3 Unlocking Catalytic Capital

Private-Sector Innovation and Partnerships

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INTRODUCTION: THE ROLE OF BUSINESS IN SYSTEM CHANGE

In a world of "permacrisis"[1] and a multi-trillion-dollar funding gap for achieving the United Nations Sustainable Development Goals (SDGs), evaluating the potential role of business in financing development and driving systemic change is essential. Overseas Development Assistance (ODA) and private philanthropy alone will be insufficient to meet the challenge. In 2023, ODA reached $224 billion,[2] while total global philanthropic capital targeting development outcomes amounted to just 5 percent of that figure.[3]

Given this gap, private investment – particularly from businesses and financial institutions – could be a critical lever in addressing global challenges. However, despite growing commitments to Environmental, Social, and Governance (ESG) metrics and sustainable business models, skepticism persists. Can the commercial sector – driven by profit and shareholder demands – truly contribute to social value creation?

At a global level, interconnected crises such as climate change, water scarcity, biodiversity loss, and land degradation are

[1] See Mohammed El Erian's foreword in www.cambridge.org/core/books/reimagining-philanthropy-in-the-global-south/892D6D9A346C1670F2B28B95F6198607.

[2] Total ODA reached $ 223.7 billion in 2023. OECD (2024), *Development Co-operation Report 2024: Tackling Poverty and Inequalities through the Green Transition*, OECD Publishing, Paris. Development Co-operation Report 2024 Tackling Poverty and Inequalities through The Green Transition: Retrieved from https://doi.org/10.1787/357b63f7-en.

[3] OECD. (n.d.). Philanthropy. Retrieved from www.oecd.org/en/topics/philanthropy.html.

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intensifying. These challenges are not isolated; they form a complex, interwoven web, amplifying each other's effects and exacerbating risks to both human and ecological well-being. Addressing them requires an integrated, holistic response, especially in an era of geopolitical fragmentation, conflict, and disruptions to international trade. As businesses increasingly recognize these phenomena and collaborate with governments and civil society, acknowledging that they can contribute to tackling poverty, inequality, and climate change, their role in co-creating solutions and mitigating risks becomes increasingly inevitable.

Over the past few decades, corporations and financial institutions have significantly evolved their approach to social responsibility. Many are moving beyond traditional, low-impact CSR models toward strategic, inclusive, and integrated frameworks that embed sustainability into their core business strategies. By doing so they enhance the sustainability of their business models by strengthening their value chains, particularly their supply chains as off-takers. When executed effectively, this can also contribute to greater local community resilience.

Corporate philanthropy occupies a unique position at the intersection of business and community, creating synergies between social goals and commercial strategy.[4] When well structured, it has the potential to generate sustainable social returns while positively shaping the underlying business model. However, success in this regard depends on three core principles: a clear commitment to social and environmental goals, leveraging core business strengths for maximum social impact, and meaningful engagement with local communities.[5] These principles can be further amplified when corporate interventions are anchored in strong partnership models.

[4] Impact Europe. (n.d.). Strategic Alignment. Retrieved from www.impacteurope.net/stream/strategic-alignment.

[5] Business Fights Poverty. (2024). Retrieved from https://businessfightspoverty.org/wp-content/uploads/2024/09/Building-Business-Partnerships-That-Are-Fit-for-the-Future.pdf.

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Within this context, public–private–philanthropic partnerships (PPPPs) can offer a powerful framework for aligning goals and leveraging resources. As highlighted in the case studies presented later in the chapter (and other chapters in this book), these partnerships can take various forms. From large-scale public–private collaborations to impact-driven investments – where corporate patient capital (through philanthropy and impact investing) helps de-risk investments – these partnerships can help unlock catalytic financial and nonfinancial resources. The true strength of PPPPs lies in their ability to mobilize additional investment through catalytic finance, bridging critical funding gaps and scaling high-impact solutions in underserved regions. By integrating blended finance and assuming greater risk, when necessary, PPPPs can create a multiplier effect that drives sustainable development at scale.[6]

Corporate philanthropy also brings unique institutional capacity. Directing philanthropic capital through well-structured, institutionally mature businesses creates new systemic opportunities for impact – opportunities that third-sector organizations, which may lack the necessary capacity, might struggle to achieve on their own. Furthermore, when linked to a corporate parent, blended capital approaches become significantly more effective, providing access to a broader range of financial instruments through corporate impact investing practices[7] and reinforcing long-term corporate sustainability commitments.

This chapter examines these hypotheses through case studies of global corporations and financial institutions that have deployed catalytic capital to develop more sustainable, integrated, and systemic business models. It explores both challenges and opportunities, offering sector-wide insights into what works – and what doesn't.

[6] Impact Europe. (2024, March 22). Catalytic Capital 101. Retrieved from www.impacteurope.net/insights/catalytic-capital-101.

[7] Malmendier, N., Gianoncelli, A., Faujour, S. (2024). Corporate Impact Investing – Bridging Impact and Business. Impact Europe. Retrieved from www.impacteurope.net/insights/corporate-impact-investing.

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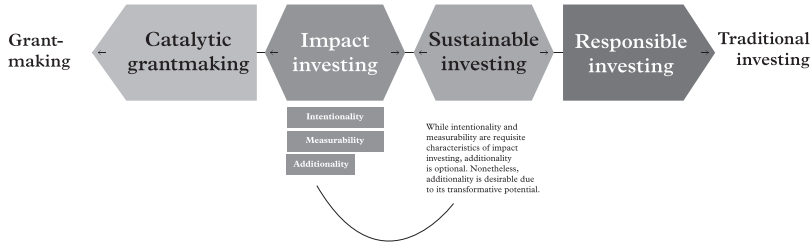


FIGURE 3.1 Continuum of capital.
Source: Impact Europe.

Based on extensive discussions with the institutions showcased in the case studies and an analysis of broader ecosystem collaborations, this chapter demonstrates how diverse actors with differing goals *can* align along the continuum of capital (see Figure 3.1) to deliver transformative impact.

CATALYTIC FINANCE CASE STUDIES

Philips and the Transform Health Fund[8]

Philips, a global technology company based in the Netherlands, has evolved over more than a century from a lightbulb manufacturer into a diversified multinational corporation focused on health technology and sustainable solutions. As part of its commitment to sustainability, Philips has pioneered the concept of "double-blended" impact financing through the Transform Health Fund, a groundbreaking initiative operating in Africa. Philips was not only a driving force behind the fund but also its anchor investor, embodying the principle of having "skin in the game" to attract further investment.

The Fund has focused on three key areas that serve low-income patients: supply chain transformation, innovative care delivery, and digital innovation. This has been achieved by bringing together commercial, government, and donor investments, managed by

[8] Annette Jung of Philips/Philips Foundation-Impact Finance was interviewed on February 22, 2025, to provide context for this case study.

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AfricInvest, a leading pan-African investment platform active in private equity, venture capital, and private debt, and the Health Finance Coalition, a consortium of major global health funders including The Rockefeller Foundation, hosted by Malaria No More.

The Transform Health Fund explicitly seeks to bridge the financing gap for small and medium enterprises (SMEs) in Africa's health care sector, addressing the critical "missing middle": the lack of capital that prevents these businesses from scaling up services, especially in remote and vulnerable communities. By partnering with local entrepreneurs and governments, the Fund not only helps these SMEs secure financing but also helps strengthen the broader health care ecosystem.

Initially, skepticism surrounded the feasibility of raising finance for universal health coverage (UHC) in sub-Saharan Africa, given investor concerns over revenue limitations, high development costs, and political risk factors. However, Philips's model has demonstrated that by leveraging public, private, and philanthropic partnerships, these challenges can be overcome. By strengthening the local SME sector, enabling new service delivery models, and securing sustainable financing mechanisms, the Fund has helped scale primary health care (PHC) at a system-wide level.

Double-Blended Finance. At the heart of this model is double-blended financing, a strategy that mitigates investment and early-stage development risks by using first-loss capital and development grants. This approach integrates diverse revenue streams at the project or venture level, leveraging de-risking mechanisms to ensure health care innovations scale sustainably, reach underserved populations, and deliver long-term, impactful returns for investors.

This innovative structure serves multiple purposes and addresses multiple systemic challenges. First, it enables commercial funders to come on board where historically they would have seen the sector as too risky. Secondly, it facilitates the engagement of impact funders who typically have a "vertical" focus (e.g., on a certain disease area, care path, or patient segment) and thus lack the appetite for

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funding holistic primary care. Finally, it accelerates the possibility of rendering an intervention investable by taking care of the institutional support and structuring that stand-alone opportunities would struggle with.

Philips's experience has shown that public–private partnerships leveraging corporate philanthropy as risk capital can enable significant investments in primary care initiatives across Africa. AfricInvest and the Health Finance Coalition have now completed the final financing round for the Transform Health Fund,[9] with Philips as a key driving force. The Fund has secured investment from a diverse group of partners, including Merck & Co., Inc. (MSD), the US International Development Finance Corporation (DFC), the International Finance Corporation (IFC), Swedfund, FSD Africa Investments, Grand Challenges Canada (funded by Global Affairs Canada), USAID, Netri Foundation, Anesvad Foundation, Chemonics International, and MCJ Amelior Foundation.

Building on this success, Philips has also signed a partnership agreement with FMO (the Dutch Development Bank) to further unlock investments in primary health care. This collaboration paves the way for new blended financing structures, expanding the possibilities for scaling PHC investments in Africa.[10] By mobilizing capital across public, private, and philanthropic sources, Philips is not only helping close the health care funding gap but is also creating a scalable model that can be replicated across emerging markets worldwide.

Core Challenges. The establishment of the Fund was not without challenges, many of which resonate with other similar ventures.

[9] Philips. (2023, June 7). "Impact First" investment fund "Transform Health Fund" will help to improve access to health care in Africa. Retrieved from www.philips.com/a-w/about/news/archive/standard/news/articles/2023/20230607-impact-first-investment-fund-transform-health-fund-will-help-to-improve-access-to-healthcare-in-africa.html.

[10] Philips. (2023, June 7). "Impact First" investment fund 'Transform Health Fund will help to improve access to healthcare in Africa. Retrieved from www.philips.com/a-w/about/news/archive/standard/news/articles/2023/20230607-impact-first-investment-fund-transform-health-fund-will-help-to-improve-access-to-healthcare-in-africa.html.

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Selecting the right partners is critical in any collaboration, particularly when it involves varying levels of experience. Less experienced parties may rely on the due diligence of more seasoned partners, creating a dynamic of trust that requires balanced participation. Effective collaboration requires a "give and take" approach, where each party contributes to shaping the project. Clear roles must be defined from the outset, whether as an anchor organization driving the initiative or as a learner supporting the effort.

The importance of legal oversight, through term sheets and due diligence, cannot be underestimated, and often takes longer than anticipated. In health care investments, an impact scorecard is essential to track and measure outcomes such as scalability, additionality, and alignment with public health benefits. Sponsorship and buy-in from leadership, particularly from the CEO, is vital to ensure alignment between the project's impact goals and broader public health benefits. The businesses targeted by the fund must have proven business models, as the investment often fills the gap between startup and Series A funding, with companies needing to repay both interest and principal on the debt.

Key Success Factors. Clearly defining the roles of all stakeholders is essential for success. Donors and philanthropists play a critical role by providing grants for technical and transaction assistance, as well as first-loss capital to support the testing of innovative projects in real-world settings or scaling interventions with proven impact. They can also offer guarantees to de-risk equity and debt instruments. Impact investors, depending on their risk appetite, can invest either in early-stage project testing or in the de-risked rollout of proven initiatives at a subnational level. Governments must work toward increasing the adoption of national health insurance schemes and enhancing domestic resource mobilization.

Designing an impact investment vehicle that aligns with the diverse risk appetites and return expectations of investors is essential. When development finance institutions (DFIs) fail to provide the necessary risk capital, corporations and foundations can step in to

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bridge the gap. A sustainable solution requires a deep understanding of all its components, ensuring that each stakeholder has a clear incentive to participate – there must be tangible value for everyone involved. Flexibility and patience are equally important, as impact investments demand long-term commitment and the ability to adapt to evolving challenges.

UBS Optimus Foundation: The UBS Accelerate Collective

The UBS Optimus Foundation is a global network of separately organized and regulated tax-exempt charitable organization, founded and managed by UBS Group AG, a multinational financial institution and global wealth manager, headquartered in Switzerland. The foundation offers UBS clients a platform to use their wealth to drive positive social and environmental change and engages in a wide range of philanthropic activities worldwide, with the overriding goal of driving systemic and catalytic impact in the areas of health, education, climate, and environment.

As part of its mission, the foundation seeks to address the SDG funding gap by mobilizing philanthropic capital that can play a de-risking catalytic role and help attract additional private capital to enable scalable and sustained solutions to global challenges. It uses a highly collaborative approach to combine its capabilities and resources with those of the philanthropic clients of its affiliate bank, as shown in the following three examples:

- *UBS Accelerate Collective* offers the bank's clients the opportunity to pool resources to fund innovative impact enterprises through the UBS Optimus Foundation. It brings together peer philanthropists to support the "Accelerate the Future" agenda, which focuses on scalable and investable solutions targeting health, education, and environmental outcomes in emerging markets. The collective supports early-stage investments using risk-tolerant and patient philanthropic capital to help locally led impact enterprises reach investment readiness and scale as a next stage. Since 2023, UBS Optimus Foundation has invested in twelve enterprises and is set to expand.

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- *SDG Outcomes Fund:* The UBS Optimus Foundation has launched the $100 million SDG Outcomes Fund, a blended finance vehicle. This fund finances high-impact, outcomes-based contracts with a focus on climate resilience, education, and health. By taking a philanthropic first-loss tranche position,[11] UBS Optimus Foundation absorbs early-stage risk, making the fund more attractive to commercial investors and hence unlocking additional private-sector capital. Bridges Outcomes Partnerships[12] has been appointed as the portfolio manager and the fund will invest in 15–20 *Outcomes Contracts*. These are contracts where outcome payments are contingent upon verified results, incentivizing effective program delivery by partnering organizations, and ensuring the fund investors' returns are entirely linked to verified results.[13]
- *Climate Collective:* The UBS Optimus Foundation has built on its expertise in social finance and outcomes-based financing to advance conservation and biodiversity. It played a key role in establishing the Climate Collective, a public–private–philanthropic partnership supporting nine organizations with blue carbon solutions across Southeast Asia. Partnering with local and regional governments in Vietnam and Indonesia, as well as private-sector stakeholders – including local communities, farmers, and landowners – the Climate Collective helped facilitate a $320 million World Bank investment in nature-based solutions and developed a Blue Carbon Impact Framework. Additionally, it fostered broad stakeholder engagement through regional policy dialogues and scientific collaborations, ensuring inclusive consultation and civil society participation. The Climate Collective pools philanthropic, concessional, and commercial capital, creating a flexible, scalable funding approach. Philanthropic capital absorbs climate project risks, making commercial investment more viable and responsible. By mitigating financial risks, this model encourages greater private sector

[11] UBS. (2023, July 20). BII and U.S. DFC invest in SDG blended finance initiative led by UBS Optimus Foundation and Bridges Outcomes Partnerships. Retrieved from www.ubs.com/global/en/media/display-page-ndp/en-20230720-sdg-blended-finance.html.

[12] See https://bridgesoutcomespartnerships.org/.

[13] UBS. (2023, July 20). BII and U.S. DFC invest in SDG blended finance initiative led by UBS Optimus Foundation and Bridges Outcomes Partnerships. Retrieved from www.ubs.com/global/en/media/display-page-ndp/en-20230720-sdg-blended-finance.html?caasID=CAAS-ActivityStream.

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participation while enabling high-impact climate solutions that might otherwise struggle to secure funding.

Core Challenges. To successfully engage with wealth management clients in impact investing, their diverse philanthropic goals, risk appetites, and investment timelines require careful consideration and scrutiny. Clients have varying motivations, which can make it difficult to develop cohesive strategies that balance these interests with financial returns and impact-driven objectives. Additionally, the perceived risk of impact-first investments can deter participation altogether, especially among those are unfamiliar with blended finance solutions. A lack of understanding about how these structures generate both financial returns and measurable social impact further contributes to hesitation in committing capital.

To sustain long-term engagement beyond the initial investment, clear incentives, transparent reporting, and ongoing communication are relevant success factors. To ensure that client interest is of lasting nature, it is necessary to overcome these barriers with a proactive approach that educates clients, mitigates perceived risks, and fosters consistent engagement.

Key Success Factors. Success in impact investing relies on fostering a strong community and implementing a well-structured engagement program that enhances capacity building and deepens understanding of investment risks, opportunities, and outcomes. A network of like-minded philanthropists promotes collaboration, allowing clients to connect with peers who share their commitment to high-potential, locally led impact enterprises aligned with their values.

Transparency is essential – a clear impact framework builds trust and demonstrates measurable investment outcomes. Effective impact measurement and reporting reinforce long-term commitment by helping clients see the tangible results of their contributions. Additionally, offering co-investment opportunities and thematic investment strategies strengthens alignment between client

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contributions and broader global impact goals. Together, these elements drive sustained engagement, create opportunities for peer learning, and ensure investors remain committed to scaling high-impact solutions over time.

BNP Paribas: Development Impact Bonds and Blue Finance

Development Impact Bond in Ethiopia

Menstrual health and hygiene (MHH) remains an unequal reality for many girls and women worldwide, with Ethiopia being just one example. Limited access to sanitary facilities and affordable hygiene products forces many girls to miss school and women to miss work, reducing their socioeconomic opportunities. The taboo surrounding menstruation further marginalizes the issue, leading to low investment in menstrual health solutions.

To address these challenges, BNP Paribas, a French banking and financial services company, invested in a development impact bond (DIB) to fund the Ethiopia Menstrual Health and Hygiene Project – a groundbreaking initiative that mobilizes private-sector investment for menstrual health products and facilities. This unique DIB brings together local government, civil society, and private investors to create sustainable, scalable solutions.[14]

Launched in 2022 and set to conclude in 2025, the project is backed by a €3 million DIB, with BNP Paribas pre-financing the intervention. The French Ministry of Foreign Affairs and Agence Française de Développement (AFD) pay for the impact results and supervised the initiative, ensuring accountability and effective implementation. The project, led by CARE France in collaboration with CARE Ethiopia and ProPride, aims to improve school infrastructure, provide safe and private sanitary facilities for pupils, and distribute hygiene kits to approximately 45,000 girls, ensuring access to reusable

[14] AFD. (n.d.). Promoting private sector investment in Menstrual Health and Hygiene in Ethiopia. Retrieved from www.afd.fr/en/carte-des-projets/ethiopia-menstrual-health-hygiene.

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and sustainable menstrual products. It also aims to develop a local menstrual product market, creating long-term availability and affordability while encouraging national scaling of menstrual health solutions.

At its core, the initiative targets three critical areas: raising awareness and breaking taboos surrounding menstruation, building sanitary infrastructure in schools, and providing subsidized reusable menstrual products. Unlike traditional grant-funded initiatives, the DIB model ties investor returns to impact outcomes. BNP Paribas assumed financial risk, recovering funds only if impact indicators – such as meeting girls' needs, increased awareness, and infrastructure development – reach predefined targets. Investors bear the risk of losing capital if targets are not achieved. Strong governance ensures that the program remains results driven and accountable.

Core Challenges. Collaboration among various stakeholders was crucial to the success of this partnership, particularly during program implementation, which required active engagement with local governments in Ethiopia. The pilot program featured a dual experimentation approach, combining insights from the local Ethiopian context with the operational framework of AFD. Integrating local governments from the outset was essential to ensuring sustainability and effective governance. This approach allowed for greater flexibility and adaptability, enabling the program to respond effectively to challenges encountered during implementation.

Key Success Factors. DIBs link financial returns to the achievement of predefined development goals, ensuring alignment between investors, implementers, and donors. This structure promotes efficiency and effectiveness in program delivery. The success of such programs results in both positive returns for investors and tangible benefits for participants.

A critical advantage of the DIB model is its flexibility, allowing service providers to adapt interventions based on real-time feedback. This adaptability fosters innovation and responsiveness to on-the-ground challenges helping enhance enrolment and learning targets.

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Independent verification of outcomes is essential for building credibility and trust among stakeholders. Equally important is the emphasis on strengthening local capacity by involving local organizations in implementation, ensuring long-term sustainability. By shifting financial risk from donors and governments to private investors, DIBs promote more rigorous project selection and management. This results-driven approach enhances accountability and ensures that funds are directed toward interventions with the highest potential for impact.

Blue Finance for Marine Protected Areas

The Blue Finance Impact Loan Facility was launched by the Blue Alliance Marine Protected Areas in partnership with BNP Paribas to support the development of Marine Protected Areas (MPAs) and strengthen the local Blue Economy. With a target $10 million impact loan facility, the initiative provides early-stage and up-front financing to reef-positive businesses – enterprises that contribute to marine conservation and sustainable livelihoods within MPAs.[15]

The facility began with an initial $2.4 million investment from BNP Paribas and is the first of its kind to be active in Indonesia, the Philippines, Tanzania, and Cabo Verde. It aims to restore 1.8 million hectares of coral reef ecosystems across 115 MPAs while directly improving the livelihoods and food security of approximately 110,000 local community members.[16]

The Blue Finance Impact Loan Facility employs a blended finance approach, leveraging philanthropic capital from long-term partners such as the Global Fund for Coral Reefs (GFCR), a United Nations initiative. These contributions support conservation efforts

[15] BNP Paribas via LinkedIn. (2024). Protecting coral reefs while supporting local communities is possible! Retrieved from www.linkedin.com/posts/bnp-paribas_blue-alliance-x-bnp-paribas-activity-7250037392135323649-HaLW/.

[16] Blue Alliance. (2024, October 7). Launch of the first impact loan facility for coral reef conservation. Retrieved from https://bluealliance.earth/launching-the-first-impact-loan-facility-for-marine-conservation/.

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within MPAs while also helping design a framework to attract private impact investors. Although BNP Paribas is the first investor, the facility is structured to welcome additional co-investors to reach its funding target and scale up its impact across a pipeline of identified MPAs.

Effective MPA management is critical to replenishing biodiversity, sustaining coastal livelihoods, and enhancing climate resilience. Well-managed MPAs boost fishing incomes, support Blue Economy businesses like ecotourism activities, and protect shorelines, ensuring long-term environmental and economic sustainability. However, 70 percent of the world's 20,000 MPAs fail to meet minimum management standards due to fragmented, short-term funding that primarily relies on public and philanthropic sources.

Unlike conventional funding approaches that focus on one-time grants, the Blue Finance Impact Loan Facility provides long-term, consistent financing to cover the initial establishment of reef-positive businesses – from ecotourism to community-based aquaculture, blue carbon credits, and sustainable fisheries – each designed to reduce pressures on coral reef ecosystems while enhancing local economic opportunities. These businesses contribute financially to MPA management through dividends and revenue-sharing mechanisms, creating a self-sustaining model for conservation funding.

The facility covers working capital and capital expenditures required to launch and sustain these businesses. It is structured as "patient capital," meaning it offers long-term financing tailored to the needs of social enterprises engaged in natural capital preservation and community development. Moreover, the interest rate is linked to the achievement of specific social and environmental outcomes, ensuring that local businesses are incentivized to maximize their positive impact on marine ecosystems and coastal communities.

The Blue Finance Facility represents a transformative approach to funding MPAs, moving beyond short-term grants to a market-driven, investment-backed model. By aligning financial incentives with conservation goals, it ensures that MPAs are not just protected

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but actively contribute to local economic growth and communities' livelihoods.

Core Challenges. One of the major challenges in this collaboration is securing continuous, long-term funding for effective MPA management, given its scarcity. Additionally, addressing the perceived risks of investing in reef-positive businesses and ensuring meaningful community participation in management decisions remain significant hurdles.

To attract private investors, the project leveraged a blended finance approach and a diversification approach, as the facility funds a dozen of Reef-Positive Businesses in four countries. However, it is equally crucial that local businesses align with the finance's overarching ESG and impact metrics. This alignment ensures sustainable, long-term benefits for both ecosystems and communities.

Meeting this challenge requires institutionalized collaboration between the bank's CSR and asset management teams and Blue Alliance as project developer. By combining financial expertise with community engagement, this approach supports the growth of the Blue Economy while maintaining strong oversight of social and environmental outcomes.

Key Success Factors. For stakeholders exploring blended financing for impact, the Blue Finance facility provides valuable insights into developing financial models that balance environmental protection with economic development. By structuring a blended finance approach that integrates philanthropic and private capital, investments can be de-risked, making them more attractive to a broader range of investors.

A key takeaway is the vital role of local community involvement in managing conservation areas. This fosters local ownership and enhances the long-term sustainability of projects. Establishing clear impact measurement frameworks to track both environmental and social outcomes also helps build trust and demonstrate tangible results to stakeholders. Patience is also crucial. The facility's long-term maturity and outcome-based variable interest

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rates underscore the need for flexible, patient capital to drive sustainable impact at scale.

The SDG Loan Fund[17]

The SDG Loan Fund stands out as a groundbreaking example of how catalytic capital can be mobilized to create a substantial pool of investor capital. With a total size of $1.1 billion, the Fund has brought together multi-sector investments through an innovative blended finance model that includes catalytic investments from a development finance institution and a philanthropic foundation.[18]

At the heart of the Fund's innovative structure is the first-loss investment from the Dutch development bank FMO, complemented by a program-related investment in the form of a $25 million unfunded guarantee from the MacArthur Foundation. This guarantee is critical for providing for credit enhancement to FMO's first loss and solving accounting challenges for the junior investor. Together, these credit enhancements are mobilizing capital from institutional investors who would not customarily be able to finance high-impact loans in emerging and frontier markets.

The Fund invests in companies and projects within agribusiness, financial institutions, and renewable energy that directly contribute to specific SDGs. It pools capital from key institutional investors, including Allianz and Skandia, and a development finance institution, FMO, managed by Allianz Global Investors, while FMO Investment Management originates and manages the loan portfolio.

A defining feature of the Fund is its focus on senior loans – debt instruments that provide lenders with priority claims on a company's assets in case of default. This structure offers investors both impact and capital preservation by reducing the risk profile compared to

[17] www.impacteurope.net/insights/focus-blended-finance-part-2.

[18] Convergence. (2023, November 28). The SDG Loan Fund. Retrieved from www.convergence.finance/resource/SDG-Loan-Fund/view.

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equity investments. The blended finance model, combined with the focus on SDG-aligned investments, appeals to investors seeking competitive financial returns alongside meaningful social and environmental impact. Various impact metrics tied to the SDGs are used to assess progress comprising the number of jobs supported and the greenhouse gas emissions avoided.

Core Challenges. Launching and managing the Allianz SDG Loan Fund required addressing challenges in risk mitigation, investor alignment, and regulatory compliance. Mobilizing private sector capital for high-risk frontier and emerging markets was a key challenge, as institutional investors often avoid these markets due to risk and volatility concerns. However, FMO's first-loss position and the MacArthur Foundation's guarantee offer downside protection.

Aligning the interests of institutional investors, DFIs, and philanthropic capital also posed challenges. The Fund's multilayered structure required close coordination between Allianz Global Investors, FMO Investment Management, and the MacArthur Foundation. A clear governance framework, with Allianz overseeing FMO Investment Management as portfolio manager, ensured stakeholder alignment, strengthening investor trust and engagement.

Key Success Factors. The Fund's risk mitigation strategy is bolstered by first-loss capital from FMO and credit enhancement from the MacArthur Foundation's guarantee, providing downside protection. The collaboration between Allianz Global Investors, FMO, and the MacArthur Foundation leverages blended finance expertise, integrating investment management, development finance, and catalytic capital deployment.

With a strong focus on impact and diversification, the Fund prioritizes SDG-aligned investments in three key sectors: agribusiness, financial institutions, and renewable energy. This approach promotes sustainability while mitigating concentration risk through diversified investments across regions and industries.

The use of structured loan instruments, particularly senior loans, offers investors a lower-risk option that still supports

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high-impact sectors, delivering an attractive risk-adjusted return profile. Additionally, the Fund's commitment to transparency through SDG-aligned impact reporting reinforces investor confidence by providing clear insights into the social and environmental benefits of its investments.

CONCLUSION: SHAPING THE FUTURE OF IMPACT FINANCE

The case studies in this chapter highlight key lessons in catalytic finance, demonstrating how corporations, philanthropists, and investors can mobilize patient capital to drive systemic impact.

A central takeaway is the importance of embedding social impact into business strategy. Companies like Philips illustrate how integrating business and social goals creates mutually reinforcing benefits, enhancing resilience, profitability, and long-term sustainability. When social impact is embedded as a core value proposition rather than treated as a secondary "add-on," it strengthens business models while delivering both social and environmental benefits.

Blended finance plays a transformative role in this process. Initiatives such as the SDG Loan Fund, BNP Development Impact Bonds, and the UBS Optimus Foundation's collectives demonstrate how this approach is particularly effective in emerging markets, where capital is scarce.

Collaboration between businesses, governments, nonprofits, and impact investors is a key driver of success. Multi-sector partnerships enable each actor to leverage its unique strengths – whether financial resources, technical expertise, or local knowledge – to develop more sustainable and scalable solutions. The Philips collaboration with AfricInvest and the Health Finance Coalition exemplifies how pooled resources can address complex financing challenges in sub-Saharan Africa. Similarly, the UBS Climate Collective showcases how coalitions of public, private, and philanthropic actors can mobilize capital and expertise for nature-based solutions.

Long-term success also hinges on innovation. Companies are setting new standards by linking financial returns to measurable social outcomes, fostering new business models. The rise of

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outcomes-based financing and contracts demonstrates how financial incentives can be tied directly to social performance, creating a feedback loop that drives continuous improvement and scale.

Flexibility is equally crucial. The concept of "double-blended" finance, as demonstrated by Philips, shows how first-loss capital and revenue blending can de-risk investments and bridge funding gaps, tailoring financial structures to sector-specific needs while maximizing social impact.

Taken together, the case studies in this chapter provide key lessons and strategic considerations for engaging in catalytic finance. The following four principles summarize these insights:

1. ***Defining Clear Objectives and Measuring Impact:*** Before designing a financing model, it is essential to establish clear social and environmental objectives that align with global goals such as the SDGs. Each stakeholder must define their role and contribution, ensuring commitment to impact measurement and financial accountability. Transparency in tracking both social outcomes and financial returns is crucial for building trust among investors, partners, and beneficiaries.

   Many impact professionals recommend using a limited set of well-defined KPIs, focusing on metrics that drive real impact rather than an overly broad set of indicators. By streamlining measurement frameworks, businesses and investors can better evaluate the success of partnerships and projects, reinforcing long-term engagement.
2. ***Managing and Mitigating Risk:*** Investing in systemic change, particularly in emerging markets or underserved sectors, comes with inherent risks. Therefore, stakeholders must develop robust risk management strategies that balance innovation with financial sustainability.

   Blended finance models can help mitigate risks through mechanisms such as first-loss capital, concessional funding, or risk-sharing partnerships. These approaches provide investors with downside protection, making high-impact investments more attractive. By absorbing initial risk, catalytic capital unlocks additional commercial investments, allowing solutions to scale more effectively.
3. ***Building Strong Trust-Based Partnerships***: Effective partnerships require time, shared vision, and trust. This is especially important when working with local communities or governments, where long-term relationships are

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critical to success. Engaging in co-design processes, ensuring transparency, and maintaining continuous dialogue with stakeholders can strengthen trust and increase the likelihood of project success. By involving local actors in the decision-making process, partnerships become more sustainable and resilient, ultimately leading to greater impact.

4. ***Leveraging Technical Capacity and Sector Expertise***: True systemic change requires more than just capital; it demands expertise. The case studies in this chapter emphasize that specialized knowledge – whether from nongovernmental organizations, academic institutions, or industry experts – is crucial in informing investment decisions and ensuring project success. All demonstrate that leveraging technical expertise enhances investment strategies, ensuring that funding is allocated effectively and efficiently. Strategic partnerships with community experts and sector specialists provide critical insights that help businesses and investors navigate market complexities, leading to more impactful and scalable solutions.

By embracing these key principles, businesses and investors can drive transformational change, ensuring that impact finance not only mobilizes capital but also delivers sustainable, measurable progress toward the SDGs and beyond. As impact investing continues to evolve, collaboration between corporates, financial institutions, governments, and philanthropists will be essential in shaping innovative financing models that scale solutions, enhance resilience, and drive systemic change. These case studies serve as both inspiration and a road map, offering a scalable blueprint for leveraging impact-driven finance to create lasting social and environmental benefits while ensuring financial sustainability.

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