Ministry of Foreign Affairs of Denmark

Partnering for Green Growth and the Global Goals 2030

Phase 2, 2023-2027

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List of Abbreviations

C40	Cities Climate Leadership Group
DAC	Development Assistance Committee of the OECD
DKK	Danish krone
EU	European Union
Excom	Executive Committee
GDK	Department for Green Diplomacy and Climate
GGGI	Global Green Growth Institute
GHG	Greenhouse gas
IFC	International Finance Corporation
IFU	Danish Investment Fund for Developing Countries
ILO	International Labour Organisation
LDC	Least Developed Countries
LMIC	Low Middle Income countries
DKMFA	Danish Ministry of Foreign Affairs
NGO	Non-governmental organisation
NP	National Platform
OECD	Organisation for Economic Cooperation and Development
P4G	Partnering for Green Growth and the Global Goals 2030
PSI	Private sector investment
SDG	Sustainable Development Goal(s)
UN	United Nations
WEF	World Economic Forum
WRI	World Resources Institute

Glossary

- **Acceleration:** The range of activities including National Platform and ecosystem engagement, commercial advisory support, investor management, market system changes, global recognition and knowledge and learning that P4G undertakes to help a partnership achieve its goals. P4G customizes its acceleration services for each partnership depending on the specific partnerships' needs and in what areas they are able to progress themselves versus in what areas they could benefit from support, as well whether the partnership is meeting its deliverables and therefore merits a sustained high level of acceleration or not.
- **Green business model:** This is a model that outlines a business' revenue and cost structure and delivers value to customers while promoting economic, social and environmental sustainable development.
- **Commercially viable**: The business plan for the product or service shows potential for future returns on investment.
- **Conducive environment:** A favorable environment for sustainable enterprises combining the legitimate quest for profit with the need for development that respects human dignity and decent work. Such an environment encourages investment, entrepreneurship, workers' rights and the growth of enterprises by balancing the needs and interests of enterprises with the aspiration of society.
- **Financially sustainable:** The ability to maintain operations without relying on grant funding.
- **Impact:** Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
- **Impact model:** An approach that is designed to create a specific and positive impact.
- **Investable:** Any investment ready business should be able to clearly demonstrate a strong team, a deep understanding of their market and competition, a detailed understanding of their business model, how the business makes money and what traction and key milestones have been achieved. The business must know what the plans are once funds are raised, how the funds will be used to scale the business, and what the key value creating milestones are that will ultimately lead to a successful exit.
- **Mature:** Identify and address partnership gaps and refine the business model to the point where the partnership can present its business case to investors.
- **National Platform:** Multi-stakeholder platform in a P4G partner country comprising government representatives and the private sector established to pursue the goals of P4G and tailored to national context.
- **P4G applicant analysis:** The process of reviewing an applicant partnership and determining its alignment with country partner policies and its ability to leverage investment and contribute to climate and development targets.
- **P4G ecosystem:** P4G's formal network comprising 12 partner countries, their respective National Platforms, 5 partner organizations, the P4G Board, the Executive Committee and the Global Hub.
- **P4G Global Hub:** The secretariat for the P4G program, responsible for facilitating and linking partnerships with P4G National Platforms and the P4G ecosystem, managing the Partnership Fund, communications, administration and reporting and monitoring. The Hub includes staff based in the World Resources Institute's global office in Washington, DC, as well as staff based in ODA-eligible P4G partner countries. In this proposal, the terms P4G Global Hub, P4G Hub and Hub are used interchangeably.
- **P4G origination:** Along the lines of deal origination by finance professionals, P4G's origination is the process of identifying prospective partnerships that could become investable

opportunities. This will be done through a competitive, transparent and fair challenge fund approach. Prior to application, the Hub in collaboration with National Platforms will ensure priority alignment, partner set-up, and a clarification of what P4G brings as added value.

- **Partnership**: We adapt the United Nations definition of multistakeholder partnership and define multistakeholder partnerships as a voluntary collaboration between two or more stakeholders, whereby stakeholders are committed through a formal agreement to share resources, accountability, risks, leadership, and benefits to meet a specific SDG-related objective (UN 2015).

1. Introduction

Partnering for Green Growth and the Global Goals 2030 (P4G) is a platform that funds and accelerates partnerships with innovative green business models. It advances inclusive green growth[1] in its developing partner countries by accelerating investable climate solutions within five Sustainable Development Goals (SDGs). These are 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.

P4G began operations in 2018 as a "cross-country, cross-sector, cross-organizational initiative"[2] to support the achievement of the Paris Agreement on Climate Action and the UN Sustainable Development Goals (SDGs), building on the learnings of its predecessor program the Global Green Growth Forum. P4G underwent an Inception Review, Mid-Term Review, and Technical Field Review in Phase 1. The Mid-Term Review noted that "P4G is recognised for the important role it plays in the overall landscape for supporting market-based, green and inclusive solutions to deliver on the SDGs" and noted the high level of support for the program and the technical capacity that P4G has demonstrated.

A distinguishing factor of P4G is its ecosystem[3], which helps to accelerate and scale the results of P4G partnerships and ensures partnerships are aligned with countries' climate action and sustainable development priorities (see further in the Problem Analysis section of this document). P4G's 12 partner countries are Bangladesh, Chile, Colombia, Denmark, Ethiopia, Indonesia, Kenya, Mexico, the Netherlands, Republic of Korea, South Africa, and Vietnam. Each partner country is asked to establish a National Platform[4] to engage relevant country public and private stakeholders and progress partnerships. P4G has five partner organizations, namely the Cities Climate Leadership Group (C40), Global Green Growth Institute (GGGI), International Finance Corporation (IFC), World Economic Forum (WEF), and World Resources Institute (WRI). P4G is managed by a Global Hub[5] hosted by WRI[6].

In Phase 2 (2023- 2027), P4G will build on its learnings from Phase 1. In contributing to inclusive green growth, P4G will focus exclusively on partnerships with business models that have the potential to graduate from grant funding to attract investment, help enhance a conducive environment for green and inclusive business models, and contribute to scaling and replication and knowledge sharing through the P4G ecosystem. In furthering this learning, P4G in collaboration with The Investment Fund for Developing Countries (IFU) is planning to introduce a new feature "Climate Action Investment Fund" that will provide a pathway for partnerships to get access to early stage blended capital which they need to become financially sustainable.

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[1] The OECD definition of inclusive growth is "Economic growth that is distributed fairly across society and creates opportunities for all." Green growth is defined as "fostering economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies." P4G will follow OECD-DAC criteria in both defining and supporting green growth and inclusive growth.

[2] P4G Programme Theory of Change; September 6, 2019

[3] **Ecosystem:** P4G's formal network comprising 12 partner countries, their respective National Platforms, 5 partner organizations, the P4G Board, the Executive Committee and the Global Hub.

[4] **National Platform:** Multi-stakeholder platform in a P4G partner country comprising government representatives and the private sector established to pursue the goals of P4G and tailored to national context.

[5] **P4G Global Hub**: The secretariat for the P4G program, responsible for facilitating and linking partnerships with P4G National Platforms and the P4G ecosystem, managing the Partnership Fund, communications, administration and reporting and monitoring. The Hub includes staff based in the World Resources Institute's global office in Washington, DC, as well as staff based in ODA-eligible P4G partner countries. In this proposal, the terms P4G Global Hub, P4G Hub and Hub are used interchangeably.

[6] WRI is also receiving earmarked funding from Denmark for implementing its Strategic Plan 2023-27.

The Danish National Platform State of Green (SoG) will continue its activities in P4G in the second phase following the assessment of work and results of the midterm review. SoG's role and responsibilities will be closely aligned and supporting the results framework described below. Further details to be found in the agreement.

P4G received initial funding from Denmark for 2018-2022, additional funding from the Netherlands for 2019 - 2022, and from the Republic of Korea for 2022. P4G in phase 2 will continue to seek funding from other donors and have so far been in dialogue with Sida, Norad, Global Affairs Canada, FCDO UK among others.

P4G Partnership Example: What Are We Looking For?

An example of a P4G partnership that has made headway in all three of the above areas is the Scaling Smallholder Solar Pumps in Ethiopia. This partnership used a pay-as-you-go model for small holder farmers to afford solar irrigation pumps.

1. **Scaling from grant funding to attract investment:** Secured $1M investment for the Ethiopian subsidiary of a Kenyan solar company SunCulture that both imports and manufactures critical components of the system in country. That investment has allowed the company to expand its manufacturing capacity in Ethiopia to help meet the huge untapped off-grid potential in that country.
2. **Helping enhance a conducive environment for green and inclusive business models**: The P4G National Platform was housed within the Environment, Forest and Climate Change Commission within the Ministry of Water, Irrigation and Electricity which oversees farm irrigation and electrification. However, they were not familiar with the Paygo concept or model and therefore outreach was done by the partnership in coordination with P4G's country manager for the platform to support the approach. The platform also convened a national workshop for promoting tax privileges for agricultural inputs. The partnership made important, first-of-its-kind headway into getting farmers to understand and trust online banking and mobile money, which are relatively new to Ethiopia when compared to other east African countries. These systems are also essential to enabling the pay-as-you-go model (Paygo and the successes of off-grid energy over the past decade). While neither the technology, the approach, or the model had any specific regulatory barriers, the combined model had not been trialed in ET at scale previously, and this partnership allowed for the testing and proving of that enabling environment.
3. **Scaling and replicating and knowledge sharing**: Shared knowledge with other entities working in online/mobile money, paygo as a means of finance for base of the pyramid rural farmers, and the off-grid solar industry. While these models are well demonstrated and understood in other east African countries, they are less prevalent in Ethiopia.

2. Context, Strategic Considerations, Rationale and Justification

2.1 Problem Analysis

Approximately $4.2 trillion[7] in private sector investment (PSI) is needed to meet the SDG financing gap. While global PSI is available and is actively seeking investments, it is unfortunately not flowing to developing country climate and environment projects in sufficient amounts. The reason that PSI funding is not reaching the SDG marketplace is because of the high-level of risks involved in investing in these regions and sectors. This is particularly the case for Low Middle Income countries (LMIC) and Least Developed Countries (LDC).

Overseas Development Assistance (ODA) has the potential to be a source of funding for high risk and low- to no-return projects in LMIC/LIC countries. However, only about 1-2% of ODA is used

[7] https://www.jointsdgfund.org/sdg-financing#:~:text=Securing%20enough%20resources%20remains%20a,that%20need%20it%20the%20most

to leverage PSI, while over 94.4% flows into more traditional grant mechanisms[8]. At an annual investment of $161 billion, ODA is insufficient to fill the SDG and climate funding gap. However, findings to date show that ODA can be used effectively to leverage PSI, with results showing a ratio of about 3 to 14, meaning that approximately $3 billion ODA dollars invested to leverage PSI has resulted in about $14 billion in PSI in developing countries[9].

Research into these challenges has identified the three high-level problems that constrain investment[10]:

1. Known investment risks remain unaddressed and the supporting institutional and political environment is not conducive to addressing these challenges. Investors will not invest in a meaningful way in a weak enabling environment that includes risk factors such as political instability, currency volatility and unpredictable or missing financial policies and ineffective regulation among others[11]. The Colombia National Platform stated this as a specific issue where the perception of high country risk could pose as a deterrent to investors[12].
2. Global capital is not connected to local markets, and not enough is being done to strengthen local markets and address market constraints. This was a risk mentioned by P4G representatives in government and Ibusiness in South Africa[13] at a workshop in Copenhagen in May 2022. In addition to the lack of market access, they also called out the risk of limited future investments because of the economic downturn.
3. There is a lack of investor-ready deals because entrepreneurs often don't have capacity internally (skills, financial resources, technical expertise) to commercialise their business model to access funding. An underlying cause of this is that capacity building at the investee level is fragmented and businesses are not ready for the due diligence necessary for investment. This creates a challenge for investment because financial institutions look for teams that have experience and the lack of experts increases the cost of setting up and running businesses. This low capacity to develop green bankable proposals by local partnerships was also a challenge cited by the Kenya National Platform at a workshop in Copenhagen in May 2022.

These challenges are also true across the areas of environment and climate in developing countries (for more details see annex 1).

2.2 P4G Phase 1 Results

From 2018 to 2021 in Phase 1, P4G has systematically built a 66 partnership pipeline and awarded US $25 million in grant funding. A majority of partnerships have implemented solutions in P4G partner countries[14] and aimed at progressing the country's climate and SDG goals. 25 of these partnerships have closed out their P4G funding periods, while 41 remain under active implementation. Thus far eight partnerships have received commercially-termed investment: Africa Green Co, Sustainable Special Economic Zones, Siklus, Smallholder Solar Pump Alliance, Energise

[8] 2021 TPI report "Financing green growth: Challenges and Opportunities in the use of ODA, Partnership for Green Growth P4G"

[9] OECD Development Co-operation Profiles, June 2021 as reported in the 2021 TPI report "Financing green growth: challenges and opportunities in the use of ODA Partnership for Green Growth P4G"

[10] 2021 TPI report "Financing green growth: Challenges and Opportunities in the use of ODA, Partnership for Green Growth P4G"

[11] 2021 TPI report "Financing green growth: Challenges and Opportunities in the use of ODA, Partnership for Green Growth P4G"

[12] https://www.ft.com/content/320c1ae7-811d-4b7c-bf6b-9de19a2e5b70

[13] https://www.irmsa-risk-report.co.za/2022/

[14] During the first and second calls for partnerships in 2018 and 2019, implementation in a P4G partner country was not explicitly part of the eligibility criteria but became a fundamental criterion in the third call in 2020. Partnerships in subsequent rounds 2021 and 2022 have been able to use P4G funding for activities in other ODA-eligible countries as long as P4G partner countries are included.

Africa, IIX Women's Livelihood Bond Series, GeoFutures GreenInvest, and Energy Efficiency Alliance[15]. P4G became consolidated as an initiative and partnerships accomplished the above results in spite of challenges during times of COVID-19. *More information on partnership results in Phase 1 to be found in forthcoming annex.*

P4G has also established a global ecosystem of key actors consisting of 12 partner countries, their respective National Platforms, 5 organizational partners, the P4G Board, the Executive Committee, the Global Hub. It also has relationships with more than 250 corporate and civil society leaders and investors through its partnerships. P4G established a Board of Directors currently comprising 22 high-level representatives from its partner countries and organizations and five private sector experts, and in September 2020 adopted its Governance Framework. It has launched nine country National Platforms and plans to launch two more in 2022[16]. National Platforms engage in partnership co-creation and acceleration, knowledge sharing and other P4G activities in line with national priorities, including through 6 National Platform gatherings planned and executed between 2018 and 2022.
With the support of the P4G Hub, National Platforms have consistently engaged annually at a high level in partnerships in their countries[17]. P4G has also received positive feedback on its value add from its partnerships with 100% of scale-up partnerships in 2019 and 2020 and 93-100% of start-ups in the same years indicating that P4G helped accelerate the partnership in a relevant way (network, investors, recognition, technical advice, etc.).

P4G has looked to accelerate, replicate and scale its solutions through knowledge exchange and learning with 29+ convenings, including 4 State-of-the-Art Awards ceremonies, workshops, and 97 knowledge products, including the 2020 State of the Art Report[18].

Two international Summits, hosted by Denmark in 2018 and the Republic of Korea in 2021, positioned and then mainstreamed P4G within the global green growth and climate agendas. The 2018 P4G Copenhagen Summit was attended by governments, global companies, entrepreneurs, and civil society leaders from 53 countries and was the first step in showcasing the potential of strong public-private partnerships to deliver impact. Participants at the Summit endorsed the Copenhagen Commitment to advance implementation of the SDGs and combat climate change. The 2021 P4G Seoul Summit progressed the vision and impact of P4G and united 67 world leaders and heads of international organizations to take bold climate and development action. 38 leaders endorsed the Seoul Declaration, which highlighted the role of public-private partnerships in achieving the SDGs and a net zero future. The Summit was a stepping stone to COP26. Ambassador Hyeoun Jenny Kim, Climate Ambassador and Deputy Minister for Climate Change, Republic of Korea shared that the Summit significantly contributed to Korea's commitment to reach to net zero by 2050 and raised the level of ambition for Korea's nationally determined contribution (NDC) to reduce emissions 40% by 2030. The third P4G Summit will be hosted by Colombia in 2023.

2.3 Lessons Learned

In Phase 2, P4G will strengthen its program based on findings and recommendations from three independent assessments – an Inception Review, Mid-Term Review, and Technical Field Review –

[15] This is based on self-reported partnerships data as verified by the P4G Hub through associated investment memos or related documentation.
[16] Launched National Platforms: Colombia, Denmark, Ethiopia, Indonesia, Kenya, Mexico, Netherlands, Republic of Korea, Vietnam. Launches tentatively planned for 2022: South Africa and Bangladesh.
[17] Out of the 6 launched ODA-eligible National Platforms, 3 engaged in 100% of partnerships in 2020 and 2021 (CO, ET, and MX), Kenya in 88% of partnerships in both years, and Indonesia in 100% in 2020 and 58% in 2021. Vietnam did not engage with any partnerships in 2020 or 2021.
[18] https://publications.wri.org/transformative-partnerships-sdgs

and its own reflections over the course of implementing Phase 1 since 2018. In addition to the context and results above, these lessons form the basis for the strategic considerations for P4G in Phase 2.

1. Application process: In Phase 1, during the first two calls for applications, P4G received between 380 – 400 applications per call, over 50% of which were not eligible and of the remaining half more than 30% were not of high quality[19]. Many proposals were NGO-led and tended towards traditional development projects without a clear path to commercialization. In 2019, P4G made the proposal process more rigorous in an attempt to reduce the number of ineligible and low quality applicants but had similar results as in 2018. P4G learned that - aside from NGOs - it needed to also market the call to businesses and entrepreneurs. As a pilot test, the P4G Hub began asking some partnerships to submit a business model and financial plan with the purpose of strengthening the commercial sustainability / viability of the proposals as part of the application process in 2020. This was made mandatory in 2021 which resulted in fewer but stronger applications and clarified the partnership's plan to leverage private sector investment and move beyond grant funding to sustain the model over time.
2. Year-round applications: In the first three calls for partnerships, P4G had a fixed start and end date for application submissions. As a result, partnerships sometimes applied before they were ready and limited the ability of the Hub to collaborate between the partnership and National Platforms since the initial submissions were not strong enough to be considered. By implementing a year-round application process, partnerships can take the time to work on their business model and submit the strongest version of their proposal. This also gives National Platforms more flexibility to engage proactively in the origination process with their local networks to increase the prospects for investable and aligned partnerships.
3. Start-up and scale-up partnerships: P4G was initially designed to fund start-up partnerships up to $100,000 and scale-up partnerships up to $1M. The Hub learned that some partnerships still at a start-up stage may need additional funds and some that are ready to scale-up may need less funding, depending on where they are in their partnership development process. P4G transitioned to removing these titles to provide flexibility on funding level based on the needs of partnerships, while still requiring the same cost-share for partnerships under $100K (50%) and between $100K and $1M (75%).
4. Focus on financially sustainable solutions: In Phase 1, P4G differentiated between market-generating and market-based partnerships. It found that while market-generating partnerships could make some progress on policy or regulatory changes, they did not have a model that could progress beyond grant funding. The partnerships that were more successful tended to have a strong business model and articulated a specific policy/regulatory change that could help their model operationalize. Per the Mid-Term Review recommendations, P4G will no longer differentiate between two kinds of partnerships and will instead focus on partnership that combine both characteristics.
5. Thematic and country focus: Climate and the five SDG areas P4G works in are a very broad scope of work. In the first two partnership selection rounds, P4G funded partnerships that worked in a wide range of subsectors in each SDG. This broad focus diminished the value-add P4G could provide. By focusing on four themes that have emerged as country priorities (Energy Transition, Food & Agriculture Value Chain, Zero Waste Green Industry, and Digital Solutions for Water), P4G can sharpen its focus by identifying specific gaps in each sector and supporting partnerships with specific activities to overcome them. Many P4G partnerships working in SDG cities fall within a subsector of the four themes for example e-mobility and net zero homes partnerships in energy transition or urban water solutions in Digital Solutions for Water. National Platforms like Colombia noted that learning of partnership solutions in different countries that are also aligned with their priorities was helpful knowledge so countries could see if there were opportunities for localization instead of coming up with a different solution. This sharper focus also enables partnerships to cluster around portfolios that are attractive to investors looking to

[19] Analysis of results of the 2018 and 2019 calls as presented to the P4G Board.

invest in multiple partnerships in multiple countries rather than individual partnerships in individual P4G countries.

6. Partnership reporting: In Phase 1, partnerships came up with their own monitoring and evaluation metrics, which made it challenging and an administrative burden to measure and verify their results and align them with programmatic reporting. In Phase 2, P4G will use a globally accepted standards of measurement such as those used by IFU to develop a framework that streamlines and integrates partnerships monitoring and evaluation with the overall program results framework. It will also ensure alignment with metrics that are consistent and being applied by leading development financial institutions.
7. Local partners: Partnerships without local partners can take longer to understand the local context or may not have an extended local network or credibility within the local community and with National Platforms. In Phase 2, as part of its selection criteria, P4G will look for partnerships with strong local partners who understand the geography and local context and can ensure that partnership solutions are localized through stronger alignment to country priorities including working with existing institutions, systems and processes. Now that National Platforms are established, they will play a more proactive role alongside the Global Hub to identify and nurture prospective channels for local partners within their entrepreneur, impact investor and accelerator communities.
8. National Platforms: Engaged National Platforms such as the platform in Kenya have been an important part of the origination and acceleration process, particularly where NPs have been launched and are fully operational, with dedicated contacts. They provide guidance to the Hub on aligning country priorities with prospective partnerships and provide partnerships with the political buy-in and facilitation they need to succeed such as the Kenya National Platform giving the GeoFutures GreenInvest partnership a Letter of No Objection and participating at an investor session that gave investors such as FSD Africa the confidence to consider the partnership. National Platforms have indicated that they would like to engage with the Hub and partnerships to a greater degree but lack sufficient capacity to do so. In Phase 2, the P4G Hub will coordinate with National Platforms and develop a strategy for capacity building and support that platforms have requested that will allow for closer involvement in the origination and acceleration process.
9. Institutionalization of P4G National Platforms: Some National Platforms members have indicated that institutionalizing the platforms will help them advocate and support platform activities within their organizations and to other stakeholders more effectively. It also allows them to continue working with P4G through changes in administration and between different levels of leadership and embed P4G into existing institutions, mechanisms and agendas aligned with P4G's mission. In Phase 2, the P4G Hub will work with National Platforms to adopt Memorandas of Understanding between P4G and partners in National Platforms and per the recommendation of the National Platform private sector partners will pursue letters that governments can send private sector co-chairs to institutionalize their leadership role in Platforms.
10. Role of NGOs in partnerships: In 2018 and 2019, P4G tapped NGOs to serve as leaders in originating partnerships and guiding them in their proposal formulations. Based on earlier lessons detailed above, P4G has seen stronger partnerships emerge where there are well-defined roles for the commercial partner and NGO to lead that are tailored to their expertise. NGOs provide an important value-add in convening relevant actors to encourage engagement and action, understanding of the local context, ensuring the partnerships are meeting human rights standards, and accurately tracking environmental and social outcomes. These are the roles that the P4G Hub envisions NGOs to continue to play in Phase 2, while also contributing to facilitating targeted policy and regulatory interventions that will help advance partnership business models.
11. Policy and regulatory interventions: Creating a conducive policy and regulatory framework is one of the central outcomes of P4G. Reforms take a long time and may go beyond the 18-24month grant funding period of partnerships. However, P4G has found that specific policy and regulatory

interventions are helpful in advancing partnerships and reducing investment risk. For example, Africa GreenCo obtaining an operating license from the government of Zambia and the Sustainable Sourcing at Scale partnership testing policies in place and sharing feedback with relevant regulatory authorities to improve them. In Phase 2, P4G will ask partnerships to identify specific policy/regulation areas they will be testing or implementing or gaps in policy/regulation that could help accelerate the development of their business model, ensuring alignment with partner country priorities. Targeted policy and regulatory interventions can increase partnerships' ability to attract investment due to the reduced policy and regulatory investment risk that P4G's ecosystem and particularly National Platforms can support, and also pave the way for other investments in the future. This was clearly demonstrated in the Africa GreenCo partnership, where P4G's 2019 UNGA acceleration workshop included key policy and decision makers from the host country government as well as prospective investors. Investors said that the substantial verbal and written support provided by the policymakers at that session reduced their perception of risk.

12. Value of international partner organizations: Partnership organizations were included in P4G's original framework to support knowledge sharing, for their convening power and they also provided legitimacy to the P4G initiative in the beginning. Partner organizations would like a more defined role in phase 2. The P4G Hub will leverage the expertise of partnership organizations in the thematic areas by involving them in the analysis of partnerships during the origination process and having them lead thematic discussions at Board meetings and major convening moments such as P4G Summits.
13. Co-investment facility: P4G has found that early-stage partnerships require an intermediate funding of between $2 - $5 million to transition from grant to investment funding. This amount is generally too small for institutional investors. In Phase 2, P4G is collaborating with The Investment Fund for Developing Countries (IFU) on a Climate Action Investment Fund that will provide a pathway for partnerships to get access to capital they need to become financially sustainable.

2.4 Gender Inclusion and Equality

Gender is an important factor when considering climate change combined with the effects of COVID-19. Women disproportionately feel the impacts of climate change[20] and in many countries COVID-19 has more severely impacted women's livelihoods and economic opportunities[21]. P4G will follow OECD-DAC criteria in defining and identifying green growth and inclusive growth[1] as part of partnership application assessment criteria, taking a gender and poverty-oriented approach in addition to a green approach on providing economic opportunities for women through its partnerships working with objective global standards such as the 2X Gender Challenge. Some partnerships will have a more direct impact on gender equality and poverty such as those in agriculture where the solutions increase the livelihoods of women farmers, and partnerships in water where women will benefit from increased access to clean water and sanitation. Others may have a more indirect impact, such as a clean energy transition partnership that will have a trickledown effect on women and other marginalized populations such as low-income communities and youth. All partnerships will be required to disaggregate indicators to indicate the number of women and men who will benefit from the solution, allowing P4G to pursue greater gender equity through tracking and reporting on the number of women filling jobs created or being positively affected because of improved access to clean energy and water. P4G will also look at gender equity and representation as part of its partnership selection process, including how many of its partnerships have women in leadership positions and how the partnership incorporates gender equity into its proposed plans.

[20] https://www.climateinvestmentfunds.org/sites/default/files/knowledge-documents/georgetown_women_and_climate_change_2015.pdf

[21] https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects

Using the guiding principle of "Leave No One Behind," all partnerships funded will be required as part of the application process to indicate how they will incorporate the United Nations 2030 Universal Values of international human rights standards, equality and non-discrimination, and leave no one behind, ensuring that their activities will be implemented in accordance with international human rights law, eliminating gender inequalities and all forms of discrimination, reaching out to those that are furthest behind first, to ensure that no one is left behind. All partnerships will also be required to attest that they are committed to responsible business conduct by integrating human rights, labor rights, environmental concerns, and anti-corruption concerns based on adherence to global standards into their operations and core strategies.

2.5 Justification of Program Design

Relevance: P4G is well-aligned with the development cooperation strategy of its funders[22] given its focus on the links between climate change, environment and human development. Alignment with the priorities of its other partner countries is core to how P4G originates and selects its partnerships, as well. As laid out in the problem analysis above, P4G is relevant to potential partnership applicants given the gap that it is filling. Futher, P4G operates in the field of closing the financing gap, and developing hands on relevant projects into projects that can attract private capital.

Effectiveness: P4G primarily focuses on the results related to its five identified SDGs as well as the Paris Agreement, but with other characteristics of green and inclusive growth woven throughout the program as noted in the above Gender Inclusion and Equity section. P4G achieved a majority of its desired program-level outputs in Phase 1, as noted in the results section above, and the P4G Hub has worked with its donors to develop a stronger results framework for Phase 2 that is well-aligned with updated partnership-level results frameworks also based on Phase 1 feedback.

Efficiency: P4G continues to receive significantly more applications than it can support through its challenge fund, ensuring that only the highest potential partnerships are selected for funding. The Hub continues to refine how it utilizes its resources based on lessons learned described above, including through better collaboration with National Platforms, more staff in-country in Phase 2, and revising the partnership selection process and partnership reporting requirements.

Coherence: Through engagement with Danish, Dutch, and Korean embassies in P4G partner countries and National Platforms, P4G will aim to ensure alignment with other in-country activities and priorities. Additionally, P4G will continue to work with its five partner organizations as well as its broader network of relevant organizations (e.g. UNGC, regional development banks, prospective and current partnership organizations and companies) as done in Phase 1 to identify synergies and knowledge sharing opportunities.

Impact: Through the suite of interventions that it offers, P4G aims to accelerate and scale partnership business models with high potential for long-term impact. Impact potential is part of the selection criteria considered when reviewing each partnership application. Further, developing financially sustainable business models and scalability increases conditions for creating impact.

Sustainability: P4G results will be sustainable through its partnerships achieving commercial viability, as well as through the conducive environments created and knowledge sharing done through P4G's activities.

Additionality: As outlined in the problem analysis, P4G is filling a gap to help green and inclusive business models in developing countries reach commercial viability. Additionality is part of the selection criteria that will be considered when reviewing each partnership application.

[22] https://amg.um.dk/policies-and-strategies/stategy-for-danish-development-cooperation, https://www.government.nl/topics/development-cooperation/the-development-policy-of-the-netherlands, https://www.odakorea.go.kr/ODAPage_2022/eng/cate02/L02_S04_01.jsp

3. P4G Phase 2 Program Objective

P4G's program objective is to contribute to green and inclusive growth by accelerating green business models in developing countries.

The three main outcomes P4G hopes to contribute to are:

- Matured green, inclusive and localized solutions into investable business models
- Enhanced conducive environment to mobilize finance into green and inclusive business models
- P4G partnership business models promoted for investment and scaling/replication

Ultimately, P4G aims to have impact by contributing to climate adaptation and mitigation solutions that progress the SDGs and improve the livelihoods of individuals.

P4G will aim for over 75% of its partnerships to have a climate change adaptation or mitigation objective. In addition to the climate change objective, 100% of partnerships will undertake green activities that contribute to inclusive green growth.

3.1 Theory of Change and Key Assumptions

P4G will undertake four interlinked strategic interventions to reach this objective. Interventions 1 and 2 primarily support outcome 1 described above, intervention 3 primarily supports outcome 2, and intervention 4 primarily supports outcome 3.

1. **Partnership Origination and Funding**

   Based on national climate and development priorities, P4G will provide grant funding to mitigate the risk of early-stage innovative partnerships, so they have the necessary runway to refine their model and become investable. As in Phase 1, P4G will continue to fund partnerships working in one or more P4G ODA-eligible countries[23] up to US $1 million for a funding period ranging 1.5 – 2 years. If a partnership needs more time or funding and is also showing solid results toward their indicators, then additional funding and a time extension can be considered.

   National Platforms have expressed an interest in being more closely involved in the origination process. In Phase 2, National Platforms will work with the Global Hub to identify origination channels aligned with country priorities so that the Hub and National Platforms can work with prospective partnerships prior to submission. Several suggestions for accomplishing this were suggested at the May 2022 P4G National Platform workshop. Considerations for the feasibility of these include how to support National Platforms with available resources while maintaining a fair, transparent and open challenge fund process. National Platforms will also be invited to work with the Hub to engage with partnerships and provide their feedback at key moments throughout the selection process.

   In Phase 2, P4G will continue a year-round application process. The Hub will ensure the integrity and transparency of the process by having clear eligibility and evaluation criteria, and an identical process for all applications as they progress from submission to decision. P4G will screen all proposals against internationally recognized climate impact criteria such as the EU Taxonomy. Criteria will also include the presence of local partners in the partnerships, compliance with human rights guiding principles and the 2x challenge[24], and a model that contributes to the

[23] To be eligible for funding, partnerships must work in at least one P4G country but can also work in other ODA countries that are not part of P4G

[24] The "2X Challenge" calls for the G7 and other DFIs to join together to collectively mobilize ***$3 billion*** in commitments that provide women in developing country markets with improved access to leadership opportunities, quality employment, finance, enterprise support and products and services that enhance economic participation and access.

principles of green and inclusive growth. Independent experts will assess and score each application that moves beyond initial screening and an independent committee consisting of sector and technical experts, investors and one member of the Hub will approve a final list of partnerships for funding.

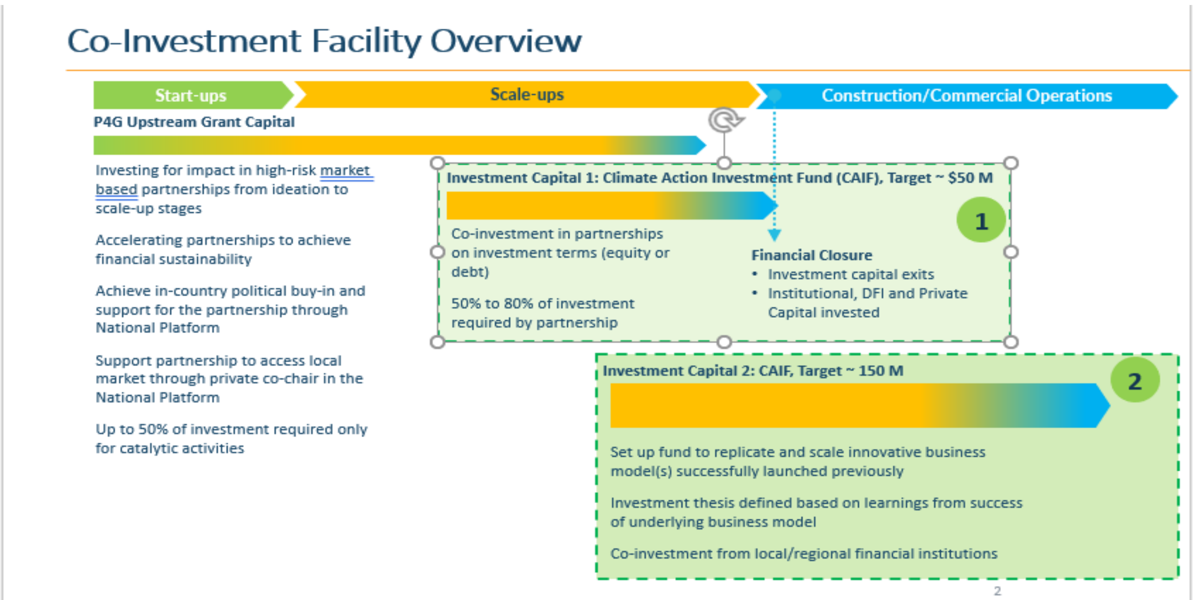
2. Partnership Acceleration to Achieve Financial Sustainability

P4G will accelerate partnerships by supporting and recommending business model improvements, review of business plans; the presentation of investment memorandas; investor sessions; and branding and positioning to showcase P4G and its partnerships to key stakeholders. P4G will also accelerate partnerships through policy and regulatory support provided particularly through the National Platforms. P4G's activities echo one of the findings from the upcoming second State of the Art Report from WRI, P4G and Global Impact Investing Network (GIIN). The report, "Overcoming Multistakeholder Partnership Financing Hurdles to Accelerate the SDGs" found that partnerships that received returnable investment tended to have collaborated with an incubation ecosystem like P4G.

P4G has learned that partnerships require an intermediate stage of investment in the $2 - $5 million range to transition from grant to investment funding. DFIs look for an investment size of $10 M or more and with a defined risk exposure. Partnerships graduating from grant funding are still exposed to many risks and need a lower amount of funding to become fully operational. In addition to partnerships' own funding, the investment funding is aimed at operationalizing the ventures, realizing revenues or starting construction, and supporting early stages of growth that will help them be ready for high levels of investment funding from DFIs. P4G is collaborating with IFU on an early-stage blended co-investment facility, Climate Action Investment Fund (CAIF), that will invest in partnerships that have received P4G funding. CAIF will help partnerships get ready for investment from development financial institutions and other investors. It will engage early with P4G partnerships and will aid project development with investment advice and commercial investments between $2 - $5 million, thus providing a smoother pathway for partnerships to receive the capital they require. CAIF will aim for a 5 – 10x investment capital leverage at the time of exit.

3. Ecosystem Engagement for a Conducive Environment for Maturing Partnerships

P4G will engage key stakeholders including policymakers, investors, private sector and civil society leaders to mature green and inclusive solutions into investable business models. National



Platforms play an important role in supporting a conducive environment to mature partnerships. A key component of this engagement is the Hub's capacity building support and collaboration with National Platforms so the platforms can better support the testing of, implementation of or changes to policy or regulatory interventions that partnerships need to mitigate their investment risk. This will include having partnerships identify and articulate how they can progress policy and regulatory changes during the application process so National Platforms can share if the changes overlap with their priorities and signal the level of support they are able to provide. The Hub will also facilitate opportunities for partnerships and National Platforms to connect regularly around partnership progress updates and key asks to National Platforms to support acceleration of partnerships. The Hub will work with National Platforms to develop and support implementation of annual Action Plans that systematically capture key National Platform activities and plans. P4G will also seek to engage with / coordinate with embassies of the members of the P4G partnership, where embassy priorities and resources can provide leverage for creating a conducive environment.

4. **Scaling, Replicating and Knowledge Sharing**

Partnerships require information about successes and challenges of similar models working in the same regions and sectors to streamline and strengthen their progress. In Phase 2, P4G will continue to look for opportunities to showcase partnership business models and help them achieve greater legitimacy by receiving recognitions from global institutions, governments and investors.

According to feedback from partnerships, Summits give partnerships an opportunity to engage with high-level stakeholders who could progress their goals as P4G partnership "Getting to Zero Coalition" found at the Seoul Summit. Countries have shared that Summits provide a chance to showcase their climate and development priorities, solutions and leadership on a global stage. In Phase 2, P4G will encourage host countries to structure the Summit program to accelerate partnerships, foster knowledge sharing, and mobilize investors and the public sector to invest in and scale green business models.

P4G will use the opportunity of global P4G Summits and other high-level convenings to engage high-level stakeholders interested in partnership solutions and to showcase successful partnership models that can be scaled and replicated. This is aligned with the kinds of learnings National Platforms have mentioned they have found useful, where they are introduced to innovative solutions from other countries that overlap with their priorities. This allows them to consider how an existing solution can be customized to fit their country context instead of coming up with a new and unproven approach.

Based on the above strategic interventions the theory of change in Phase 2 is that if:

- P4G originates, awards and manages a pipeline of green and inclusive partnerships that are aligned with national priorities;
- P4G accelerates partnerships to become investable business models;
- National Platform engagement mitigates policy or regulatory investment risk;
- Partnership engagement by testing or identifying policy or regulatory changes also mitigates this investment risk;
- P4G executes high-level events to promote partnership investment, scaling and replication; and
- High-level representatives engage with these events

Then P4G can:

- Mature green, inclusive and localized solutions into investable business models;
- Enhance a conducive environment for green and inclusive business models;
- Promote partnership business models for investment, scaling and replication

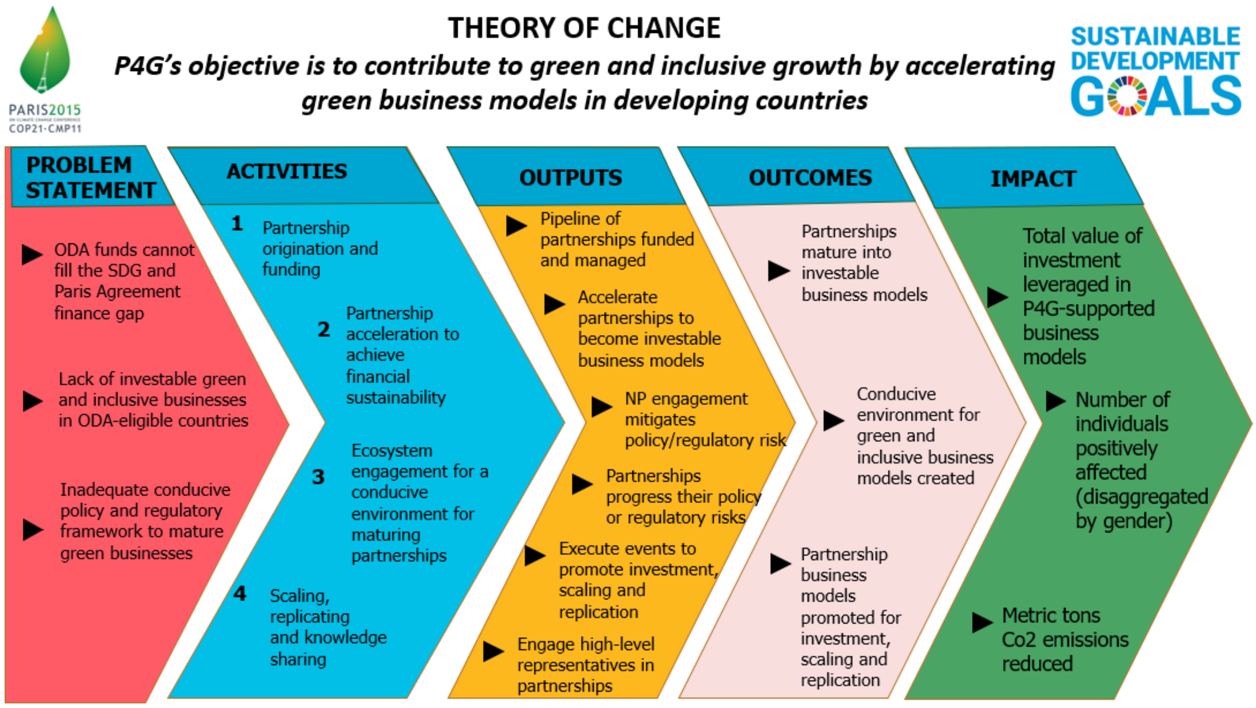
Which:

- Will lead to a higher total value of investment leveraged in P4G-supported business models

Ultimately, these interventions will lead to a projected impact that contributes to green and inclusive growth in developing countries through increased investment, reduced carbon emissions, and improved livelihoods.

Key assumptions include:

- Global trends continue to move in the direction of green growth through multilateralism
- Continued engagement from P4G partner countries in accelerating partnerships
- Continued interest from the private sector to contribute to green growth
- Demonstrated commitment from National Platforms to update and implement their action plans
- National Platforms contributing to a conducive environment while P4G matures solutions into investable business models



3.2 Results framework

A proposed results framework is included below.

Program Objective	**Indicators**
P4G contributes to green and inclusive growth by accelerating green business models in developing countries	Number of metric tons Co2 equivalent emissions projected to be reduced, avoided or sequestered
	Number of individuals positively affected (disaggregated by gender)

	Total value of investment leveraged in P4G-supported business models
Outcome 1 Matured green, inclusive and localized solutions into investable business models	Percentage of partnerships contributing to green growth as defined by OECD-DAC in areas such as climate change mitigation and adaptation and transition to a circular economy
	Percentage of partnerships compliant with 2X Gender Challenge criteria of entrepreneurship, leadership, employment or consumption
	Percentage of partnerships projecting jobs compliant with Leave No One Behind principles
	External financing leveraged on top of the P4G funds
Output 1.1 Pipeline of partnerships funded and managed	Number of partnerships awarded and managed
	Percentage of local partners across all partnerships
Output 1.2 Partnerships accelerated to become investable business models	Number of partnerships accelerated toward investment
	Percentage of partnerships that present investment memorandas or equivalent
	Percentage of business models that have become operationalized in partner countries
Outcome 2 Enhanced conducive environment for green and inclusive business models	Number of policy and/or regulations that have been tested and/or changed
Output 2.1 National Platform engagement contributed to mitigate policy or regulatory risks	Percentage of National Platform Action Plans implemented, including activities on contributing to policy or regulation
	Number of partnerships originated with National Platforms, as identified by partnerships during the application process
Output 2.2 Policy or regulatory barriers to mitigate investment risk addressed by partnerships	Percentage of partnerships that identified the need for and who received regulatory or policy support
Outcome 3 P4G partnership business models promoted for investment and scaling/replication	Number of partnership business models receiving recognition by global institutions, governments and investors
Output 3.1 Execute high-level events to promote partnership investment, scaling and replication implemented	Number of high-level events in which partnership models are showcased
Output 3.2 High-level champions engaged in P4G and its partnerships	Number of high-level representatives from countries, NGOs, and business engaging with P4G Summits and major events (e.g. UNGA, COP)

	Number of high-level representatives from countries, NGOs, and business engaging with P4G partnerships at P4G Summits and other major events

3.4 Budget

The table below indicates the five-year budget (2023 – 2027) in USD for P4G divided into the Partnership Fund and the Global Hub[25]. These are projected numbers based on contributions from Denmark, Netherlands and the Republic of Korea.

Partnership Fund	$22,398,667
Global Hub, including partnership origination and acceleration, engagement and NP support, events, etc.	$16,401,333
Total	$38,800,000

Funding Contribution by Funder (tentative)	Amount in USD
Denmark	25,000,000
Netherlands	9,800,000
Republic of Korea	4,000,000

The Partnership Fund is the grant funding P4G will provide to its partnerships. The Global Hub budget supports Hub staff and capacity building for National Platforms.

Budget assumptions include:

Funding Contribution:

- The proportion of funding allocated to the Hub and the Fund by each funder in Phase 1 will be the same in Phase 2.
- The Danish contribution for all five years will decrease from Phase 1 to Phase 2[26].
- The funding contribution by the Netherlands will increase in proportion to the increase in the funding period from 3 years to 5 years.
- Given that the funding cycle for the Republic of Korea is annual and a five-year commitment cannot be confirmed at the time of this proposal, only one additional year has been included at the same annual contribution as 2022. However, the P4G Hub hopes to continue its funding relationship with the Republic of Korea throughout its implementation of Phase 2 in addition to this contribution.

P4G Hub:

- No substantive increases to Hub personnel except for dedicated Partnership/Investment/Country specialists located in-country in at least 6 ODA-eligible P4G partner countries. To develop this new organizational structure, existing resources will be reallocated, including the reduction of current staffing based primarily in Washington, DC at the World Resources Institute Global Office.
- P4G Hub staffing will be frontloaded for the first three years, with the full team fully funded to support the activities described. For the final two years of implementation, only a portion of the full P4G Hub staffing is budgeted, to support the final implementation years and close out of the Phase 2 period. However, should new funding be secured in line with P4G's

[25] A more detailed budget aligned with the P4G programmatic results framework is forthcoming. At a high level, outcome 1 will receive the majority of P4G Global Hub resources, followed by outcome 2, then outcome 3.

[26] Danish funding contribution will diminish slightly compared to phase 1 as there are now more donors and additional Danish support will be provided through the new IFU co-investment facility.

funding strategy to continue the P4G Hub beyond 2027, the additional funding sources will supplement the cost of the full Hub staffing to continue the initiative.
- The P4G Hub will procure an Independent Evaluator for all partnership selection rounds.

Partnership Fund:
- Partnership funding period will generally be 18-24 months with opportunity to increase based on partnership milestones.
- Average size of the partnership funding is $500,000 per partnership.
- Partnerships will be awarded funding upfront primarily in 2023, 2024 and 2025, with the disbursement and implementation of the partnerships across all five years to enable P4G to either position itself for a phase 3 or enable a smooth transition to end P4G in phase 2.
- Estimated 8 new partnerships/year, 24 partnerships total with sufficient time to close-out partnerships within Phase 2.

4. Institutional and Management arrangement

P4G's institutional set up will comprise international and national level stakeholders with the P4G Global Hub serving as a secretariat for the program.

P4G Global Hub

The P4G Global Hub serves as the central coordinating and implementing secretariat for the P4G program. It is directed by a Global Director and organized into five matrixed teams that carry out the four strategic interventions described above, as well as necessary operational tasks: partnerships, strategy and engagement, investments, communications and operations. This is subject to change by the P4G Global Hub based on strategic and operational considerations, including needs identified by National Platforms, partnerships and donors.

P4G Global Hub staff are located in WRI's global office in Washington, D.C., and in partner countries, including Colombia, Ethiopia, Indonesia and Kenya with the intention of representation in all ODA partner countries in Phase 2. As part of its lessons learned from Phase 1, the Hub aims to continue to decentralize by locating at least 50% of staff in-country. The Hub seeks in-country staff with skills that will enable building and supporting a stronger pipeline of partnerships with local connections and strengthening National Platforms' abilities to accelerate partnerships.

During phase 2, the Global Hub will continue the work of identifying and engaging with potentially new donors including philanthropic institutions. This endeavour is in a collaborative approach with the Excom, National Platforms and partner organisations.

World Resources Institute

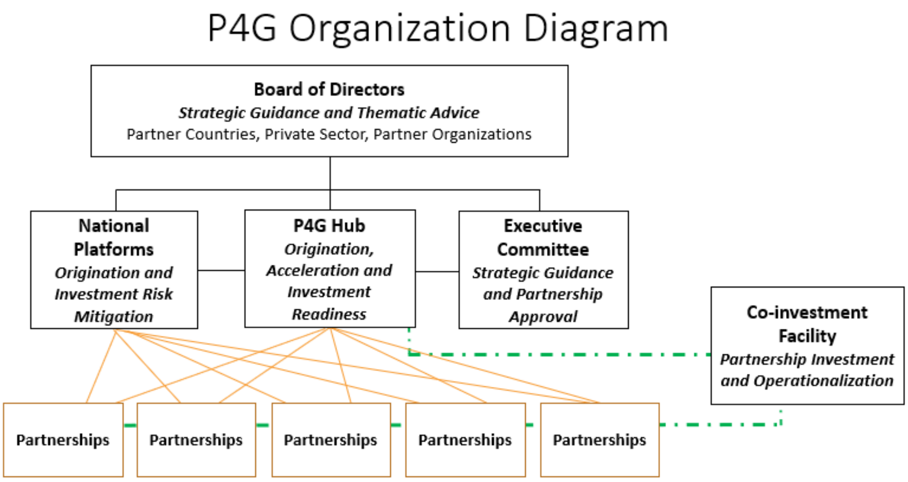
World Resources Institute (WRI) is the legal entity for and host of the P4G Global Hub. WRI was selected as the legal host of the P4G program because of its position as a world leading institution working within the fields of environment, economic opportunity, and human well-being. WRI has a proven record of innovative approaches and delivery of applied research on areas such as water, renewable energy, climate, cities, and circular economy.

WRI's core mission is consistent with the core mission of OECD, i.e., economic development and welfare of developing countries. WRI spends its funds on activities in ODA-eligible countries (including WRI's international offices in ODA countries) or on international efforts such as the UNFCCC climate negotiations whose primary aim also matches with ODA eligibility requirements including economic development and welfare of developing countries.

WRI has overall responsibility for the Hub for the duration of the hosting arrangement. The Hub utilizes WRI's robust financial and administrative processes, rules and regulations including for the administration of grants and contracts, procurement, finance and accounting, staffing, and IT processes. In addition, WRI provides ongoing strategic, management, and expert technical support to the P4G Global Hub as in-kind contributions, including, for example, from WRI senior management and sector specialists. The Hub will look for opportunities to collaborate with other parts of WRI to strengthen P4G's work. There is potential for other WRI platforms to serve as a pipeline of partnership ideas, and P4G can leverage WRI knowledge products and research as an evidence base for P4G's focus.

P4G Board of Directors

P4G is overseen by a Board of Directors comprising ministers, CEOs, and executive leadership from partner countries, corporations and institutions committed to pursuing sustainable development. The Board helps provide political legitimacy for P4G and its partnerships and attracts interest from a broad range of public and private stakeholders. They also actively help to accelerate specific partnerships in their country and/or sector(s) of expertise and provide strategic direction to the P4G Global Hub and Executive Committee.



All partner countries and partner organizations hold a seat on the Board. A select number of private sector partners are also invited to join the Board to ensure the Board reflects the multi-stakeholder nature of P4G.

P4G Executive Committee

The Executive Committee of the Board provides strategic guidance to the P4G Global Hub and the Board of Directors, as well as program oversight and operational input to the Hub to ensure effective implementation of the program. The Executive Committee comprises designated representatives from the country Board co-chair, funding partners providing financial support to P4G above a sufficient contribution, the P4G program host and legal entity, and up to one ad hoc member.

National Platforms

National Platforms are in P4G partner countries and comprise government and private sector representatives. National Platforms facilitate the origination and acceleration of partnerships, engage relevant country stakeholders, and provide guidance on a country's climate and development priorities. They also facilitate policy and regulatory interventions as articulated by P4G partnerships and required to progress market system change.

Governance

The Board of Directors approved P4G Governance Framework in 2020, which delineates the governing and management roles, responsibilities, procedures, and other guidelines within the P4G program. The Framework was developed and refined to create efficient systems and provide clear guidance to the Hub, Executive Committee, Board, and other stakeholders based on lessons learned throughout P4G's first years of operations. The Hub plans to revise and put forward for Board approval an updated Governance Framework as needed to align with the P4G Phase 2 Programme Document.

4.1 Monitoring, Evaluation and Learning

On a bi-annual basis, P4G will assess its progress and outcomes achieved against the theory of change and results framework via:

Partnership-level monitoring and evaluation

The 2020 State of the Art report found that strong monitoring, evaluation, learning and reporting was an essential success factor to partnerships with the greatest transformative potential.

- Partnerships' successes and learnings will be integrated into P4G's annual reporting against the P4G Results Framework through refined Phase 2 reporting templates that measure qualitative and quantitative results, lessons learned and capture sector-specific progress.
- The Hub intends to have one staff person who is dedicated a minimum of 50% of the time to monitoring, evaluation and learning for the P4G program and aggregated partnerships data. Additional Hub staff, including in-country staff, will also dedicate a portion of their time to partnership monitoring, evaluation and learning. In adherence with WRI's reporting requirements, partnerships will report on their progress twice a year with financial reporting due four times a year. Partnerships receiving over $100,000 in P4G funding are required to complete an end of project audit covering all project costs reported throughout the partnership's P4G funding period and performed by a certified, independent auditor.
- Developing and sharing partnership status update reports with P4G National Platforms twice a year will help advance learnings.

Program monitoring and evaluation

- An annual report to the Executive Committee, which will provide a record of technical and financial progress against the results framework and annual work plan approved in the preceding year. The annual report will include lessons learned by the P4G Hub in pursuit of the outputs, outcomes and objective within P4G's results framework.
- A mid-term review in alignment with Denmark's requirements for funded programs that can be utilized for all funders of P4G.
- There is a significant lag effect between the change that partnerships and P4G is catalyzing and when these results will be ultimately realized on the ground. P4G will monitor partnerships over their funding period and final outcome indicators will be verified and shared at the close of the program period.

Finally, P4G, through WRI, will also conduct an external financial audit of the program expenses for each year of the funding period.

5. Risk Management

The main **contextual risks** arise from global or regional conflicts that affect partner countries; less cooperation on climate and development goals as countries look inward to stimulate their recoveries from COVID-19; and an erosion of confidence in the ability to meet the Paris Agreement and SDGs. Conflict risks will be assessed in the context of partnership applications. Mitigation measures for reduced cooperation and eroded confidence include linking P4G partnerships to national priorities and global coalitions, and demonstrating the potential impact they can have on climate and development goals.

Contextual market risks include the continued hesitancy of DFIs to channel resources into early-stage solutions that are deemed risky – conceptually and geographically. This risk can be mitigated through formal arrangements with the co-investment facility and proactive outreach to other DFIs.

Institutional risks include the loss of funding and political support from donors. P4G enjoys broad political support and will continue to engage funders and diversify sources of funding. Risks also include reduced impact because of stretched staff resources across partnerships and countries. These risks can be mitigated by limiting countries until new, sustained funds are available, a sharper focus on climate and sectors within the SDGs, and fewer partnerships. Compliance and fraud risks are mitigated by WRI's robust auditing processes and whistleblower policy.

Main **programmatic risks** included the disengagement and turnover of National Platforms, private sector and partner organizations, Mitigation actions include deeper engagement, priority alignment and increased resources for National Platforms. Engaging the private sector at the Board level and demonstrating the ability of P4G to develop investable green growth solutions this risk can be mitigated.

An additional programmatic risk includes partnerships failing to realize their full impact. P4G has a rigorous selection and monitoring process to identify and course-correct partnerships early. Furthermore, partnership-specific risks and mitigation measures will be included in each application and assessed.

Annex 1: P4G Problem Statement

Summary:

Approximately USD 2.5 Trillion in private sector investment (PSI) is needed in order to meet the SDGs and the Paris Climate commitments[1]. While global PSI is available and is actively seeking investments, it is unfortunately not flowing to developing country climate and environment projects in sufficient amounts. The reason that PSI funding is not reaching the SDG marketplace is because of the high-level of risks involved in investing in these regions and sectors. This is particularly the case for Low Middle Income countries (LMIC) and Least Developed Countries (LDC).

Overseas Development Assistance (ODA) was designed as a source of funding for high risk and low- to no-return projects in LMIC/LIC countries, but at USD 161 Billion (bn) it is insufficient to fill the SDG and climate funding gap. However, findings to date show that ODA can be used effectively to leverage PSI, with results showing a ratio of about 3 to 14, meaning that the USD ~3bn ODA dollar invested in PSI leveraging has resulted in USD ~14Bn in PSI in developing countries[27]. Furthermore, Technical Assistance (TA) and National Level Coordination are two mechanisms specifically identified as mitigating investment risks, and these are also traditional areas of ODA grants. However, only about 1-2% of ODA is used in this manner to leverage PSI, while over 94.4% flows into more traditional grant mechanisms, though the target is only 86%[28].

Research into the above challenges has identified a further set of three high-level problems that constrain investment[3]. First is that known investment risks remain unaddressed, and the supporting institutional environment is not conducive to addressing these challenges. Second, global capital not connected to local markets, and not enough is being done to strengthen local markets and address market constraints. Third and finally, there is a lack of investor ready deals because investees often don't have capacity internally to commercialise their business model to access funding. This is true within both the areas of environment and climate globally as well as in developing countries.

In the following analysis we first review the problems that constrain PSI from flowing into the environmental and climate related SDG investments in developing countries. Then we review what the literature tells us about the known solutions to those problems. Finally, we link both the problem analysis and the solutions research to a set of recommended activities for P4G to undertake in Phase 2. This analysis frames our Theory of Change and Results Framework and are (/will be) then linked to the specific outcome and output indicators in our Phase 2 proposal document. In the final proposal this annex will include a summary table that maps the Problems -> Solutions -> Opportunities -> Outcome and Output indicators. An additional table may be included that then maps the Outcome and Output indicators to Phase 1 partnership examples and lessons learned.

Analysis:

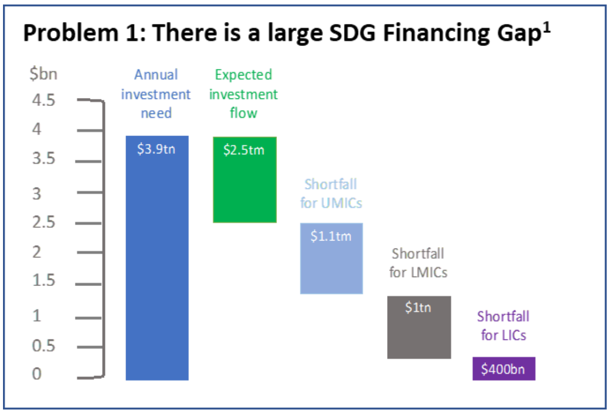
Problems: Our analysis begins by developing a more complete understanding of the Problems:

1. Problem 1 – There is a large SDG financing gap: The UN office charged with the SDGs has identified a needed USD 3.3-4.5 Trillion in investment per year to accomplish the goals[29]. While a high percentage of the world's green and inclusive funds are going to developed countries[30] there still remains a USD 2.5 trillion gap per year. In the following sections we briefly explore the role and

[27] OECD Development Co-operation Profiles, June 2021 as reported in the 2021 TPI report "Financing green growth: challenges and opportunities in the use of ODA Partnership for Green Growth P4G"
[28] 2021 TPI report "Financing green growth: Challenges and Opportunities in the use of ODA, Partnership for Green Growth P4G"
[29] Citation to be added - https://unsdg.un.org/resources/unlocking-sdg-financing-findings-early-adopters plus climate
[30] Citation to be added - Dalberg report

shortcoming of multiple types of funding in filling this gap, as well as the typical risks that prevent them from investing more.

1.1. **ODA**: At USD 161 billion (Bn) ODA funds cannot fill the SDG funding gap but can instead be used to leverage the additional investment[31] needed.



1.1.1. **Environmental ODA funding** is increasing but still significantly short of the needs, DAC countries committed 35.3% of bilateral allocable aid (USD37.3bn) in support of the environment. 27% of bilateral allocable ODA (USD 28.6 billion) focused on climate change_as either a principal or significant objective (26% in 2018)[32].

1.2. **Private Sector Investment:** There is a large shortfall of private sector funding being mobilised in general, and less so to LDCs.[33] USD 3.17bn (1.96%) of total ODA is counted as private sector investment (PSI)[34] which along-side supporting grants has potentially led to the mobilisation of as much as USD 13.8 bn in private sector capital. Only 12.2% of that private sector finance mobilised by DAC countries is channelled/earmarked to LDCs and other LICs, while 87.8% targeted middle-income countries. Impact investing makes up an additional USD 404 Bn as reported by the GIIN[35], while blended finance contributes an additional 160 Bn as reported by Convergence.

1.2.1. **PSI Barriers:** The GIIN reports the impact investment market is moving slowly over the last decade because of the lack of the following: (1) High quality investment opportunities with a track record (24% reported significant; 69% some progress), (2) Innovative deal/fund structures to accommodate investors or investee's needs (24%:68%), (3) Appropriate capital across the risk return spectrum (18%:71%), (4) Government support for the market (14%:585), and (5) Suitable investor exit options (8%:68%). These barriers are further discussed in problem statements 2-4 below.

1.3. **Development Finance Institutes**: DFIs also mobilize finance for the SDGs, investing in developing countries by providing capital where there is little to none available[1]. None-the-less DFIs' risk appetite reflects a desire to maintain the DFI's financial sustainability and reputational strength while creating development impact. These counterbalancing requirements means that investments with a good risk and financial reward profiles are prioritised over those where the rewards are less well understood or are externalized. Therefore DFIs have historically invested in sectors where the risks versus reward trade-offs are unambiguous, including in energy and transport where standardized contracts such as PPAs make investments easier. This continues to be the primary way that DFIs make investments as they tackle climate change. In fact, only 10% of a typical DFIs investments are in early stage companies[36]. Therefore, DFIs are not providing the higher risk seed funding needed to help bridge the SDG investment gap. This gap reflects the practical reality that DFIs currently lack the organisational flexibility and risk tolerance to be early-stage investors.

[31] OECD Development Co-operation Profiles, June 2021
[32] 2021 TPI report "Financing green growth: Challenges and Opportunities in the use of ODA, Partnership for Green Growth P4G"
[33] OECD Development Co-operation Profiles, June 2021
[34] PSI: Private-Sector Instruments in the context of ODA include grant-equivalent of loans to private sector companies (PSI loans), equity investments, mezzanine finance and guarantees.
[35] GIIN 10 Year 2020 Annual Report. Collectively, the 300 respondents to the survey manage USD 404 billion of impact investing assets.
[36] Source: IFC, Annual Report - Financials 2020, 2020; FMO Ventures program website (accessed 3rd May 2021); FMO, Annual Report, 2020; Molly Anders, CDC kicks off new strategy with eye toward riskier investments, 2017; stakeholder interviews

1.3.1. **DFI Barriers:** Interviews and research across a diverse set of DFI's has identified that in order to fully leverage their ability to invest in SDG related businesses or projects in the developing world, a stronger pipeline is needed[1]. This barrier is further discussed in problem statements 4 below.

2. **Problem 2 – Known investment risks remain unaddressed, and the supporting institutional environment is not conducive to addressing these challenges**: The following known risks remain as key challenges to overcome as identified in The Partnering Initiative's (TPI) 2021 paper[37]. Central to all of these is the fact that no amount of blended finance will compensate for a poor enabling environment and a structurally weak economy. Private capital will rarely flow at meaningful scale where corruption, political instability, weak legal systems, currency volatility and complex or unpredictable government decision-making processes prevail'[38].

    2.1 The investment climate becomes significantly less attractive for investors when there are weak or missing financial policies, ineffective regulation, unstable and unpredictable taxes and a tolerance of corruption. Weak institutions such as poorly run Central Banks also make a country less attractive.

    2.2 Investors find it more difficult to operate if there is a lack of market services such as investment banks, finance brokers, transparent market information systems, legal services, credit rating services and financial infrastructure such as payment systems

    2.3 Transaction costs for businesses increase where there is a lack of business services and technical advisers, poor infrastructure or inadequate power supplies. Businesses are more expensive to set up and run when there is a lack of a well educated and productive labour force, or problems accessing physical inputs

    2.4 Green growth markets operate less efficiently when they lack court systems to enforce contracts, certainty over and tenure and other rights over productive assets, IP protection and other ways of supporting innovation, or effective regulation of corporate governance

3. **Problem 3 - Global capital not connected to local markets**, this lack of connectivity between projects and capital is demonstrated by the fact that investment capital is not getting deployed. **Not enough is being done to strengthen local markets and address market constraints.** There is a misalignment at country level between investors, donors and National Development Plans, and reducing key market constraints. This is further exacerbated by Problem 4 below.

4. **Problem 4 - A lack of investor ready deals**: Investees often don't have capacity internally to commercialise their business model to access funding. This is true within both the area of environment and climate globally as well as in developing countries. Capacity building at investee level is fragmented and not effective. Businesses often are not ready for the due diligence necessary for next stage investment.

    a. **Lack of Environmental and Climate Investor ready deals:** There is currently a lack of understanding of environmental and social benefits as business opportunities. This is because environment and human rights benefits have historically been in the public domain through either government funded or government subsidized programs.

[37] 2021 TPI report "Financing green growth: Challenges and Opportunities in the use of ODA, Partnership for Green Growth P4G"
[38] Better finance better world Consultation paper of the blended finance task force

b. **Lack of Developing country investor ready deals:** Through numerous interviews and research the TPI team identified that this due to a lack of public sector capacity, and a lack of capacity to develop market services.

Solution Research: Our analysis now moves from analyzing the problems to analyzing the solutions, each solution [will be] linked to the above enumerated problems:

5. **Solution analysis - What has been proven to work?** Accomplishing the SDGs will require scaled investment in developing economies, bringing the world of ESG investing into development. "Concessional funds [within blended finance] should create and reinforce markets [and] **help overcome market failures** and provide benefits to society beyond the investors' returns**"**[39]

   a. **End to end facilities that support project development and provide early-stage investment based on national priorities**. These facilities play the critical role of connecting innovators to investors, because according to one interviewee "Fragmentation in the market is a problem with confusing processes and a wide range of terms and conditions that is very hard for an investee to navigate." Examples of these facilties include:

      i. **Incubators and Accelerators** such as the Partnerships for Forests (P4F) which supports the development of forest partnerships between private sector companies, public sector actors and local people, that catalyse investment in forests and sustainable land use. They do this using a combination of grant funding and TA to help selected partnerships move towards commercial scale up.

      ii. **Blended Finance Facilities** such as the Climate Investor One and Two (Ci1 and CI2), the Dutch Fund for Climate and Development (DFCD) and many others which provide separate but operationally linked facilities, each with a specific sub-sector focus and role across the project lifecycle. These facilities typically use a mix of Grant funding/TA for origination, equity for construction and operational debt, TA/fix-loss donor trans/subordinated Mezzanine guarantees.

      iii. **Common features of end-to-end facilities**[12] :

      1. Working along the project/partnership life cycle and across capital structures.
      2. Program based TA and provision of services closely linked to follow-on potential resources of investment capital (e.g.. a fund)
      3. Bringing in the private sector and investors early
      4. In support of and aligned with national sector policies and strategies
      5. Shorten the origination and development phase for the project initiators.
      6. Bringing together right partners linking opportunities to each others activities or networks (including downstream)

   b. **Technical Assistance**: As stated by the Task Force on Blended Finance: '… we need to rethink the traditional model of project-based 'technical assistance' to ensure it is closely linked to follow-on resources of investment capital or contributes to pipeline development for an existing vehicle'[40]. TA can be used in a number of innovative ways to enable PSI to flow such as [will insert examples.]

   c. **National level institutional capacity**: A lack of bankable projects is often said to be key barrier to invest in emerging markets. "Countries that do this well tend to have particular institutional mechanism that bring together national strategy, policy and investment

[39] Karlin & Sierra-Escalante. IFC, 2021
[40] Blended Finance Taskforce, Better Finance Better World, position paper, 2018

programmes. They bring the private sector in early and have robust sustainability standards”[41]

d. **Triple Bottom Line and Environmental, Social and Governance Business Models and Investing:** With triple bottom line (TBL) accounting many businesses have found ways to asset-ise what was previously considered an entitlement. Another way of framing the triple bottom line is as Environmental Social and Governance (ESG) investing, a field that has in recent years grown significantly within large investment houses in many developed countries but which has not yet reached the developing world at scale.

Proposed Activities: Our analysis now switches from the problems and solution research to the proposed activities, with each opportunity linked to the above enumerated solutions as well as [will be] linked to the Outcomes in the proposed P4G Results Framework:

6. **Hypothesis:** Research into the above problems and solutions results in our hypothesis that there is an unfulfilled opportunity to do more and better with ODA in order to leverage private sector investment into the SDGs and climate action. As such we have identified a series of activities that link directly to the problem analysis and the solutions research. All of these opportunities link to Problem 1 which is that there is a large SDG financing gap, and to Problem 2 that the known investment risks remain unaddressed. For each activity we have also linked to the specific solution set that has been researched and reported upon above.
    a. **P4G should be designed as an end-to-end facility** that support project development and provide early-stage investment based on national priorities. This links to Problem 3 Global capital not connected to local markets, and Solution 5.1 End to end facilities that support project development and provide early-stage investment based on national priorities.
    b. **Partnerships that enable an investable business model** by addressing the specific root causes that are preventing a viable business opportunity from emerging in developing countries. This can be done through a series of intervention that P4G and other have begun to adopt, including use of TA to incubate project, more seed financing and support in connecting bankable project with funders. This links to the Problem 4 Lack of Investable Business Models and Problem 4.2 Lack of Developing country investor ready deals, and to Solution 5.1.1 Incubators and Accelerators.
    c. **Innovative partnerships** that provide TBL or ESG business models to assetize environmental and social benefits in a financially sustainable manner. This links to Problem 4.1 Lack of Environmental and Climate Investor ready deals, and to Solution 5.4 Triple Bottom Line and Environmental, Social and Governance Business Models and Investing.
    d. **National level institutional capacity**: Through P4Gs National Platforms we can bring together national strategy, policy and investment programmes that bring the private sector in early and have robust sustainability standards. This links to Problem 2 Known investment risks remain unaddressed, and to Solution 5.3 National level institutional capacity building.
    e. **Technical Assistance** that is designed to build the above elements [more text to follow]
    f. **Donor funded facilities with links to DFIs** that are able to make links between local and global markets and promote joined-up uses of ODA [more text to follow]´

7. **Unaddressed Problems.** Meanwhile there is a subset of identified problems that remain outside of P4G’s direct line of implementation activities:

[41] 2021 TPI report “Financing green growth: Challenges and Opportunities in the use of ODA, Partnership for Green Growth P4G”

i. Innovative finance instruments that blend concessional and private finance at project or local fund level or at a trans-national fund level

ii. Pooled portfolios and proven, replicable, low cost, business models with acceptable risk adjusted returns to global investors

Annex 2 - Process Action Plan

P4G, phase 2 - Process Action Plan

Date	Activity	Responsible
18.01	Comments on draft prodoc	Executive committee Working Group (Excom WG)
20.01	Network Gathering – draft prodoc to National Platforms (NP) and partner organisations for comments	P4G Hub
25 – 27.01	Excom virtual workshop	P4G Hub
28.03 – 01.04	Excom workshop Washington	P4G Hub
16 – 21.05	NP + Excom seminar, DK	P4G Hub, GDK, SoG
31.05	Draft prodoc for DK programme committee	GDK
28.06	Programme committee meeting	GDK
01.08	Draft prodoc adjusted, SoG draft doc	Excom WG, P4G Hub
17.06	Terms of Reference - appraisal	GDK
August/September	Appraisal of ProDoc + SoG	External consultants
September	Final draft prodoc	P4G Hub, SoG, GDK
26.09	Submission of ProDoc to UPR – SoG doc to undersec for dev approval	GDK GDK
13.10	UPR meeting	GDK
October	Integration of UPR comments	GDK, P4G Hub
November	Final approval by UDVM	GDK
January, 2023	Commitment registration, signing of agreement with WRI and SoG. Launch of the new programme	GDK P4G Hub