment.

Although the primary goal of the survey was to get a better understanding of financing challenges faced at different stages of partnership maturity, the survey also collected information on 10 partnership characteristics to allow for statistical analysis to understand whether any characteristics might lead to greater success in securing returnable investment. Analysis results using a logit model showed that only two factors were statistically significant in improving the chances of securing investment: having a business plan that included a strategy to secure investment and having partnership objectives focused on the energy sector. This aligns with existing literature and research showing that the energy sector is better financed than other SDG areas (Dalberg 2020; GEF 2020; Tonkonogy et al. 2018). This also demonstrates the need for partnerships to be intentional about creating a business plan with a financing strategy in the early stages of development.

Interestingly, partnerships focused on the cities sector were statistically less likely to receive investment than were partnerships focused on other SDG areas. Over 90 percent of partnerships that listed cities as a focal SDG area also indicated that their objectives were tied to at least one other SDG focal area (e.g., food or water). This occurrence was higher for cities than any other SDG area. For example, only 48 percent of partnerships focused on food and agriculture and 61 percent of partnerships focused on energy had overlap with other SDG areas. This result may indicate that partnerships focused on cities are less attractive from an investment point of view because they are, by nature, more crosscutting and hence do not fall easily into investors' focal areas or eligibility criteria. Finally, despite previous research having identified Sub-Saharan Africa and East Asia as regions with higher blended finance potential, our analysis did not show that region was a significant predictor of securing investment (Crishna Morgado and Lasfargues 2017; GEF 2020). Appendix B

provides more information on our survey, including other partnership characteristics that were included and tested in the logit model and uncertainties associated with the survey data set.

2.3 Challenges

Many of the challenges that partnerships in our survey pool face reflect challenges that are well established in development financing literature. However, there are important nuances that reflect the uniqueness of taking a multistakeholder approach as well as working in less-financed SDG areas and in emerging economies. Here, we discuss some of these top challenges and how they apply to partnerships working to overcome the missing middle, or, as one partnership surveyed described it, “the valley of death.” We provide direct quotes from our partnership survey to add color to these challenges and note which challenges are more common than others. As our sample size of partnerships that achieved investment was small (25), we include challenges even if mentioned by only a handful of partnerships if they were also reflected in the literature. Figure 4 shows where along the traditional funding journey these challenges typically arise. And while this chapter focuses on challenges, Chapter 3 discusses ways in which partnerships can overcome them.

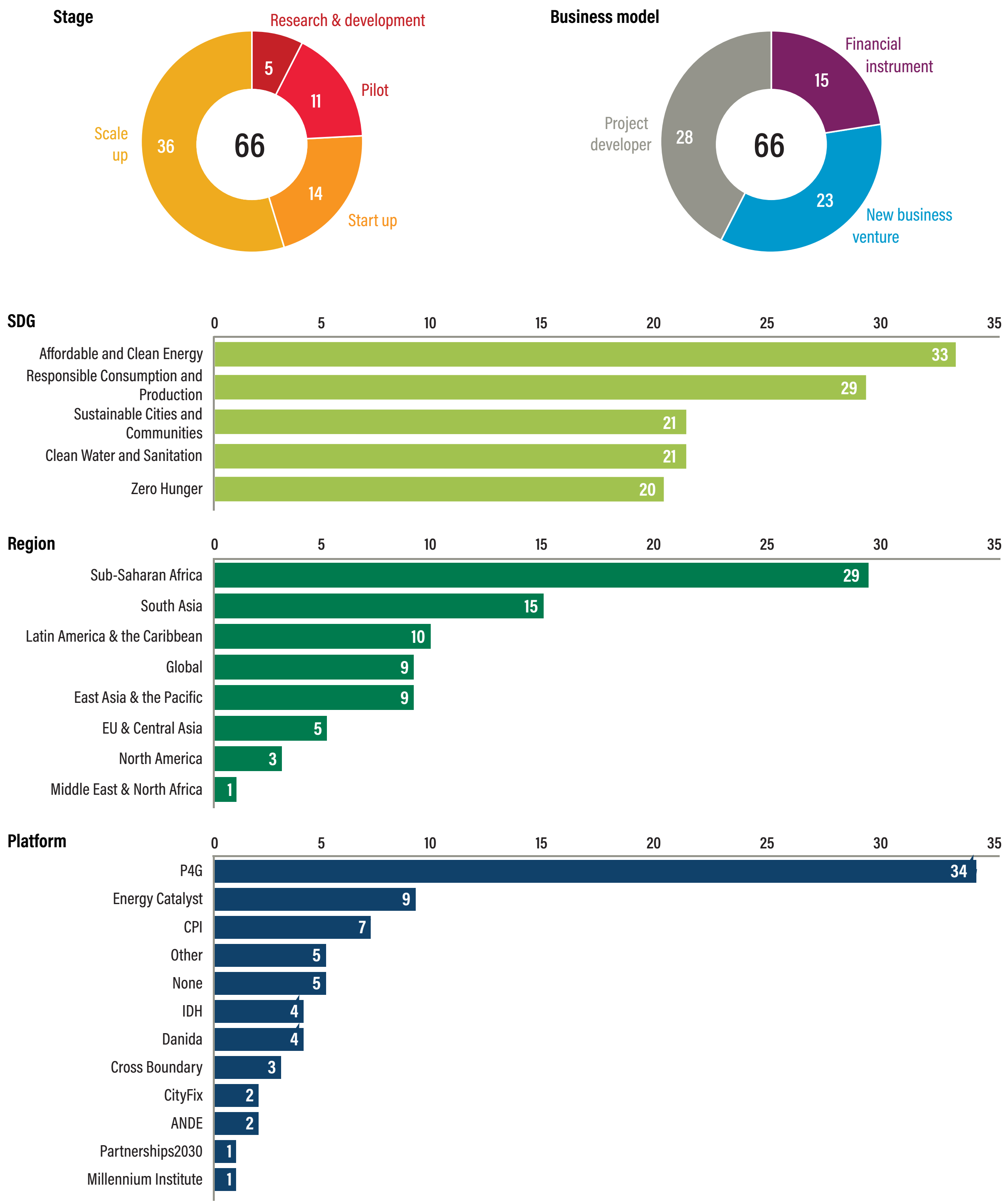
2.3.1 Grant funding challenges

Commercially driven partnerships often start with grant funding and experience multiple challenges early on, hindering their ability to innovate, pilot their solution, scale, and attract public and private investment. These challenges include strict funder eligibility criteria that limit the investment pools available and burdensome application processes—or, once they have been awarded funds, roadblocks related to the size, term, and flexibility of grants as well as monitoring, evaluation, and reporting—all of which are compounded by the fact that partnerships frequently must layer grants to conduct early-stage activities.

Challenge 1: Grant funders’ eligibility criteria limit commercial activities and innovation potential

All capital providers have requirements. For grant funders, they must determine eligibility criteria for who and what they are willing to fund in accordance with their organizational mission. Partnerships reported that grant funders tend to focus on specific SDG or focus areas (e.g., clean water or energy access) and specific project types. Additionally, grant funders may be limited in whom they can fund (e.g., NGOs as opposed to businesses) and the types of activities they can fund (e.g., operational costs as opposed to commercial

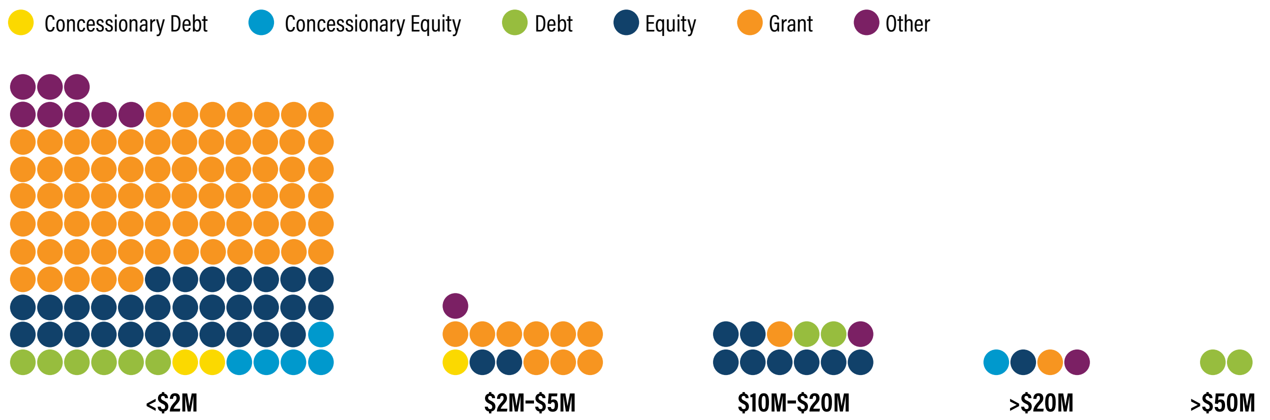
Figure 2 | Survey Pool Snapshot



Notes: ANDE: Aspen Network of Development Entrepreneurs; CPI = Climate Policy Initiative; EU = European Union; P4G = Partnering for Green Growth and the Global Goals 2030; SDG = Sustainable Development Goal.

Source: Authors.

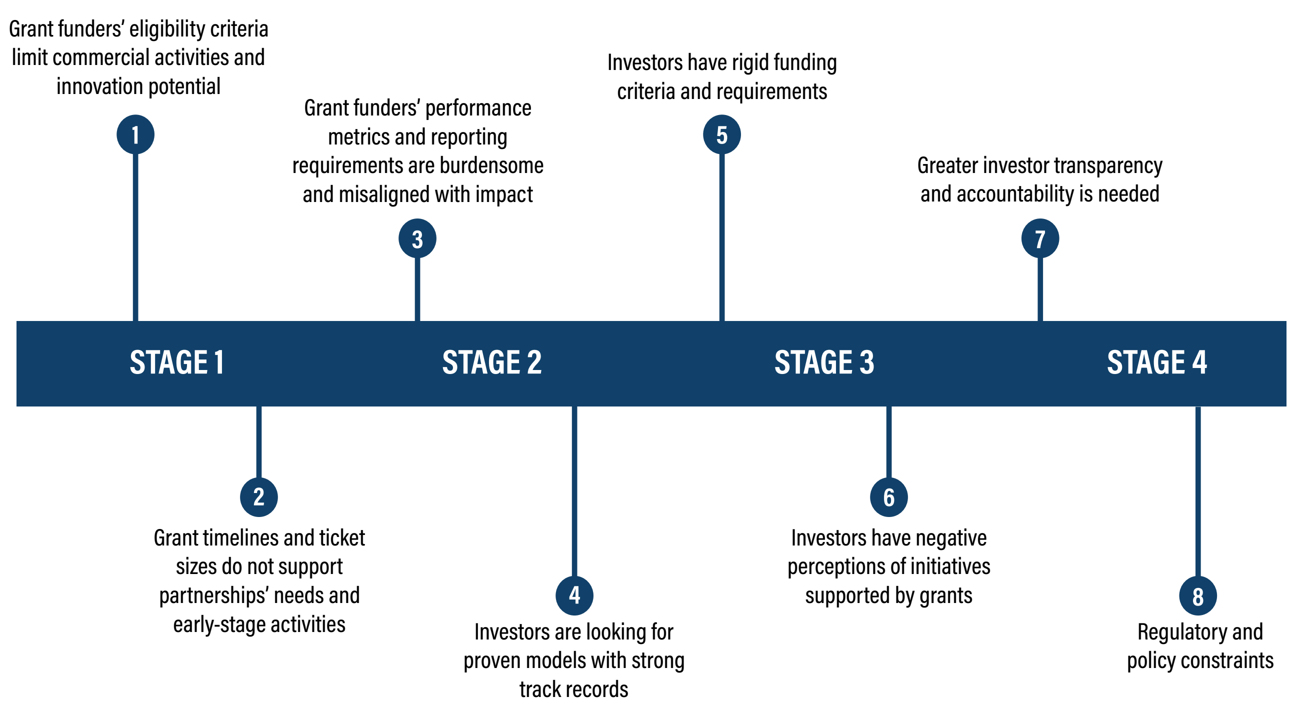
Figure 3 | Partnerships' funding sources and amounts



Note: Funding amount categories correspond to our partnership survey (Appendix A); through subsequent research we determined that four categories were more suitable.

Source: Authors.

Figure 4 | Partnership Funding Journey Challenges



Source: Authors.

activities), which can limit a partnership's ability to be commercial. Grant funders may also place constraints on partnerships, such as requiring them to demonstrate matching funds or to bring on additional partners. Overall, these eligibility criteria and grant requirements can be overly burdensome and resource intensive for partnerships to fulfill, ultimately limiting a partnership's ability to take a more innovative approach. Additionally, if grant funders are beholden to specific eligibility criteria either by their board or regulations, they may not be able to see a potentially available pipeline of projects that are developing new or cross-sectoral business models (Dalberg 2020; Crishna Morgado and Lasfargues 2017; Peterson et al. 2015; Stibbe and Prescott 2017).

For partnerships in our survey pool, finding and applying for funding opportunities that aligned with their partnership strategy was a significant challenge. Over 40 percent of partnerships with investment, for example, indicated that fitting within grant funders' application criteria was a major barrier. Several partnerships expressed frustration that grant funders tend to focus on "fancy looking industries," "new innovations," or "flashy projects" such as developing a new technology rather than partnerships and projects that are pursuing less flashy approaches but have high impacts and are seeking to develop a strong understanding and solution for systemic problems. Two partnerships specifically noted difficulty getting grant funding to support their products, with one noting that "it is challenging to raise grant funding to develop financial products like first loss guarantees or payment guarantees, although we see a very large potential for such products to unlock large amounts of capital in higher risk markets." COVID-19 has further limited grant funding for partnerships, with several noting that public funding is being channeled away from their targeted SDG areas towards the public health sector.

Over 40 percent of partnerships with investment and 30 percent of all partnerships surveyed reported that grants can directly conflict with commercial objectives. One partnership stated that "grant funding can often require certain activities or a certain partnership arrangement that limits the innovative potential of a business idea." Regulations around grant funding also pose restrictions; several partnerships reported, for example, that government grants are sometimes restricted from being used to support commercial activities and that donors cannot legally provide grants to partnerships registered as for-profit entities. Additionally, several partnerships in our pool reported that they needed to either restructure or bring on partners that they would not have otherwise in order to increase their eligibility and attractiveness to a greater pool of funders. This speaks to a general mismatch where grant funders seek to fund nonprofits but investors seek to fund for-profit entities. One partnership noted that "we find it difficult to create a structure where we would have a for profit and a nonprofit. This is due to our being a small team and thereafter having to use the same people in both structures. What we would like to do is to create the proof of concept with grant money to de-risk the investment for the commercial funders."

Challenge 2: Grant timelines and ticket sizes do not support partnerships' needs and early-stage activities

Partnerships are constantly balancing the need for funding against the resources required to secure it. Many grant funders that are targeting Stage 1 funding initiatives tend to provide short- and fixed-term grants (one to three years) and/or grants that are of small ticket sizes (e.g., less than $500,000) (Dalberg 2020; Gugelev and Stern 2015). If partnerships are able to secure the funding, it can leave them in a constant chase after piecemeal funding, scrambling to secure multiple grants for Stage 1 funding activities and to produce results against unrealistic and uncoordinated timelines (Dalberg 2020, 2021). One partnership noted that "forestry is highly capital intensive. A few $500,000 grants doesn't go very far."

Additionally, the short term and small ticket size of grants diverts resources away from important Stage 1 funding activities such as developing feasibility studies, business plans, and stakeholder networking (Peterson et al. 2015). Partnerships in our survey stated that this is counterproductive to their ambitions and that they need more flexible, unrestricted, and long-term grant funding.
Even when partnerships are able to find it, "securing more flexible funding, particularly from foundations, is generally by invitation only—[and]

building this network diverts resources from the core business activities, which . . . are the key focus for the partnership." In Section 2.3.2, we discuss how small ticket sizes can also cast partnerships in a negative light to investors.

Challenge 3: Grant funders' performance metrics and reporting requirements are burdensome and misaligned with impact

Once partnerships receive grant funding, they still face barriers that prevent them from attracting investment and demonstrating impact. In particular, partnerships noted that grant funders often require their funded partnerships or initiatives to adhere to fixed key performance indicators (KPIs) and monitoring, evaluation, and reporting frameworks. Although there is nothing inherently wrong with this, grant funders' and other impact investors' metrics can often focus more on output-level metrics as opposed to long-term outcomes or impacts (Callias et al. 2017; Godeke and Briaud 2020; Peterson et al. 2015). One reason may be that funders find it challenging to align their existing frameworks with the SDG framework (Rockefeller Philanthropy Advisors 2019) or are tracking outputs and outcomes as opposed to impacts. More broadly, grant funders usually have their own unique monitoring, evaluation, and reporting frameworks. In our sample, most partnerships layer multiple grants to support Stage 1 activities; these partnerships stated that having to comply with multiple frameworks "can . . . be too burdensome in terms of reporting and other requirements which diverts resources away from [our] ability to develop a strong business plan." Several partnerships called for greater coordination among grant providers to reduce this burden as well as more freedom to develop their own KPIs.

2.3.2 Investment challenges

There comes a point when partnerships have made headway in their activities but still have certain risks not acceptable to DFIs or private sector investors. At this point, they may need to seek other sources of capital for Stage 2 activities. Some of the challenges found at this stage, like restrictive eligibility criteria, are echoes of the same constraints found in grant funders. Others reflect new challenges specific to DFIs and private sector investors, such as reaching adequate proof of concept, overcoming perceptions of risk, and convincing investors to truly invest as their environmental and social goals dictate.

Challenge 4: Investors are looking for proven models with strong track records

Over 60 percent of partnerships with investment and 26 percent of partnerships without investment indicated that it is a significant challenge to find investors who are aligned with their business models and geographic focus. Investors understandably have established risk-return profiles that direct their investments and eligibility criteria. As a result, they tend to focus on projects with a proven business model and strong track record that are located in less risky countries. Yet this can be completely at odds with the nature of the SDGs. For example, the United Nations Global Compact—an entity that works with offices throughout the United Nations to better integrate the private sector—states that businesses "need to raise their sustainability ambitions and act decisively to: 1) adopt new mindsets, 2) build and trial new business models, and 3) develop and deploy disruptive technologies" (Whelan n.d.).

Partnerships in our survey pool reported that investors they work with are often reluctant to invest in "green" or new business models despite the clear need for such innovative approaches to address the SDGs (Convergence 2020a; Crishna Morgado and Lasfargues 2017; Lewis et al. 2016; Pinko et al. 2021). One partnership noted, for instance, that its biggest challenge with investors is the "lack of familiarity and experience with household and small and medium enterprise (SME) lending for Water, Sanitation, and Hygiene (WASH) projects, which is a new space for most lenders, including DFIs." Many partnerships are also operating in emerging economies, where investors are more reluctant to invest due to risks such as uneven economic growth, political instability, conflict, and underdeveloped financial markets (Dalberg 2021; Runde et al. 2019; Sierra-Escalante and Lauridsen 2018; UNSG 2019).

Partnerships in our sample also found that DFI and private sector investors look for initiatives with a 10-year record of success—a criterion most partnerships cannot meet. Investors have noted that a record of success includes not just demonstrating positive financial returns but also demonstrating that an enterprise does not rely on grant funding or subsidization (Statuto and Lavallato 2021). Track record requirements leave partnerships in a challenging funding position. Although they may have received some grant or seed funding to pilot their model, they struggle to find the flexible capital and internal capacity needed to scale operations and build the record of success required by investors. One partnership noted, however, that "it is very hard to go from proof-of-concept capital to commercial scale up funding due to the nature of the financial sector (large tickets, credit ratings, risk averse nature and so forth)." Although there are seed-stage and early-stage investors—such as Acumen and Aceli Africa—that are able to invest in ventures with a much shorter track record, few are in the market and partnerships may not know how to access them.

Challenge 5: Investors have rigid funding criteria and requirements

Similar to grant funders, DFIs and private sector investors often lack flexibility in terms of the ticket sizes they are willing to support and their reporting and commercial project requirements (Dalberg 2020). Many DFIs and private sector investors focus on larger ticket sizes ($10–20 million) that partnerships in Stage 1 of their funding journeys are not ready for, especially since their earlier activities may have been funded by grants, which tend to be of small ticket size. Related to other investor requirements, one partnership reported that "we realized that [receiving financing] at scale required additional investment (by us) into systems, processes and staffing to compensate accordingly, e.g., Environmental, Social, and Governance (ESG) standards, reporting requirements."

Challenge 6: Investors have negative perceptions of initiatives supported by grants

A more unique challenge mentioned by three partnerships in our sample is that investors sometimes negatively perceive partnerships that have relied on grant funding for too long. One partnership noted that a "grant-based model can often be perceived as [one] with less commercial sustainability and market uptake, thereby limiting the interest from other sources of capital as well as private sector participation." Another partnership noted that because grant ticket sizes are small, investors can view them as unable to attract funding in the midsize ticket range (e.g., up to $10 million). These negative perceptions perpetuate a vicious cycle where partnerships must seek additional grant funding to continue supporting early-stage activities and leaves no one responsible for providing middle ticket sizes.

Challenge 7: Greater investor transparency and accountability is needed

Although there are investors willing to take on newer business models, it can be challenging for partnerships to keep track of the investors open to providing Stage 2 funding and their eligibility criteria (i.e., focal areas, ticket sizes, geographies). DFIs, for example, may report in a way that is not

easy to track and compare. With low transparency of impact management, mixed disclosure of environmental and social risks of investments, and low to nonexistent disclosure of financial information (James et al. 2021), it is difficult for partnerships to know which DFIs they can connect with. This can create additional expenses for partnerships in terms of networking and transaction costs. One partnership in our sample wished that DFIs could provide their funding criteria, historic and current projects funded, catalytic and blended finance opportunities, and other core information in an easily accessible database for stakeholders.

Another partnership expressed frustration that DFIs are not held accountable for meeting their ESG and SDG objectives, which limits financing opportunities for partnerships, but the DFIs are still allowed to claim results. This partnership also stressed the need for greater information sharing between DFIs to increase pressure to adopt new financing models and set up new financing instruments.

Challenge 8: Regulatory and policy constraints

External factors such as international financial regulations and the international policy environment also get in the way of partnerships overcoming the missing middle challenge. For example, one partnership noted that because the financial instrument it is developing would serve both developed and developing countries, the partnership was not eligible for official development assistance (ODA) and was unable to engage DFI financing. Another partnership stated that the international policy environment limits its investment appeal because few countries have a policy framework supporting the partnership's objective of increasing zero-emissions fuels.

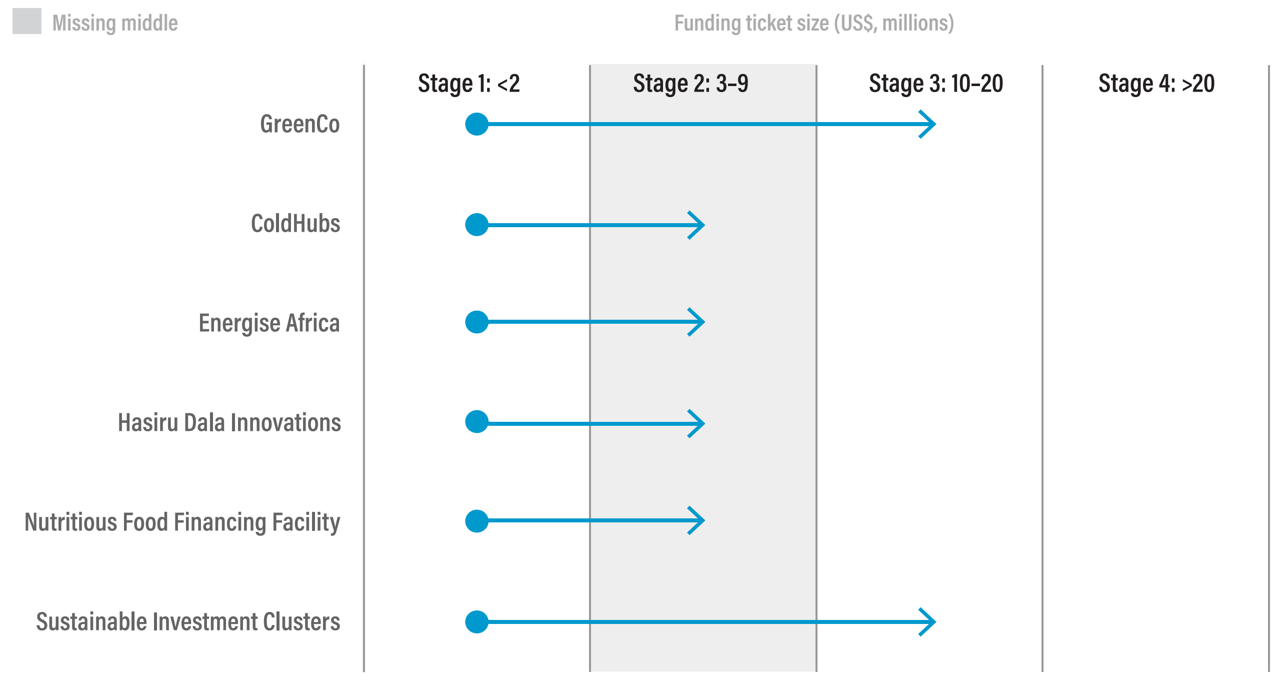
Taken together, these challenges speak to overarching issues with grant funders and investors that are greatly hindering progress on the SDGs and by partnerships. First, grant funders and investors are very much tied to their status quo and focused on their own priorities. This complicates their ability to provide the financing that partnerships need to truly drive commercial endeavors. Second, grant funders and investors also lack flexibility in terms of what they can or will fund. Finally, their current methods for tracking and reporting on impact do not always align with the SDGs and partnership ambitions to make transformative changes. If financiers' impacts are not aligned with understanding SDG impact, it follows that financiers will be less effective at meeting their stated ESG and SDG impact objectives and at selecting the best initiatives to fund. Though this is beginning to shift, many investors may still believe that incorporating sustainability factors into decisions conflicts with fiduciary duty despite regulations to the contrary and evidence that ESG integration can be a form of prudent investing (Lewis et al. 2016). Chapter 3 provides an overview of financier transparency and accountability issues.

Although overcoming the missing middle is not easy, partnerships in our pool are working to overcome these challenges in creative ways. In the remainder of this chapter, we discuss how six best-in-class partnerships are making initial progress against these funding barriers. Then, in Chapter 3, we look at new financing approaches already adopted by grant funders and investors, all of which can help early-stage partnerships overcome the missing middle.

2.4 Partnership Case Studies

In the remainder of this chapter, we explore how six commercial partnerships have approached funding and navigated investment challenges. No partnerships in our pool have successfully made the textbook leap across the missing middle to become fully commercial and financially self-sufficient (these are difficult to find, hence the premise of this report.) We did, however, identify encouraging stories of what partnerships are doing right as they navigate the complexities of financing. These partnerships stood out from our pool of 66 because they have all secured some investment, and they are also all seeking additional investment at the moment to launch or scale up their operations. These partnerships vary, however, in the amount and type of funding they have sought or are seeking and are operating in different geographic and SDG contexts (Figure 5).

Figure 5 | Partnership Case Studies and Stages



Notes: List of partnerships:

- **GreenCo** is disrupting the Southern African Power Pool market by acting as a renewable power offtaker. This case examines how the partnership secured anchor funding from a philanthropy and strategically built relationships with development finance institutions to overcome the missing middle.
- **ColdHubs** designs pay-as-you-go, solar-powered cold rooms for farmers in Nigeria. This case explores how the partnership leveraged partnership platform networks to secure concessional finance.
- **Energise Africa** is an impact-focused crowdfunding platform enabling individual investors to invest in sustainable businesses in Africa and other emerging economies. This case highlights how the partnership strategically layered grant funding alongside donor and government investment to crowd in private capital.
- **Hasiru Dala Innovations** creates employment opportunities for waste pickers in India. The case examines how the partnership's experienced team and strong systems understanding paved the way for investment.
- **The Nutritious Foods Financing Facility** seeks to increase funding to small and medium enterprises that provide access to nutritious and safe foods to domestic customers across Sub-Saharan Africa. This case explores the importance of a strong team with relevant technical expertise and building a relationship with an anchor funder.
- **The Sustainable Investment Clusters** partnership develops designated zones for commercial activities with embedded sustainability and circular principles.

Source: Authors.

Overall, the following three key lessons emerged from these cases:

- We saw that partnerships that have successfully secured investment tend to have found **one or two long-term, or "anchor" funders or sponsors** willing to provide flexible catalytic capital with a low reporting burden. Often these anchor funders provide multiple rounds of funding and connect partnerships with investors within their circle. (Read more about how anchor funders can be essential in the case studies of GreenCo and Energise Africa.)
- Several of the partnerships emphasized the benefit of **mentorship and networking from partnership platforms and award programs.** Partnerships are not always well versed in finance and can benefit from getting counsel from those who are—learning to navigate the complexities of structuring financing to support their commercial endeavors and, more broadly, expanding their network and connections. (Read more about how GreenCo, ColdHubs, Hasiru Dala Innovations, and the Sustainable Investment Clusters (SIC) partnership have found the advice and mentorship from different programs valuable.)

- As validated by the logit model, all case study partnerships had developed a **business plan that included a strategy to secure investment.** Additionally, through interviews with these partnerships, it was clear they were adept at **putting together a strong team** and indicated they spent a significant amount of time **building an understanding of the problem** they wanted to address and adapting their implementation strategy over time to accommodate issues as they arose. Not surprisingly, these success factors were also listed as being vital for having "transformative potential" (as described in the first State-of-the-Art Report) (Li et al. 2020).

2.5 Case Studies

2.5.1 GreenCo

Overview

This case examines how GreenCo secured anchor funding from a philanthropy and strategically built relationships with DFIs to overcome the missing middle. These are the key partnership characteristics:

- SDG: 7 (Affordable and Clean Energy)
- Platform affiliation: P4G
- Year founded: 2015
- Countries: Zambia, Namibia, South Africa, other Southern African Development Community (SADC) countries
- Business model: new business venture
- Funding stage: Stage 3 (see Figure 6)
- Funding types: grants, convertible loans, equity
- Partners: Investment Fund for Developing Countries (IFU), InfraCo Africa, EDFI ElectriFI (Government of Zambia, Southern African Power Pool [SAPP], Regional Electricity Regulators Association of Southern Africa)

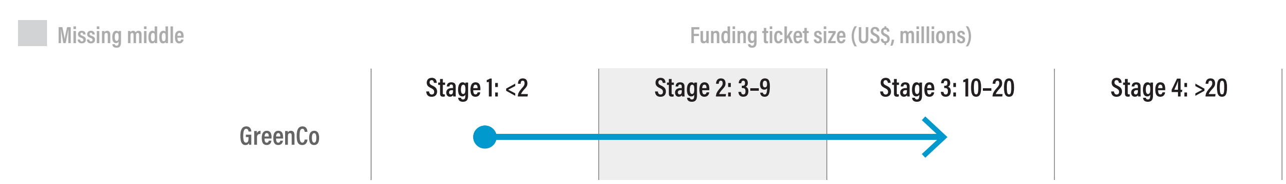
About

Via its local operating entities, GreenCo Power Services Limited, GreenCo acts as an intermediary offtaker and service provider, purchasing renewable power from independent power producers (IPPs), pooling energy supply, and selling power to utilities and private sector offtakers (i.e., commercial and industrial users) either bilaterally or through the regional competitive power markets. This model allows GreenCo to pool and de-risk renewable power for electricity buyers while promoting cross-border power transactions and a more dynamic clean energy market in the SAPP (GreenCo 2021).

Funding journey

Creating the "building blocks of profitability." GreenCo secured early buy-in from funders that have supported the partnership through multiple funding stages. In 2015, GreenCo received a grant from the Rockefeller Foundation to conduct a feasibility study and convene a week-long stakeholder roundtable. The strength of the feasibility study and support generated through the roundtable enabled the partnership to secure two additional grants from the Rockefeller Foundation that were used to develop the partnership's business plan and begin project implementation. GreenCo also received Stage 1 grant funding from Convergence, the SADC Project Preparation and Development Facility (PPDF), and P4G. This flexible, long-term grant funding

Figure 6 | GreenCo Funding Stages



Source: Authors.

allowed the partnership to address barriers to commercialization, such as gaining support from critical government and utility stakeholders.

Playing the long game. GreenCo used grant funding strategically to create an enabling environment for the partnership to launch, closing on its first investment—$1.5 million in convertible loans from IFU and InfraCo—in October 2020. Though the partnership is not currently directly profitable, operations have reached a tipping point where GreenCo has a potential pathway to viability with an established proof of concept, pending contracts with renewable energy generators, and strong government support. This $1.5 million was used to expand the local GreenCo team and meet other operational milestones, such as securing a license to operate in Zambia.

In April 2022, GreenCo secured an additional $15.5 million in equity funding from IFU, InfraCo, and EDFI ElectriFI. The first installment was released immediately to fund continuing working capital. The balance will be released once the power purchase agreement with GreenCo's first IPP is ready to sign and the grid-related agreements with the Zambian national utility are in place to enable the transmission of power, expected later in 2022.

When GreenCo initially connected with IFU and InfraCo, investors were interested in the concept, but a number of steps were still required before the partnership was in a position to generate revenue. While most DFIs are familiar with investments supporting IPPs selling directly to power utilities, GreenCo's role as a non-asset-owning intermediary falls outside most rigid investor funding criteria and requirements. GreenCo leveraged P4G's connections with the Danish Ministry of Foreign Affairs to demonstrate the value of higher-risk and innovative investments to the Danish government, which allocated additional higher-risk capital to IFU to manage through a new fund. InfraCo's strategy also evolved to enable it to invest in businesses such as GreenCo rather than single projects. Both InfraCo and IFU needed to see that GreenCo had reached a "point of no return" in its operations, where bankability was clearly within reach and no major administrative or policy barriers would prevent the partnership from becoming operational. For InfraCo, key factors included changes to local regulatory frameworks that meant the partnership would be more likely to obtain trading licenses in target countries.

The IFU, InfraCo, and EDFI ElectriFI investment has potential to crowd in additional investment by enabling GreenCo to build a starting portfolio of IPPs and provide a liquidity buffer to insulate against market movements and ensure GreenCo can pay its IPPs whether the power is sold bilaterally or traded in the SAPP market. Once the partnership has a demonstrated track record through its starting portfolio, GreenCo will seek further investment in debt and equity to scale its operations.

Takeaway

To reach this Stage 3 funding, **flexible, long-term grant financing** was critical. GreenCo secured early support and multiple grants from an anchor funder, the Rockefeller Foundation, which enabled the partnership to get off the ground and build stakeholder support. GreenCo's grant providers have also been flexible with regard to agreed milestones, allowing the partnership to adjust milestones based on unforeseen challenges and changing timelines. Finally, GreenCo has leveraged funding that has been relatively unrestricted and designed to be used as catalytic capital for innovative commercial initiatives. While grant funding was formally awarded to the nonprofit arm of the project, some of it could be used to support business components that are expected to generate profit in the future.

Strategic stakeholder engagement has been a key component of securing both grant and investment funding. The partnership tapped into **accelerator support**, leveraging the P4G network to create funding opportunities with IFU, and demonstrated buy-in from local government and power utility stakeholders through letters of support, which helped the partnership build credibility and unlock specific pools of funding. The SADC PPDF grant, for instance, required support from regional institutions. Strong stakeholder support has also helped the partnership navigate changes to local government and utility leadership while maintaining investor confidence.

2.5.2 ColdHubs

Overview

This case explores how ColdHubs leveraged partnership platform networks to secure concessional finance. These are the key partnership characteristics:

- SDG: 2 (Zero Hunger)
- Platform affiliation: P4G
- Year founded: 2014
- Countries: Nigeria
- Business model: new business venture
- Funding stage: Stage 2 (see Figure 7)
- Funding types: founder equity, grants, concessionary debt
- Partners: Powering Agriculture—Sustainable Energy for Food Department of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), ColdHubs Ltd., the Smallholders Foundation, the Institute for Air Handling and Refrigeration (Dresden, Germany), Factor[e] Ventures, and Fledge

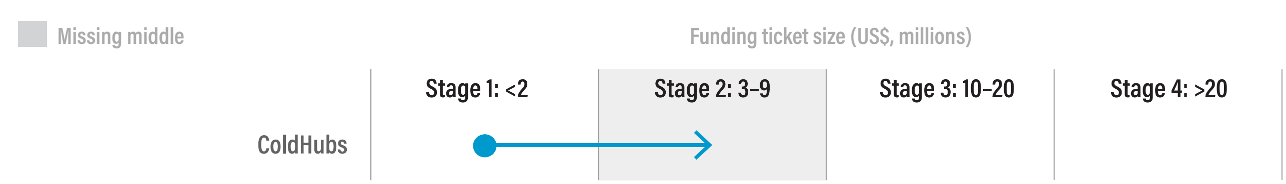
About

ColdHubs is a for-profit social enterprise that works to address the problem of postharvest food loss for Nigerian farmers, retailers, and wholesalers. Farmers pay a small daily flat rate to store their fresh produce and perishable food items in walk-in solar-powered cold rooms, or "hubs," designed and operated by ColdHubs. Hubs are able to extend the shelf-life of food from 2 to 21 days and thus increase access to and the affordability of nutritious foods. To date, ColdHubs has designed, built, and operated 54 cold rooms that serve more than 5,200 customers. In the last year, ColdHubs estimates that it has saved over 42,000 pounds of food from spoilage, created over 65 jobs for women who are now trained as operators and attendants, and saved more than 1 million kilograms of carbon dioxide by using solar energy.

Funding journey

From venture capital to grants to concessionary debt. When ColdHubs first launched in 2014, the team planned to seek grant funding from USAID's DIV program, a grant-focused innovation program that funds early-stage initiatives seeking to develop breakthrough solutions for development issues. However, due to the long wait period to get funds in hand, the team raised a $20,000 investment in exchange for a 5 percent equity stake from the incubator and accelerator program Fledge, the conscious company accelerator. Fledge also provided the partnership with mentorship opportunities with similar businesses and helped connect the ColdHubs team with a venture capital company based in the United States called Factor[e] Ventures. Factor[e] Ventures then invested $280,000 for a 20 percent equity stake to help ColdHubs flesh out its technology deployment and business model. This early-stage equity helped ColdHubs kick-start its initiative and build confidence in its idea. The team decided to then turn back to grant funding to consolidate its technology expansion, gain market traction, and earn robust revenue before coming back to raise commercial capital.

Figure 7 | ColdHubs Funding Stages



Source: Authors.

Between 2015 and 2020, ColdHubs raised $3 million in multiple grants from three donor governments, including USAID, the UK Agency for International Development (UK Aid), and GIZ, as well as grants from the Swiss Re Foundation and the International Food Policy Research Institute NGO. Unlike other partnerships, ColdHubs did not face many grant eligibility hurdles due to being established as a for-profit entity because it developed a strategy and identified grant opportunities focused on supporting for-profits to position themselves in the market before raising commercial financing. For example, the Swiss Re Foundation explicitly focuses on early-stage ventures in two impact areas (natural hazard and climate risk and access to health) that are seeking to develop innovative and transformative solutions, and it provides flexible grants and access to the broad expertise of Swiss Re's staff (Swiss Re Foundation n.d.a). ColdHubs' main challenge around grant financing was that the ticket sizes were too small, meaning it had to attract multiple grants to support early-stage activities, which created excessive burden on the team in terms of applications and reporting requirements.

Additionally, in 2018 ColdHubs was successful in getting $100,000 in concessionary debt from All On Energy Impact Investors, whose portfolio focuses on energy products and services for under-served and unserved energy markets in Nigeria. The concessional debt from All On is very well positioned to support start-ups; it has a 0 percent interest rate, a reasonable moratorium of two years, and a debt tenor of five years.

The missing middle challenge

ColdHubs is now in its scale-up stage of maturity and looking to attract investment of $4–$5 million to build 60 new large- and small-scale cold storage units, launch transportation services for end-to-end cold storage, and start small-scale production of packaging with recyclable plastics. Its current investment challenge is how to overcome the missing middle. Although it was successful in receiving multiple grants adding up to $3 million, it faces difficulties in finding investors to support a ticket size in the $4–$5 million range it needs. ColdHubs found that investors such as the International Finance Corporation (IFC) and Microsoft Climate Ventures, which showed interest in its mission, only offered finance at ticket sizes of $15 million and up. Additionally, ColdHubs found that some investors perceived grants of less than a million to be an indication that the company was not ready for investment.

ColdHubs says platforms such as P4G can help fill this missing middle, but generally they are not able to fund capital expenditures. ColdHubs is now working again with USAID's DIV program and other relevant investors to discuss investment opportunities. The team is seeking to attract concessionary debt with 0 percent interest and a long payback period to help with scaling activities.

Takeaway

ColdHubs is one of the few partnerships in our case analyses that started off with equity funding. ColdHubs found that **engaging with partnership platforms** such as Fledge and P4G provided not just helpful early-stage capital but also vital networking and mentorship opportunities that helped to leverage new business and financing opportunities. ColdHubs has also maintained a **relationship with an anchor funder**, USAID, in the hopes of securing additional concessional finance through the DIV program and finding funding to scale and address the missing middle problem. Finally, ColdHubs found success in overcoming the common grant-related challenge that grant providers commonly only release funds to NGOs by **carefully identifying funders that would support a for-profit** working in the food and agriculture space. Its due diligence paid off in the form of multiple grants.

2.5.3 Energise Africa

Overview

This case highlights how Energise Africa strategically layered grant funding alongside donor and government investment to crowd in private capital:

- SDG: 7 (Affordable and Clean Energy)
- Platform affiliation: P4G
- Year founded: 2016
- Countries: Sub-Saharan Africa, expanding to Southeast Asia

- Business model: financial instrument
- Funding stage: Stage 2 (see Figure 8)
- Funding types: grants, equity
- Partners: Ethex, Lendahand

About

Energise Africa, a partnership between Ethex and Lendahand, is an impact-focused crowdfunding platform that enables individuals to invest in innovative clean energy projects in Sub-Saharan Africa and beyond. The partnership aims to fill a financing gap to provide flexible, working capital to sustainable businesses that cannot access finance from traditional banks and financial institutions. To date, the platform has attracted more than 4,000 individual investors, each making investments from £50 to several thousand pounds, and has raised over £30 million, making over £14 million in repayments. Energise Africa has funded over 8,000 micro and small enterprises and smallholder farmers, is mitigating over 180,000 tonnes of carbon dioxide a year, and has enabled more than 850,000 people across 15 countries to access affordable solar energy (Energise Africa n.d.).

The partnership is currently looking to expand its portfolio to Southeast Asia and to include other sectors (such as productive-use renewable, e-mobility, clean cooking, circular economy), and it has already piloted investments in India. In 2021, the partnership was one of four initiatives highlighted by the UN Global Climate Action Awards for financing climate-friendly investment (UNFCCC 2021).

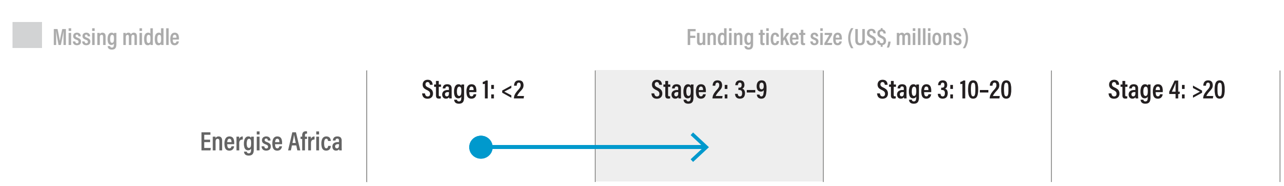
Funding journey

Strategic "layering" of grant funding. Energise Africa was established in 2016 through a public tender process issued by UK Aid and Virgin Unite. This initial Stage 1 funding was structured as a three-year grant, with around $450,000 to be used to launch the platform and establish a sustainable investment flow, and $1.5 million earmarked as match funding or coinvestment.

Because Stage 1 grants are often small ticket sizes offered on limited timelines, the partnership has been strategic in tapping into complementary funders with flexible capital. In 2017, Energise Africa secured grants from P4G and Good Energies Foundation, which funded critical activities where UK Aid was restricted. P4G funding went towards marketing and outreach activities, whereas the Good Energies Foundation grant allowed the partnership to experiment with different approaches, such as the use of vouchers, coinvestment, and first-loss investment. This market research and experimentation has been critical to platform growth. For example, establishing a "new investor guarantee" helped Energise Africa reach over £10 million raised from individual investors by 2019.

In 2019, Energise Africa received multiple Stage 1 grants from both P4G and the Good Energies Foundation. The partnership is using this funding to address the systemic challenges limiting platform growth, such as regulatory issues, currency risk, product development, and technology. Because P4G funding cannot be used directly for investment, Energise Africa is using Good Energies Foundation funding to address financial regulatory constraints and local currency risks while executing on blended finance investment opportunities utilizing revolving investment capital from UK Aid and Good Energies.

Figure 8 | Energise Africa Funding Stages



Source: Authors.

Energise Africa is using P4G funding to explore new market opportunities. In combination with a small grant from Innovate UK to conduct stakeholder mapping and create a go-to-market strategy, Energise Africa plans to produce a feasibility report, identify key stakeholders, and expand its portfolio to Southeast Asia. Energise Africa is also working closely with P4G to establish a strategy to secure equity investment in order to provide the required financial resources to deliver transformational growth in mobilizing billions of dollars in SDG financing.

Learning along the way

Energise Africa has grown through a test-and-learn approach—deploying different product and market strategies based on available market information and then adjusting. Funders that are flexible and aligned with this approach have been instrumental as the partnership has scaled.

The Good Energies Foundation, for instance, provides flexible funding with a streamlined reporting approach that focuses on "lessons learned" over rigid key performance indicators. The foundation is eager to partner with other funders where it can add value and understands that systems transformation requires high-risk capital. Good Energies found Energise Africa to be a compelling initiative because of its model that crowds in both retail and commercial investment while limiting risk with investments spread across a portfolio of clean energy companies.

Energise Africa has found that this flexibility is a rarity among funders, and the partnership is often caught in the middle of funder requirements as it tries to scale. Funders are eager to invest in new initiatives, but they are hesitant to fund scaling activities for initiatives past the start-up phase. On the other side of the spectrum, funders may require market data and a rigid business plan beyond what Energise Africa can provide at this stage. This lack of flexibility can limit how high-risk capital is deployed, even though it is technically available.

Energise Africa is starting to see things change, particularly around alternative finance platforms. Organizations such as the European Venture Philanthropy Association are educating philanthropic organizations on how to effectively deploy catalytic capital and more standardized EU crowdfunding regulations make it easier for platforms such as Energise Africa to work across regions (EVPA 2022). Additionally, governments, including GIZ and USAID, are adopting similar approaches to those utilized by UK Aid to fund higher-risk investments, ensuring that SDG financing is accessible to sustainable businesses in emerging economies that will help accelerate the achievement of the SDGs.

Takeaway

Energise Africa was built on a unique **crowdfunding model that encouraged coinvestment** from the start. Its **strategic layering of grant funding and donor government and foundation coinvestment** really helped it test different approaches, and it has worked with a diverse set of funders to meet its needs. The initiative has showcased how innovative ways of using public money in the form of coinvestment can catalyze significant flows of capital to accelerate the achievement of the SDGs on the ground. In the case of Energise Africa, every one pound of public or philanthropic investment has helped to leverage a further eight pounds of

private investment. As the platform seeks to scale its work, Energise Africa is keen to see many other philanthropic and commercial investors take a similarly innovative and forward-thinking approach in order to rapidly bridge the SDG investment gap.

2.5.4 Hasiru Dala Innovations

Overview

This case examines how Hasira Dala's experienced team and strong systems understanding paved the way for investment. These are the key company characteristics:

- SDGs: 6 (Clean Water and Sanitation), 12 (Responsible Consumption and Production)
- Platform affiliation: CityFix
- Year founded: 2015
- Countries: India
- Business model: new business venture
- Funding stage: Stage 2 (see Figure 9)
- Funding types: founder equity, grants, convertible notes/debt, equity
- Partners: Hasiru Dala (not-for-profit), Refillables

About

Hasiru Dala Innovations is a for-purpose, for-profit social enterprise employing marginalized waste pickers across three lines of business (Hasiru Dala Innovations n.d.):

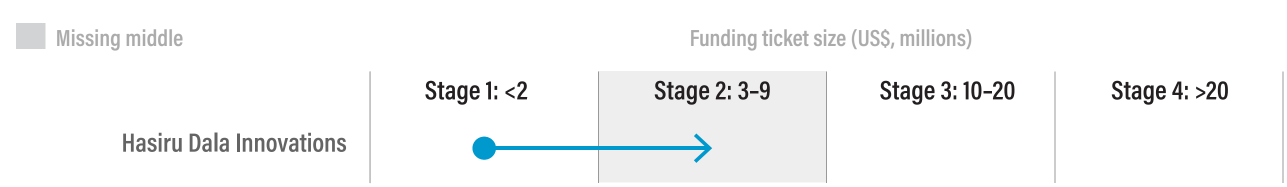
- **Total waste management services** for bulk generators of waste in Bangalore (e.g., apartment complexes, commercial buildings)
- **Plastics recovery**, engaging waste picker entrepreneurs and scrap dealers who sell polyethylene terephthalate and low-density polyethylene plastic waste to the Hasiru Dala Innovations Aggregation Centre, where materials are segregated into finer categories, including "clear," "green," "pickle," "oil," "liquor bottles," etc.
- **Event waste management**, which employs waste pickers to work at events such as weddings, sporting events, cultural events, or corporate events

Hasiru Dala Innovations spun off from a nonprofit of the same name (Hasiru Dala), which has been working in Bangalore for nearly 10 years. Whereas Hasiru Dala Innovations focuses on advancing economic justice for waste pickers by providing a livable wage and employment/entrepreneurship opportunities, Hasiru Dala, the not-for-profit, focuses on social justice issues that impact waste pickers, such as access to education, health care, housing, and financial literacy and inclusion. Hasiru Dala Innovations and Hasiru Dala are not formally affiliated and do not share staff or resources but do work together to engage local communities and collaborate on community outreach activities such as health care camps.

Funding journey

Building name recognition. Unlike many companies in our survey pool, Hasiru Dala Innovations has never been exclusively reliant on grant funding. Instead, the company has pursued any and all opportunities available to it, which have happened to be a mix of equity, competition prize money, convertible notes, debt, and grants in funding Stages 1 and 2. When the initiative split off from Hasiru Dala, the founders invested

Figure 9 | Hasiru Dala Innovations Funding Stages



Source: Authors.

$30,000 in equity. Hasiru Dala Innovations was able to capitalize on Hasiru Dala's strong reputation: in 2016–17, Hasiru Dala secured a combined $170,000 in seed funding from Social Alpha and Ennovent. Hasiru Dala built off trust and engagement with local waste picker communities to get to work right away. In its first five years, the company maintained a 49 percent compound annual growth rate, and its waste management business was operationally profitable after 23 months.

Social impact awards have been key turning points in Hasiru Dala's fund-raising journey. Between 2016 and 2017, the initiative won the Tata Social Enterprise Challenge, the Karnataka Pollution Control Board award for the most environmentally conscious organization, the Urban Innovation Challenge Prize from the Government of Karnataka and University of Chicago, and a Millennium Alliance Award grant. Coupled with Hasiru Dala Innovations' measurable results, this recognition has made the partnership a compelling investment and helped attract funding from the Shell Foundation, the Unilever Transform Fund, the elea Foundation, and Yunus Social Business.

In total, the company has raised over $1 million in grants and convertible debt.

Tying the pieces together. Hasiru Dala Innovations' fund-raising success has been driven by three primary factors: local engagement and understanding of the system in which the business operates, a strong business plan with a coherent and consistent social impact message, and strategic networking.

Hasiru Dala Innovations' unique founding story and impact-first model has stuck out to investors. Founders spun Hasiru Dala Innovations off from Hasiru Dala once it was clear they could increase impact through a for-profit business model that is financially sustainable. Strong business due diligence and the initiative's market position helped attract funders such as the elea Foundation. Though not a typical investment, the Foundation was impressed by the demonstrated social impact and business model designed to help waste pickers break out of the poverty trap. Other tipping points for the elea Foundation were the 8–9 year community engagement that the Hasiru Dala nonprofit started and the extensive investments India has made into its recycling systems nationwide.

As Hasiru Dala Innovations continues to scale, it will be challenging to establish the proven model and track record that large-ticket Stage 3 funders require. So far, the business has focused on impact investors only, or investors who expect a lower return on investment or a longer return timeline. Since Hasiru Dala Innovations is no longer a start-up, it will also need to demonstrate a level of organizational maturity and due diligence to comply with rigid investor funding criteria and requirements. To address these challenges, Hasiru Dala Innovations' founders plan to continue to tap into their network of individual and institutional funders.

Takeaway

Hasiru Dala Innovations started with an **experienced team** with an investment background and a **strong systems understanding** of waste picker communities and broader local context. The company has also participated in **multiple award competitions,** which have enabled Hasiru Dala Innovations to expand its network, secure the invaluable advice of investors, and find equity commitments early on. The partnership has relied on network connections and word of mouth to tap into new funding opportunities, allowing it to bypass cumbersome award application requirements as well as the traditional grant funding pathway that most commercially driven partnerships often start off with.

2.5.5 Nutritious Foods Financing Facility

Overview

The Nutritious Foods Financing Facility (N3F) case explores the importance of a strong team and building a relationship with an anchor funder. These are the key partnership characteristics:

- SDGs: 2 (Zero Hunger), 12 (Responsible Consumption and Production)
- Platform affiliation: none

- Year founded: N3F is targeting 2022 for first close and launch
- Countries: Sub-Saharan Africa
- Business model: financial instrument
- Funding stage: Stage 2 (see Figure 10)
- Funding types: grants, equity, concessionary debt, debt
- Partners: Global Alliance for Improved Nutrition (GAIN) and Incofin Investment Management

About

N3F is a first-of-its-kind nutrition impact fund incubated by GAIN that seeks to address a critical barrier to improving nutrition in Sub-Saharan Africa: insufficient financing for SMEs that are vital players for securing access to nutritious, safe foods among domestic consumers. In Africa, for example, SMEs deliver over half of the calories consumed and over 80 percent of animal-source foods, fruits, and vegetables and process or handle about 65 percent of food in later stages of the value chain (Herrero et al. 2017). For low-income consumers in particular, SMEs are essential for ensuring access to nutritious, safe foods.

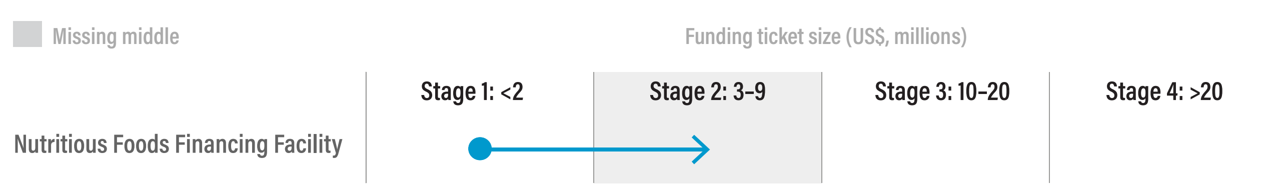
N3F uses a blended finance structure, aiming to attract investors interested in contributing to improved nutrition in Sub-Saharan Africa, and it intends to launch in 2022. N3F also consists of two other pillars beyond the fund: technical assistance to SMEs and development of an impact assessment framework that includes new metrics to appropriately track success of the fund. Incofin Investment Management, a licensed investment fund manager with 20-plus years of experience in managing private debt and equity funds in emerging markets and investments in agriculture, is GAIN's core partner and N3F's fund manager. In this partnership, GAIN provides its expertise on nutrition and SME technical assistance, leading the N3F's components of technical assistance and impact monitoring and learning (Bove 2022).

Funding journey

Grant funding to support the "building blocks." GAIN has traditionally supported African SMEs with technical assistance and grants. Increasingly, the GAIN team has recognized a core need of SMEs to access financing opportunities to scale up their offerings and increase the availability and accessibility of nutritious, safe foods. GAIN has found that SMEs struggle to get loans from commercial banks because banks require significant collateral and provide little to no flexibility in repayment schedules, which is needed to account for the seasonality of agricultural activities and its implication on cash flows.

So, in 2017, drawing on its positive experience of the Global Premix Facility (a rotating fund financing purchases of vitamins and minerals for the fortification of staple foods in Africa and Asia), GAIN decided to explore the concept of innovative financing for SMEs through an impact fund. As nutrition in emerging markets is a relatively new investment area, grant funding was necessary to assess the market gap, inform the design, and develop a fit-for-purpose theory of change and business plan. GAIN successfully received grants for these early-stage activities from government donors and foundations, including the Netherlands Ministry of Foreign Affairs, Irish Aid, the Rockefeller Foundation, and USAID. These grant funds have also been used to develop a model for technical assistance and new investment metrics,

Figure 10 | N3F Funding Stages



Source: Authors.

and they were also instrumental in allowing GAIN to issue a tender to select a fund manager with an extensive investment track record to manage the investment fund: Incofin.

From commitments to investment. The team originally considered the N3F fund as a closed-ended fund with a 10-year timeline. However, considering the pioneering nature of the fund (the first fund fully dedicated to nutrition), it decided to change the fund structure from a closed-ended to an open-ended fund to more quickly prove the concept of the N3F fund and raise further capital as it developed a track record. This approach is modeled on Incofin's experience in the development of the Fairtrade Access Fund. An open-ended structure without a defined timeline has the advantage of staging investors starting with those more interested in catalytic capital and, in this case, nutrition. In particular, USAID—with its strong interest in nutrition—has been an instrumental supporter of N3F. An open-ended fund also has the advantage of building a solid portfolio without the pressure of a tight investment period.

The N3F team is continuing to work with other donor governments and foundations, some of which have already committed to being investors. Moving forward, the team is in conversations with family offices and DFIs. In their conversations to date, N3F team members have found some DFIs to be significantly risk averse, seeking up to 40 percent first-loss contribution.

Takeaway

One of the greatest challenges N3F has faced is that many funders have climate, smallholder farmer, or sustainable agriculture mandates, but few have a nutrition mandate. While N3F's goal to support African SMEs with financing is not necessarily new, nutrition is a new theme that investors are not familiar with and so view as riskier. N3F is attempting to overcome this challenge by **demonstrating its strong team expertise** in nutrition and investment fund management and **building a strong relationship with an anchor funder**, USAID. The USAID team understood that true, on-the-ground impact is still lacking, and it needed to try something new. As a result of getting commitment from USAID as an early funder providing first-loss capital, N3F has been able to build credibility with investors and reduce perceptions of risk.

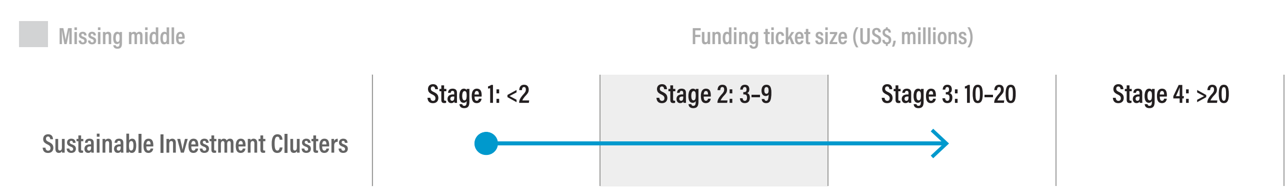
2.5.6 Sustainable Investment Clusters

Overview

This case explores SIC's funding road map to commercial investment. These are the key partnership characteristics:

- SDG: 12 (Responsible Consumption and Production)
- Platform affiliation: P4G
- Year founded: 2017
- Countries: Kenya, Nigeria
- Business model: project developer
- Funding stage: Stage 3 (see Figure 11)
- Funding types: grants, sponsor support, commercial contracts, equity, debt, guarantees
- Partners: Savo Project Developers, Lagos Deep Offshore Logistics Base (LADOL) Free Zone, SYSTEMIQ, the Made in Africa Initiative, NIRAS

Figure 11 | SIC Funding Stages



Source: Authors.

About

The SIC partnership (previously the Sustainable Special Economic Zones, or SSEZ, partnership) aims to advance the development of "sustainable investment clusters." These are designated clusters of commercial activities that, unlike conventional special economic zones, export zones, innovation hubs, or industrial parks, embed sustainability and circular economy principles at their core to drive enhanced economic, social, and environmental impacts. The SIC partnership aims to develop 50 clusters by 2030 and catalyze the Global Sustainable Investment Cluster Fund to incentivize further replication.

Since its inception in 2017, the partnership has initiated three clusters: the LADOL Free Zone in Lagos, Nigeria; Oserian Two Lakes Industrial Park in Naivasha, Kenya; and the Green Heart of Kenya on the Kilifi Coast, Kenya (Savo Project Developers n.d.). These have all helped to validate the partnership's theory of change and create a blueprint for future clusters that show that five conditions are incredibly important for success:

- At least one pivotal private sector champion to ensure the cluster is economically viable and reaches the scalability required for rapid growth
- A dedicated "change agent" or project "sponsor"—such as a zone owner, a leader of a private company, or a government minister—who understands the need for change and can help execute the project
- Government policy alignment
- A vision that aligns with the SDGs
- A strong strategic value proposition (Savo Project Developers et al. 2020)

In April 2020, the team leading the SIC partnership spun off from SYSTEMIQ to create a specialized project development company called Savo Project Developers. As of 2022, Savo has built a SIC pipeline of $300 million across Nigeria and Kenya, closed $26 million of investment, and secured tenant contracts worth $45 million. The LADOL Free Zone has over 40 hectares that are fully developed, hosting a sustainable port and logistics hub and Nigeria's largest ship fabrication yard. Oserian Two Lakes Industrial Park in Kenya is now accepting tenants and has the potential to mobilize $500 million investment in green infrastructure, create 10,000 local jobs, and generate 30 megawatts of clean energy. The Green Heart of Kenya development aims to support the creation of 50 sustainable businesses, 500 homes, and 5,000 jobs by 2030.

Funding journey

Structuring finance against a SIC project life cycle. The SIC partnership develops projects across three phases, with investment risk decreasing with each phase. The first is the "preparation" phase, during which the developer (Savo) organizes feasibility studies, develops financial models and a business plan, and organizes contracts with partners. The second is the "construction" phase, during which firms develop core infrastructure and initial industrial units and start bringing in tenants. And finally, the third is the "operation" phase, during which the developer can operate the assets or bring in a specialized operating company. The LADOL Free Zone is in the operation phase, whereas both Oserian Two Lakes Industrial Park and the Green Heart of Kenya clusters are between the preparation and construction phases.

Phase 1 (preparation) and "the valley of death." Each new SIC project faces a potential "valley of death" during this first phase because a sponsor is no longer able to fund the development privately, and the project team is still jumping through available funding hoops. The SIC partnership states that DFIs would be ideal funders at this stage because of their favorable commercial terms and their impact lens, but the preparation phase does not generally fit within a DFI's risk appetite. Another challenge is that "DFIs and other investors have not yet developed the financial instruments, modalities and bankability definitions that enable an easy route of investment into Sustainable Investment Clusters." In other words, these clusters are still new business models; they are also considered complex asset classes because they bundle several assets, such as real estate, infrastructure, and utilities, each of which are considered as their own asset class by investors due to their different investment horizons, business models, and returns. Many investors can have a hard time assessing all of these assets grouped as a single investment. InfraCo Africa has been one of a handful of exceptions; it recently expanded its mandate to explicitly cover industrial zones as a priority funding area (Savo Project Developers et al. 2020).

For most SIC projects, the reality is that the project sponsor (e.g., LADOL in the case of Lagos) provides some of the initial funding but projects must seek additional grant or seed capital. In 2018, the SIC partnership received grant funding from P4G to begin scoping new opportunities and to conduct preparation activities in Kenya and Ethiopia. The benefit of working with P4G and LADOL was that both provided very flexible funding that could move quickly, and both were comfortable with the high level of risk presented at this phase—conditions necessary to significantly increase the likelihood of success of SIC projects.

Savo and P4G are now exploring the development of the Global Sustainable Investment Cluster Fund with $10–$20 million that can support multiple early-stage SIC projects with the goal of streamlining project development.

Phase 2 (construction) and the "chicken-and-egg" problem. The construction phase for a SIC project typically seeks to raise $20–$50 million to build out key infrastructure. This phase is also known as the chicken-and-egg phase because the project needs to build out infrastructure to attract tenants who then provide stable revenues, but it can be difficult to attract investors because tenants are not yet on board, so the project is considered risky. Although Savo considers this phase to be a great blended finance opportunity for DFIs, DFIs are still not generally comfortable with the level of risk. Instead, SIC projects often turn to private equity investors focused on infrastructure and real estate mandates because SIC finds these investors to be more comfortable with risk but want a 7–10 year exit and about a 20 percent return. Savo has found that working with commercial investors can also be challenging because of ticket size misalignment. Savo is exploring a platform model where there is a holding company with a mix of mature and immature assets across multiple geographies, which would allow it to raise funds at a higher (and more compatible) ticket size for commercial investors.

Savo states that although a few DFIs are interested in early-stage project risk, their approval processes can be slow and burdensome, often taking years rather than months (Savo Project Developers et al. 2020). More "patient" grant funding then is incredibly important in terms of keeping the project afloat as it conducts activities to meet DFI requirements.

Phase 3 (operation)—the risk/money exit. In this phase, a project typically has been de-risked because tenants are on board and have set up operations within the cluster that are generating recurring income, which means projects have more

success attracting DFI investment (e.g., bonds). Because of the low cost of capital, projects can bring DFIs on through a refinancing instrument that can then provide the commercial investors with the exit they require.

Takeaway

Each phase of building out a SIC project brings new challenges, with the primary challenges being that DFI investors perceive these projects as novel business models that are riskier and there is a lack of investors willing to support the project at small and medium ticket sizes. SIC has been able to address these challenges by **having a successful business plan with financing strategy and demonstration of impacts; strong project sponsors that serve as anchor funders**, such as LADOL, and **patient capital providers** with few strings attached, such as P4G, which have helped the partnership navigate the "valley of death" and chicken-and-egg problems; and **building out a platform model and its own unique fund** to incentivize further replication. SIC states that investors can also support partnerships working on similar issues by reassessing their risk-return trade-off (i.e., taking a higher risk for the higher reward) and by considering new ways to provide the early-stage de-risking, such as enhancing commercial risk guarantee schemes to close the gap between tenants secured and tenants required, which would unblock all sorts of bankable projects.

CHAPTER 3

PARTNERSHIP FUNDERS AND INVESTORS

Many grant funders and investors—including government donors, philanthropies, DFI's, and private sector investors—are starting to deploy innovative approaches to financing that can help overcome the missing middle. This chapter explores several examples of such approaches and features two special sections covering the role of institutional investors and the importance of strong impact measurement and management.

Grant funders and investors are starting to expand beyond their traditional funding models, offering alternative financing that is more accessible to early-stage ventures. In this chapter, we discuss some of the newer, reimagined opportunities that come in during Stage 2 funding, which can help commercially driven partnerships find their path to self-sufficiency.

We look at how grant funders and investors—specifically philanthropy, governments, DFIs, and private sector investors—are engaging partnerships through catalytic capital and other newer approaches. We also feature two special sections. Special Section 3.3 provides more insight for partnerships to understand institutional investors, which, as discussed in Chapter 1, are a subset of private sector investors that (indirectly) influence partnerships' streams of capital. Special Section 3.4 takes a deeper dive into impact measurement and management (IMM) challenges by investors, how these challenges affect partnerships, and new tools and approaches that are starting to reduce fragmentation in IMM across investors.

3.1 Research Methods

Funders and financing opportunities are drawn from a combination of literature reviews, insight from the GIIN, our partnership survey, and the 35 aforementioned interviews with partnerships, partnership-supporting platforms, and funders. More details on methodology and the organizations interviewed are available in Appendix C. The special sections draw on literature reviews and the rich impact investment expertise of the GIIN.

3.2 Partnership Funders

3.2.1 Philanthropy

Philanthropy is thought to be key in spurring catalytic capital (Koh 2020; Ogden et al. 2018; Tideline 2019). Prioritizing impact over financial returns, foundations have far more flexibility with how they manage risk and return compared to private investors (Koh 2020; Lee and Preston 2019) and are thus well placed to make patient investments with a higher risk tolerance. Their grant-making ability may be encumbered by the rules mentioned in Chapter 2, and it can take leadership courage and well-reasoned creativity to break out of grant-making norms dictating timeline and key metrics. But when foundations do pursue such approaches, they can demonstrate that catalytic capital and investment in early-stage, commercially driven partnerships is not as risky as some private sector investors may perceive (Zolfaghari and Hand 2021).

Foundations such as the Shell Foundation, for example, seem to have recognized the value in catalytic capital. The Shell Foundation notes that 75–80 percent of its grants support initiatives that are progressing to scale and sustainability, as compared to under 20 percent during its early years as a conventional grant maker (Shell Foundation n.d.). In 2021, the foundation helped to establish the Energy Access Relief Fund, which provides $68 million of subordinated, low-interest debt to small and midsize energy access companies struggling with disruptions caused by COVID-19 (Gordon 2021). The Shell Foundation is one of 16 government, foundation, and investor partners in the fund, and it also participated in catalytic tranches.

Other foundations have pivoted to allow more flexible funding. The Swiss Re Foundation, for instance, looks to fill a niche for grants that give space to commercial initiatives for learning, prototyping, and scaling. This model enables Swiss Re to absorb the risk of early investment while fostering a pipeline of investable projects (Swiss Re Foundation n.d.b). The Good Energies Foundation follows a similar philosophy, funding early-stage and high-risk projects with potential for transformative change (Good Energies Foundation 2022). Read more about how Swiss Re and the

Good Energies Foundation have been instrumental in getting commercially driven partnerships off the ground in Chapter 2.

Additionally, in the last three years, philanthropic programs dedicated to catalytic capital have emerged, such as the MacArthur Foundation's Catalytic Capital Consortium (in partnership with the Rockefeller Foundation and the Omidyar Network) and the Rockefeller Foundation's RF Catalytic Capital. Both of these initiatives aim to increase the flow and impact of catalytic capital to unlock more extensive social and environmental progress and can help partnerships scale up funding with additional investment guidance and support (MacArthur Foundation n.d.).

Although foundations' growing interest in catalytic capital is encouraging, there is still work to be done. As some interviewees noted, many foundations rely on traditional grants, with rigid and specific funding criteria and burdensome reporting. Additionally, few philanthropic organizations are structured to provide equity, an important asset class for early-stage partnerships, and do not have a mechanism to receive money back. Receiving returns can require additional administrative support, for example, which takes resources. Without additional resources, philanthropy might be hesitant to disburse funds in a different manner. The lack of such a mechanism can also inadvertently deprive the early-stage investee (a partnership in this case) of the opportunity to develop a track record of loan repayment or equity value on exit—a track record that is a key factor in due diligence for private sector investors. It is also unknown whether or not catalytic capital from philanthropies has mobilized private sector capital from banks or pension funds at scale. This may very well change, however, as more and more foundations look to disburse catalytic capital and demonstrate what is possible.

3.2.2 Donor Governments

Donor governments offer another critical lifeline to early-stage partnerships. Though this support typically comes as grant funding during Stage 1, governments are beginning to set up specialized programs and funding pools to invest in high-risk, high-impact initiatives (beyond their involvement in DFIs) that extend to Stage 2 funding. Already, approximately half (56 percent) of blended finance transactions involve the participation of a donor government, and more and more specialized funding pools are emerging (Johnston 2019).

Sida, Sweden's government agency for development cooperation, for example, has been a vanguard in this space, providing guarantees to some of the projects it supports—businesses that would otherwise be unable to attract loans because of their early-stage nature. Oikocredit, a global cooperative and social investor headquartered in the Netherlands, is one such beneficiary, receiving an $8 million portfolio guarantee in 2019 that can absorb up to half the risk for lending to agricultural cooperatives and SMEs in Kenya and Uganda (Sida 2019).

USAID's DIV takes a slightly different approach to Sida, providing grants to risky, early-stage initiatives with the goal of maximizing social return on investment. Grants are structured using a pay-for-results model and are distributed through milestone payments (USAID 2022a). Since its inception in 2010, DIV's portfolio returned over $17 in social benefits for every $1 awarded (Kremer et al. 2021).

Donor governments might also fund intermediary organizations, which in turn disburse the grants to smaller projects. Doing so can enable them to provide funding with greater flexibility. Through its platform PREVENT Waste Alliance, for example, the German government is able to fund commercially driven projects and leverage private sector funding to help cover activities that GIZ funding traditionally cannot be used for (because of ODA restrictions), such as product marketing or infrastructure development.[2] PREVENT distributes GIZ funding through its "Call for Solutions" to fund the implementation of innovative solutions that contribute to responsible consumption and production in low- and middle-income countries (GIZ n.d.).

Participating in blended finance is still newer territory for governments, especially since public sector bureaucracy can be at odds with the nimbler decision-making process of a commercial entity. This mismatch is even more apparent when working together within blended structures. Governments are also typically accustomed to funding during Stage 1 and less so during Stage 2. However, as one government agency acknowledged, blended finance is worth trying—even if, by government standards, it is a bit unique and experimental—because traditional funding approaches have not yet yielded true impact.

3.2.3 DFIs

As noted in Chapter 2, two of the big challenges that partnerships face in seeking DFI investment are misaligned funding criteria and ticket-size mismatch. They are, however, starting to participate in new approaches that fall in Stage 2 and can help them overcome both challenges.

The first approach involves end-to-end facilities. End-to-end programs, or "facilities," offer a promising solution and are increasingly being developed by DFIs through collaborations between financial institutions and other stakeholders. By layering in different types of support at various stages of partnership growth, such programs can help to support project pipeline development and an improved understanding of investor criteria for early-stage ventures. (It is important to note that the term *end-to-end* may have different meanings for different parties. Although it broadly suggests continuity of funding, for the purposes of this chapter, it refers to an actual program type).

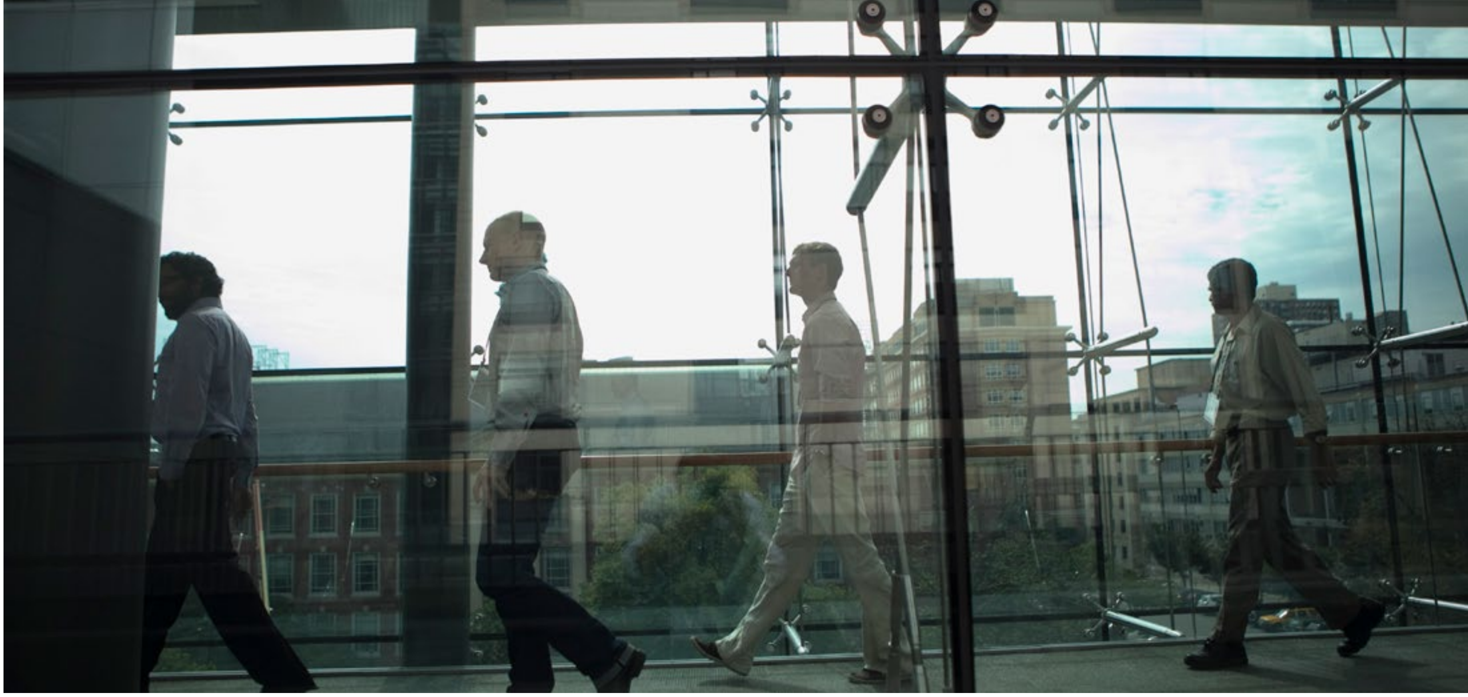
One example is the Dutch Fund for Climate and Development—led by FMO, the Dutch DFI—which comprises interconnected subfacilities operating at two different stages of project life cycle. The first is *origination*, which exclusively focuses on project identification and prefeasibility development activities. The second is *land use and water use*, which invests in the pipeline created by the origination facility through dedicated investment vehicles (DFCD 2020). The connection between these programs helps to reduce the complexity of the investment process, due diligence, and reporting requirements and can help partnerships navigate the complexities of institutional investments.

The second approach involves early-stage venture funds run by DFIs that enable them to finance smaller ticket sizes than they would normally fund. In the last five years, there has been increased activity in setting up such funds, including the Dutch FMO Ventures Fund and the UK Venture Scale-Up Programme. This has been further boosted by the 2018 transformation of the U.S. Overseas Private Investment Corporation into a new agency called the U.S. International Development Finance Corporation, which comes with several enhancements, including the ability to conduct equity investments. Also, DFI investment has increased slightly in higher-risk countries, in part due to country mandates. In 2019, the concessional capital commitment of DFIs increased by 29 percent compared to 2018, with a greater focus on low-income and lower-middle-income countries (WBG 2021). The total concessional capital commitments on low-income and lower-middle-income countries in 2019 was $1.17 billion compared to $848 million in 2018 (IFC 2019, 2020).

3.2.4 Private Sector Investors

To date, investment from the private sector has been elusive for partnerships. In our partnership pool, for example, only 38 percent received some form of returnable investment. Additionally, private sector investors often provide capital during Stages 3 and 4, not Stage 2. But there has been some interesting movement among private sector actors in Stage 2 that can open up the financing doors for commercially driven ventures.

Early-stage investors, for example, are starting to recognize that they need to do more than make a straightforward investment if they are truly committed to advancing the SDGs. This may include supporting pipeline development, developing business- and investment-related knowledge databases, or even engaging with policymakers. They may partner with other investors, associations, portfolio companies, and stakeholders to advance the ecosystem as a whole. Factor[e] Ventures, for example, was mentioned in the ColdHubs case study and is a venture capital firm that aims to "serve as a conduit between philanthropic and commercial investors" and provides both seed-stage funding and business development support (Factor[e] Ventures 2022). Partnerships in our sample found incubator and accelerator models like this to be highly effective



in helping to refine business strategy, building an investment track record, and expanding their network of potential funders.

Institutional investors are also starting to open their doors to partnering. It is rare but possible—the Spark+ Africa Fund is a recent example of successful capital-raising from institutional investors in SDG impact areas; the fund aims to invest debt and quasi-equity in clean cooking businesses in Sub-Saharan Africa. In this case, quasi-equity investments are revenue-sharing agreements in which the fund will receive a percentage of revenues until a targeted financial return is met. A partnership between the Clean Cooking Alliance (nonprofit), Enabling Qapital (Geneva-based fund manager), and the African Development Bank (DFI), the fund will deploy up to $70 million in capital across the clean cooking value chain, with a goal to address access to energy (SDG 7; Clean Cooking Alliance 2022).

The fund achieved first close in March 2022 and is structured as a blended finance facility. It was able to secure commercial capital from four pension funds: Baloise Pension Fund, Caisse de retraite paritaire de l'artisanat du bâtiment du canton du Valais (CAPAV), GastroSocial, and Bank of America Merrill Lynch Pension Fund. This was complemented by mezzanine and first-loss tranches from African Development Bank, IFU, other DFIs, and private foundations. In this case, the mezzanine tranche provided the flexibility to attract specific types of investors that fit neither senior nor first-loss tranches but have risk-return expectations between these tranches of capital.

Additionally, more broadly, local investors—whether early-stage or institutional investors—are an untapped but high-potential source of private financing for partnerships. In Africa, for example, assets under the management of domestic institutional investors are estimated to be $1.8 trillion—an amount that, if mobilized, can dramatically help to close the SDG financing gap (Juvonen et al. 2019). And though global financial institutions with a large local presence in emerging markets have actively participated in SDG financing through blended transactions (contributing 40 percent of commercial investors' commitments), the role of local financial institutions in SDG financing has been less consistent. A caveat here is that there are cases where local financial institutions are financing early-stage partnerships in various impact sectors, such as energy efficiency, energy access, and agriculture. These investments are not always classified under the umbrella of SDGs but, nevertheless, are contributing to SDG targets. Local investors often have a deeper understanding of the local investment climate and are better able to price risks (Convergence 2021). Their participation in local development projects can also provide comfort to international investors and ensure availability of local currency financing where appropriate.

3.3 Special Section: What Limits Institutional Investors

Given their size, institutional investors may seem nebulous to commercially driven partnerships. Yet as capital providers to the early-stage private sector investors (such as venture capital and private equity funds), institutional investors are important to the partnership financing landscape because partnerships in turn seek financing from these early-stage investors. Additionally, as noted earlier in Chapter 3, there are some instances where institutional investors are providing direct capital to partnerships.

Institutional investors face two notable constraints as they pertain to investing in SDG initiatives: the regulatory context, which they cannot control, and the perception of risk, which is within their control. Both of these are important to understand because they drive the investment decision-making of institutional investors.

3.3.1 Regulatory context

Because institutional investors' combined assets can have an outsized influence on the markets, governments and other regulatory bodies are compelled to protect economic stability (UNEP FI and PRI Association 2011). In other words, regulations shape what institutional investors invest in.

Traditionally, regulations dictate that institutional investors should avoid high-risk investments to protect the value of their assets over the long term. This might influence an institutional investor to avoid investing directly or indirectly in early-stage partnerships because of the higher risk associated with such partnerships.

Recently, however, there have been some notable shifts in regulatory guidance. Some regulations can stimulate and incentivize investments with social and environmental benefit (Della Croce et al. 2011). The European Union's taxonomy and legal frameworks, for example, push for consistent labeling of investments in areas that claim environmental impact results, thus directing investors' focus—though whether they contribute to increasing actual positive impact outcomes that address the world's climate and social challenges remains to be seen (European Commission n.d.).

Regulation is also starting to encourage investments that prioritize the consideration of long-term environmental risks and benefits because climate change is increasingly viewed as an existential threat. Thus, governments now are considering policy changes that increase incentives for early-stage investments, even though investments in

early-stage initiatives or emerging technologies have been historically viewed as being too high risk and misaligned with fiduciary responsibilities (Della Croce et al. 2011).

Partnerships may benefit from prioritizing social and environmental considerations in various regulations because they also focus on the SDGs. This could potentially help them in their journey to get investment at an earlier stage.

3.3.2 Risk

There are two types of risk: actual and perceived. Private sector investors sometimes have a *perception* of risk that is higher than the *actual* likelihood of such risk materializing on the ground (Avramov et al. 2021; Barnor and Vivekanandan 2021; Schiff and Dithrich 2017). This inaccurate perception can limit private sector investments in partnerships because investors may believe that anything related to social or environmental outcomes is riskier than it is in actuality. Therefore, ESG investments tend to be centered around protecting the investor rather than outwardly looking to protect/change the very systems that create the social or environmental condition (Simpson et al. 2021). This perception is a significant impediment and does not bode well for investing in novel partnership structures with transformative potential.

In late 2021, USAID's Prosper Africa program ran a series of workshops with 37 private sector stakeholders to more clearly understand some of their investment challenges (USAID 2022b). Chief among them was the idea that cross-border private market investors do not have the tools to fully consider risks in emerging markets (for example, ways to conduct due diligence on the ground, discover new investable pipelines, understand new markets or technologies, and derive measurement and reporting requirements from investees). Unfortunately, this gap leads to a prejudicial cycle that is difficult to break. If the risk cannot be evaluated, investors are likely to have an even lower tolerance; if they never take the risk, they will never appreciate any difference between the reality and their perception (Khosrowashahi 2021). This observation is similarly noted by other alliances for private sector investors, such as the Glasgow Financial Alliance for Net Zero (GFANZ) (GFANZ 2021).

What these regulatory and risk challenges mean for commercially driven partnerships is that they have to provide additional reassurance to private sector investors before they can secure investment. These investors need to know that partnerships seeking financing can fit within their risk-tolerance framework and offer an attractive return relative to any other (perhaps simpler) investment opportunity. They also need to be familiar with the partnership's business plan to ease the perception of risk, and the resulting deals need to be at sufficient scale to warrant the setup transaction costs. Such reassurance requirements may appear, on their face, insurmountable. However, private sector investors have increasingly committed to substantively driving changes to the financial system to address the dire effects of unchecked climate change, which offers much needed hope.

GFANZ, launched in April 2021, reported at the 26 session of the Conference of the Parties that it had garnered commitments from over 450 financial entities—which together are responsible for assets of $130 trillion—all with the ambition of translating those commitments into investment action by 2050. A key recognition within GFANZ's 2021 progress report is the vital role that catalytic partnerships can play in unlocking investments from private sector investors (GFANZ 2021). Private sector investor involvement and blended structures are essential to test new financial ventures and instruments. By engaging in such new approaches, private sector investors can better separate out perceived and real risk.

Investors can also lean into regulations favorable to ensuring a sustainable future. Partnerships in which all of the actors share resources, accountability, risks, leadership, and benefits are strongly recognized by this group as a way of achieving sustainability.

3.4 Special Section: Impact Measurement and Management

In Chapter 2, partnerships reported the following financing challenges that relate to how funders and investors measure and manage their impacts:

- Funder and investor performance measurement metrics are often misaligned with understanding SDG impact.
- Performance measurement metrics are inconsistent across funders and investors.
- Market performance data, early-stage financing opportunities for partnerships, eligibility criteria, and other core market data for investors lack transparency.
- Investors are not staying accountable for their early-stage financing commitments.

Such challenges contribute to concerns over impact washing, the effectiveness of the impact investment market for advancing the SDGs, and a lack of understanding the actual versus perceived risks of investing in emerging markets and in partnerships—all of which amplify the missing-middle problem. These concerns are echoed by investors themselves: a recent survey of nearly 300 impact investors found that the biggest challenges investors perceive for the next five years are the threat of impact washing, the inability to demonstrate impact results, and the lack of comparability of impact results with those of peers (Hand et al. 2020).

As grant funders and investors adopt the newer approaches discussed in this chapter, they can also better measure and manage the impact of their investments to ensure they support the SDGs and commercially driven partnerships. This special section discusses underlying IMM challenges and new tools and approaches to remove these barriers.

3.4.1 IMM Challenges

IMM encourages financiers to identify the positive and negative effects their business actions have on people and the planet and to mitigate the negative while maximizing the positive in alignment with their goals (GIIN n.d.b). *Measurement* should offer investors insight into how much impact they have achieved at a point in time and over time. *Management,* on the other hand, should be the practice of adjusting investment approaches based on measurement insights, specifically to optimize impact performance. Investors ideally manage their activities and investments relative to past performance, impact targets, their peers, and the scale of the environmental or social challenge they seek to address. Investors say they also value IMM because it helps them with due diligence—that is, selecting and screening investees (in our case, partnerships)—and setting key performance and reporting indicators with investees (Bass et al. 2020).

The following are several IMM challenges that funders and investors face:

- **Lack of cohesion among IMM tools and frameworks.** Impact investors report that fragmentation in IMM tools and frameworks is a challenge for the next five years, which contributes to an inability to compare investor impacts across the market (Hand et al. 2020). Today, more than 150 tools, resources, and methods on IMM are available; however, as discussed below, the industry is starting to coalesce around a subset of these resources (Godeke and Briaud 2020; Hand et al. 2020). A further indicator that IMM practices continue to evolve for greater cohesiveness is that over a decade ago the majority of investors (85 percent) were using their own proprietary frameworks, yet today 89 percent of investors are focusing on a handful of generally accepted external frameworks to measure and manage their impact performance (Hand et al. 2020). Although cohesiveness remains a challenge, these developments bode well for lowering fragmentation and the ability to assess how one investment (or partnership) compares in terms of its relative impact.
- **Impact reporting costs—both financial and reputational.** Many investors today are using the reporting of their impact results for fund-raising and marketing purposes

rather than for decision-making or to hold themselves accountable for the changes they may need to make in their impact portfolios (BlueMark 2022). Additionally, only 49 percent of surveyed impact investors say they report publicly, whereas 74 percent of investors state that they report only to key stakeholders such as donors (Bass et al. 2020). A recent report acknowledged that there is no standardized format for reporting, which is a major gap in the industry. Additionally, the costs of high-quality reporting (both reputational and financial) often outweigh the benefits for an investor (BlueMark 2022). Finally, private companies generally are not required to report impact performance publicly, and public companies often are only required to report on financial performance (Hand et al. 2020). Only very recently has any obligation or legal requirement been introduced to improve reporting and disclosure requirements, such as the EU Sustainable Finance Disclosure Regulation. It should also be noted that of the 49 percent of surveyed impact investors that report publicly, many are private companies, indicating a trend towards better reporting (Bass et al. 2020).

- **Lack of external accountability.** Over half of impact investors surveyed by the GIIN state they are not held accountable by a third party for their impact results (Bass et al. 2020). Yet investors do view third-party verification as a natural outgrowth of a maturing impact investment market, especially where investor accountability regulations are not in place. Third-party verification is still viewed as costly and is currently mostly pursued by market leaders (BlueMark 2022). However, the recent development of industry-wide frameworks that require certification and tools for validation should help to make verification an easier process (Bass et al. 2020).

- **Lack of adaptive management.** Investors are failing to integrate IMM learnings into their financial management decisions (Audette et al. 2021; Bass et al. 2020; GIIN n.d.b). This, coupled with the aforementioned lack of cohesion, signifies that investors are not adapting to the needs of investees over time.

- **Lack of capacity for IMM.** Average impact investors spend 12 percent of their organizations' budgets on IMM, with 11 percent of investors stating they invest 0 percent of their budget on IMM (Bass et al. 2020). Investors report that IMM practices such as data collection, external auditing, and reporting are costly in terms of financial and reputational resources (BlueMark 2022; Hand et al. 2020).

3.4.2 IMM Tools and Resources

The good news is that over the past five years, IMM thought leaders and experts have been collaborating to bring more cohesion, credibility, transparency, and accountability to the impact investment space. Some of the leading IMM resources are outlined as follows (Bass et al. 2020; BlueMark 2022):

Principles and guidelines

The following principles and guidelines are designed to increase accountability and transparency by aligning investor missions, behaviors, and processes:

- The IFC's Operating Principles for Impact Management aim to establish a common discipline around the management of investments for impact and promote transparency and credibility (IFC 2021).
- The United Nations Development Programme (UNDP) developed a framework called the SDG Impact Practice Standards for Private Equity Funds, which is a set of standards developed as a public good to inform practice that can direct and orient investment activities to help achieve the SDGs. This includes a certification, the SDG Impact Seal, launched in September 2018, which seeks to authenticate investments that align with UNDP's impact standards.

Taxonomies and tools

Most investors use more than one system or framework in their IMM practice to guide practices and measure performance; the average is three. The most commonly used are the SDGs (72 percent of investors), the GIIN's IRIS Catalog of Metrics (48 percent) and IRIS+ Core Metric Sets (28 percent), and the Five Dimensions of Impact by the Impact Management Project (IMP; 25 percent) (Bass et al. 2020).

- In 2016, IMP established its Five Dimensions of Impact (what, who, how much, risk, and contribution) to build consensus on how the world measures and manages ESG risks and positive impacts (IMP n.d.).

- The GIIN's IRIS+ system, launched in 2019, allows impact investors to efficiently identify and select appropriate evidence-backed metrics, offers guidance to standardize data collection and reporting, and enables data comparability (GIIN n.d.b). The system aligns with the SDGs, IMP's five dimensions, and more than 50 other frameworks and conventions. A recent (2022) addition is a pilot impact performance benchmark, which enables investors to analyze the impact performance of investments within a sector and to compare their own impact results relative to their peers and the SDGs.
- In 2021, the GIIN launched the COMPASS methodology to compare impact results in a standard way (Bass et al. 2021). This publicly available methodology offers investors and service providers (for example, rating agencies and benchmark developers) a way to normalize impact performance data such that investors can assess how they stack up to their peers and the impacts required to achieve a specific SDG target.

Impact verification

Investors now have multiple options to improve their accountability, including impact verification services and disclosure guidance. Several options are as follows; the onus is on investors to publicly report on verification results.

- In 2020, the Tideline company launched BlueMark to provide independent impact verification services for investors on impact performance and management practices. Bluemark aligns with both the IFC's Operating Principles for Impact Management and the SDG Impact Practice Standards.
- The Task Force on Climate-related Financial Disclosures was created by the Financial Sustainability Board to develop recommendations on the types of information companies should disclose to support investors, lenders, and insurance underwriters.

Chapter 4 provides recommendations for grant funders, investors, and partnerships related to these frameworks and approaches.

CHAPTER 4

DRIVING IMPACT: RECOMMENDATIONS AND CONCLUSIONS

While SDG impact is the driving priority for partnerships and funders, achieving that impact is not easy, and our research indicates that it is often complicated by other funder priorities. There are several actions that partnerships and funders can both take, however, which can guide them on the path to true SDG impact.

Through this report, we aim to help commercially driven partnerships graduate from grant funding and secure commercial investment by encouraging partnerships, funders, and investors to try new approaches of financing to accelerate transformative SDG action.

Chapter 2 discussed the challenges partnerships face along their funding journey, particularly when they get to Stage 2, and illustrated how best-in-class partnerships are starting to overcome these challenges. Chapter 3 identified new financing approaches offered by grant funders and investors, which can help partnerships more easily access returnable investment. In this chapter, we reflect on what this means for the problem at large—that commercially driven partnerships are finding it difficult to secure financing after initial grant funding in Stage 1.

We find that partnerships struggle to get appropriate investment because funders and investors prioritize their own concerns—such as political capital, reputation, and risk—over achieving and demonstrating true impact. This complicates their ability to provide the optimum financing to support partnerships in accelerating the SDGs. Likewise, commercially driven partnerships struggle to demonstrate impact, partially because it is difficult to attract financing to scale but also because it is not easy to adopt the best practices recognized as important for partnerships to drive transformative change (the latter of which are the key partnership success factors described at the end of Chapter 2). All of this inhibits the path to impact.

We do not fault any grant funders or investors for this. Stakeholders provide the capital, so they have the right to set the stipulations. However, such arrangements end up emphasizing the needs of the financiers and not the needs of the partnerships and the SDGs they are seeking to advance.

We provide four recommendations to help partnerships, grant funders, and investors address the challenge of the missing middle. These recommendations should help partnerships better navigate Stage 2 funding. We provide specific guidance and examples by major stakeholders: partnerships, philanthropies/foundations/CSOs, donor governments, DFIs, and private investors.

4.1 Recommendation 1: Grant Funders and Investors Should Adopt Approaches to Financing That Stretch beyond Their Comfort Level

By taking new approaches to financing, grant funders and investors can create more financing opportunities for partnerships. Chapter 3 discussed several ways in which grant funders and investors are already better accommodating early-stage, commercially driven ventures. Financiers should do more of each of the following:

- **Philanthropies, CSOs, and donor governments should increase the proportion of their disbursed funding that is dedicated to catalytic structures.** For example, if they currently do not participate in any catalytic capital arrangements, they should aim to pilot one new engagement during a set period of time. Or, if they already have had success with catalytic capital, they should consider building a dedicated program like the Swiss Re Foundation or join existing groups, such as the MacArthur Foundation's Catalytic Capital Consortium.
- **Donor governments should expand their toolkit of financial instruments in a way that will crowd in private investment; for example, as a first-loss guarantor or insurer or as a founding member of a coinvestment fund.** They should take on more risk, especially if they do not have the expectation to receive returns. For example, they can set up catalytic capital programs like USAID's DIV, which, as mentioned in Chapter 3, only provides grants to more high-risk initiatives in emerging economies.
- **DFIs should expand to new approaches for pipeline development and investment; for example, by establishing end-to-end facilities and early-stage ventures.** To help overcome the perceived lack of investable projects, DFIs should set up end-to-end facilities that develop projects

from early-stage ideas to investable business opportunities. By doing so, DFIs are also able to influence project preparation outcomes to fit their desired impact goals. Additionally, they should support partnerships in funding Stage 2 through early-stage ventures, which can meet partnerships at a smaller ticket size.

- **Funders should collaborate in "impact chains."** Financiers can provide investment over the different funding stages that they are typically involved with (e.g., donor governments at Stage 1, private investors at Stage 4), but through a coordinated approach. Leadership of such impact chains can be driven by any funder, who would be responsible for approaching others to join.

- **Private sector investors should pilot a reduction of their ticket size.** Investors need to overcome the risk perceptions discussed in Chapter 3. As a first step, they can pilot smaller investments to partnerships. In this way, they can truly assess if their perception of risk actually matches reality and make even larger investments as appropriate.

4.2 Recommendation 2: Funders and Investors Should Be More Open in How They Make Investment Decisions and More Flexible with Their Funding Requirements

If funders and investors can streamline their eligibility and reporting requirements, they can enable partnerships to have greater freedom to achieve proof of concept. This is a win-win for both partnerships and their financiers. Partnerships are not beholden to trying to satisfy numerous criteria—or, at least, they are not as restricted in whom they can seek funding from—freeing them up to fully pursue their commercial aims in a strategic manner. Financiers, on the other hand, set themselves up to fund partnerships with greater potential for impact. The following are some suggestions for stakeholder actions:

- **Collaborate with other financiers to align reporting metrics and processes.** Several interviewees commented that in terms of reporting burden, grant funders that are aligned in a given SDG area and/or region could better collaborate to develop a standardized reporting approach or system such that partnerships that layer grants do not have to report to multiple entities with multiple reporting frameworks. Collaboration can also help grant funders and investors understand ways in which they can increase reporting flexibility while still meeting their organizational mandates.

- **Reduce process and timeline complexities.** Partnerships have noted that some transaction processes can be complex and unpredictable, and trying to manage through these can distract them from their commercial endeavors. But if grant funders and investors streamline their processes, partnerships can focus on accelerating the SDGs and attaining the impact desired by all.

- **Focus on funding strong teams that have demonstrated a good understanding of the issue they are trying to transform.** If key initiative selection and performance metrics are narrowly focused on overall funding released or other traditional metrics, it can narrow financiers' views of what is bankable or what will drive impact. Grant funders and investors should expand their initiative selection process and metrics to focus more broadly on strong teams, ideas, and processes.

4.3 Recommendation 3: Investors Should Be More Transparent and Increase Their Accountability to Better Optimize Impact

Investors may find it hard to prioritize impact over other concerns partially because impact is difficult and expensive to measure and manage. The special section on IMM in Chapter 3 highlighted leading IMM challenges as well as leading IMM tools and frameworks to help improve investor IMM. The following are some suggestions for investors based on this review:

- **Investors should adopt generally accepted impact measurement systems and impact principles.** Alignment by investors on impact performance measurement systems (e.g., IRIS+) and impact principles (e.g., IFC's Operating Principles for Impact Management) will build consistency and a better understanding of relative market performance. By analyzing and comparing the impact outputs in a standardized way using generally accepted systems and principles, investors will have evidence of which contributions work best for the missing middle problem and which require adjustment; this will enable investors to assess how they stack up to peers and to the impact challenge they seek to address. Better still, with this evidence, investors may take mitigating action early enough in the life of the investment for an improved result. Ultimately, adoption of generally accepted measurement systems and impact principles builds recognition of the business value and importance of impact investment for partnerships.

- **Investors should publicly report on their impact performance.** Although the recent report by BlueMark (2022) acknowledged the cost of reporting and the lack of impact performance reporting guidance or formats available to investors, investors can begin adopting best practices, including making reports publicly available and reporting consistently on some common quantitative and qualitative information, such as the following (BlueMark 2022):
  - The fund's impact objectives and targets at the portfolio and individual investment level
  - The impact performance of each investment and aggregate impact tied to standardized metrics (e.g., IRIS+), including both positive and negative and intended and unintended impacts; performance should be described relative to the investor's targets, relative to external benchmarks such as the SDGs, and over time
  - The impact measurement and management frameworks the investor is using
  - Lessons learned from the investor's experience and impact risks
  - An overview of early-stage financing opportunities and eligibility criteria to allow partnerships to better identify financing opportunities.
  - A description of stakeholders standing to gain from investments and qualitative information on these stakeholders' perspectives to validate impact performance analysis
- **Investors verify and/or audit their impact performance to improve credibility.** Given that only half of impact investors publicly report and conduct third-party audits, there is a clear need for investors to better demonstrate how they are addressing the missing middle challenge, their social and environmental performance, and their financial performance. Although such verification may add a layer of cost and potentially reduce margins for investors, this should be balanced by the significant reputational value to be derived from the rigor of verification. More than ever, investors' impact claims are under increasing scrutiny by regulators and the general public at large. Further value can be achieved from the learnings that inevitably arise from verification and audit processes to improve investment systems and processes. Investors can lean on impact verifiers such as BlueMark; their own auditors, who are increasingly including these approaches in their procedures as a value add; independent consultants; disclosure guidance by groups such as the Task Force on Climate-related Financial Disclosures; and impact practice standards and certification schemes such as those established by the UNDP.

4.4 Recommendation 4: Partnerships Should Focus on Building a High-Quality Funder and Incubation Network

Partnerships also have a role to play in demonstrating that they have the potential for impact. As discussed in Chapter 2, our case study partnerships were generally able to overcome and work around common financing challenges. Their ability to build a high-quality network—whether it be via funder, adviser, or mentor—set them up to find returnable investment. They were also particularly strategic in how they set out on their partnership journey. These characteristics echo the key success factors from our first report on partnerships, *A Time for Transformative Change*. Partnerships can take these specific actions:

- **Secure one or two long-term funders or sponsors** that are willing to provide flexible catalytic capital with a low reporting burden. Often these anchor funders provide multiple rounds of funding and connect partnerships with investors within their circle.
- **Collaborate with partnership accelerators, incubation programs, or platforms.** Partnerships should work with platforms for mentorship and networking as well as technical and financial assistance. A good place to start is connecting with those mentioned in this report. Even if a particular platform may not be the best fit, platforms can suggest other programs in their ecosystem.
- **Focus on other key partnership success factors.** Partnerships can take specific actions to develop a business plan that includes a strategy to secure investment, build a strong team, and be intentional about understanding the SDG challenge so that they can properly adapt their implementation strategy over time.

4.5 Concluding Comments

We hope this report has highlighted that each stakeholder group—partnerships, grant funders, and investors—has a role to play in addressing the challenge of the missing middle. Prioritizing other matters over impact has prevented grant funders and investors from providing the type of financing most supportive of commercially driven partnerships—financing that is flexible, transparent, and innovative. And without proper financing, partnerships are mired in the missing middle, unable to advance their transformative ambitions. Partnerships, too, have a role to play by better following key partnership success factors to better equip themselves to seek returnable investment.

There is great potential for partnerships to serve as vehicles for mobilizing the private financing needed to achieve the SDGs. Tapping into private financing is one of the top priorities for the global community, and one that will likely remain of great importance. As next steps, it will be important to follow commercially driven partnerships—both those featured in our report and others in the greater development community—and track how they are doing in their journeys to seek returnable investment, especially because transformation is a process that takes time. More work should be done as well to encourage grant funders and investors to adopt many of the catalytic approaches mentioned in this report, such as advisory support or consultation.

APPENDIX A: SURVEY METHODOLOGY AND INSTRUMENT

Findings in this report that support case studies and lessons learned are based on a survey of multistakeholder partnerships conducted between July and August 2021. The objective of this survey was to gather information about partnership investment challenges and funding approaches as well as characteristics that hinder a partnership's ability to attract investment.

Selection Approach

Our survey pool includes partnerships that are

- planning to or have been successful in securing returnable investment (i.e., commercial, blended finance, equity, debt, convertible, etc.); and are
- working in one or more of the following SDG areas:
  - SDG 2: Zero Hunger
  - SDG 6: Clean Water and Sanitation
  - SDG 7: Affordable and Clean Energy
  - SDG 11: Sustainable Cities and Communities (transportation and buildings)
  - SDG 12: Reponsible Consumption and Production

Because of varying definitions of *partnership*, and because not all initiatives identify themselves as multistakeholder partnerships, we did not make formal collaboration with commercial or noncommercial partners a requirement for inclusion. Instead, we asked initiatives surveyed to describe how they collaborate with business, government, and CSOs formally or informally.

Data Collection Strategy

Distribution

To disseminate the survey, our team tapped into a network of platforms that work with commercially driven partnerships or social enterprises. We identified target platforms through desk research and through the WRI and P4G networks of partner organizations. Our team worked with each platform to determine whether their initiatives aligned with survey inclusion criteria. Once this was determined, platform leaders disseminated the survey and instructions to their networks. Because our research team has an established relationship with the P4G partnership network, we sent the survey directly to these partnerships.

In total, 66 out of a total of 77 partnerships that completed the survey were eligible. Participating partnership platforms and survey responses received are detailed in Table A1. It should be noted that some partnerships indicated their affiliation with multiple platforms.

Survey format

We used a self-administered web-based survey platform. For each partnership, we requested the survey be completed only once by a delegated representative to avoid creating too much additional time burden. The survey design included multiple reminders and deadline extensions to accumulated as many responses as possible.

Table A1 | Overview of Survey Participant Sample

PLATFORM	TOTAL
Aspen Network of Development Entrepreneurs	3
CityFix	2
Climate Policy Initiative	7
CrossBoundary	3
Danida	4
Energy Catalyst	10
Harvard Kennedy School Roy Award	0
IDH—the Sustainable Trade Initiative	4
Partnering for Green Growth and the Global Goals 2030	36
Partnerships2030	1
Other	7
TOTAL	**77**

Incentive structure

Participants were provided the option of having their partnership featured in this report as a contributor or as a potential case study.

Questionnaire Development and Testing

The survey was informed by a literature review of partnership financing challenges and several rounds of feedback from WRI experts and partnership platform leaders, and it was tested with three partnerships.

Literature review

In addition to gaining insights into the partnership funding process over time, the objective of this survey was to identify key partnership characteristics (i.e., location, SDG area, stage, etc.) that made a partnership more likely to receive funding. An initial list of characteristics to include in the survey was based on a systematic literature search using EBSCO Host, Google, and Google Scholar. This literature search was limited to works published between 2015 and 2021 by CSOs, governments, businesses, and academia. Search terms included *multistakeholder partnership, SDG initiatives, impact investing, SDG investing, blended finance, philanthropic funding, philanthropy, crowded out investment,* and *catalytic finance*.

Roundtables and survey pilot

To refine survey questions and framing, we held two roundtable discussions with partnership platform leaders. Workshops included representatives from P4G, the Harvard Kennedy School, the Climate Policy Initiative, IDH—the Sustainable Trade Initiative, Partnerships2030, and Danida. The survey was also piloted with three partnerships: GreenCo, Energise Africa, and WeTu.

2021 State-of-the-Art Report Survey Instrument

Thank you for participating in the State-of-the-Art Report survey. Through this survey, we aim to understand your initiative's funding path, your primary funding challenges, and how you have transitioned, or plan to transition, from relying on philanthropic/aid funding to revenues and returnable investment (commercial investment, blended finance, DFI funding, etc.). There will be many opportunities in this survey to share your insights, and we encourage you to provide as much detail as possible in the spaces provided. Your reflections on your initiative's funding journey will contribute to a deeper understanding of how commercially driven SDG initiatives can overcome investment challenges, from which we hope practitioners and financiers can learn.

Recommended approach for filling out the survey. For each initiative, we request that the survey be completed only once. We recommend that a key representative familiar with the initiative's financing structure (e.g., development or administrative coordinator; chief financial officer) is identified to complete the survey. We estimate this survey will take 10–15 minutes to complete.

Instructions for navigating this survey:

- If you hover your mouse over the **blue underlined text**, definitions and examples of the text will appear.
- You may complete this survey in more than one sitting by clicking the **Save and Continue Later** button in the top right corner.
- Please be sure to navigate between survey pages using the "next" and "back" buttons at the bottom of the survey page, **NOT** the "back" arrow in your browser as this will erase unsaved progress.

Privacy and confidentiality. Survey responses will be kept confidential and will not be made publicly available or attributable to the respondent or partnership. We will collect identifying information for each initiative so we can categorize results.

As this is an online survey, your confidentiality will be kept to the degree permitted by the technology being used. We cannot guarantee against interception of data sent via the internet by third parties.

Taking part is voluntary. Your participation in this survey is voluntary. You may refuse to participate before the study begins, discontinue at any time, or skip questions that may make you feel uncomfortable with no penalty to you or your initiative.

Section 1: Respondent information

1. Name
2. Email
3. Organization and role

Section 2: About the initiative

1. Initiative name
2. Initiative website
3. Which platform or network is your initiative associated with? [Drop down based on participating platforms]
4. Which SDG area does your initiative primarily focus on? Select all that apply.
5. [End survey if "other SDG" or "not focused on an SDG goal"]
   a. SDG 2: Zero Hunger
   b. SDG 6: Clean Water and Sanitation
   c. SDG 7: Affordable and Clean Energy
   d. SDG 11: Sustainable Cities and Communities (transportation and buildings)
   e. SDG 12: Responsible Consumption and Production
   f. Other SDG
   g. Initiative is not focused on an SDG goal
6. What best describes your initiative's funding status regarding returnable investment? Check all that apply.
   [Hover over *returnable investment*: e.g., commercial, blended finance, equity, debt, convertible, etc.]
   a. Have secured returnable investment
   b. Have not secured returnable investment
   c. Actively seeking or planning to seek returnable investment
   d. Not currently seeking returnable investment but have in the past or plan to in the future
   e. Not initially planning to seek returnable investment but now planning to seek, seeking, or have secured returnable investment
   f. Have not sought and do not plan to seek returnable investment at any point
   g. Funded by earned revenue
   h. Other—write in
7. In what year was your initiative established? [Open-ended write in]
8. What stage of development is your initiative in?
   a. **Ideation/concept generation:** Initial business idea developed
   b. **Research and development:** Conducting market and product research, developing initiative theory of change, and fitting initiative solution to the problem at hand
   c. **Pilot:** Business model, product, or service launched as small-scale, temporary project to test assumptions and pivot initiative model if necessary
   d. **Start-up:** Early-stage initiatives that are on a clear path towards developing a scalable solution
   e. **Scale-up:** Initiatives that are already engaged in promising, business-driven green growth innovations and are working to expand operations and accelerate their impact
9. What countries does your initiative primarily operate in?
10. Which statements best describe your initiative's primary objective? Select all that apply.
    a. **New business venture:** Initiative seeks to launch or pilot a new commercial product, service, or business model (e.g., ME SOLShare, GreenCo)

[Hover over *ME SOLShare*: ME SOLShare has developed a way for rural communities to turn their excess solar energy into profit by connecting solar home system users with nonsolar users and monetizing excess solar energy in real time with mobile money.]

[Hover over *GreenCo*: GreenCo, via its local operating entities GreenCo Power Services Limited, acts as a creditworthy intermediary offtaker and service provider, purchasing power from renewable IPPs and selling that electricity to utilities and private sector offtakers (i.e., commercial and industrial users) and markets of the SAPP. GreenCo will mitigate the risk of purchaser default through an ability to secure alternative buyers or through short-term trading on the SAPP electricity markets. It aims to mobilize $2 billion in private sector investment to support renewable energy supply.]

b. **Financial instrument or fund development:** Initiative seeks to tackle investment barriers through the development of financial instruments, such as funds and bonds, that de-risk investment in developing countries and underdeveloped or new markets (e.g., GeoFutures GreenInvest, Blended Finance on Water Partnership).

[Hover over *GeoFutures GreenInvest*: The GeoFutures GreenInvest partnership aims to establish an investment fund to provide sustainable development loans and a premium finance facility to early-stage geothermal project developers. GeoFutures GreenInvest aims to support the creation of 600 megawatts of low-cost, reliable geothermal power in Kenya and Ethiopia—supplying more than 31.5 million people with power and avoiding almost 3.1 million tons of carbon dioxide emissions annually.]

[Hover over *Blended Finance on Water Partnership*: The Blended Finance on Water Partnership focuses on Vietnam's drinking water infrastructure by developing blended finance models for greater investment in the sector.]

c. **Project development:** Initiative seeks to advance low-carbon, sustainable, and inclusive development and infrastructure. These projects go beyond traditional public-private partnerships to rethink the way people and products move in a way that aligns with a 1.5°C target and the SDGs (e.g., SSEZ, the Post-Consumer Resin Market Development Partnership).

[Hover over *SSEZ*: The SSEZ partnership aims to transform special economic zones into hubs for low-carbon, sustainable, and inclusive business and community growth. The partnership has the potential to reimagine green industrialization and make countries such as Kenya hubs in this transitioning industry.]

[Hover over *Post-Consumer Resin Market Development Partnership*: The Post-Consumer Resin Market Development Partnership will gain commitments from consumer product companies in Vietnam to use recycled plastic (known as *post-consumer resin*) in their packaging materials and develop a plan for a local plastics recycling factory.]

d. **Convening:** Initiative creates an enabling environment for SDG progress by bringing stakeholders within an industry, supply chain, sector, or issue area to exchange knowledge and set standards of practice or commitments (e.g., We Mean Business, Roundtable on Sustainable Palm Oil)

[Hover over *We Mean Business*: We Mean Business (WMB) convenes leading companies to commit to bold climate action through various WMB initiatives. One of its primary activities is to strategically engage with businesses that have joined the partnership and provide them with WMB-endorsed guidance, tools, and clear playbooks to follow in their journeys to the zero-carbon transition.]

[Hover over *Roundtable on Sustainable Palm Oil*: The Roundtable on Sustainable Palm Oil (RSPO) aims to transform the palm oil market by convening business, government, and civil society stakeholders to set industry standards and create an enabling policy environment for sustainable palm oil production. The partnership now has over 4,000 members across the palm oil supply chain that have committed to produce, source, and use palm oil that complies with RSPO social and environmental criteria.]

e. **Accelerator:** Initiative provides capacity and business development support to new SDG partnerships or initiatives (e.g., P4G).

[Hover over *P4G*: P4G is a global platform accelerating market-based partnerships to build sustainable and resilient economies. P4G bridges the gap between development and investment agendas to deliver inclusive, tangible solutions to meet the SDG and the Paris Agreement. P4G provides an action-oriented global ecosystem of business, government, and CSOs to unlock opportunities for partnerships working in five SDG areas: food and agriculture, water, energy, cities, and circular economy.]

f. **Other—please write in**

11. Are the following characteristics present in the market (sector or location) in which your initiative operates? Check all that apply.

    a. **Credible and stable policies:** The market has well-defined policies that provide clear "rules of the road" for all parties.

    b. **Accurate industry information:** Data and market information is accessible to help investors understand the financial and impact potential of investments.

    c. **Technological reliability:** Established technology and infrastructure has a proven track record in the relevant market.

    d. **Standardization:** Clear market standards give investors confidence in the solution they are investing in.

    e. **Strong conveners:** Connections to platforms facilitate knowledge exchange and build trust among market actors.

Section 3: Financing

The primary objective of this survey is to understand barriers SDG-focused initiatives face in transitioning from philanthropic/aid/grant/other nonreturnable capital to investment. In this section, we are interested in understanding where your initiative is on this progression. Please answer the following questions with as much detail as possible.

Definitions

- **Civil society organization (CSO):** An NGO or any nonprofit, voluntary citizens' group that is organized on a local, national, or international level. This includes UN agencies, family foundations, and nonprofits as well as government-funded programs that are administered through these groups.
- **Concessionary:** This term is broadly defined as a type of capital that requires less than the market rate of return or has higher risk tolerance, typically, in order to increase social and economic returns. Such capital is also used in blended finance transactions to crowd in commercial investment.
- **Funder geographic scale:**
  - **Local:** Based in and funds initiatives in one specific city, country, or state (i.e., a local NGO, a state bank that is country specific)
  - **Regional:** Based in and funds initiatives in a group of select countries or states (i.e., organization working in Latin America or Sub-Saharan Africa)
  - **International:** Funds or works with initiatives globally (i.e., UN organization, international foundation, international bank)

Number 1 | How has your initiative raised capital to date? Please complete as many rows as needed.

INVESTOR/INSTRUMENT (SELECT ONE)	NAME OF FUNDER (OPTIONAL)	FUNDER GEOGRAPHIC SCALE	TYPE (SELECT ONE)	AMOUNT (US$, MILLIONS) (SELECT ONE)	DATE SECURED (WRITE IN)
▪ Private foundation/CSO/ nonprofit (including CSO programs that distribute government funding) ▪ Corporation/business ▪ Government agency/ department/program ▪ Founder or partner organization equity ▪ Friends and family ▪ Angel investors ▪ Seed-stage VC, including impact investors ▪ Series A stage VC impact investors ▪ Series B or later VC, incl. impact investors ▪ DFIs or MDBs ▪ Commercial banks ▪ Public capital markets (i.e., initial public offerings [IPOs], bonds) ▪ Membership fees		▪ Local ▪ Regional ▪ International	▪ Grants ▪ Equity ▪ Concessionary equity ▪ Debt ▪ Concessionary debt ▪ Mezzanine (including convertible notes, etc.) ▪ Other—write in	▪ <$2 ▪ $2–$5 ▪ $5–$15 ▪ $15–$50 ▪ $50+	

Is there any additional information or detail you would like to provide about your initiative's current funding structure?

Number 2 | Which type of funding is your initiative currently seeking or planning to seek in the next zero to five years? Please fill out the table, adding rows as needed.

INVESTOR/INSTRUMENT (SELECT ONE)	FUNDER GEOGRAPHIC SCALE	TYPE (SELECT ONE)	AMOUNT (US$, MILLIONS) (SELECT ONE)
▪ Private foundation/CSO/nonprofit (including CSO programs that distribute government funding) ▪ Corporation/business ▪ Government agencies and programs ▪ Founder equity ▪ Friends and family ▪ Angel investors ▪ Seed-stage VC, including impact investors ▪ Series A stage VC impact investors ▪ Series B or later VC, including impact investors ▪ DFIs or MDBs ▪ Commercial banks ▪ Public capital markets (i.e., IPOs, bonds) ▪ Membership fees	▪ Local ▪ Regional ▪ National ▪ International	▪ Grants ▪ Equity ▪ Concessionary equity ▪ Debt ▪ Concessionary debt ▪ Mezzanine (including convertible notes, etc.) ▪ Other—write in	▪ <$2 ▪ $2– $5 ▪ $5– $15 ▪ $15–$50 ▪ $50+

Is there any additional information or detail you would like to provide about your funding plans?

Section 4: Funding characteristics

1. Does your initiative have a business plan in place that includes securing returnable investment as part of your long-term funding strategy?
   a. Yes
   b. No
   c. Not yet

Number 3 | Please describe the organization with which your initiative collaborates formally or informally.

	DOES YOUR ORGANIZATION COLLABORATE (FORMALLY OR INFORMALLY) WITH ONE OF THE FOLLOWING?	IF YES, IS THIS ORGANIZATION LOCAL TO THE COUNTRY IN WHICH YOU OPERATE?
Government	Yes/no	Yes/no
Business	Yes/no	Yes/no
Financial institutions	Yes/no	Yes/no
CSOs	Yes/no	Yes/no

[Hover over collaborates: organizations you consider primary stakeholders in your initiative or that your initiative shares governance, leadership, and accountability with. Your initiative may or may not have a formal agreement with these organizations. If your initiative is membership based, this does not include member organizations.]

[Hover over CSOs: An NGO or any nonprofit, voluntary citizens' group that is organized on a local, national, or international level. This includes UN agencies, family foundations, and nonprofits as well as government-funded programs that are administered through these groups.]

Please provide any additional comments about how your initiative collaborates with organizations here.

1. What role does government play in your initiative? Check all that apply.
    a. Funding
    b. Connecting initiative to relevant industry and government actors in ecosystem
    c. Navigating or changing policies that better enable initiative success
    d. None
    e. Other—please write in
2. What best describes the experience level of your initiative's leadership team? Check all that apply.
    a. At least one person with >5 years of previous work experience in relevant sector/SDG area
    b. At least one person with >5 years of previous work experience in the country or countries in which your initiative operates
    c. At least one person with previous experience procuring or managing early-stage investment
    d. At least one person local to the country or countries in which your initiative operates
    e. At least one woman included on the leadership team

Section 5: Challenges

We are interested in better understanding the following:

- Challenges specific to initiatives transitioning from grant/philanthropic funding to returnable investment
- How grant/philanthropic funding enables or impedes securing returnable investment

1. Please explain your most significant funding challenge in seeking grant or philanthropic funding. Nonexhaustive examples include the following:
    - **Grants can be too restrictive** and often require certain activities or a certain partnership arrangement that limits the innovative potential of a business idea.
    - **Grants can be too burdensome** in terms of reporting or other requirements, which diverts resources away from an initiative's ability to develop a strong business plan.
    - **Initiatives reliant on grant funding for too long** may be negatively perceived by commercial investors (e.g., they may be considered too risky or not "innovative") or the initiative has not leveraged risk mitigation instruments like guarantees and insurance.
2. Please explain your most significant funding challenge in seeking returnable investment. Nonexhaustive examples include the following:
    - **Initiative does not align with investor portfolio or is too high risk** due to its business model, location, or because it lacks a sufficient performance track record.
    - **Return timeline is considered too long** due to the nature of the business model or policy changes required for the initiative to succeed.

- **Capacity constraints.** The initiative does not have the resources to provide all needed information to demonstrate proof of concept to commercial investors (e.g., lack of network, limited staff time available to write proposals, etc.)—this may or may not be related to grant funding.
- **Legal structure.** An initiative set up as a nonprofit to receive grant funding may have to create a separate for-profit business in order to receive or apply for investment. This can be resource intensive and disincentivize initiatives from fully transitioning to self-sufficiency beyond grant funding.

Section 6: Additional information

1. What are the top three funding lessons you have learned from your experience seeking returnable investment so far?
2. Is there anything else you would like to mention about your initiative's funding or investment strategy?
3. May we contact you if we have additional questions about your initiative? [Yes/no]
4. We may include your comments in our final report, and to provide more context, we may be interested in attributing them. Please indicate if you are comfortable with being identified. [Contact me first/yes/no]
5. Would you like to be featured in the report as a contributor or as a case study? We would like to thank all initiatives that have contributed to our study by listing initiative names in a "contributions" section at the end of the report. [Yes/no]

Thank you page

Thank you for completing the State-of-the-Art Report survey—we greatly appreciate your time.

Please reach out with any questions:

Erin Gray, Economist, WRI: erin.gray@wri.org

Maggie Dennis, Research Coordinator, WRI: maggie.dennis@wri.org

Bounce-back email

Thank you for completing the WRI and P4G State-of-the-Art Report survey. A copy of your responses is available below.

Please contact Erin Gray (erin.gray@wri.org) or Maggie Dennis (maggie.dennis@wri.org) with any questions.

APPENDIX B: LOGIT ANALYSIS CASE STUDY PROTOCOL

Logit Analysis

Logit analysis tested which survey variables were statistically significant to partnerships seeking returnable investment.

Dependent variable:

- **Partnership investment:** Whether or not a partnership indicated that it had secured any form of returnable investment.

Independent variables:

- **Business plan with funding:** Whether or not a partnership indicated that it had established a business plan with a strategy to secure returnable investment.
- **Grant funding:** The number of grants the partnership has secured.
- **Location:** Regions in which the partnership primarily operates. Regions included in this analysis were East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, the Middle East and North Africa, North America, South Asia, Sub-Saharan Africa, and global. Partnerships were considered global if they listed more than three regions.
- **Market maturity index:** Market maturity was determined by the number of market factors a partnership indicated were present in the markets in which they operate divided by five. Market maturity factors included the presence of credible and stable policies, accurate industry information, technological reliability, standardization, and strong conveners. We determined that this metric would allow us to identify more similar matches than location for two reasons. First, partnerships reported location in a variety of ways (i.e., at the country or regional level or "global"). This made it challenging to determine a standardized market index (e.g., World Bank Ease of Doing Business score) that could be applied accurately across partnerships. Second, market maturity may vary across sectors; for instance, the same country could have strong convenors in the energy market but not for sustainable consumption.
- **Partners:** Participation of a government, CSO, or business partner generally or at the local level.
- **Partnership business model:** Partnerships selected one or multiple business models in the survey. The survey included five business models: new business venture, financial instrument/fund development, project development, convening, and accelerator. Based on a revised partnership typology that condensed business models into three categories—new business venture, project accelerator, and financial instrument—partnerships were reclassified by the research team into the best-fit category.
- **Partnership stage:** Partnerships indicated their stage of business development on the survey (research and development, pilot, start up, scale up). For the purposes of the matching analysis, stages were grouped into "research and development or pilot" and "start up or scale up."
- **SDG area:** SDGs included in this sample are SDG 2 (Zero Hunger), SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities and Communities [transportation and buildings]), and SDG 12 (Responsible Consumption and Production).
- **Team index:** Team index was determined by the number of qualities the partnership indicated were represented by partnership leadership divided by 5. These factors included: at least one person with over 5 years of previous work experience in relevant sector/SDG area, at least one person with over 5 years of previous work experience in the country or countries in which the initiative operates, at least one person with previous experience procuring or managing early-stage investment, at least one person local to the country or countries in which the initiative operates, and at least one woman included on the leadership team.
- **Years of operation:** Number of years since the partnership was launched.

These were the key findings from the logit model:

- Partnerships were statistically more likely to have received investment when focusing on energy or an SDG other than our five focus areas and less likely to have received investment when focusing on sustainable cities. As discussed in Chapter 2, over 90 percent of partnerships that listed "cities" as an SDG area also indicated that their objectives were tied to at least one other SDG (e.g., food or water), indicating that cross-cutting partnerships may be less attractive to funders. From our sample, it is not clear why partnerships that selected "Other SDG" in addition to one of our five SDGs of interest were more likely to receive investment. One possible explanation is that partnerships tied to health initiatives were able to tap into COVID-19 funding pools not accessible to other partnerships in our sample. The impact of SDG focus on partnership investment is an area for further research.
- Partnerships were statistically more likely to have received investment if they had an established business plan that included investment as part of their long-term funding strategy.
- In initial analysis, partnerships with a local CSO partner were less likely to have secured investment than those without a local CSO partner. However, once all nonstatistically significant variables were removed, the P value of this variable rose significantly. Given these results, we are not confident that a local CSO partner has a significant impact on partnership investment and did not focus case studies around this factor (Table B1).

Table B1 | Predicted Probability of Securing Returnable Investment

VARIABLE	UNIT OF MEASUREMENT	ESTIMATE	STANDARD ERROR	Z VALUE	PR(>|Z|)
(Intercept)		-3.666	1.834	-1.999	0.046
Years of operation	Years	0.120	0.074	1.632	0.103
Focus on SDG 7 (Affordable and Clean Energy)	Binary	1.757	0.790	2.225	0.026
Focus on SDG 11 (Sustainable Cities and Communities)	Binary	-1.877	0.996	-1.884	0.060
Partnership included local CSO	Binary	0.077	0.743	0.103	0.918
Business plan with funding	Binary	2.916	1.072	2.721	0.007
Team index	Score of 0–5	0.820	1.690	0.485	0.628
Market maturity index	Score of 0–5	-1.306	1.319	-0.990	0.322
Grant funding	Number of grants partnership secured	-0.412	0.284	-1.454	0.146
Focus on SDG outside report focus areas	Binary	2.207	1.059	2.083	0.037

Notes: Dependent variable: partnership investment. Partnerships that received any form of returnable investment were scored as 1; partnerships without investment were scored as 0.

CSO = civil society organization; SDG = Sustainable Development Goal. Logistic regression analysis of 66 commercially driven partnerships. Dependent variable: partnership investment. Partnerships that received any form of returnable investment were scored as 1, partnerships without investment were scored as 0. Bold text indicates statistical significance.

Source: Authors.

Analysis did not find that partnership stage, region, or business models were statistically significant determinates of securing investment.

We used these findings to structure interview questions to understand how partnerships established a business plan and worked with local partners in practice and how these factors impacted their funding.

Sample limitations

Our survey sample size of 66 partnerships was a significant limitation in this analysis. This sample is also skewed towards partnerships in Stages 1 and 2 of funding, which reflects the partnership platform networks used to distribute the survey. Over half of our survey responses are P4G partnerships. This is a result of our existing working relationship with many P4G partnerships and access to the P4G network.

Case Study Protocol

Case selection

Case studies were selected through two lines of analysis:

- Statistical matching software to select cases based on relevant variables
- A review of survey responses based on funding status and funding challenges

Initially, we planned to present cases as matched pairs using a statistical software developed by Nielsen (2016), comparing similar partnerships that had and had not secured returnable investment.[3] We found that the significant variation in our partnership sample made this approach ineffective—that is, even if partnerships worked in the same SDG and shared key characteristics, they were often at vastly different stages or operating in different environments. Though we did not ultimately use this approach to analyze or present case studies, we did use the matching analysis to select and interview 10 partnerships from our survey. Demonstrating investment causality using case matching is an area for potential future research in this space. To do this most effectively, a larger sample of partnerships in the same location, with the same business model, and with the same SDG focus would be needed.

We found that using the match analysis alone to select case studies excluded some of the more innovative partnerships in our sample because they did not have similar matching partnerships. Our team selected additional partnerships to feature based on a review of survey responses. Other factors considered were partnership platform, SDG, and geographical representation.

Interview protocol

To supplement survey responses, we conducted interviews with each selected partnership ranging from 45 to 60 minutes. The objective of these interviews was to better understand partnership funding timelines and challenges.

Interview discussion guide

The following document is an example of a discussion guide we used for partnership interviews. Interview questions are at the end of this guide.

State-of-the-Art Report Discussion Guide: GreenCo

BACKGROUND

- **REPORT OVERVIEW**
  - This discussion is in support of the second WRI State-of-the-Art Report to provide best-in-class research and knowledge around multistakeholder partnerships working to advance the Global Goals. While our first report, *A Time for Transformative Partnerships* (Li et al. 2020), examined the key success factors of transformative partnerships, our second report will explore one of the biggest challenges faced by partnerships: financing. This report will help both partnerships and investors navigate the complexities of financing to accelerate the SDGs. This report will be released in September 2022 in advance of the United Nations General Assembly meeting.
  - For the purposes of the report, we are interested in commercially oriented partnerships with transformative ambition—that is, partnerships seeking to create system change through a commercially viable product, service, or business model. Specifically, we are interested in partnerships that have secured or plan to secure returnable investment (debt, equity, concessionary debt/equity).
- **REPORT RATIONALE**
  - Mobilizing private sector investment is a critical component of achieving the SDGs. However, available finance is not channeled towards sustainable development at the scale and speed required to meet 2030 targets—achieving the SDGs will require an estimated $3.7 trillion.
  - Capital to fill this financing gap is available. Institutional investors, for example, hold over $100 trillion in assets. Private sector interest in SDG investment is growing, and the development financing paradigm is shifting from traditional aid to commercial investment. However, multistakeholder partnerships have struggled to tap into growing pools of funding. This report seeks to help partnerships and investors understand how to bridge this funding gap.
- **DISCUSSION PURPOSE AND OTHER NOTES**
  - We are interested in understanding more about your current funding structure and your process for seeking investment (e.g., types of funding you are seeking, why you started out with grant funding, how you are building relationships with or reaching out to potential investors, etc.).
  - We are interested in connecting with your investors/funders for their perspective on the partnership financing gap, if possible.
  - We would also like to feature GreenCo to illustrate key findings around
    - using grant funding to advance commercial priorities;
    - challenges associated with seeking investment and grant funding; and
    - navigating the DFI/MBD investment process.

TOPICS TO DISCUSS

1. Could you walk us through your partnership's funding journey so far? Please consider the following in your response:
   a. When did you first start fund-raising? Which types of funding did you approach first and why?
   b. Have you experienced different successes and challenges at different funding stages or when working with different types of funders?
   c. Please elaborate on the process of securing IFU and InfraCo Africa investment.
2. How has your fund-raising strategy changed since your partnership launched?
3. How have you navigated seeking grant funding to advance commercial objectives?
4. In the survey, you mentioned challenges around identifying DFI investors with relevant funding envelopes available. Could you please elaborate on this challenge and how you are working to address it?
5. How do you approach DFIs or MDBs that may be unwilling to invest equity or may feel that GreenCo does not have a long enough track record?
6. If you could, what advice would you give to the following parties to better enable partnerships to transition from grant to investment funding?
   a. Private investors
   b. Institutional investors
   c. Grant providers
   d. Other partnerships

APPENDIX C: FUNDER AND PLATFORM INTERVIEWS

Funders

Our team interviewed a variety of grant and investment funders from public and private institutions. Funders were sourced in two ways: through existing WRI network connections and through partnerships selected as case studies.

We conducted 30-minute interviews with each funder to gain their perspective on the overall sustainable finance landscape, how they make funding decisions, and what they see as the biggest funding challenges. For a list of funder interviews, see Box C1.

Platforms

We also interviewed partnership platforms to understand their views on partnership investment and financing challenges. Platforms were sourced through the WRI and P4G network. Most platforms interviewed also distributed the partnership survey to their networks. See Box C1 for a list of platforms interviewed.

BOX C1 | Organizations Interviewed

Funders: Helios, Swiss RE Foundation, InfraCo, UK Foreign Commonwealth and Development Office, elea Foundation, Social Alpha, Good Energies Foundation, U.S. Agency for International Development, the Economic Development Investment Fund, DFI Working Group, FMO, and Convergence.

Platforms: PREVENT/Deutsche Gesellschaft für Internationale Zusammenarbeit, Partnerships2030, Energy Catalyst, Climate Policy Initiative, IDH—the Sustainable Trade Initiative, Partnering for Green Growth and the Global Goals 2030, and Danida Market Driven Partnerships.

ABBREVIATIONS

ANDE	Aspen Network of Development Entrepreneurs
CPI	Climate Policy Initiative
CSO	civil society organization
DFI	development finance institution
DIV	Development Innovation Ventures
ESG	environmental, social, and governance
FMO	Dutch entrepreneurial development bank
GAIN	Global Alliance for Improved Nutrition
GFANZ	Glasgow Financial Alliance for Net Zero
GIIN	Global Impact Investing Network
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFC	International Finance Corporation
IFU	Investment Fund for Developing Countries
IMM	impact measurement and management
IMP	Impact Management Project
IPO	initial public offering
IPP	independent power producer
KPI	key performance indicator
LADOL	Lagos Deep Offshore Logistics Base
MDB	multilateral development bank
NBV	new business venture
NGO	nongovernmental organization
N3F	Nutritious Food Financing Facility
ODA	official development assistance
OPIC	Overseas Private Investment Corporation
P4G	Partnering for Green Growth and the Global Goals 2030
PPDF	Project Preparation Development Facility
RSPO	Roundtable on Sustainable Palm Oil
SADC	Southern African Development Community
SAPP	Southern African Power Pool
SDG	Sustainable Development Goal
SIC	Sustainable Investment Clusters partnership
SME	small and medium enterprise
SSEZ	Sustainable Special Economic Zones
UK Aid	UK Agency for International Development
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
WMB	We Mean Business
WRI	World Resources Institute

GLOSSARY

accelerator: An organization or partnership seeking to advance innovative business ideas or create a pipeline of investable projects or initiatives.

anchor funder: An early-stage funder that provides multiple rounds of flexible funding to a partnership and helps shape an investment fund or a facility. These funders have strong buy-in to the partnership mission and support the partnership as it tests new approaches and works to scale. Support of an anchor funder also helps crowd in other investors.

bankability: The ability of a partnership to secure investment and generate profitable return (Vermeulen et al. 2018).

blended finance: The use of public sector funding to mobilize private sector investment in sustainable development (Convergence 2021; OECD DAC n.d.).

business: A for-profit organization.

catalytic capital: Patient, flexible, and risk-tolerant capital that helps partnerships to bridge the missing middle and scale new and innovative concepts. Catalytic capital can take the form of grants, debt, equity, or guarantees (MacArthur Foundation n.d.).

civil society organization (CSO): A nonprofit or NGO. CSOs can range from small community organizations to large international groups. Also known as an *NGO*.

commercially driven partnership: A partnership aiming to transform market systems through profit-generating activities such as the launch of a new product, service, or business model.

concessional finance: Below-market-rate finance provided by major financial institutions (e.g., development banks) to advance sustainable development. Concessional finance is not tied to a specific funding structure but typically comes in the form of debt, grants, or equity (WBG 2021).

convertible debt: A loan or debt obligation that is paid with equity or stocks in a company. Also known as a *convertible note* or *convertible loan*.

debt: An obligation that requires one party, the debtor, to pay money or another agreed-upon value to another party.

development finance institution (DFI): The investment arm of a donor government that focuses on engaging the private sector to mobilize sustainable investment. DFIs are affiliated with donor governments but operate independently (Crishna Morgado and Lasfargues 2017).

donor government: Any government agency or ministry providing development aid funding (e.g., USAID, UK Aid, GIZ, etc.) as well as associated programs such as USAID's DIV.

end-to-end facility: Supporting partnerships by layering in different types of support at various stages of partnership growth, such programs can help to support project pipeline development and an improved understanding of investor criteria for early-stage ventures.

equity: The value of shares issued in a company.

EU Taxonomy for Sustainable Activities: A classification system establishing a list of environmentally sustainable economic activities. This taxonomy provides companies, investors, and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. Its specific intention is to create security for investors, protect private investors from greenwashing, help companies to make more climate-friendly choices, mitigate market fragmentation, and help shift investments where they are most needed. Investments are judged by six objectives: climate change mitigation, climate change adaptation, the circular economy, pollution, effect on water, and biodiversity (European Commission n.d.).

financial instrument: A type of commercially driven partnership that seeks to tackle investment barriers through the development of financial instruments such as funds, bonds, or insurance instruments that help catalyze funding to riskier markets and/or de-risk investment to advance the SDGs.

financial intermediary: The required party between large funders, such as institutional investors and beneficiaries. This includes early-stage venture funds, private equity and debt funds, private family offices, angel investors, and friends and family. For the purposes of this report, these parties will be referred to as *early-stage private sector investors*.

government: A governing body, agency, or ministry at the national, regional, or state level. Governments can act as public sector funders or investors for partnerships.

guarantee: A financing mechanism in which a third party, typically a philanthropy or donor government, compensates investors if a company defaults. Also referred to as a *first-loss guarantee*.

impact investing: Investment that prioritizes positive social and environmental benefits in addition to financial return.

incubator: Programs designed to help start-up businesses grow. Incubators may provide workspace, mentorship, and access to an investor network. These resources allow new initiatives to grow while keeping operating costs low (Draper University 2020).

institutional investor: A financial institution, such as an insurance company or a sovereign wealth fund, that invests either directly in companies or through financial intermediaries.

mezzanine tranche: A layer in the capital structure positioned between senior tranche (typically senior lenders) and junior tranche (typically first-loss or junior equity investors). Mezzanine tranche allows the flexibility to attract specific types of investors that do not fit either senior or junior tranches but have risk-return expectations between these tranches of capital.

missing middle: The funding gap for SMEs or partnerships that are too advanced for early-stage catalytic capital or grant funding and not mature enough to secure commercial investment (Crishna Morgado and Lasfargues 2017; Remes et al. 2019).

multilateral development bank (MDB): An organization with donor or member countries that finances economic development in emerging economies. Examples of MDBs include the World Bank and the Inter-American Development Bank (ITA n.d.).

new business venture (NBV): A type of commercially driven partnership that seeks to launch and scale a new commercial product, service, or business model. NBV partnerships are profit driven, seeking to create new markets or systematically change existing markets to better align with the SDGs.

partnership: A voluntary collaboration between parties whereby stakeholders agree to share resources, accountability, risks, leadership, and benefits to meet a specific SDG-related objective (adapted from UN DESA 2015). Partnerships vary in their formality; a memorandum of understanding or similar may be involved, but it is not essential for an initiative to be considered a partnership. Also referred to in the literature as *multistakeholder partnership*.

philanthropic grant funder or investor: A mission-driven organization with a mandate to advance social or environmental well-being. These organizations can be part of the public or private sector and include CSOs, nonprofits, and family and corporate foundations.

private sector grant funder or investor: An investment party that is accountable to individual owners or managers and may require a market-rate financial return on investment. Private sector investors include financial intermediaries, institutional investors, and individual investors.

project developer: A type of commercially driven partnership that seeks to advance innovative business ideas or create a pipeline of investable projects or initiatives. Project developers often aim to help governments, businesses, and other entities make sustainability a core part of their operations by aligning their standards of practice or commitments.

public sector grant funder or investor: A funder or investor that is accountable to donors, governments, or taxpayers. Public sector actors have a mandate to work for the greater public good.

quasi-equity: A type of investment instrument that has features of both debt and equity. The characteristics include flexible repayment terms or subordinated debt. This implies that quasi-equity either is unsecured or has lower priority than other debt in the capital structure. An example of a quasi-equity structure is a revenue-sharing agreement.

returnable investment: Debt, equity, or a convertible debt/loan that partnerships are expected to pay back to the investor.

ticket size: The amount of grant or investment provided in one funding round.

transformative partnership: A partnership working to make changes that are systemic, long term and sustained, and disruptive of the status quo, such that they align with the SDGs and Paris Agreement goals (Li et al. 2020). Also referred to as *partnerships with transformative ambition or transformative potential*. BlueMark. 2022. "Raising the Bar: Aligning on the Key Elements of Impact Performance Reporting." BlueMark. https://bluemarktideline.com/wp-content/uploads/2022/04/BlueMark_Raising-the-Bar_Full-Report.pdf.

ENDNOTES

1. Although institutional investors invest at ticket sizes much larger than what commercially driven partnerships typically seek, they are important to understand for three reasons. First, they hold over $100 trillion in assets, have a material influence on financial markets, and are increasingly expanding allocation to sustainable or impact investing strategies. Channeling these assets to accelerate the SDGs can help bridge the SDG financing gap. Second, institutional investors influence what financial intermediaries invest in, which in turn can be commercially driven partnerships. It is therefore important for partnerships to understand what limits institutional investors to invest, which is highlighted in Special Section 3.3. entitled "What Limits Institutional Investors." Third, in rare cases, partnerships can access assets held by institutional investors. Read about the Spark+ Africa Fund in Chapter 3.

2. PREVENT interview.

3. See the Case Match App, https://rnielsen.shinyapps.io/caseMatch/.

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ABOUT WORLD RESOURCES INSTITUTE

World Resources Institute is a global research organization that turns big ideas into action at the nexus of environment, economic opportunity, and human well-being.

Our Challenge
Natural resources are at the foundation of economic opportunity and human well-being. But today, we are depleting Earth's resources at rates that are not sustainable, endangering economies and people's lives. People depend on clean water, fertile land, healthy forests, and a stable climate. Livable cities and clean energy are essential for a sustainable planet. We must address these urgent, global challenges this decade.

Our Vision
We envision an equitable and prosperous planet driven by the wise management of natural resources. We aspire to create a world where the actions of government, business, and communities combine to eliminate poverty and sustain the natural environment for all people.

ABOUT P4G

Partnering for Green Growth and the Global Goals 2030 is a platform that contributes to green and inclusive growth by accelerating partnerships with innovative business models in low- and middle-income countries. It supports its country partners to make progress on their climate action and SDG targets. P4G accelerates more than 65 partnerships whose solutions align with countries' climate and development priorities in the following five areas: food and agriculture, water, energy, cities, and the circular economy.

ABOUT THE GIIN

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing its scale and effectiveness around the world.

By convening impact investors to facilitate knowledge exchange, highlighting innovative investment approaches, building the evidence base for the industry, and producing valuable tools and resources, the GIIN seeks to accelerate the industry's development through focused leadership and collective action.

Ultimately, the GIIN focuses on reducing barriers to impact investment so more investors can allocate capital to fund solutions to the world's most intractable challenges. It does this by building critical infrastructure and developing activities, education, and research that help accelerate the development of a coherent impact investing industry.

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