APC Colombia

Innovative Development Finance Mechanisms in Colombia:

A study for the future

Review of what, how, when and why of these mechanisms and their learning.

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En colaboración con Canadá

Innovative Development Finance Mechanisms in Colombia:
A study for the future

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CONTENT

INTRODUCTION

The multiple global challenges facing the world today[1] call for innovative strategies to build more equitable and transformative partnerships. The environmental, economic and health crises, coupled with conflicts and gender inequalities, among others, underline the urgency of reviewing and adapting cooperation models, and promoting the diversification of sources of financing for development. In the words of the World Economic Forum (WEF) "We have run out of words to describe what is happening in the world today, so (...) we have used a new one: "polycrisis". This is a situation where different risks collide and their interdependence is acutely felt.[2] Examples of this situation include the impacts of the HIV/AIDS pandemic, the war in Ukraine, rising energy and food prices, inflation, deteriorating public finances and supply chain problems, among others[3].

One of the fundamental effects of this context, in addition to widening the gaps that work against the most disadvantaged, is the generation of a significant funding gap to achieve the Sustainable Development Goals (SDGs). The available public and international cooperation resources are insufficient to address the extent of the challenges. According to the United Nations (UN) (2023a), "...the financing needs of the SDGs are increasing as is the urgency to support the least developed countries. At the same time, low levels of investment, especially in developing countries, widen existing gaps "[4]. Different development actors (governments, private sector, international banks, donors, non-governmental actors) recognize the urgency of finding alternative sources of investment and financing. In this scenario, Innovative Financing Mechanisms take on special importance.

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[1] Garcia, M. B. (2023). Comunicado de prensa: La confluencia de múltiples crisis desencadena uno de resultados económicos mundiales más bajos de las últimas décadas, según un informe emblemático de la ONU. Desarrollo Sostenible. https://www.un.org/sustainabledevelopment/es/2023/01/confluence-of-multiple-crises-unleashes-one-of-the-lowest-globaleconomic outputs-in-recent-decades-according-to-un-flagship-report/

[2] World Economic Forum (WEF), 2023, Informe sobre Riesgos Globales 2023: Esto es lo que debemos hacer según los expertos, https://es.weforum.org/agenda/2023/01/riesgos-globales-2023-que-los-expertos-dicen-que-podemos-hacer-al-respecto/

[3] Fondo Monetario Internacional, 2022, Una crisis tras otra: Cómo puede responder el mundo, https://www.imf.org/es/News/Articles/2022/04/14/sp041422-curtain-raisersm2022#:~:text=Estas%20dos%20crisis%20%E2%80%94p andemia%20y,pagos%20y%20monedas%20de%20reserva

[4] United Nations, Inter-agency Task Force on Financing For Development Financing For Sustainable Development, Report 2023, 2023a, p. xiii.

Recent UN data (2023b) estimate that the financing gap in developing countries (DCs) to achieve the SDGs amounts to 4 trillion[5] dollars per year[6]. Similarly, in the case of Colombia, the United Nations Development Programme (UNDP) (2022) estimates that, at the current rate, only 43% of the targets set out in the SDGs will be met by 2030.

For these reasons, it is a fact that achieving the goals set out in the National Development Plan (NDP) and making substantive progress towards the SDGs, requires the concurrence of knowledge, know-how and resources from different sources. For this reason, the UN (2023a) states that it is necessary to prioritize and better focus Official Development Assistance (ODA), that donors should aim to meet their financial commitments, focus on collective impact, and improve the quality of ODA. In addition, they argue that multilateral development banks should expand lending to support the resolution of development challenges. Similarly, they argue that blended finance and south-south cooperation have the potential to leverage the growing demand for support to developing countries (DCs).[7]

In recent decades, Colombia has strengthened and innovated in the field of international financial cooperation. Through ODA, the country has managed to advance in the structuring of innovative financing mechanisms that help to join forces to achieve common goals. Innovative financing instruments for development emerge as tools capable of driving development agendas, ranging from the local to the international level.

[5] Millions of millions of dollars, in Spanish; trillions, in English
[6] United Nations (2023b). Developing countries Face a $4 trillion investment gap in SDGs. UN News. https://news.un.org/en/story/2023/07/1138352
[7] United Nations, Inter-agency Task Force on Financing For DevelopmentFinancing For SustainableDevelopme nt, Report 2023, 2023a, pp. 78-80.

The current challenge lies in better understanding, collectively, these innovative approaches and making them more sustainable and scalable. These tools, rather than short-term solutions, represent bridges to the future, facilitating the development of initiatives in line with local and global issues.

In this regard, document 3918 of the National Council for Economic and Social Policy (CONPES) (2018) "Strategy for the implementation of the Sustainable Development Goals- SDGs in Colombia" underlines the importance of adopting an integrated approach. This approach should "involve all development actors, understood as governments, representatives of other branches of government, international institutions, local authorities, representatives of different ethnic groups, civil society organizations, the private sector, the media, the scientific and academic community and citizens".[8] In addition, the National Development Plan (NDP) 2022-2026, "Colombia World Power of Life", highlights the "concurrence of sources" in achieving these goals.[9]

On the other hand, the CONPES 4067 (2021) document, "Strategy to strengthen the use of results-based financing mechanisms in social programs and declaration of strategic importance for the project to strengthen supply management for overcoming poverty (FIP) at the National level,"establishes that "One of the strategic goals of the current Colombian government is to innovate in the way social policy is implemented through the design and execution of projects that contribute to greater efficiency in social spending, utilizing new technological, legal, and financial tools for the benefit of vulnerable populations. For this reason, the government has led a national strategy to implement social projects under results-based financing schemes, mainly focused on labor inclusion for poor and vulnerable populations, positioning Colombia as an international reference in such schemes." [10]

The adoption and actions aimed at achieving the objectives, goals, and indicators of the Sustainable Development Goals (SDGs) establish an essential framework for this research. Evaluating and understanding how innovative financing mechanisms in Colombia align with the SDGs provides a useful perspective for measuring national progress and its contribution to global development. This study seeks to understand and analyze the innovative financing mechanisms for development that have been structured in the country from 2018 to 2022, with the purpose of identifying best practices, areas for improvement, and adopting them as a strategy for development.

This document has been prepared at the initiative of the Presidential Agency for International Cooperation of Colombia (APC Colombia), with support from the Government of Canada. Its purpose is to contribute to the promotion and expansion of the use of innovative financing mechanisms for development in the country. It is aimed at development policy makers, international cooperation entities, national sectoral entities, international donors, investors, entrepreneurs, and organizations working for development. The document is divided into six sections: methodology, context and conceptual framework, innovative financing mechanisms for development, case studies, mechanism analysis, and conclusions and recommendations. It is complemented by a comprehensive glossary of key terms used.

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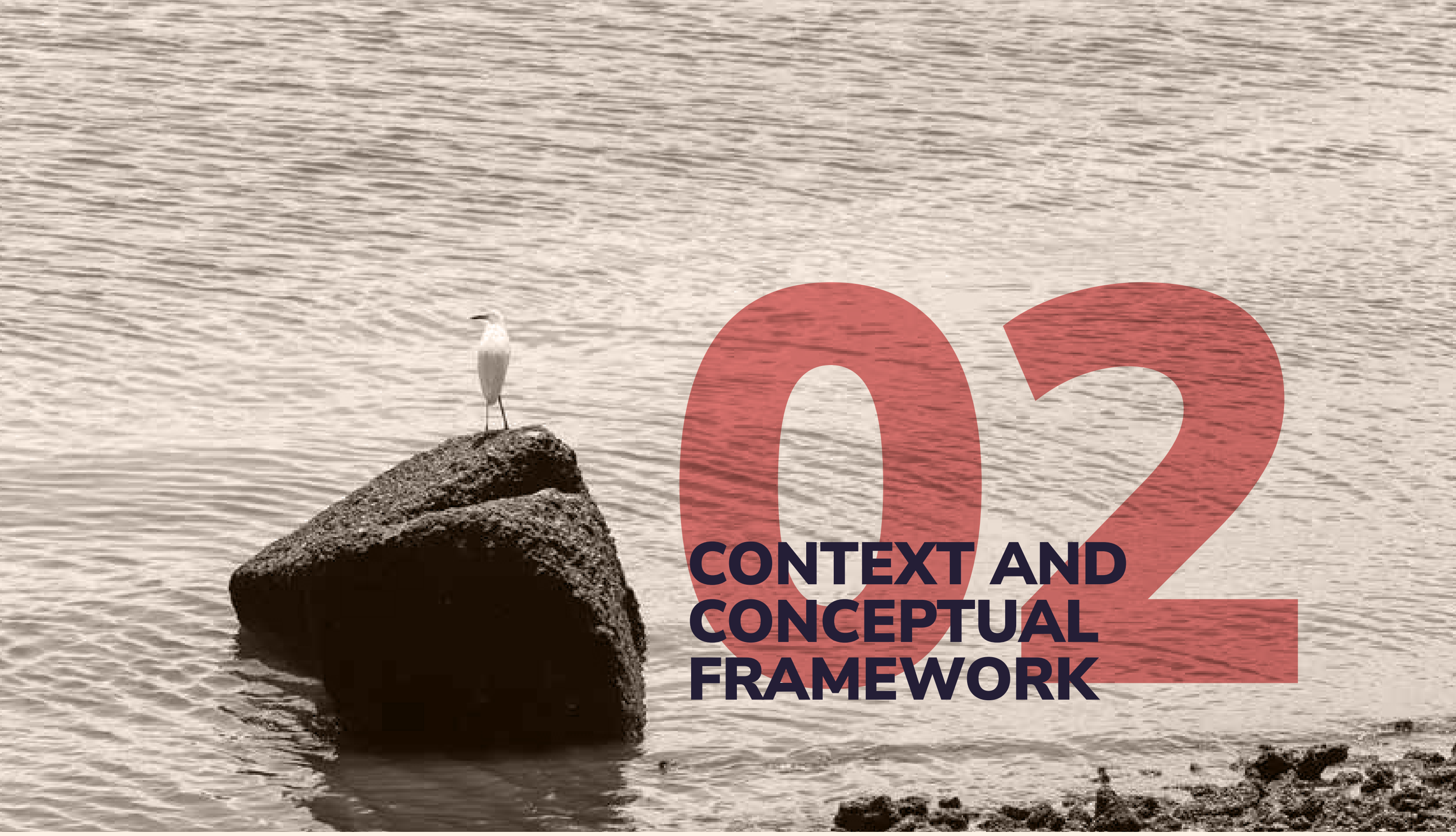
[8] CONPES, 2018, p. 47. https://www.minambiente.gov.co/wp-content/uploads/2021/08/conpes-3918-de- 2018.pdF
[9] National Planning Department (2018). CONPES Document 3918 - Strategy for the Implementation of the Sustainable Development Goals (SDGs) in Colombia. dnp.gov.co.http://chromextension://eFaidnbmnnnibp cajpcglclefindmkaj/https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/3918.pdF
[10] CONPES, 2021, p. 3, https://colaboracion.dnp.gov.co/CDT/Conpes/Econ%C3%B3micos/4067.pdf

01

METHODOLOGY

This study adopts a quali-quantitative methodological approach. Primary sources were used, such as surveys of organizations, data from the Innpactia Platform, and interviews with strategic actors. Secondary sources, such as initiative reports, specialized publications, and institutional reports, were also used. Through this analysis, we identified and characterized some of the innovative financing for development mechanisms implemented in Colombia during the period in question, the main actors involved, the level of accessibility to these mechanisms by different entities and organizations, and the balance of their implementation, through opportunities, challenges and lessons learned.

The results of this study will be an important contribution to determine the opportunities and conditions for the design and implementation of such mechanisms, which will make it possible, as established in the NDP 2022-2026, to facilitate the concurrence of sources in which public, private, cooperation and global market investments contribute in an integrated manner to the fulfilment of development agendas and the closing of gaps.



02 CONTEXT AND CONCEPTUAL FRAMEWORK

The SDGs are a global agreement for action to end poverty, protect the planet and improve the lives and prospects of people around the world, ensuring that no one is left behind. In this scenario, all countries face the challenge of expanding and optimizing access to financial resources. Adopting innovative financing mechanisms that support the achievement of the SDGs at home is a major task.

In the global context of financing for development, both the Addis Ababa Declaration11 and the Paris Agreement 12have highlighted that public resources cannot, and should not, be the only solution to overcome financing gaps. However, despite this understanding, there has been a prevailing tendency to work with limited international cooperation, due to a restricted ecosystem, which has revealed shortcomings in development finance.

Prior to the outbreak of the COVID-19 pandemic, according to the Organization for Economic Co-operation and Development (OECD), the financing gap for the SDGs amounted to USD 2.5 trillion, while in 2023, according to UN data, the financing gap increased to USD 4 trillion13. This increase in the gap was due, in part, to an initial USD 700 billion decrease in private external financing (such as remittances, foreign direct investment and portfolio flows) which had doubled between 2012 and 2016 from USD 15 trillion to USD 33 trillion[14], and a USD 1 trillion emergency response public expenditure gap in developing countries. This decline was exacerbated by the COVID-19 crisis, which intensified the funding gap, already identified by agencies such as the OECD and the UN, underlining the imperative need to involve the private sector more actively in the solution[15].

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11 Countries reach historic agreement to finance new development agenda (2015, July 15). UN News.https://news.un.org/es/story/2015/07/133 4931
12 United Nations (2015). The Paris Agreement: United Nations. https://www.un.org/es/climate change/paris-agreement
13 United Nations (2023). Developing countries Face $4 trillion investment gap in SDGs. UN News. https://news.un.org/en/story/2023/07/1138352
14 OECD (2018). Sector Financing in the sdg era - Highlights. Oecd.org. https://www.oecd.org/dac/ Financing-sustainabledevelopment/development- Finance-topics/Sector-Financing-Highlights.pdF
15 OECD (2020). Closing the SDG Financing gap in the COVID-19 era 1 scoping note For the G20 development working group 2. Oecd.org. https:// www.oecd.org/dev/OECD-UNDP-Scoping-Note- Closing-SDG-Financing-Gap-COVID-19-era.pdF

However, it was observed that the amounts of private financing have been concentrated in selected sectors. From the sectoral analysis, it appears that private finance has flowed more abundantly towards sectors with high financial return prospects, such as banking, energy, industry and mining and construction. However, it is surprising that social sectors, such as health, education and government, which offer potential attractiveness for the private sector, have not experienced significant financial mobilization. In addition, other sectors with traditionally high potential for private sector involvement, such as water, agriculture and transport and storage, have also failed to attract high levels of financing. This situation reinforces the perception that what little movement there was concentrated in a few sectors, leaving many others in latent need of resources.

It is estimated that private investors hold more than USD 410 trillion in financial assets, of which USD 16 trillion are in developing countries. Despite the magnitude of these resources, it is paradoxical that they are largely the most under-utilized globally. If just 1% of these financial assets were tapped, they could significantly boost climate action and progress towards the SDGs[16].

The UN, with its initiative "From Funding to Financing", has redefined its role to address the challenges of global financing. This shift in perspective is in line with the need to move from financing individual projects to financing transformational change. While the concept of "funding" is framed as the transfer of resources from a financial contributor to a recipient, "financing" is about structuring different financial flows to achieve a common result[17]. In this new context, the UN recommends that government agencies ensure that the data needed to make investment decisions are available, strengthen the capacity of various actors to develop a set of "bankable" projects, and promote an appropriate policy environment. It also proposes that to effectively mobilize resources, three elements are essential: a common narrative, joint efforts, and shared tools.

This broad scenario includes innovative finance and innovative financing mechanisms which, in general terms, share several characteristics, such as being complementary to and not substitutes for ODA, facilitating spaces for action by other development actors and, from this perspective, contributing to making it more predictable, efficient and transparent, as well as being valid options for financing initiatives related to global public goods, such as those related to the environment, public health, development itself, etc.

While there is no consensus or agreement on the definition of innovative finance, for the purposes of this paper, the OECD will be used:

> ***"...initiatives that aim to raise new funds for development or optimize the use of traditional sources of funding. They aim to reduce the gap between the resources needed to achieve the Millennium Development Goals[18] and the resources available" [19]***

Different development actors point in this direction and have agreed on their definitions. By way of example, some of them can be highlighted:

[16] FSB. (2021). Global Monitoring Report on Non-Bank Financial Intermediation 2021. Fsb.org. https://www.fsb.org/wp-content/uploads/P161221.pdf
[17] UNDG. (2022). UNDAF COMPANION GUIDANCE: FUNDING TO FINANCING. Unsdg.un.org. https://unsdg.un.org/sites/default/files/UNDG-UNDAF-Companion-Pieces-5-Funding-To-Financing.pdf
[18] This definition is currently applicable for the financing of the SDGs (comment included by the authors of the study).
[19] OCDE, Non-ODA flows to developing countries: Innovative financing for development, s.f. https://www.oecd.org/development/beyond-oda-innovative-financing-for-development.htm#:~:text=Innovative%20financing%20for%20development%20refers,and%20the%20resources%20actually%20available.

- UN: "...mobilization of additional resources for development that are stable, predictable and voluntary, do not replace traditional resources, are disbursed according to the priorities of developing countries and do not create undue burdens on them[20]

- European Union[21]: "...Sources (...) for Financing the provision of global public goods, especially in the areas of development and climate change.

- ECLAC[22]:"...complement international resource flows (ODA, FDI and remittances), mobilize additional resources for development and address specific market failures and institutional barriers. They also support collaboration with the private sector. (...) they can provide Financial Flows stable and predictable for developing countries, and (...) help to provide public goods in addition to raising revenue.

- Global Affairs Canada: "...financial structures and mechanisms that mobilize, govern or distribute funds beyond traditional official development assistance. Many of these mechanisms involve different types of partnerships with new actors "[23].

Several countries have identified the need to explore innovative mechanisms that combine public and private resources to promote sustainable development. Green bonds and other thematic bonds are clear examples of well-known tools that, when integrated with other strategies, can enhance their results. For example, ODA can be sequenced or combined with these bonds, which accelerates their uptake and maximizes their development impact. This demonstrates how a known mechanism can be blended with established ones to create more robust and effective solutions to complex challenges.

[20] United Nations, Resolution 65/146 adopted by the General Assembly on 20 December 2010, Innovative financing mechanisms for development, p. 2 https://documents-dds- ny.un.org/doc/UNDOC/GEN/N10/521/33/PDF/N1 052133.pdF?OpenElement
[21] WORKING DOCUMENT Innovative Financing at a global level APRIL 2010, p. 7 https://ec.europa.eu/economy_finance/articles/international/documents/innovative_financing_global_level_sec2010_409en.pdf
[22] CEPAl, Financing For development in Latin America and the Caribbean: A strategic analysis From a middle-income country perspective, 2015, p. 29. https://repositorio.cepal.org/server/api/core/bitstreams/23d6533f-ad7f-4925-a973-5772a6d30577/content
[23] Global AFFairs Canada, A Canadian Approach to innovative Financing For Sustainable Development, 2019, p. 6. https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/fiap_fsd-paif_fdd.aspx?lang=eng

03 INNOVATIVE FINANCING MECHANISMS FOR DEVELOPMENT

3.1 Basic characteristics of the ***innovative mechanisms***

In a world in constant transformation, the social and environmental challenges facing humanity demand innovative and sustainable solutions. The SDGs represent a global call to address these challenges, from poverty eradication to ecosystem conservation. Associated with them, the financing gap to achieve these ambitious goals persists and is widening. In both low- income and middle-income countries (MICs), available public and private resources are insufficient to meet the vast and varied needs required by the SDG agenda.

In this context, innovative financing mechanisms emerge to Fundamental pillars for advancing sustainable development around the world. These mechanisms, which go beyond traditional financing approaches, offer several distinct advantages that position them as valuable tools to address the challenges inherent in the financing gap for the SDGs and for developing countries.

On the one hand, innovative mechanisms stand out for their effectiveness in directing resources towards impact projects. Based on measurable results, they mechanisms allow for an efficient allocation of available resources to initiatives with a potential for change. This focus on spending efficiency is essential to maximize the return on development investment.

On the other hand, innovative mechanisms have the capacity to attract private sector investment, which results in Fundamental due to limited public resources. Collaboration between the Facilitated by these mechanisms, it not only broadens the scope of projects, but also strengthens the capital available to address development challenges. This collaboration, in turn, offers the potential to reduce the risks associated with projects, improve returns for private investors and scale the impact of development initiatives.

In addition, innovative mechanisms actively promote multi-stakeholder and multi-level collaboration, involving governments, donors, businesses, investors and civil society organizations. This synergy is crucial to address multidimensional problems, as the interaction of diverse actors in the search for shared solutions is an essential pillar in the effectiveness of these mechanisms.

Finally, in a long-term sustainability approach, innovative mechanisms are designed to establish lasting financial solutions. This approach contrasts with reliance on traditional aid, as these mechanisms seek to reduce the need for long-term external assistance, instead strengthening autonomous financing capacity in middle-income countries.

In this scenario, understanding and adopting innovative financing mechanisms becomes imperative to address development challenges. Throughout this chapter, several examples will be discussed, highlighting their relevance and applicability to closing the financing gap for the SDGs.

3.2 Attributes of the ***innovative mechanisms***

Innovative financing mechanisms respond to current sustainable development investment challenges. Each of these instruments seeks to close the SDG financing gap and have been validated through interviews with their implementers. Through this analysis, their ability to drive transformational change in investment and social and environmental impact will be explored. The most important of these are presented below:

- **Resource efficiency and cost-effectiveness in relation to impact:** Focuses on the need to maximize the efficiency of available financial resources. Innovative mechanisms seek to achieve greater impact with a more efficient use of resources. By prioritizing the allocation of funds to projects with measurable and quantifiable results, a higher return on investment in terms of social and environmental impact is ensured. This is essential to close the SDG financing gap in an effective and sustainable way.

- **Generating systemic and mindset change:** Innovative mechanisms do not only seek to solve development problems in isolation but aim to generate systemic change. This involves the transformation of existing structures and processes to address challenges in a holistic manner. In addition, they promote an impact-oriented mindset, fostering the continuous measurement and evaluation of results. This value judgement highlights the importance of addressing the root causes of problems and promoting a long- term development approach.

- **Articulation and collaboration:** Collaboration and articulation of actors are essential in promoting innovative mechanisms. These mechanisms often involve governments, aid agencies, businesses, investors and civil society organizations. Collaboration makes it possible to share risks, allocate responsibilities and make more effective use of public or social spending. In addition, collaboration facilitates access to different sources of funding and resources, which increases the impact capacity and sustainability of projects.

- **Generate innovation in the search for impact financing solutions:** Innovative mechanisms encourage the constant search for creative and effective solutions to finance development projects with impact. Innovation is a central component in the creation and evolution of these mechanisms.Experimentation, adaptation and continuous improvement of financial and operational approaches are encouraged. This value judgement highlights the need not to conform with enforces. The aim is to explore new avenues of financing that respond to specific development challenges.

3.3 Innovative ***mechanisms***

In a country context, the selection of Innovative Financing Mechanisms is based on the assessment of their capacity to address specific needs and challenges related to risk, return and impact. The classification of these is tailored to the particular context and contributes to a more accurate and efficient allocation of resources. The most important innovative financing mechanisms are presented below according to the above-mentioned criteria:

Innovative financing mechanisms

Investment Funds of impact	Bonds	Result - Based Financing (RBF)	Blended Finance
Actions	Green bonds	Social impact bonds	Multi-donor funds
Mezzanine Financing	Social bonds	Impact bonds of development	Debt swap
Revenue -based financing	Gender bonds	Contract of performance	
	Sustainable bonds	Habitat Banks	
	Blue bonds		
	Orange bonds		

Source: Innpactia, 2023

3.3.1 Impact investment funds (Equity, Debt and Revenue Based Financing)

Impact Investment Funds represent an innovative mechanism that plays a crucial role in promoting impact projects and channeling resources towards initiatives with social and environmental objectives. These Funds are characterized by their focus on generating measurable results in terms of impact, while seeking sustainable financial returns. They work by pooling investments from multiple Sources, including private investors, institutional investors and often public funding sources, to finance projects that address global challenges.

One of the most attractive aspects of Impact Investment Funds is their flexibility in terms of investment instruments. They can mobilize capital through equity investments, debt, quasi-equity mechanisms and other financial strategies, adapting to the needs of specific projects. This diversity of instruments allows investors to select the most appropriate option to achieve their financial objectives and make a positive impact in areas such as education, health, access to sustainable energy and climate change mitigation.

In the Colombian context, Impact Investment Funds have proven to be an effective tool to close the financing gap in projects that seek to address the SDGs. According to NAB Colombia, by 2021, more than USD 500 million had been invested through these funds in the country. This reflects the growing interest in impact investing and the ability to mobilize significant resources towards initiatives that create positive change.

It is important to note that Impact Investment Funds in Colombia have experienced innovations in the deployment of capital. Some of these funds have adopted mechanisms tied to results, which means that the release of funds is linked to the achievement of specific and measurable objectives. This approach strengthens accountability and ensures that capital is used effectively to achieve impact. Taken together, the Impact Investment Funds represent a streamlined and efficient mechanism that contributes to significant contribution to the advancement of sustainable development initiatives in Colombia and around the world.

Equity or Quasi-Equity Instruments

Equity participation (Equity): The value of an investor's stake in a company, represented by the proportion of its shares. Owning shares in a company provides shareholders with the possibility of capital gains and dividends. In addition, it also gives shareholders the right to vote on corporate actions and elections for the board of directors[24].

Loans convertible into shares (Convertible Notes): These are contracts whereby an investor lends money to a start-up with the aim of receiving a consideration within a specific period of time. This consideration may consist of the repayment of the principal, with fixed or variable interest, or the conversion of the loan amount into shares or equity in the start-up. The convertible loan is therefore one of the simplest and quickest ways for start-ups to obtain financing .[25]

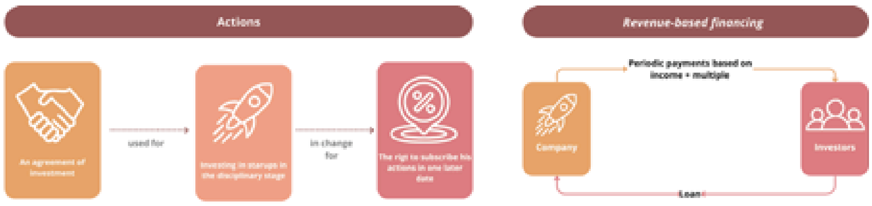
Debt Instruments

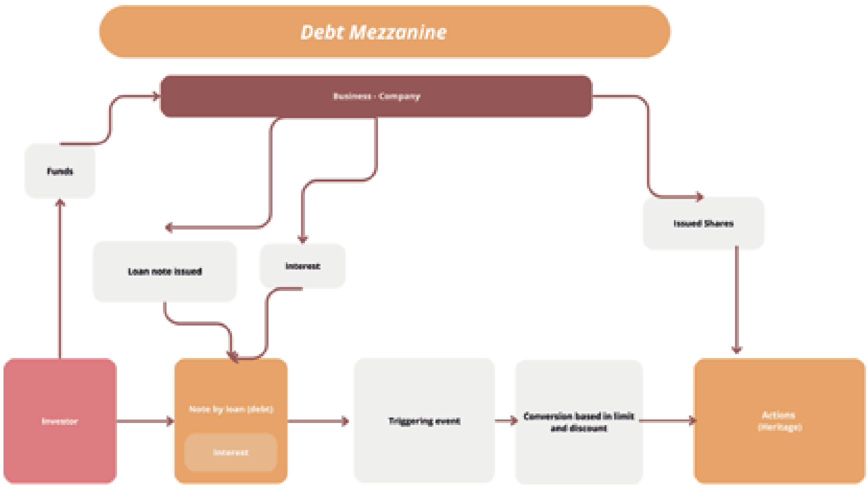
Subordinated loans: A subordinated loan is a simple catalytic instrument that can help channel capital to impact businesses. It can be incorporated into a capital structure or an instrument combining debt and equity which is classified by below the pre-funding debt, but above the common stock in the ranking order. The ranking determines who will be paid first in the event of bankruptcy, and follows a system of cascading payments, whereby pre-funding creditors are paid first, followed by junior creditors if and only if the pre-funding creditors have been paid in full for everything owed to them.[26]

Revenue-based Financing

Revenue-based financing: Revenue-based financing: A method of raising capital for a company from investors who receive a percentage of the company's ongoing gross revenues in return for the money they invested[27].

3.3.2 Thematic bonds





Source: Innpactia, 2023

[24] Fernando, J. (2003). Equity Definition: What it is, How It Works and How to Calculate It. Investopedia. https://www.investopedia.com/terms/e/equity.asp
[25] Metricson, Convertible loans: what they are and how to regulate them, https://metricson.com/prestamos-convertibles-que-son-y-como-regularlos
[26] Latimpacto, Subordinated Loans, https://finanzasinnovadoras.org/instrumentos/prestamos-subordinados/
[27] Hayes, A. (2015). Revenue-based financing: Definition, how it works, and example. Investopedia. https://www.investopedia.com/terms/r/revenuebased-financing.asp

Thematic Bonds are an innovative financing mechanism that plays a key role in promoting projects and activities related to specific social and environmental objectives. These bonds environmental objectives. These bonds are issued with a clear thematic purpose, meaning that the resources raised are earmarked exclusively for projects that address specific challenges, such as climate change mitigation, the promotion of gender equality or the conservation of ecosystems. Thematic Bonds work by attracting investment from actors who share an interest in a particular cause, ensuring that capital is channeled towards impact areas that are considered crucial.

In the Colombian context, Thematic Bonds have gained relevance as an effective mechanism to close the financing gap in sustainable projects. To date, more than 1.3 trillion pesos in green bonds have been issued and awarded in Colombia, with the participation of financial institutions and corporations such as Bancoldex, Davivienda, Celsia and Bancolombia. These green bonds are used to finance projects that have a positive impact on the environment and are aligned with sustainability.

Within the category of Thematic Bonds, several types have been developed to address various areas of impact. The most important are:

Blue bonds: Debt issues aimed at preserving and protecting the oceans and their ecosystems. They are related to the conservation and sustainable use of marine and coastal resources. They seek, through the mobilization of public and private capital, to promote projects that have a favorable impact on the achievement of the SDGs and the blue economy[28].

Conservation bonds: Financial instruments designed to raise capital to be used for conservation projects, whether nature, biodiversity, or historical and cultural heritage[29].

Gender bonds: These bonds are designed to support projects and programmes that promote gender equality and empower women in different areas, such as access to financial services and leadership opportunities.

Orange Bonds: These bonds focus on supporting the creative and cultural industry, promoting creativity and innovation in this sector.

[28] BBVA. (2023). ¿Qué son los bonos azules y por qué son importantes? bbva.com. https://www.bbva.com/es/sostenibilidad/que-son-los-bonos-azules-y-por-que-son-importantes/
[29] The World Bank. (2012). Expanding Financing for Biodiversity Conservation EXPERIENCES FROM LATIN AMERICA AND THE CARIBBEAN. The World Bank. http://chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.worldbank.org/content/dam/Worldbank/document/LAC-Biodiversity-Finance.pdf

Social bonds: Debt instrument through which capital is raised exclusively to finance or refinance, in part or in full, projects that have a direct impact on social welfare and social cohesion and improvement of the quality of life of communities[30].

Sustainable bonds: Mobilize investor funds in bond markets to support the financing of projects in developing countries, including climate change issues[31]. They seek to balance economic growth with environmental protection and social responsibility.

Green bonds: A financial instrument to raise capital from investors to meet green financing needs, and several bond issuers have been active in the green bond market. Corporates account for one fifth of green bonds, and financial institutions for about one quarter. The main market players have been the public sector, including multinational institutions, government agencies and municipalities[32].

Sustainability-Linked Bonds ("Sustainability-Linked Bonds, or SLBs"): These aim to further develop the key role that debt markets can play in financing and promoting companies that contribute to sustainability (from an environmental, social, or governance (ESG) perspective)[33].

3.3.3 Result-Based Financing

Results-Based Financing Mechanisms are an innovative category of financing that revolutionizes the way in which the EU is financed and managed projects and programmes. These mechanisms are based on a fundamental principle: payments are made only when measurable and predictable results are achieved. They work by establishing clear agreements between stakeholders, be they investors, governments, non-profit organizations or private entities, on the results to be achieved.

In Colombia, the quantification study of the impact investment market conducted by NAB Colombia (2022)[34] revealed that 6% of the market corresponds to Social Impact Bonds, which reflects the growing importance of Results-Based Financing Mechanisms in the promotion of projects and programmes with a strong focus on social impact.

Within the category of Results-Based Financing Mechanisms, several instruments can be identified:

3.3.3.1 Social Impact Bonds (SIBs):

In this type of mechanism, the payer is usually the government. Private investors finance the implementation of social programmes or projects, assuming the investment risk. Payments are made only if the agreed results are achieved, thus establishing a performance contract.

Social Impact Bonds are an innovative financing instrument that seeks to address complex social challenges while ensuring a financial return to the community investors. Its operation is based on the idea that results in terms of social impact can be measurable and, therefore, financed by private investors, with the promise of receiving a financial return if the agreed results are achieved.

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[30] Bolsa Nacional de Valores. (2020). Bonos Sociales. Bolsacr.com. https://www.bolsacr.com/empresas/bonos-sociales
[31] Banco Mundial. (2021). ¿Qué son los bonos para el desarrollo sostenible? World Bank; Banco Mundial. https://www.bancomundial.org/es/news/feature/2021/09/28/what-you-need-to-know-about-sustainable-development-bonds
[32] Convention on Biological Diversity. (2017). Green bonds. https://www.cbd.int/financial/greenbonds.shtml
[33] The Sustainability-Linked Bond Principles. (2020). Los Principios de los Bonos Vinculados a la Sostenibilidad Guías del Procedimiento Voluntario. Icmagroup.org. https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Translations/2020/Spanish-SLBP2020-06-280920.pdf
[34] NAB, Cuantificación del mercado de inversión de impacto, 2022

The process of operating Social Impact Bonds generally involves the following steps:

- **Identifying the Social Problem:** A specific social problem is identified that requires a solution and has measurable impact, such as reducing the school dropout rate, improving maternal and child health, or reintegrating homeless people.

- **Project structuring:** A project is designed that will address the identified problem. This involves defining clear objectives, impact metrics, indicators and an action plan.

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- **Financing:** Private investors provide the necessary financing to carry out the project. This financing is placed in a Trust or a special entity.

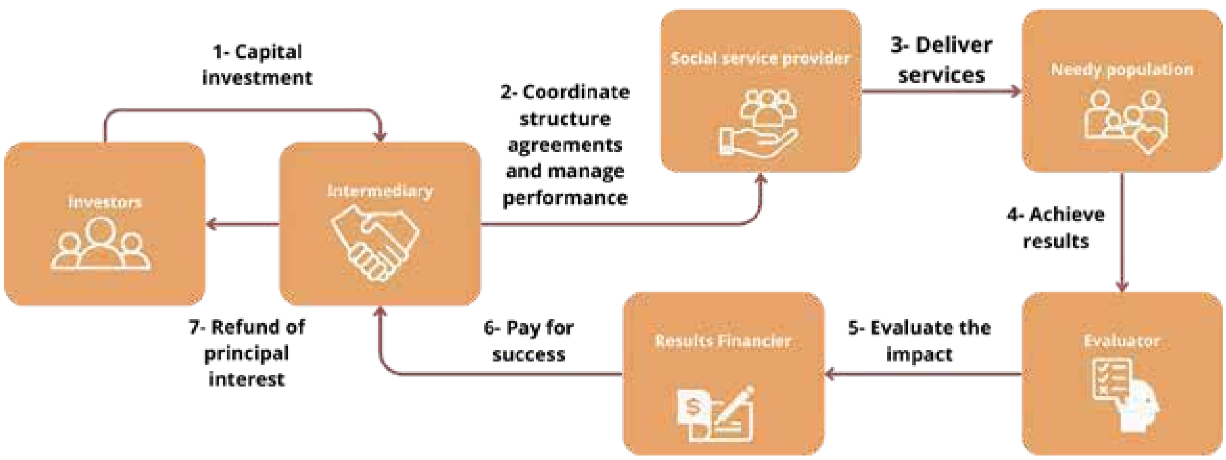
- **Project implementation:** Project implementation is carried out by an implementing organization, which is committed to achieving the agreed results.

- **Impact Measurement:** Periodic measurements are taken to assess whether the previously established results are being achieved. If targets are achieved, payment to investors is triggered.

- **Results-Based Financing:** Investors receive a financial return based on the achievement of results. If results are not achieved, investors may receive no return or a reduced return.

In Colombia, four Social Impact Bonds have been implemented, gaining relevance in the search for innovative solutions to social challenges, and their focus on measuring results and collaboration between different stakeholders has proven to be an effective strategy to close the financing gap in social impact projects and the articulation of the social impact of projects public-private.

Results-Based Financing



Source: Innpactia, 2023

3.3.3.2. Development Impact Bonds (DIBs):

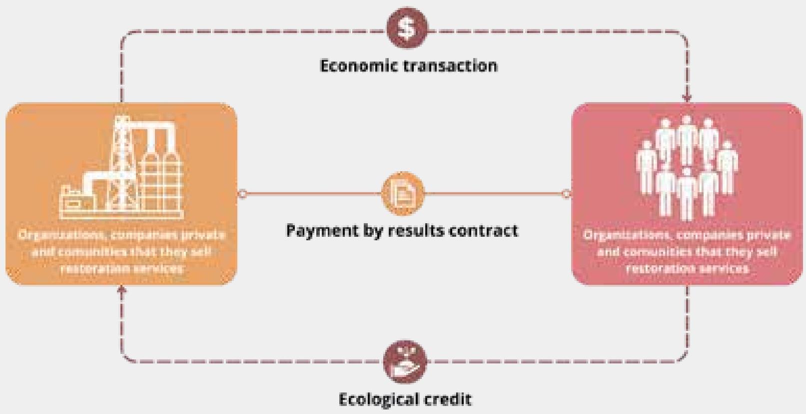
These instruments are very similar to Social Impact Bonds and are used in projects that seek to promote sustainable development. Investors finance the project and receive a financial return when specific results are achieved. Unlike SIBs, payers can be donors and private organizations.

3.3.3.3. Performance Contracts:

These contracts are used in a variety of sectors, from public services to community development. They set performance criteria and payments are made based on the achievement of these criteria.

3.3.3.4. Habitat Banks

Habitat banks are created as an alternative to make conservation initiatives viable in specific areas, through actions for the preservation, restoration and sustainable use of ecosystems and their biodiversity[35]. The habitat bank is the vehicle that assumes the financial risk of complying with the milestones, while its operation dynamizes the implementation of mandatory environmental compensations and investments.



Source: Innpactia, 2023

The functioning of Habitat Banks involves the following key aspects:

- **Aggregation of Requirements:** Habitat Banks bring together the offset requirements of various activities and projects that have caused negative impacts on biodiversity and ecosystems.

- **Preservation and Restoration:** These banks implement specific actions to preserve, enhance or restore natural habitats and ecologically important areas. This may include re-forestation, wetland restoration, creation of biological corridors and protection of endangered species.

- **Generating Biodiversity Gains:** One of the most innovative aspects of Habitat Banks is their ability to generate quantifiable biodiversity gains. Indicators are established to measure the increase in biodiversity in the areas protected by the bank.

- **Results-Based Environmental Financing Mechanism :** Companies or organizations that have caused negative environmental impacts can use Habitat Banks as an offset mechanism. By paying for the results in terms of biodiversity gains, companies can mitigate their impacts and comply with legal and environmental requirements.

- **Financial, technical and legal guarantees:** Financial, technical and legal guarantees are essential to ensure the success of Habitat Banks. These guarantees

[35] Terrasos. (2022). Bancos de hábitat. Terrasos. https://www.terrasos.co/bancos-de-habitat

underpin the effectiveness of conservation actions and ensure that protected areas meet biodiversity conservation objectives.

Habitat Banks are innovative because they provide a quantifiable and measurable approach to environmental offsetting. They enable companies to take responsibility for mitigating their environmental impacts in an effective and sustainable way, contributing to biodiversity conservation and closing the financing gap needed to protect our ecosystems.

These banks have been incorporated at the international level and, according to research by Terrasos (its main promoter and executor), have proven to make environmental compensation processes more efficient, as they facilitate compliance and, at the same time, improve control and surveillance by the environmental authorities.
Despite the many benefits and their good intentions to help with the recovery of natural resources, according to experts in the sector, there are still certain difficulties to ensure that these vehicles are able to secure their results.

3.3.4. Blended Finance

Blended Finance, or Combined Finance, is an innovative mechanism that is characterized by combining sources of finance from different public and private sources finance for the purpose of addressing socio-economic and environmental challenges. This approach has become a key response to the financing gap for the achievement of the SDGs and other development goals.

This strategy combines public and private efforts, aiming at a more efficient and rapid solution to environmental challenges and sustainable development[36]. But beyond simply setting targets, the emphasis of this mechanism lies in implementation through interdisciplinary cooperation and institutional strengthening[37].

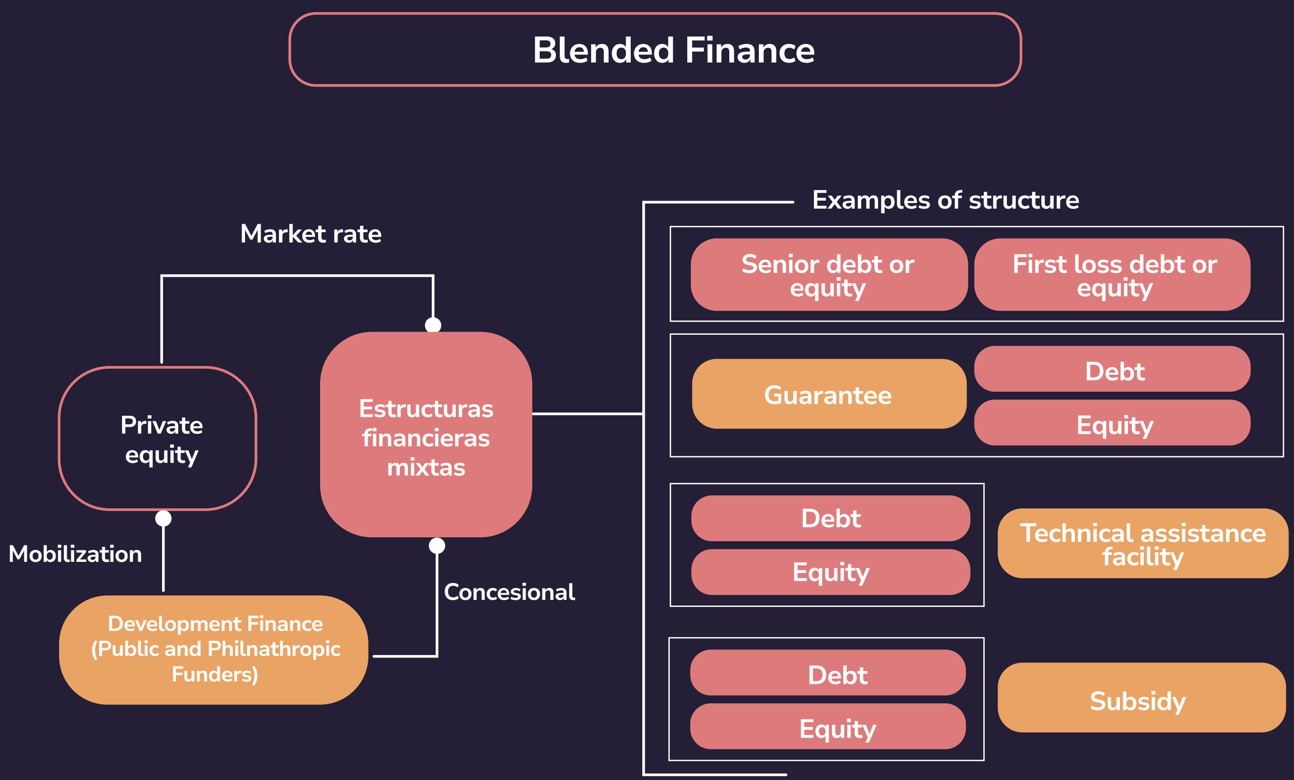
- Risk Mitigation: By involving multiple funding sources, Blended Finance can help mitigate the risks associated with impact projects, which in turn attracts private investors who may be reluctant to take on significant risks.

- Alignment with the SDGs: This mechanism is designed to align directly with the SDGs and other development goals, ensuring that resources are directed to critical areas of need.

An outstanding example of Blended Finance was evidenced in Chile through the Climate Action and Solar Energy Development Programme in the Atacama Desert, where CAF, as an Accredited Agency to the Green Climate Fund (GFC), facilitated the investment with a combination of its own financing and highly concessional resources from the GFC, totaling USD 79 million. This financial structure allowed for risk reduction and attracted investments from the private sector, with Banco BICE and Banco Security contributing USD 10 million each. In addition, the support of the Japanese bank JBIC with USD 40 million helped to access competitive interest rates. The result was the addition of 144 MW of generation capacity to the electricity system, highlighting the effectiveness of Blended Finance in mobilizing private capital and promoting renewable

[36] CEPAL. (2022). Innovative financing instruments in Latin America and the Caribbean. Cepal.org. https://repositorio.cepal.org/server/api/core/bitstreams/c40b8aae-92a9-4fe0-a6b0-0e2e850c5d07/content
[37] E3-Ecología, Economía y Ética. (2021). Guía de Financiación Combinada para Colombia. DNP. https://finanzasdelclima.dnp.gov.co/movilizacionrecursos/instrumentos-economicos-financieros/Documentos%20compartidos/guia-de-financiacion-combinada-blended-finance-guide.pdf

energy projects. In the Colombian context, a relevant example of Blended Finance is the United Nations Multi-Partner Fund for Sustaining Peace. This tripartite mechanism, composed of the Government of Colombia, the United Nations and international cooperation, in 2019, through the Blended Finance call, the Fund launched one of its most ambitious and innovative bets for the United Nations System, thanks to the support of the United Nations Secretary General's Peace Building Fund (PBF). This initiative implemented the Secretary-General's recommendations, which encourage innovative ways of working with the private sector to achieve the SDGs.



Source: Innpactia, 2023

3.3.4.1. Multi-Partner Funds

Multi-Partner Funds are, in themselves, a mechanism that allows various implementing entities to combine investments under a common governance structure. This strategic collaboration seeks to support the pursuit of systemic impact by integrating resources from multiple sources, including grants and private capital. Its capacity to maximize impact and promote sustainability makes them a powerful instrument for achieving development goals.

In 2019, through an investment of USD 2.1 million from the United Nations Multi- Donor Fund in Colombia, it was possible to leverage close to USD 13 million from the private sector to close development gaps in PDET municipalities. This initiative allowed the Fund, with cooperation resources, to work hand in

hand with 7 private sector partners with social impact to mobilize resources in an exponential manner. Achieving a leverage ratio of 1:6, for one dollar of cooperation, an average of 6 dollars was mobilized from the private sector to reduce the risk / give viability to private sector initiatives with an impact on the regions most affected by the conflict. These investments were consolidated through the use of 3 Blended mechanisms:

- Two financial, an interest rate subsidy and a guarantee of exchange risk and interest rate, for the promotion of 2 lines of credit.

- Technical Assistance: with the resources of the Fund, mixed with those of 4 private partners, it was possible to strengthen different initiatives and projects of grassroots associations for the development of business models with vision and connection to the market in different value chains.

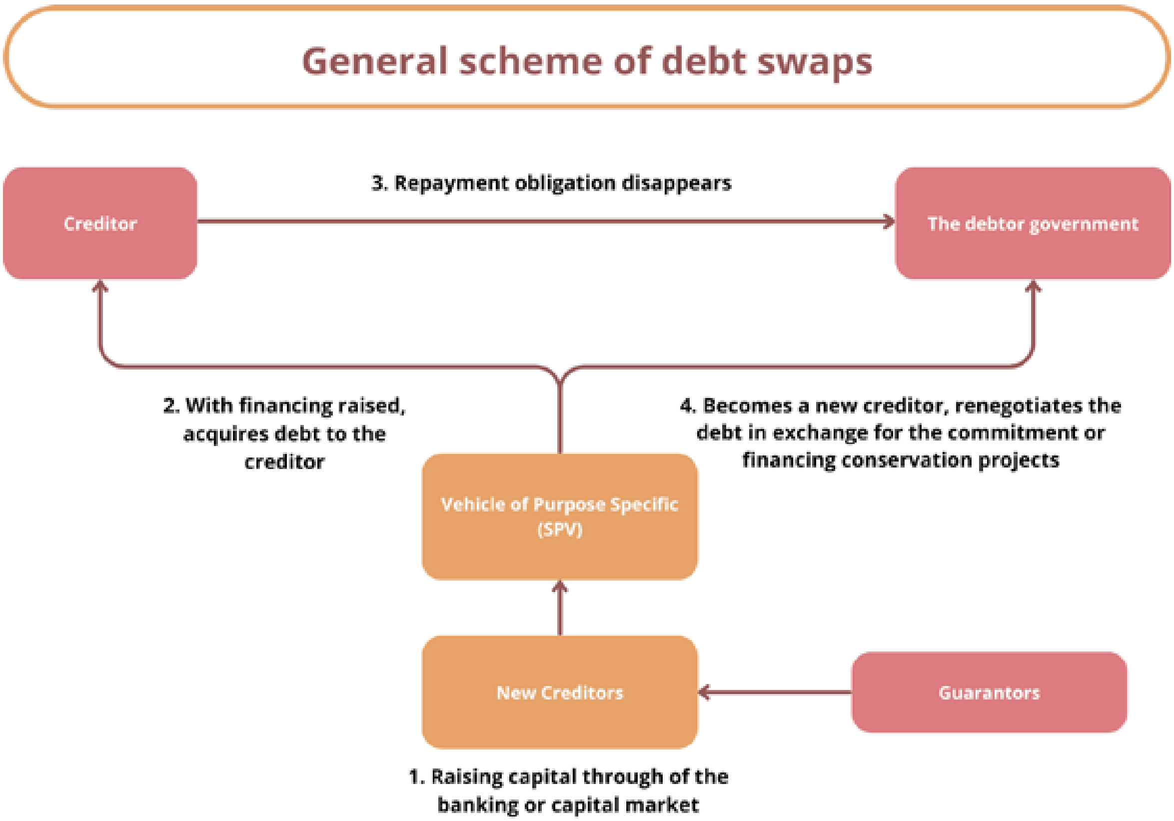
- Patient capital: Complementary resources/co-investment to establish long-term alliances with grassroots associations through the joint establishment of companies. Long-term investment is generally led by an impact investor, which has reduced the risks for the private sector to invest in these regions and has been able to make 7 social impact investments with direct impact in more than 33 PDET municipalities viable.

3.3.4.2. Debt Swaps

Debt swaps aim to free up fiscal resources from governments in order to redirect spending towards climate change commitments, nature conservation, investment in climate-resilient infrastructure (among others) that would otherwise be directed towards debt obligations. Debt swap structures have thus become a great tool for countries with debt-stressed budget execution, and have existed for several decades, but due to fiscal crises exacerbated by the Covid- 19 pandemic, several countries globally are choosing to consider this instrument as part of their financial innovation strategy. Moreover, according to the United Nations Development Programme (UNDP), more than 50 of the world's poorest countries are now considering debt instruments as part of their financial innovation strategy.

The poorest developing countries are at risk of defaulting on their debt obligations because they face close to US$ 500 billion in debt service payments over the next four years.[38]

[38] White, N. (2022). Debt-for-Nature Swaps Gain Traction Among Developing Countries. Bloomberg.com. https://www.bloomberg.com/news/articles/2022-11-07/debt-for-nature-swaps-offer-option-for-developing-countries?sref=zTjQnvwo&leadSource=uverify%20wall



Source: Innpactia, 2023

Under the above scheme, debt-for- nature swaps are typically a voluntary transaction in which a creditor cancels or reduces the amount of a developing country's (debtor government's) debt in exchange for a commitment by the debtor government to invest the resources in projects that promote conservation and support initiatives associated with climate change.

The structuring of the swap determines the amounts to be swapped, recognizes new creditors (if the dynamics of the swap so warrant) or determines the commitment to be made to the original creditor and specifies the conservation commitments that will apply.

04
CURRENT STATUS

4.1 Regional Context of ***innovative finance*** 2018 - 2022

The growth of emerging economies in Latin America and the Caribbean has boosted their participation in the international capital market, with more than 14 countries in the region issuing bonds. This dynamic was boosted by expansionary monetary policies of major central banks in developed countries, leading investors to seek assets with higher returns in riskier regions. However, in 2021 the region faced presented the challenge of inflation, affecting both developed and developing economies globally. In response, central banks implemented measures to control inflation, impacting the currencies and increasing the risk of developing countries.[39]

Latin America and the Caribbean received financial support (credit) of USD 118 billion from the IMF in 2021. However, in spite of the financing obtained as debt from multilateral organizations, the needs of Latin America and the Caribbean are still liquidity of developing countries, including those in the region, have not been fully met. These challenges, exacerbated by the pandemic and other global contexts, reduce the fiscal space for medium- and long-term public investment and highlight the need to address financing through innovative mechanisms.[40]

In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) proposed an innovative financing agenda based on five policy actions. These include redistributing liquidity from developed countries, enhancing regional cooperation, reshaping multilateral debt structures, introducing innovative instruments for better debt management, and merging liquidity and debt reduction measures[41] into a comprehensive development financing strategy.[42]

39 CEPAL. (2022). Innovative financing instruments in Latin America and the Caribbean. Cepal.org. https://repositorio.cepal.org/server/api/core/bitstreams/c40b8aae-92a9-4fe0-a6b0-0e2e850c5d07/content
40 CEPAL. (2022). Innovative financing instruments in Latin America and the Caribbean. Cepal.org. https://repositorio.cepal.org/server/api/core/bitstreams/c40b8aae-92a9-4fe0-a6b0-0e2e850c5d07/content
41 debt relief for highly indebted countries, support for nations with short-term debt profiles, and Facilitating access to low international interest rates for countries with more stable economies.
42 CEPAL. (2021). An innovative financing for development agenda for the recovery in Latin America and the Caribbean. Issuu. https://issuu.com/publicacionescepal/docs/s2100627_en

ECLAC's innovative framework highlights the importance of redistributing liquidity from advanced nations to emerging countries, using the IMF's Special Drawing Rights (SDRs). In 2021, the IMF had USD 650 billion in SDRs at its disposal, and their recirculation from developed countries could provide Latin America and the Caribbean with up to USD 89.5 billion. In addition, initiatives such as the Fund to Alleviate COVID-19 Economics (FACE), proposed by Costa Rica, seek to strengthen this approach by offering advantageous loans and aligning them with global development goals.

Innovative financial instruments, such as natural disaster clauses, have proven to be effective in Caribbean nations. They allow for the postponement of debt payments following significant disasters, contributing to financial stability.

In addition, the last policy measure highlights the need to link liquidity and debt reduction with sustainable development objectives, aiming for a more egalitarian and environmentally sustainable region.

Other solutions for the region were Nature-Based Solutions (NBS), which represent a key building block for sustainable development in Latin America and the Caribbean. Using resources such as soil, vegetation and air, NBS are tools to mitigate the effects of climate change and promote balanced economic growth. Despite their obvious benefits, such as safeguarding communities and enhancing ecosystems, these solutions face a significant lack of investment. However, with the new financing models, by combining traditional investments with private sector contributions, it could redirect billions into environmentally sustainable and conscious projects.[43]

Latin America was also characterized by increased innovation in the area of sovereign impact. For example, Chile and Uruguay issued the first sovereign bonds linked to sustainability, while countries such as Colombia and Brazil published the first green taxonomies.

There has also been an increase in the amount of blue bonds issued, demonstrating a greater market interest in supporting marine or ocean-based projects. This goes hand in hand with the announcement by organizations such as the International Finance Corporation (IFC), International Capital Markets Association (ICMA), United Nations Global Compact (UNGC), United Nations Environment Program Finance Initiative, and Asian Development Bank (ADB), of their commitment to develop guidance to provide the market with consistency and transparency in blue economy financing.

Finally, the Latin American blended finance market continued to maintain a strong presence within the financing structures. Convergence[44] , the global network for blended finance, records that in Latin America alone more than 140 transactions have been concluded in the last 15 years, mobilizing close to US$25 billion, according to Heiner Skalkis, Convergence's Senior Advisor for Latin America.[45]

The predilection for grantmaking mechanisms

[43] Marsters, L., Morales, A. G., Ozment, S., Silva, M., Watson, G., Netto, M., & Frisari, G. (2021). Soluciones basadas en la naturaleza en América Latina y el Caribe: mecanismos de financiación para la replicación regional. https://publications.iadb.org/publications/spanish/viewer/Soluciones-basadas-en-la-naturaleza-en-America-Latina-y-el-Caribe-mecanismos-de-financiacion-para-la-replicacion-regional.pdf
[44] Convergence Finance, s.f., https://www.convergence.finance/
[45] Fondo ONU Col. (2023a). BLENDED FINANCE PARA LA AGENDA 2030 inversión, articulación y sostenibilidad. Exposure.co. https://fondoonucol.exposure.co/blended-finance-hacia-la-agenda-2030?source=share-fondoonucol

(philanthropy) is partly related to the preponderance of foundations as impact investors in the cases selected for this study. However, grantmaking aimed at impact investing - such as equity, convertible debt or other financial mechanisms such as performance-based or revenue-based financing - is increasingly relevant.

4.2 The Colombian context of the ***innovative investments*** 2018 - 2022

Colombia has historically been characterized as highly entrepreneurial, with 93.20% of businesses registered and classified as micro or medium-sized enterprises, which generate more than 60% of national employment. Despite this, a large percentage of the population still lives below the national poverty line. Colombia has registered a modest improvement in the Gini index, from 0.546 in 2010 to 0.515 in 2021[46]. It remains one of the countries with a high index (only behind Brazil with 0.529 in 2021).

On the other hand, the Colombian impact investing ecosystem shows clear growth trends, with more than half of the impact investors -mapped by ANDE[47] - that have started operations in or after 2017. One of the main drivers of this growth and attraction of attention from development finance institutions and impact investors along with international and domestic philanthropists was the historic peace agreement with the FARC in 2016.[48]

These actors, following the signing of the agreement, concentrated their efforts on addressing problems related to habitat for vulnerable people, education, and improving the quality of life. Major developments since 2017 include: (i) Colombia's entry as part of the Global Steering Group and the launch of its National Advisory Board (NAB), (ii) the promotion of innovation through INNpulsa, a programme under which the national government strengthened and expanded its offer of Financing instruments, (iii) the consolidation of Colombia as a referent of innovative Financing mechanisms, with the issuance of bonds that were implemented under results-based financing schemes; and (iv) the hosting of the 2030 Summit: Opportunities for the Impact Ecosystem in Colombia - a bid to showcase the relevance of this ecosystem in the country.

A significant step taken in Colombia in this regard is the launch in 2022 of an international cooperation project dedicated exclusively to encouraging the development and scaling up of impact investment in the country: the Impact Investment Support Programme (PAIIC). This ambitious 4-year programme, funded by the Government of Canada and implemented by SVX Colombia, seeks to strengthen the entire impact investment ecosystem, supporting Investment Funds, Accelerators and Impact Companies, to enhance their capabilities and leverage more funding to achieve their objectives. It also seeks to consolidate the interaction and convergence of the public and private sectors, academia and other stakeholders ecosystem to facilitate the advancement of impact investment in the country.

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[46] World Bank. (2022). World Bank Open Data. https://data.worldbank.org/indicator/SI.POV.GINI?end=2021&locations=CO-PE-BR-AR-CL-VE-BO-EC&most_recent_value_desc=false&start=2010

[47] Almaguer, F., & Davidson, A. (2023, marzo). Inversión de Impacto en América Latina. Andeglobal.org. https://andeglobal.org/wp-content/uploads/2023/06/latam-report-2023-ES-v3-1.pdf

[48] Gobierno Nacional de Colombia. (2016). ACUERDO FINAL PARA LA TERMINACIÓN DEL CONFLICTO Y LA CONSTRUCCIÓN DE UNA PAZ ESTABLE Y DURADERA. jep.gov.co. https://www.jep.gov.co/Marco%20Normativo/Normativa_v2/01%20ACUERDOS/Texto-Nuevo-Acuerdo-Final.pdf?csf=1&e=0fpYA0

It is also important to highlight that during 2018-2021 Colombia consolidated its most important results in terms of international cooperation by exceeding USD 4.1 billion non-reimbursable, with the United States, Germany and the European Union as the main donors. The trend of these Flows suggests that, despite being an upper middle-development country, Colombia's particular conditions have kept it as an important ODA recipient, given that between 2015 and 2017, the average non-reimbursable cooperation received by the country was USD 610 million, while between 2018 and 2021, this average increased to USD 1,032 million. Furthermore, in 2021, the highest figure in Colombia's history was recorded at USD 1,465 million. On the other hand, the country continued to consolidate itself as a leader in different multilateral and regional integration scenarios and mechanisms, such as South-South Cooperation.[49]

The robust development of the philanthropic or private social investment sector, the strengthening of the banking sector with a focus on small and medium-sized ventures, and the joint execution between various ecosystem-building agents have led to innovation within traditional financing mechanisms. According to the NAB, the main innovative mechanisms used in recent years have included investments through subordinated loans, the purchase of equity stakes in ventures through pre-funding shares and loans convertible into shares.[50]

In addition, different international donors in Colombia have increased their funding to projects under the results-based financing scheme in partnership with the private sector, where the disbursement of cooperation resources is totally or partially tied to the achievement of results.

This is the case of projects such as Agroemprende Cacao launched in 2018, funded by Canada and implemented by SOCODEVI, where results are measured through indicators agreed at the beginning of the project, and verified by an independent firm. In addition, it applies blended finance as it leverages non-reimbursable resources, on a 1 to 1 basis with the private sector.

Complementarily, Colombia has established itself as a key epicenter for blended Finance in the Andean region, demonstrating a continued commitment to the SDGs. Thus, the United Nations in Colombia and other entities such as Bancoldex, the UK Government and USAID, through their EbA initiatives (Ecosystem-based Adaptation Finance), the UK PACT programme and "Energy forPeace" demonstrate how foreign investment can leverage local strengths.

In that line, Latin America and the Caribbean (LAC) already account for a signiFicant portion of blended finance transactions and Colombia is responsible for about a quarter of them in the region[51]. However, there are a number of new and complementary innovative mechanisms that are gaining ground in Colombia, with the aim of continuing to drive catalytic impact, led by social and environmental entrepreneurship.

[49] APC. (2021). Análisis de la Cooperación Internacional en Colombia. apc.ov.co. https://www.apccolombia.gov.co/sites/default/files/2022-12/Ana%CC%81lisis.pdf
[50] NAB Colombia, Global Steering Group for Impact Investment (GSG), & Econometría. (2023). MEDICIÓN DEL MERCADO DE INVERSIÓN DE IMPACTO EN COLOMBIA 2022.
[51] Fondo ONU. (2023b). Colombia emerge como un Hub Andino para las finanzas mixtas (Blended Finance). Fondo ONU Colombia. https://www.fondoonucol.org/post/colombia-emerge-como-un-hub-andino-para-las-finanzas-mixtas-blended-finance

05 CASE STUDIES

5.1 Funds of *impact investment*

5.1.1. Acumen-Latin America Investments.

Acumen is an impact investment fund that invests in early-stage organizations whose products and services transForMy products and services transform the lives of the most vulnerable populations.

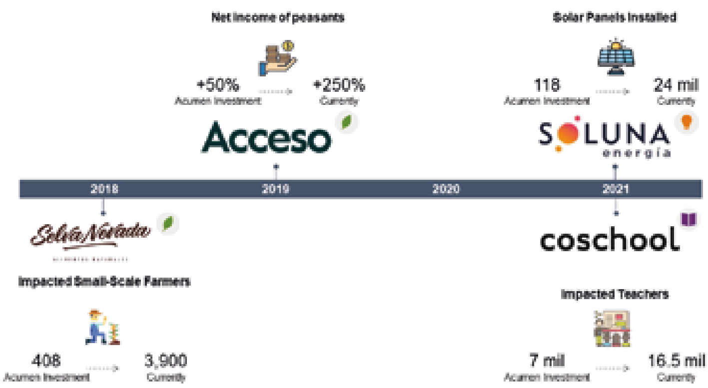
Efficiency and Cost Effectiveness: Acumen has proven to be an outstanding case of efficiency and cost effectiveness in impact investing. By focusing on early- stage organizations with innovative solutions, they are able to maximize the impact of each investment. Their use of flexible financial instruments, such as convertible debt and the "capital entophyte," allows them to adapt to the changing needs of ventures without overburdening them financially. This translates into an efficient use of resources and a higher long-term social return.

Generating Systemic Change and Mindset: Acumen's impact strategy goes beyond the measurement of results and focuses on generating real systemic change in the lives of beneficiaries. By investing in organizations that transform the lives of the most vulnerable populations, they contribute to a change of mindset in both the investment sectorand society at large. Their focus on rural areas and thematic areas of energy, agribusiness and education addresses structural challenges and promotes sustainable solutions.

Articulation and Collaboration: Acumen not only provides funding, but also supports the ventures in its portfolio with tools, access to networks, technical assistance and strategic guidance. This collaboration is essential to the success of the ventures and shows how Acumen is actively involved in the impact ecosystem. In addition, its model of reinvesting profits in new ventures demonstrates its long-term commitment to generating social impact.

Innovation: Although Acumen uses financial instruments that could be considered traditional, its innovative approach lies in the "Patient capital" philosophy. By prioritizing long-term social impact and absorbing risk, they are challenging the conventional investment mindset. Their model of philanthropic capital raising and profit reinvestment reflects their constant search for creative solutions to fund social change.

In Colombia, Acumen has new partnerships and co-funding from international donors such as Canada and USAID who support its impact investments in the country.



5.1.2. AlphaMundi

AlphaMundi is a Swiss commercial entity exclusively dedicated to impact investing. The Fund invests through three vehicles and invests primarily in the fintech, energy and agriculture sectors..

Efficiency and Cost Effectiveness: AlphaMundi has proven to be an outstanding example of efficiency and cost effectiveness in the field of impact investing. By investing in key sectors such as Fintech, energy and agriculture, they manage to maximize their social and environmental impact, keeping in mind investments as catalysts for impact. From the products and services of their portfolio they provide solutions to SMEs, micro-enterprises and consumers. In the case of impact in developing countries, investments target more than 544,000 consumers, 162,000 micro enterprises and 3,150 SMES[52].

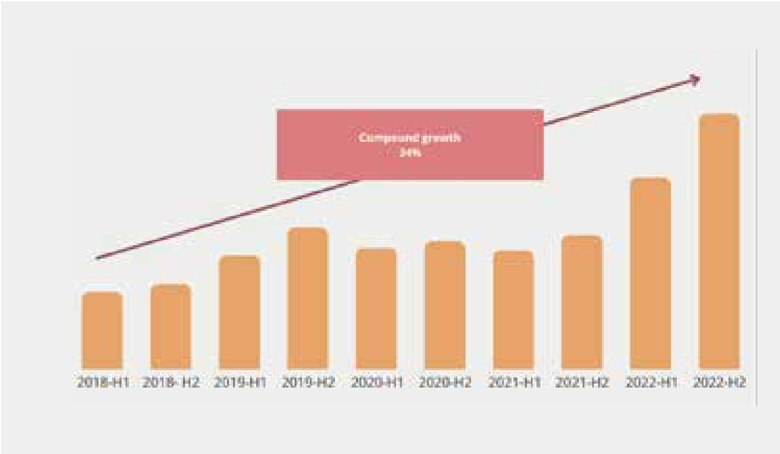
Its three strategic pillars, ranging from catalyzing ventures to creating products and services with explicit social benefits, allow for an efficient use of resources and the generation of an sustainable impact on direct beneficiaries. This comprehensive approach ensures that each investment makes a significant contribution to the sustained growth of the ventures in its portfolio to the extent that, with relatively small resources, focused on key development sectors and of a catalytic nature, it contributes to enhancing the actions financed and to achieving significant impacts.

Generating Systemic Change and Mindset: AlphaMundi goes beyond traditional financial investment by visualizing direct effects in three key pillars. Their commitment to catalyzing ventures and measuring real impact in their portfolio companies demonstrates their focus on generating systemic change. By creating products and services with explicit social benefits, they are contributing to the transformation of mindsets in the business and investment world. This holistic approach fosters real change in how social and environmental challenges are addressed.

Articulation and Collaboration: AlphaMundi stands out for its commitment to the sustained growth of the ventures in its portfolio. Its focus on providing flexible financing and technical

[52] Reporte de impacto - Alphamundi 2022 -https://www.alphamundigroup.com/2023/06/06/alphamundi-group-publishes-its-impact-report-for-2022/

assistance enables businesses to sustain an average 34% growth in sales. This demonstrates its active collaboration with supported ventures, providing the necessary support to drive their success. In addition, its inclusion of a new investment in the Fund's portfolio shows its ability to attract additional capital and broaden its reach.

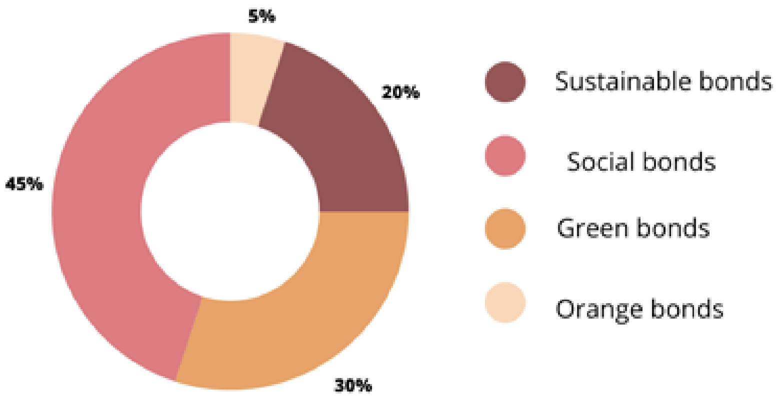


Innovation: AlphaMundi's philosophy focuses on creating products and services with explicit social benefits, representing innovation in the field of impact investing. Its focus on key sectors and its ability to measure real impact demonstrate its ongoing commitment to innovation in impact generation.
This creative approach to investment contributes to the creation of effective solutions to social and environmental challenges[53].

5.2 Thematic ***Bonds***

Thematic bonds, in the Colombian context, are financial instruments that are issued for the specific purpose of financing projects related to the sustainability. Social and sustainable bonds have an accumulated issuance of USD 620 million (26.3%) and USD 343.2 million (14.5%) respectively. It is important to note that the thematic debt market in Colombia started in 2016 with Bancolombia issuing a green bond of COP 350 billion, followed by other banks such as Davivienda and entities such as Bancoldex and Findeter, supporting various sustainable initiatives in the country[54].

Efficiency and Cost Effectiveness: The Colombian sustainable finance market has proven to be an efficient source of financing for sustainability-related projects. Through the issuance of thematic bonds, Colombia has mobilized a total of USD 2.4 billion by the end of 2022. The green label, which dominates the market, accounts for 53.7% of emissions, demonstrating the effectiveness of this mechanism to finance specific environmental projects, such as renewable energy, construction, and transport. In addition, social and sustainable bonds have opened new financing opportunities for social and environmental objectives, contributing to efficiency in the investment of resources to address sustainable challenges.



Generating Systemic Change and Mindset: The growth of the sustainable finance market in Colombia is a clear indication of a shift in the financial and business mindset towards

[53] Alphamundi. (2023). Impact Report 2022. https://www.alphamundigroup.com/. https://www.alphamundigroup.com/wp-content/uploads/2023/06/Impact-Report-2022_Alphamundi.pdf
[54] Climate Bonds Initiative, Metrix Finanzas. (2022). ESTADO DEL MERCADO DE LAS FINANZAS SOSTENIBLES EN COLOMBIA 2022. Climatebonds.net. https://www.climatebonds.net/files/reports/colombia_estado_del_mercado_2022_esp.pdf

sustainability. The Colombian government has led the issuance of green bonds, reflecting a commitment to sustainable solutions. The introduction of sustainability-linked bonds (SLBs), which adjust their coupons according to the achievement of sustainable goals, represents an innovation in the financial mindset by directly aligning Financial interests with sustainability goals. This new perspective drives a systemic shift towards greater consideration of environmental and social factors in financial decision-making.

Articulation and Collaboration: The Sustainable Finance market in Colombia has thrived thanks to collaboration between different actors, including the Government, Financial and non-financial companies, and external review Firms. The Colombian government has been the leading issuer of green bonds, while external reviews by recognized firms demonstrate a commitment to transparency and best market practices. Collaboration has been key to channeling investments into sustainable projects and ensuring the integrity of thematic bonds. In addition, the emphasis on measuring and monitoring sustainable targets implies greater collaboration between issuers and financing agents to ensure compliance with KPIs.

Innovation: Innovation in the Sustainable Finance market in Colombia is reflected in the introduction of sustainability-linked bonds (SLBs). These bonds are oriented towards General Purpose Finance and set sustainability objectives clearly defined and quantifiable. The structure of performance-linked interest rates on KPIs fosters innovation by aligning financial interests with sustainable impact. However, the bias towards large corporations could limit the diversity and profundity of the desired impact, requiring structural adaptation to maximize the reach of these instruments and ensure that they benefit the entire financial and sustainable ecosystem in Colombia.

5.3 Results- based financing

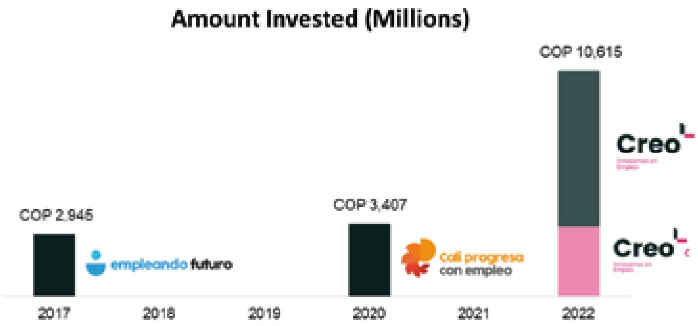
5.3.1. Social Impact Bonds

Social Impact Bonds in Colombia have proven to be an innovative and effective tool to address social and economic challenges in the country. This revolutionary mechanism is a results-based financing contract that connects Funders committed to social welfare and social operators or organizations that deliver public and social services in an efficient and innovative way.

Efficiency and Cost Effectiveness: Unlike traditional approaches, Social Impact Bonds deliver measurable outcomes, such as employability rates and reductions in prison recidivism. This approach ensures that resources are used efficiently, and results are achieved with certainty. As a result, more than 14,000 vulnerable people have found employment, 70% of whom are women. These impressive achievements demonstrate the effectiveness and cost- effectiveness of Social Impact Bonds in generating a positive impact on society.

Generating Systemic Change and Mindset: The Social Impact Bond program in Colombia has had a signiFicant impact on the way social programmes are approached. By prioritising measurable results, it has brought about a systemic change in the mindset of how social services are designed and delivered. The incorporation of more than 70 organisations, including private investors, public sector payers, international cooperation, intermediaries, operators and advisors, has created a strong ecosystem that promotes collaboration and innovation.

Articulation and Collaboration: The programme has mobilised more than $13 million for such mechanisms, demonstrating its ability to attract investment and collaboration from diverse stakeholders. In addition, the creation of a National Fund for Results-Based Financing (Logra) and the declaration of strategic importance of results-based financing mechanisms by the National Planning Department has Strengthened collaboration between the public and private sector. The participation of the IDB Lab, the Corona Foundation and the Swiss Embassy in Colombia -SIBs.co- as the main promoters of Social Impact Bonds in the country is highlighted, also demonstrating the articulating potential of this mechanism.



Innovation: The successful implementation of Social Impact Bonds has proven to be an innovation in the way social disaffects are addressed in Colombia. The creation The programme has also supported the technical design of Bogota's results-based financing mechanism for employment, making it a referent in Latin America. In addition, the programme has supported the technical design of the results-based financing mechanism for employment in Bogotá, which makes it a referent in Latin America.

5.3.2. Habitat Banks

In Colombia, Habitat Banks have emerged as an outstanding innovation in environmental compensation and the promotion of voluntary investments to contribute to biodiversity conservation. They operate as strategic lands where actions of preservation, improvement and restoration of ecosystems are carried out, managed technically, financially and legally in the long term (between 20 and 30 years) under a results-based financing scheme. This approach has revolutionized the way in which mandatory and voluntary investments in biodiversity are made in the country.

Efficient and cost-effective: In Colombia, Habitat Banks represent a highly efficient and cost-effective approach to address adverse impacts on biodiversity generated by development activities in the energy, infrastructure, hydrocarbon, and mining sectors. By adopting the payment-for-results model, companies can offset their impacts early, through a "pre-fabricated scheme" of environmental offsets that accelerates investments in biodiversity conservation through an aggregated model that increases biodiversity gains. This significantly reduces uncertainty and financial risk for companies, while encouraging investment in environmental conservation.

Generating systemic change and mindset: Habitat Banks have pioneered systemic change and a new mindset in the management of environmental offsets. Their focus on measurable and quantifiable outcomes represents a revolution in the way adverse impacts on biodiversity are addressed. Rather than following traditional activity-based models of environmental offsetting, these banks focus on real outcomes that benefit biodiversity. This mentality of focusing on results and early investment has had a significant impact on ecosystem conservation and restoration.

Articulation and collaboration: Habitat Banks demonstrate successful articulation and collaboration between different actors, including businesses, conservation organizations, international cooperation actors, and environmental authorities. By consolidating multiple initiatives in one place, Habitat Banks achieve economies of scale, which translates into optimization of resources and greater efficiency in operations. In addition, by guaranteeing the long-term conservation vocation of the land, preservation and biodiversity gains are ensured. This effective collaboration has made it possible to protect and restore more than 7,000 hectares of critical ecosystems in Colombia, through 15 different habitat banks.

Innovation: Habitat Banks represent an innovation in the management of environmental offsetting and voluntary investments for biodiversity protection. Their results-based financing approach, upfront investment, and technical, legal and financial conditions for long-term project sustainability have been a key factor in the success of Habitat Banks has proven to be highly innovative in the Colombian context. This innovation has generated an increase in productivity per hectare and the creation of new jobs in the department of Meta. In addition, these banks have reduced transaction costs and time for companies that have environmental compensation obligations, which encourages investment in environmental conservation. In summary, Habitat Banks exemplify how innovation in financing mechanisms can contribute to sustainable development and the protection of our natural environment.

Last year, a seminar was convened to discuss challenges regarding this mechanism. Among the main conclusions, it was explained that the scope of certain regulations, such as Resolution 1501 of the Ministry of Environment and Sustainable Development, which does not define a timeframe for the operation of the mechanism, and as a result some vehicles fail to meet the long-term objectives for which they were created. There are also challenges related to the security of land tenure, the transparency of information, as these are not public despite being processed before an environmental authority, and the fact that there is a great deal of uncertainty regarding the monitoring of habitat bank business operations, as there are two authorities and there is no clarity on how audits are carried out between these bodies[55].

5.3.3. Results-Based Financing in International Cooperation Agreements

Results-Bases Financing in international cooperation projects is an innovative scheme that links disbursements of Official Development Assistance (ODA) resources to the achievement of measurable and verifiable results, leaving flexibility to the implementing organization in decision-making. This scheme usually has an independent verification of results that brings transparency to the mechanism. One of the successful cases in Colombia is the Agroemprende Cacao project (CAD $36 million) co-funded by Canadian cooperation and the private sector (the latter contributes 50% of the resources), and implemented by SOCODEVI.

Efficiency and cost-effectiveness: This mechanism, by defining results and indicators for their measurement, and having a verification process, offers a more rigorous and

[55] Semana. (2022). Normativa de los bancos de hábitat debe ser clara; estas son las razones. Semana.com Últimas Noticias de Colombia y el Mundo. https://www.semana.com/nacion/articulo/normativa-de-los-bancos-de-habitat-debe-ser-clara-estas-son-las-razones/202239/

exhaustive monitoring of results and impact. Its efficiency in the use of resources lies in the incentives it generates for the implementer to reach the agreed goals and manage the obstacles that arise at the lowest possible cost, thus providing space for innovation and creativity. In addition, when the mechanism incorporates the payment of bonuses for exceeding the agreed targets, additional incentives are generated to increase the scope. Under this scheme, many of the risks that are normally assumed by the international cooperation partners are transferred and managed by the implementer.

At the same time, the mechanism generates benefits for the international donor (payer) insofar as it implies less burden in terms of monitoring the implementation of the project, since payment is exclusively associated with the fulfillment of goals.

In the case of Agroemprende Cacao, this means that by the end of 2022, in its 4th year of implementation, the project has achieved almost all of its goals and has surpassed some of them, obtaining bonuses. Among its most notable results: it has leveraged more than CAD $18 million from the private sector; it has improved productivity by 32% for 4,700 cocoa-producing families; cocoa sales of the associations increased by 60%; and 40 producer associations have improved their gender equality practices and increased the representation of women in decision-making bodies.

Generating Systemic Change and Mentality: This type of project requires significant operational modifications for both the international development worker and the project implementer. It changes the usual mechanism of planning, reporting or payment for implementation. As this is a new way of operating, it requires the involvement of multiple areas within each entity at the management level, and ongoing education to promote innovation and flexibility. In the case of Canadian cooperation, the success of this project has triggered greater interest ininnovative mechanisms that leverage private resources.

Articulation and Collaboration: One of the benefits of cooperative projects under results-based financing schemes is that it generates an appetite for other private and public entities to join as co- founders (co-payers), as it could be considered a safer bet compared to a traditional cooperative project. Thus, Agroemprende Cacao has mobilized more than CAD $18 million from the private sector, indicating a significant capacity to attract investment and collaboration from various stakeholders. This successful leveraging of resources is partly due to the fact that the private sector sees its risk transferred to the project implementer and has greater assurance that it will succeed with its investment.

Innovation: This scheme innovates with respect to traditional forms of development cooperation, which usually operate in the modality of disbursement for the implementation of activities and a subsequent monitoring of progress and results. The mechanism is novel in that it incorporates incentives for the implementer to reach and exceed goals, while at the same time requiring rigorous measurement of results. In addition, it modifies roles and responsibilities of the parties, reducing the risk of those who pay for the results.

5.4 Blended ***Finance***

5.4.1. United Nations Multi-Partner Fund

The United Nations Multi-Partner Fund for Peace in Colombia is a collaborative initiative that brings together the Colombian Government, the United Nations and international cooperation. Since its inception in 2016, it has been instrumental in supporting the implementation of the “Final Agreement for the Termination of the Conflict and the Building of a Stable and Lasting Peace”. This Fund stands out for its focus on catalytic investments that have demonstrated efficiency, innovation and have transformed the mentality towards peace building in Colombia. The blended structure linked seven private sector partners to the Fund with cooperation resources. The leverage ratio was 1 to 6, i.e., for each dollar of cooperation, an average of 6 dollars from the private sector were mobilized. Investments were developed through the use of several blended mechanisms; interest rate subsidy, exchange rate and interest rate risk guarantee (for the promotion of 2 lines of credit), technical assistance (for the strengthening of grassroots initiatives and projects) and patient capital (complement of resources/co-investment to establish long-term partnerships).

Efficiency and cost-effectiveness: The United Nations Multi-Partner Fund for Peace in Colombia has demonstrated remarkable efficiency and cost-effectiveness in its approach to peacebuilding. Since 2016, it has invested $180 million in 250 projects that have benefited more than 2 million Colombians in 437 municipalities. These catalytic investments are aimed at closing strategic financing gaps in areas where no other resources are available. Early investment and a focus on measurable results have enabled effective management of financial resources, reducing uncertainty and financial risk for the companies and partners involved.

Generating systemic change and mentality: The Multi-Partner Fund has been a catalyst for generating systemic change and transformation mentality in Colombia. It has collaborated with more than 600 civil society organizations, the Colombian government and cooperating countries to stabilize territories, support victims, reintegrate former combatants, and verify the implementation of the Peace Agreement. This has contributed to a fundamental change in the way peace and sustainable development is addressed in the country. By putting victims at the center of the process and empowering them as agents in the search for truth, justice and reparation, the Fund has contributed to a profound change in the mentality of Colombian society.

Articulation and collaboration: The Multi-Partner Trust Fund is an outstanding example of articulation and collaboration. Its tripartite nature, composed of the Government of Colombia, the United Nations and international cooperation, has allowed for effective coordination of investments and co-financing. In addition, the Fund has launched calls for blended Finance that have mobilized private investment in peacebuilding projects. This has facilitated comprehensive collaboration and strengthened the partnership between key actors in the search for peace and sustainable development in Colombia.

Innovation: The Multi-Partner Trust Fund has demonstrated innovation in its peacebuilding efforts. By prioritizing catalytic investments in areas where no other resources are available, it has promoted innovative solutions to close funding gaps. In addition, its focus on measurable results and front-loaded investment has been innovative in the peacebuilding field. The mobilization of private investment through blended Finance calls for proposals also reflects an innovative mindset in the search for impact financing solutions. Overall, the Multi-Partner Trust Fund has highlighted the importance of innovation in peacebuilding and sustainable development in Colombia.

5.4.2. Radical Flexibility Fund, Barranquilla

Efficiency and cost-effectiveness: The Radical Flexibility Fund (RFF) has been noted for its focus on improving the efficiency and cost-effectiveness of the foreign assistance and private foundation funding model. Through their pilot initiative in Colombia, they have demonstrated their ability to design innovative funding pathways that allow local organizations to have direct access to results-based Flexible Financing and technical assistance. This results in a more efficient allocation of resources, reducing bureaucracy and allowing funding to directly reach those who need it most. The combination of repayable loans, repayable grants and non-repayable grants demonstrates a diversified financing approach that can

maximize impact at an effective cost.
Generating systemic change and mindset: The RFF has promoted a significant mindset change by co- creating new funding streams that focus on the needs and visions identified by local organizations in Barranquilla. This empowers local communities and organizations by enabling them to lead and manage these financing mechanisms. Moreover, by focusing on strengthening migrant-led organizations and social enterprises, they are generating systemic change by directly addressing the needs of this vulnerable population.This approach goes beyond temporary solutions, as it promotes long-term sustainability and empowerment.

Articulation and collaboration: The RFF stands out because of its focus on collaboration and co-creation. It has worked closely with local stakeholders and have established a Funding mechanism managed by local actors. This represents a model of constructive collaboration between investors and creators of impact initiatives. This collaboration is instrumental in breaking down traditional barriers between Funders and beneficiaries, resulting in greater participation and empowerment of local stakeholders.

Innovation: The RFF presents itself as an innovative organization that promotes Flexible and adaptable funding mechanisms. Its emphasis on creating novel financing avenues and generating a collective vehicle model for financing social organizations and migrant-led enterprises demonstrates an innovative approach to addressing social challenges. In addition, its focus on building a strong body of local knowledge and the implementation of a robust learning programme demonstrate its commitment to innovation and continuous improvement.

5.4.3. Debt swaps

Effociency and cost effectiveness: The swaps of conservation debt have emerged as an efficient and cost- effective solution for developing countries. These agreements allow nations such as Barbados, Ecuador and Belize to redirect their sovereign debt towards conservation and sustainability. In the case of Barbados, a $150 million debt was converted into an investment to expand its marine protected areas and free up $50 million for future environmental actions. Ecuador carried out the largest debt-for-conservation swap in history, saving $1.1 billion and allocating $450 million for the protection of the Galapagos Islands. These agreements demonstrate that by linking financial interests with conservation, significant economic and environmental benefits can be achieved in a cost- effective way.

Generating systemic change and mindset: Debt-for-conservation swaps are driving a change in mindset in both debtor countries and the international community. The agreements represent an innovative approach that places environmental protection at the center of financial strategies. Countries are recognizing the importance of balancing their financial obligations with nature conservation, leading to a shift in the way they approach debt problems. Furthermore, these agreements highlight the global commitment to conservation, ensuring that future generations will be able to enjoy rich and diverse ecosystems.

Articulation and collaboration: Debt-for-conservation swaps are the result of effective collaboration between governments, non-governmental organizations such as The Nature Conservancy (TNC), Financial institutions such as the Inter-American Development Bank (IDB) and the DFC, and other international actors. This articulation demonstrates how multiple stakeholders can work together to address complex challenges

and find creative solutions. The agreements not only help free up resources for conservation, but also strengthen climate resilience and the protection of critical ecosystems, which would not have been possible without this collaboration.

Innovation: Debt-for-conservation swaps are an outstanding example of innovation in sustainable finance. By linking debt with investment in nature, these deals represent a creative way to address both debt problems and environmental challenges. The structure of these deals, combining guarantees, political risk insurance and the allocation of conservation funds, shows how financial innovation can drive sustainability on a large scale. The introduction of blue bonds in Belize, for example, is an innovative approach that not only benefits conservation, but also provides a way to address countries' debt problems in an effective way.

Annex 3 develops the case study of DEVIMAR Autopista al MAR 1 with a Public-Private Financing scheme for the development of road infrastructure, a case that is shared as a reference to be analyzed in subsequent processes.

06 CHALLENGES IDENTIFIED SOME INNOVATIVE FINANCING MECHANISMS

6.1 Results-Based Financing in *International Cooperation Agreements*

Technical exercise and time required in the structuring stage:

The project structuring stage requires a rigorous technical exercise to establish the results-based financing scheme, the indicators, the measurement formulas, the inputs required for their verification, values or prices for each result, and in some cases, the premiums for exceeding thresholds. This exercise demands intensive dedication from the structuring team, robust technical knowledge about the type of intervention required, as well as detailed contextual information. This process can, therefore, take longer compared with the structuring of a traditional international cooperation project where disbursement is activity-based.

Challenges in performance measurement processes:

- Despite an exhaustive design process, once the measurement of results begins and throughout the life of the project, it is likely that adjustments will be required due to factors not foreseen in the design, lack of available information, changes in the context or variables that were not contemplated at the beginning, and the project must be able to adjust metrics and their implications in terms of statistical consistency.

- In addition, given that the agreed results may include both quantitative and qualitative variables, depending on the type of project, there may be greater complexity in establishing the adequate measurement of qualitative variables. This complexity can also lead to discrepancies between the implementer and the independent verificatory, which create tensions as payment is contingent on verification, implying the implementation of dispute resolution techniques. As an example, a common mechanism for qualitative measurement is the use of beneficiary surveys. The measurement of results is exposed to risks due to subjectivity in the application of the surveys and/or in the reading of the responses.

Cash Flow Challenges for the Implementer:

- Depending on the payment structure agreed between the donor (results payer) and the implementer, sometimes the latter has the challenge of programming and financing the activities at the beginning of the project with its own resources, which implies having sufficient liquidity and adequate cash flow management for the operation. When the periodicity of payments for results does not adjust to the project's resource needs, this can generate a financial risk for the implementer.

- In this sense, the scheme requires an implementing partner with ample organizational and financial capacity to assume these risks, a feature that limits the access of some actors in this role.

- There are some alternatives to mitigate this risk: adjusting the periodicity of measurement and payment for results, opening up the possibility of measuring intermediate results, or even incorporating parameters that allow for advanced payments without prejudice to the incentives of the mechanism.

Multiple payers of results:

- While leveraging resources from multiple entities is very positive, this imposes an administrative challenge in terms of standardizing processes such as the establishment of multiple agreements/contracts, information requirements, reporting, budget conditions, contractual requirements, among others. In many cases this operational burden falls on the project implementer and even when trying to standardize processes, some entities are not very flexible to this type of changes.

- On the other hand, when multiple payers join the project along the way, there is a risk of withdrawal of some of them due to different circumstances, which implies affecting the project's financing and the implementer's search for alternatives to supply those resources.

Administrative burden for the payer (international development worker):

In results-based financing models, it is advisable to have independent verification to eliminate biases and make the process more transparent and reliable. Sometimes it is determined that this verification should be handled by a third party external (different from the implementer and the payer to eliminate possible conflicts of interest). This involves administrative challenges in terms of contracting procedures, invoice approval and payment processing, in addition to the process of results-based financing to the implementer.

External threats that affect the achievement of results:

Changes in the political, economic,

environmental and social context of the environments in which development projects are implemented can become obstacles to achieving agreed goals. Conditions such as increasing climate change impacts, or pandemics, can negatively affect the project by delaying or precluding actions and results. This requires additional efforts on the part of the implementer, but also flexibility and openness to reasonable adjustments on the part of the international donor (payer).

6.2 Bonds of *social impact*

Technical and knowledge challenges:

- Legal structuring and pricing construction: The inherent innovation of SIBs generated challenges related to the legal structuring of contracts and the pricing of results. The novelty of the mechanism required a deep technical understanding of both contract formulation and impact valuation.c

- Operationalization and start-up: The operational and start-up phase faced challenges related to changes in operators' practices, performance management and reporting and monitoring capacity. The initial infrastructure of • data, although basic, allowed for the consolidation of information crucial to understanding the population and adjusting operational actions.

Risks associated with equipment and turnover in public entities:

Team turnover: High turnover in the teams of public entities emerged as a significant risk. Constant changes in personnel can affect continuity, the generation of installed capacity in the entities and, therefore, sustainability and the optimal use of resources.

Persistent challenges and new challenges:

- Legal and administrative challenges: Legal and administrative challenges remain, both in the public and private spheres. The capacity and understanding of the contracting scheme, as well as the management of returned resources, are areas that require continued attention, especially in the case of Foundations.

- Technical capacities and understanding of the mechanism: The need for technical capacity building remains for both service providers and decision- makers. Understanding, designing, implementing and evaluating the mechanism requires a level of technical knowledge that remains a challenge.

- Leadership and commitment: The continued leadership and commitment of decision-makers remains a key challenge. Successful adoption of the mechanism depends to a large extent on the willingness and commitment of those in strategic positions.

6.3 Funds of *impact investment*

Establishment of agreements with investors and partner companies:

Complexity in Instrumentation: One of the initial challenges lies in establishing agreements with each investor and the companies or associations targeted for investment. The variety of financial instruments, levels of business maturity and the need for precise information generate

complexities in negotiation and agreements.
Obtaining information and due diligence:

- Access to information: Obtaining information needed for decision-making can be challenging. In some cases, information provided by companies or associations may be limited or difficult to obtain, complicating due diligence.

- Compliance and due diligence: The need to meet certain due diligence standards, especially due to compliance issues, adds an additional level of complexity and may require adaptations to balance flexibility and compliance.

Adaptation to changes in the business and environmental context:

- Impact of climate change: Climate change, particularly evident in the agricultural sector, has introduced new challenges and changes initial perspectives. Adapting to these changing dynamics and the need to adjust strategies according to the impacts of climate change is essential.

- Business and market context: Challenges vary according to the reality of the country, the business sector and market dynamics. Changes in regulations, competition and other external factors generate constantly evolving challenges.

- Continuous adaptation: Identifying new challenges at each stage reflects the dynamic nature of implementation. Constant adaptation by both the Facility and partner companies is crucial to overcome emerging challenges.

6.4 Banks of *habitat*

During the implementation of Habitat Banks, several challenges were encountered, which can be grouped into the following categories: Initial development and regulation:

- Non-existent regulation: The initial process was affected by the absence of established regulations for Habitat Banks, requiring efforts to address this regulatory gap.

- Lack of previous experience: The lack of experience of both consultants and experts in this mechanism introduced a significant challenge, requiring the construction of knowledge from scratch.

Stakeholder education and understanding:

- Business education: Educating

businesses and government entities about the functioning and benefits of Habitat Banks was a critical challenge, including adapting organizations to a novel mechanism.

- Community understanding: Understanding and aligning communities with conservation projects represented an additional challenge, recognizing that communities are key to long-term success.

Adaptation to changes in the business and environmental context:

- Quality and environmental outcomes: Quality assurance of results and effective demonstration of conservation actions were major internal risks requiring careful management.

- External factors: External risks such as political, regulatory and economic changes, as well as market competition, introduced an additional dimension of risk.

Permanence and development in territories:

- Long-term contracts: The permanence of 30-year projects implied challenges in resource management and adaptation to changes in the territories, especially in user contracts and business models.

Scalability and diversification of risk:

- Geographic expansion: Expansion to other regions of the country required specific considerations to adapt to the diversity of projects and legal, financial and technical contexts.

Inclusion in collective territories: Inclusion in collective territories raised new governance challenges that need to be addressed to ensure the effectiveness of the mechanism.

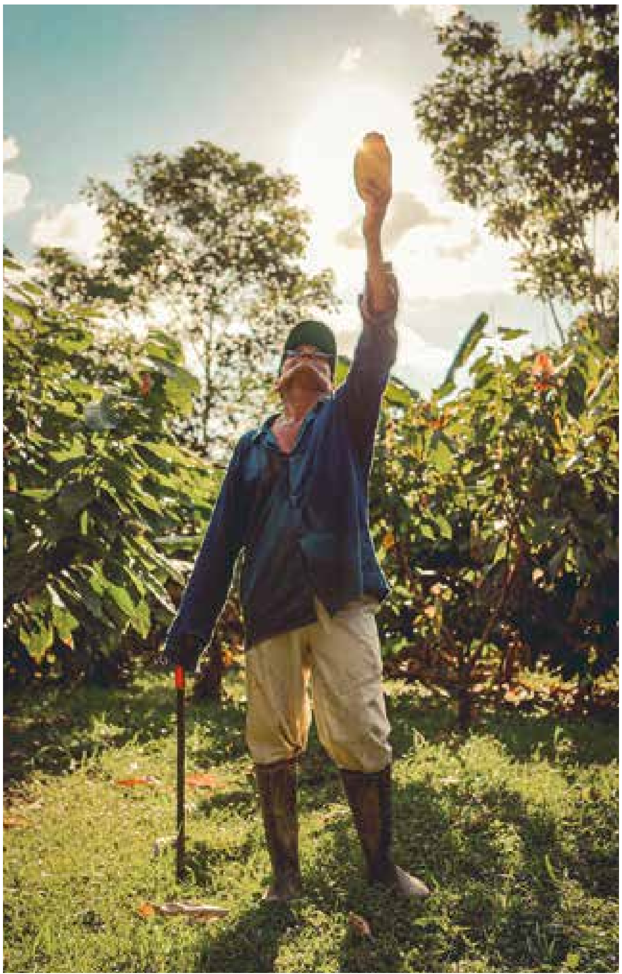
Entry into voluntary markets and international financing:

- Diversification of markets: Diversification of the mechanism to include voluntary markets presented opportunities, but also challenges in terms of international standards and regulations.

- Need for continued funding: The constant search for financial resources for biodiversity and investments remained a long-term challenge.

6.5 General conclusions ***of the challenges***

The innovative financing mechanisms analyzed face significant challenges that share similarities in several key areas. Common challenges include:

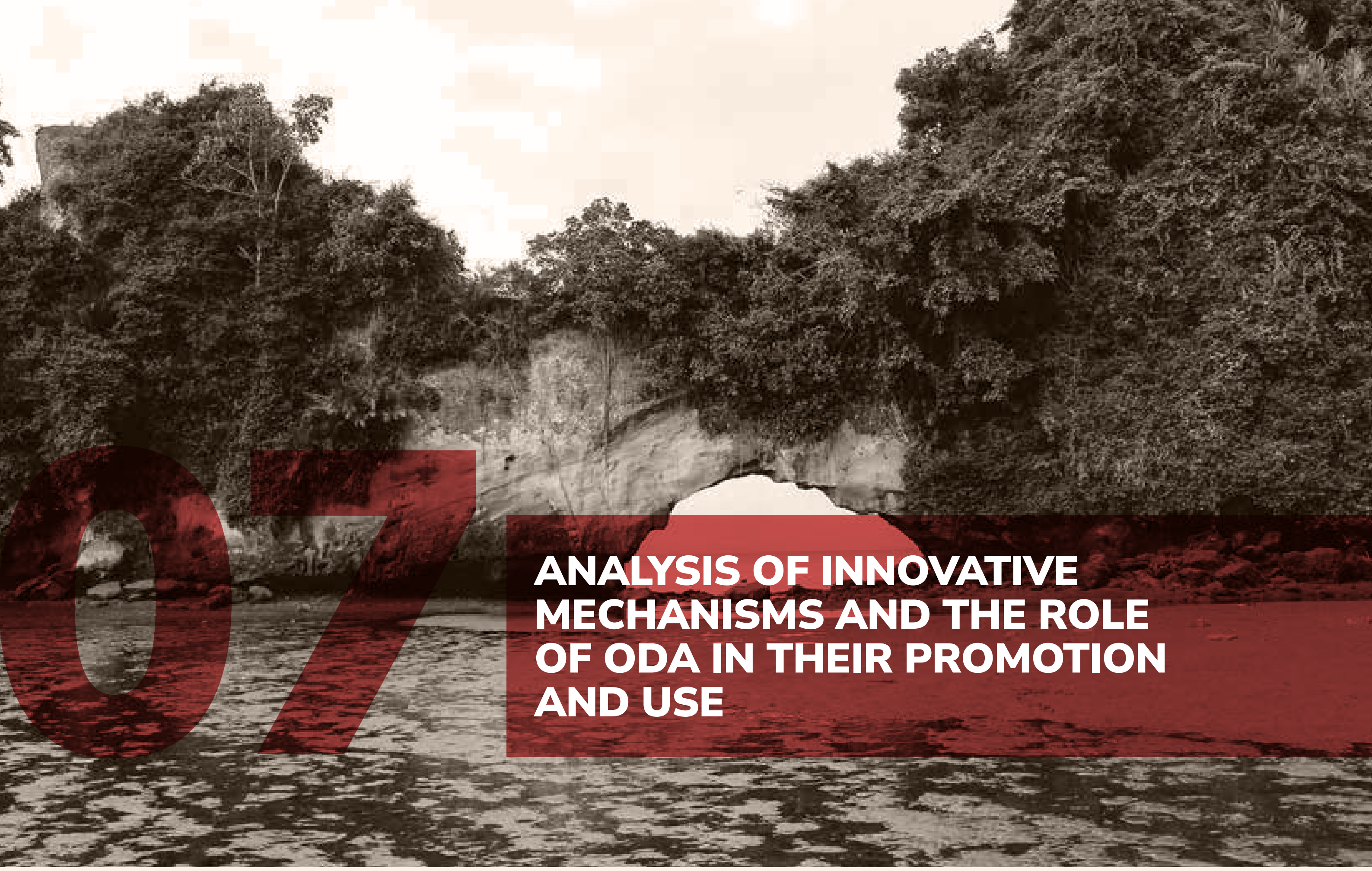


1. **Complexity in implementation and initial agreements:** The initial processes for establishing agreements with investors, companies or partners are affected by the complexity of the financial implementation. The variety of financial instruments and the need to adapt to different levels of business maturity create challenges in initial negotiations.

2. **Obtaining information and due diligence:** Accessing accurate information for decision-making and conducting due diligence is a challenge. Limited or difficult access to information from companies or associations can complicate the process, adding an additional layer of complexity, especially in terms of compliance.

3. **Adapting to changes in the business and environmental context:** The dynamic nature of the business context and environmental impacts, such as climate change, require continuous adaptation of strategies. Changes in regulations, competition and other external factors introduce constantly evolving challenges, highlighting the need for continuous adaptation.

These challenges underscore the importance of flexibility, adaptability and a deep understanding of the specific contexts in which these mechanisms operate. In addition, the persistence of technical, legal and administrative challenges highlights the need for sustained investments in capacity building and knowledge generation to ensure the long-term success of these innovative financial mechanism.



07 ANALYSIS OF INNOVATIVE MECHANISMS AND THE ROLE OF ODA IN THEIR PROMOTION AND USE

7.1 Choice of mechanisms according ***to the criteria used in*** the case analysis

The choice of an innovative financing mechanism is not a simple task and requires careful consideration of several factors. The social and environmental issue is the starting point of the analysis, as it establishes the context and the specific needs to be addressed. In the following, and in accordance with the cases presented, several aspects that influence the choice of the most appropriate mechanism will be analyzed:

- **Nature and scope of the problem:** The first key consideration is the nature and scope of the social or environmental problem to be addressed. Some mechanisms, such as Social Impact Bonds, focus primarily on employability and education, while debt-for- conservation swaps are geared towards the protection of critical ecosystems. It is essential to precisely define the problem to identify the mechanism that best suits their specific characteristics.

- **Economic and financial factors:** Economic and financial aspects also play an important role in the choice of the appropriate mechanism. Factors such as the cost of implementation, the availability of finance and the ability of stakeholders to make financial commitments are crucial. Thematic bonds can be effective in situations where countries face debt problems while seeking conservation investments. On the other hand, Impact Investment Funds identify economic sectors with high potential, attracting investment from Family Offices, Development Banks and Institutional Investors.

- **Sectors and actors involved:** The

choice of mechanism also depends on the sectors and actors involved in the issue. Some mechanisms, such as Habitat Banks, tend to involve private companies in offsetting environmental impacts. Blended Finance mechanisms involve collaboration between governments or non-governmental organizations and private investors. It is important to consider which sectors and actors will play an active role in the solution.

- **Experience and learning from other contexts:** The analysis of cases shows how these mechanisms have worked in different contexts and situations. Drawing on lessons learned and best practices from other cases can provide valuable information for the choice of the most appropriate mechanism. For example, Colombia's experience in implementing results-based financing mechanisms is a source of knowledge and information for effective implementation in other countries.

- **Flexibility and adaptability:** The ability of the mechanism to adapt to changing situations and the diversity of environmental and social challenges is essential. Mechanisms that are flexible and can be adjusted to address specific problems have a selection advantage. For example, Impact Investment Funds that define investment theses with flexible instruments such as equity or debt, depending on the investment opportunity.

- **Impact and performance evaluation:** Impact and performance evaluation is a critical factor. Each mechanism must be able to demonstrate its effectiveness and its ability to generate measurable and quantifiable results. Mainstreaming of robust performance indicators and monitoring systems is essential for determining the effectiveness of a mechanism in solving a problem. For example, results-based financing mechanisms clearly demonstrate greater rigor in measuring and verifying the results generated.

- **Transference of experience:** Finally, transference of experience between mechanisms is an aspect to consider. Approaches tested in one mechanism, such as debt-for-conservation swaps, can be adapted and applied in other contexts to address similar challenges.

Ultimately, the choice of the most appropriate mechanism depends on a thorough assessment of these factors and a thorough understanding of the nature of the social or environmental problem to be solved. Each mechanism has its advantages and limitations, and the choice should be based on alignment with the specific objectives and needs of the situation. The diversity of these innovative mechanisms offers a range of options to address a wide range of social and environmental problems, underscoring the importance of careful and reflexive selection.

7.2 Choice of Mechanisms ***According to Risk, Return,*** and Impact Criteria

Innovative financing mechanisms are an effective response to financial and investment challenges, as they have the capacity to accommodate the three main variables of private investment management: risk, return and impact. In a context where risk, financial return and social and environmental impact vary widely, these mechanisms present themselves as an adaptable and balanced solution.

- **Risk reduction for private investors and capital mobilization:**

Innovative Financing Mechanisms play a crucial role in reducing the perceived risk of private investors, which in turn acts as an accelerator in mobilizing capital into areas or populations that would otherwise be considered riskier investments. These mechanisms often include tools such as credit guarantees and insurance that support the underlying projects. For example, a Credit Guarantee Mechanism could support an Infrastructure Finance project in a middle-income country, which reduces the risk of default and thus attracts private investors who might otherwise refrain due to the perceived risk.

These risk mitigation mechanisms trigger increased private investment in key sectors, such as infrastructure, energy and technology, which are essential for the achievement of the SDGs. By reducing the perception of risk, the scope for private investment expands, resulting in greater capacity to address critical needs in these areas.

- **Improving returns and attractiveness of investments:**

In addition to risk reduction, Innovative Financing Mechanisms have the potential to improve returns on private investments and thus make investment opportunities in SDG-related projects more attractive. This is achieved by providing Financial incentives based on specific impact outcomes. For example, a Performance-Linked Impact Mechanism could offer additional payments to investors if a renewable energy project exceeds its clean energy production targets or if an education programme achieves specific graduation rates.

These incentives increase the return on investment, which attracts private investors seeking a balance between financial returns and the generation of positive social or environmental impact. The opportunity to earn significant returns while achieving measurable impact outcomes adds considerable attractiveness to investments in SDG- related areas.

- **Increased social and environmental impact:**

Innovative Financing Mechanisms are intrinsically linked to the amplification of social and environmental impact. These mechanisms focus on generating measurable and concrete results in key areas of sustainable development. By offering financing based on the achievement of impact targets, it ensures that the projects and programmes supported have the capacity to effect real change.

For example, a Health Impact Investment Facility could disburse funds to a health care access project in rural communities only after measurable reductions in rates of preventable diseases have been achieved. This not only ensures investment in real results, but also encourages project implementers to maximize their impact over time.

- **Innovative Mechanisms: Fundraising vs. Deployment**

The usefulness of Innovative Funding Mechanisms is not only limited to the Fundraising Phase. They also play an essential role in the deployment phase, ensuring that funds are efficiently directed towards projects and programmes that address specific issues. The flexibility of these mechanisms allows them to address both the mobilization of resources and their effective application.

7.3 Innovative mechanisms ***and the role of*** international cooperation

ODA plays an essential and multifaceted role in the context of Innovative Financing Mechanisms. Beyond its financial contribution, ODA acts as a catalyst for development, playing critical roles ranging from the provision of resources for technical assistance and financing for the structuring of mechanisms to the creation of guarantee structures that reduce the perceived risk for private investors. The following presents the various roles and resources that ODA can bring to the successful implementation of Innovative Financing Mechanisms, highlighting their importance in achieving the Sustainable Development Goals and addressing the most pressing global challenges.

- **Resources for technical assistance:**

ODA plays a key role in providing financial and technical resources to support the technical assistance required in the implementation and management of Innovative Financing Mechanisms. This assistance ranges from training in risk assessment to the formulation of effective financing strategies and effective project management. Through this assistance,

ODA ensures that teams responsible for the implementation of Innovative Mechanisms are adequately equipped with the necessary skills and knowledge to address financial complexities and operational challenges. This is especially important in the context of those Facilities, where innovative financing solutions often require solid technical expertise to ensure successful implementation.

- **Funding for the structuring of mechanisms:**

International cooperation contributes to financing in the initial phases of structuring Innovative Financing Mechanisms. These funds are essential to carry out feasibility studies, market analysis, development of financial models and the creation of technological platforms necessary for the effective operation of these mechanisms. Funding at this critical stage is a catalyst for the successful development and launch of Innovative Mechanisms, which in turn attracts large-scale private investment. In addition, international cooperation can play an active role in structuring and designing these mechanisms, ensuring that they are aligned with sustainable development objectives and local needs.

- **Collateral structure:**

guarantee structures provide private investors with a degree of security that allows them to participate in projects that address complex challenges, such as infrastructure in remote areas or health solutions in resource-constrained regions. The presence of guarantee structures backed by international cooperation is a powerful incentive for private investment in projects with a high potential for positive social or environmental impact.

- **Facilitating access to investment and financing networks:**

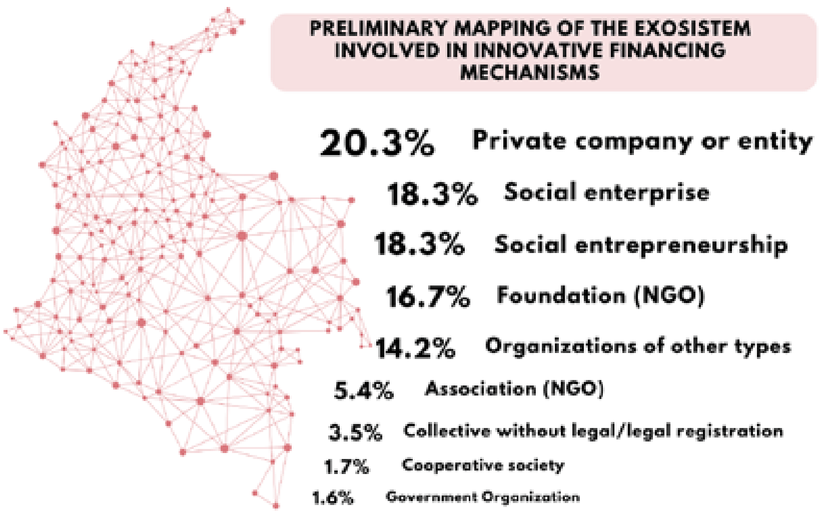
International cooperation, through its global presence and contacts, can facilitate the access of projects supported by Innovative Mechanisms to investment and financing networks. This includes connecting with private investors, impact investment funds, development banks and other sources of capital. ODA can act as a bridge between projects and investors, helping to overcome barriers and establishing strategic relationships that support successful project financing.

- **Coordination of multiple actors and resources:**

ODA plays a pivotal role in coordinating the various actors involved in the implementation of Innovative Financing Mechanisms.This includes governments, non-governmental organizations, private investors, international agencies and other key actors. International cooperation acts as an enabler to align efforts, avoid unnecessary duplication and ensure that resources are used efficiently and strategically. Effective coordination is essential for the long-term success of these mechanisms.

7.4 Preliminary stakeholder mapping ***involved in the use*** of innovative mechanisms

As a result of the analysis of the information contained in the Innpactia platform, the following is a global analysis of the specific weight of the actors that can potentially be part of processes linked to the use of innovative financial mechanisms. A non-exhaustive list of such 5ggntgs is presented in Annex No. 2.



08 CONCLUSIONS AND RECOMMENDATIONS

The lack of a channel or entity that centralizes and compiles easily accessible information for the ecosystem hinders the adequate transfer of knowledge and learning in a cross- cutting manner. While there are many actors working to build innovative financing mechanisms, the challenge is to be able to respond to very specific questions on preference and focus.

Having a support mechanism that also allows for the segmentation of these actors (together with their main characteristics and preferences), will make it possible to articulate and leverage the involvement of other actors in the following stages of the projects. In this space, it is important to consider and specify the role that a public institution such as the Colombian Presidential Agency for International Cooperation (APC Colombia) can play in the positioning, promotion, and support of the awareness raising and the establishment of contacts and agreements to identify, structure and implement innovative financial mechanisms for sustainable development.

The design of a sound strategic plan is essential to guide APC Colombia's activities in relation to the "new cooperation" in a country like Colombia. As the country faces unique challenges in terms of financing for development, such as the transition of international assistance, it is crucial to have a clear focus and long-term vision. This plan will enable APC Colombia to define its priorities, identify opportunities for collaboration and set a coherent direction. It will also help to optimize the use of available resources and align cooperation strategies with national objectives.

2|

The development support ecosystem requires a comprehensive approach that promotes technical support for capacity building, both on the supply side (financiers/investors) and on the demand side (impact projects or organizations). The transfer of knowledge will strengthen the bases on which financing mechanisms are generated, as well as strengthen compliance with the terms, measurable impact generation, return of expected return (if it has been proposed) and the establishment of collateral for subsequent financing.

In this context, APC Colombia could include in the National Strategy for International Cooperation (ENCI) an objective and/or goal linked to the promotion and inclusion of innovative mechanisms in international cooperation agendas. At least two spaces are conducive to this. On the one hand, dialogue and political positioning of these issues with the main ODA actors. On the other hand, the development of similar activities in the region and in other areas of relations with developing countries, including capacity building, exchange of experiences and design of joint projects. In this case, south-south and triangular cooperation will be the most appropriate vehicle for these purposes.

Finally, it is worth considering how the National Cooperation System can be an arena in which innovative finance and its mechanisms are considered in a multi-stakeholder and multi-level approach. Effective cooperation requires close coordination with other government entities and development-related organizations.

Strengthening inter-agency partnerships will enable APC to collaborate effectively with relevant ministries, agencies and bodies, ensuring comprehensive implementation of innovative financing programmes. This collaboration, as well as the strategic channeling of resources, will facilitate the identification of synergies, avoid duplication of efforts, ensure that projects are aligned with national sustainable development policies and that there is an optimal distribution of resources and maximization of social and environmental impact.

3|

It is identified that the channeling of funding to projects that generate impact is to those that already have a developed social business model, as well as to projects in which those who lead the generation of impact are organizations with extensive experience (both locally and with different similar projects implemented). This, coupled with a lack of knowledge about the development of the ecosystem and alternatives, means that projects that are at an earlier stage end up opting for the best-known resource, which does not necessarily mean that it is the most appropriate. For this reason, it is recommended that projects at earlier stages look for vehicles adjusted to their typologies. In other words, to design - hand in hand with the potential financier - a structure ad-hoc to their business model and that allows them to feel comfortable in terms of their objectives and operational, financial and impact needs. Among the potential mechanisms that have been found are:

- Convertible debt if profund investor involvement is sought with the possibility of exit as investors.
- Debt convertible into grants and that this conversion is subject to the generation of a target impact by the project.
- Grant convertible into debt triggered by the level of growth of the organization.

4|

There is still a high concentration of investments through mechanisms such as traditional equity, convertible debt, and traditional debt (both thematic bonds and private debt). This is in response to the lack of education of ecosystem actors (from the beneficiary/entrepreneur to the placement intermediary and the capital provider), which also includes the enablers of this environment such as law firms, structuring advisors and academia. In order to further develop the impact ecosystem in Colombia and regionally, all these actors need to understand the differences and implications in order to increase adoption and generate feedback to existing structures.

5|

Structured debt via repayment against income is becoming increasingly important. This is not only because it provides greater flexibility to impact ventures, but also because it manages to increase the liquidity of those Funds that generally achieve this objective in divestment processes.

6|

Mechanisms such as results-based financing prove to be interesting instruments to achieve goals that are set as a function of projects without complex structural problems. These mechanisms can be applied through operators or facilitators who have a deep knowledge of the problem and the goal to be set, in order to achieve sustainable and long-lasting objectives.

7|

In recent years we have also seen more and more operations structured under mixed finance, which manage to mobilize private resources in those projects where they are less risk-averse for various reasons. This mechanism can be very interesting to consider for earlier stage social projects, as these vehicles provide a space where private capital may be more willing to cooperate and share part of the risk in order to generate more inclusive ecosystems and increase impact. It is a way to leverage the private sector to seek their involvement, where much of the risk is reduced by absorbing it through grants or donations, while at the same time generating attractive shared returns.

09 ANNEX NO. 1

Glossary of key terms used in the report.

Preferent Shares: Equity securities that give priority in the receipt of dividends and in the distribution of assets in the event of dissolution of the company. Although they usually offer fixed-rate dividends, holders have limited control over company decisions, as their vote is generally restricted to specific situations. They do not always allow participation in the earnings of the issuing entity and are registered securities.[56]

Paris Agreement: Legally binding international treaty on climate change. It is a milestone in the multilateral climate change process because, for the first time, a binding agreement brings all countries together in common cause to undertake ambitious efforts to combat climate change and adapt to its effects[57].

Ecosystem-based adaptation:
Ecosystem-based adaptation (EbA), also referred to as Nature-Based Solutions (NBS), involves a wide range of activities from ecosystem management, such as sustainable management of forests, grasslands and wetlands, which increase resilience and reduce the vulnerability of people and the environment to climate change [58].

Official Development Assistance (ODA): The term "aid" generally refers to Official Development Assistance (ODA). ODA is defined as Flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are provided by law enforcement agencies, including state and local governments, or by their executive agencies. In addition, each transaction must be administered for the purpose of promoting the economic development and welfare of developing countries[59].

Habitat banks: Habitat banks are land where compensation requirements are added and ecosystem preservation, enhancement or restoration actions are implemented to offset negative impacts on biodiversity [60].

Blue bonds: Debt issues aimed at preserving

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[56] International Monetary Fund. (2020). Apéndices - Guía para las estadísticas de la deuda externa. https://www.imf.org/external/pubs/ft/eds/esl/guide/pdf/file6.pdf
[57] United Nations. (2015c). El Acuerdo de París. Unfccc.int. https://unfccc.int/es/acerca-de-las-ndc/el-acuerdo-de-paris
[58] IUCN. (s/f). Ecosystem-based adaptation. IUCN. Recuperado el 24 de octubre de 2023, de https://www.iucn.org/our-work/topic/ecosystem-based-adaptation
[59] OECD. (2023a). Official development assistance (ODA). Oecd.org. https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm
[60] Terrasos. (2022). Bancos de hábitat. Terrasos. https://www.terrasos.co/bancos-de-habitat

and protecting the oceans and their ecosystems. They are related to the conservation and sustainable use of marine and coastal resources. They seek, through the mobilization of public and private capital, to promote projects that have a favorable impact on the achievement of the SDGs and the blue economy [61].

Conservation Bonds: Financial instruments designed to raise capital to be used for conservation projects, whether nature, biodiversity, or historical and cultural heritage[62].

Gender Bonds: These bonds are designed to support projects and programmes that promote gender equality and empower women in different areas, such as access to financial services and leadership opportunities.

Social impact bonds: This is the name given to debt contracts based on in the results-based financing mechanism that incorporate the use of private financing from investors to advance the resources required for the provider to structure and implement a social service[63].

Orange Bonds: These bonds focus on supporting the creative and cultural industries, promoting creativity and innovation in this sector.

Sovereign bonds: These emerged as an opportunity for Latin American and Caribbean (LAC) countries to efficiently channel domestic and international capital markets towards sustainable investments. They generate diversification of the investor base, direct mobilization of investment capital towards green and sustainable activities and support the creation of sustainable capital markets[64].

Social bonds: Debt instrument through which capital is raised exclusively to finance or re-finance, partially or totally, projects that have a direct impact on social welfare and the improvement of the quality of life of communities[65].

Sustainable bonds: Mobilize investor funds in bond markets to support the financing of projects in developing countries, including climate change issues.[66] They seek to balance economic growth with environmental protection and social responsibility.

Thematic bonds: Also known as earmarked bonds, these are mainly fixed-income financial instruments issued by both governments and companies to finance the following types of financial instruments projects that generate environmental and social benefits[67].

Green bonds: A financial instrument to raise capital from investors to meet green financing

[61] BBVA. (2023). ¿Qué son los bonos azules y por qué son importantes? bbva.com. https://www.bbva.com/es/sostenibilidad/que-son-los-bonos-azules-y-por-que-son-importantes/
[62] The World Bank. (2012). Expanding Financing for Biodiversity Conservation EXPERIENCES FROM LATIN AMERICA AND THE CARIBBEAN. The World Bank. http://chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.worldbank.org/content/dam/Worldbank/document/LAC-Biodiversity-Finance.pdf
[63] Agusti Strid, A., & Ronicle, J. (2021a). Social Impact Bonds in Latin America: IDB lab's pioneering work in the region: Lessons learnt (C. Ternent, Ed.). Inter-American Development Bank.
[64] Frisari, G. (2022). Los Bonos Soberanos Sostenibles como instrumentos básicos de financiación para el desarrollo sostenible. Sostenibilidad. https://blogs.iadb.org/sostenibilidad/es/los-bonos-soberanos-sostenibles-como-instrumentos-basicos-de-financiacion-para-el-desarrollo-sostenible/
[65] Bolsa Nacional de Valores. (2020). Bonos Sociales. Bolsacr.com. https://www.bolsacr.com/empresas/bonos-sociales
[66] Banco Mundial. (2021). ¿Qué son los bonos para el desarrollo sostenible? World Bank; Banco Mundial. https://www.bancomundial.org/es/news/feature/2021/09/28/what-you-need-to-know-about-sustainable-development-bonds
[67] Findeter. (2023, agosto 31). ¿Qué son los bonos temáticos? findeter.gov.co. https://www.findeter.gov.co/index.php/blog/estructurar-y-financiar-el-desarrollo/que-son-los-bonos-tematicos

needs, and a number of bond issuers have been active in the green bond market. Corporates account for one fifth of green bonds, and financial institutions for around one quarter. The main players in the market have been the public sector, including multinational institutions, government agencies and municipalities[68].

Sustainability-LinkedBonds ("Sustainability-Linked Bonds, or SLBs"): These aim to further develop the key role that debt markets can play in financing and promoting companies that contribute to sustainability (from an environmental, social, or governance (ESG) perspective)[69].

Debt swap: a voluntary or compulsory conversion transaction in which outstanding debt instruments are exchanged for debt instruments with different terms[70].

Debt-for-nature swap: An agreement that reduces a developing country's debt stock or debt service in exchange for a commitment to protect nature by the debtor government. This is a voluntary transaction whereby the donor(s) cancels the debt of a developing country government. The savings from the debt service reduction are invested in conservation projects[71].

First loss capital: This is defined as capital that absorbs losses before all other sources of capital. It is typically used to catalyze the participation of other investors who would not otherwise have entered into the transaction, thereby mobilizing a greater volume of capital that would not otherwise have been raised[72].

Patient capital: Investment, via debt or equity, in an early-stage social enterprise that does not aim for high financial returns, but rather bridges the gap between market focus (based on efficiency and scale) and pure philanthropy (based on social impact). The characteristics of patient capital include: a high tolerance for risk, long- term repayment of invested capital, post-investment support necessary for growth, and the unwavering goal of maximizing social impact[73].

International cooperation: Comprises all concessional modalities of aid and collaboration between countries, which contribute to development processes through the transfer of technical and financial resources between various actors in the system[74].

Private funding (external and internal private funding): Funding from private entities, such as companies or individuals. Two types of private financing are identified: external and internal. External financing is financing by foreign private entities, as opposed to internal financing, which is financing by local or national private entities[75].

[68] Convention on Biological Diversity. (2017). Green bonds. https://www.cbd.int/financial/greenbonds.shtml
[69] The Sustainability-Linked Bond Principles. (2020). Los Principios de los Bonos Vinculados a la Sostenibilidad Guías del Procedimiento Voluntario. Icmagroup.org.
https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Translations/2020/Spanish-SLBP2020-06-280920.pdf
[70] La Nación. (2023, marzo 23). ¿Qué es un canje de deuda y cómo podría impactar la nueva medida del Gobierno? LA NACION.
https://www.lanacion.com.ar/economia/que-es-un-canje-de-deuda-y-como-podria-impactar-la-nueva-medida-del-gobierno-nid23032023/
[71] United Nations Development Programme. (2023). Debt for nature swaps. Undp.org. Recuperado el 24 de octubre de 2023, de https://sdgfinance.undp.org/sdg-tools/debt-nature-swaps
[72] Latimpacto. (2022, octubre 14). Glosario. Finanzas innovadoras. https://finanzasinnovadoras.org/glosario2/
[73] Acumen. (2022). EL CAPITAL PACIENTE APALANCA LAS FUERZAS DEL MERCADO Y LA FILANTROPÍA. Acumen.org. https://acumen.org/latinoamerica/nosotros/capital-paciente/
[74] Cancillería. (1982). Cooperación Internacional (E. G. Valdés, Trad.). Cancilleria.gov; Knoth, E
[75] Akinnibi, F. (2022). Private Finance and Public Finance: What is the Difference? Cowrywise Blog; Cowrywise. https://cowrywise.com/blog/public-private-finance/.

Blended finance: Blended Finance is the strategic use of Development Finance to mobilize additional funds for sustainable development in developing countries. It attracts commercial capital to projects that contribute to sustainable development, while providing financial returns to investors. This innovative approach helps to increase the total amount of resources available to developing countries, complementing their own investments and ODA inflows to cover their SDG financing gap and support the implementation of the Paris Agreement[76].

Addis Ababa Declaration: A landmark agreement that provides the basis for implementing the sustainable development agenda that world leaders adopted. It also provides for domestic resource mobilization through broadening the tax base, improving tax collection systems and combating tax evasion and illicit financial flows. It also commits countries to deliver on official development assistance, especially to the least developed countries and stipulates greater South-South cooperation[77].

Deployment of funds: Capital deployment refers to the strategic allocation and utilization of financial resources to specific projects, investments or initiatives. This process involves making decisions about how available funds will be invested, spent or distributed in order to maximize return on investment, achieve financial, social or environmental objectives and generate positive impact. In the context of innovative Financing for Development mechanisms, capital deployment focuses on the implementation of projects or programmes that seek to address specific challenges, such as climate change mitigation, poverty reduction or access to education. Effective management of capital deployment involves ongoing project monitoring, impact measurement and informed decision making to ensure that resources are used effectively and the desired results are achieved.

Special Drawing Rights (SDRs): The SDR is an international reserve asset created by the European System of Central Banks (ESCB) by the IMF to supplement the official reserves of its member countries. The SDR is not a currency. It is a potential claim on the freely usable currencies of IMF members. As such, the SDR can provide liquidity to a country. A basket of currencies defines the SDR: the US dollar, the euro, the Chinese yuan, the Japanese yen and the pound sterling[78].

Debt: Contracting a debt involves taking on the obligation to repay Funds obtained through the contribution of third parties. These may come from another person, a company, an institution or a financial institution[79].

Convertible debt (convertible loan or convertible note): It is a Form of receiving investment that allows the company to receive a determined sum of money and in consideration it commits that, in a Future, at a determined time, or as a consequence of the occurrence of some events, a determined number of shares will be delivered[80].

Mezzanine debt: Mezzanine debt is a strategy

[76] OECD. (2023b). Blended Finance. Oecd.org. https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/
[77] Los países alcanzan acuerdo histórico para financiar la nueva agenda de desarrollo. (2015). Noticias ONU. https://news.un.org/es/story/2015/07/1334931
[78] International Monetary Fund. (2023). What is the SDR? Imf.org. https://www.imf.org/en/Topics/special-drawing-right
[79] Communications. (s/f). Qué es la deuda: para qué sirve y cómo se mide el endeudamiento financiero. BBVA. Recuperado el 24 de octubre de 2023, de https://www.bbva.com/es/salud-financiera/que-es-la-deuda-para-que-sirve-y-como-se-mide-el-endeudamiento-financiero/
[80] Quintana, C. (2020). Deuda Convertible: Aprende qué es esta valiosa herramienta. Lean Case MAG; Lean Case. https://mag.leancase.co/que-es-la-deuda-convertible/

that obtains a return similar to that which equity would seek, but in terms of payment structure, has a pre- interest on shareholders. It is for this reason that it is considered a hybrid strategy[81].

Senior debt: Senior debt is a type of debt issued by an economic agent of the highest possible credit quality. This debt puts the holder ahead of the rest (seniority) when it comes to getting paid if that issuer goes bankrupt[82].

Subordinated deb: Subordinated debt are fixed income securities with an explicit yield that offer a higher return than other debt assets. This higher return is achieved in exchange for a loss of collectability in the event of a default. The company's extinction and subsequent liquidation since payment is subordinated in order of priority in relation to the ordinary creditors[83].

Blue Economy: The Blue Economy concept focuses on the role of the seas as an economic resource and the importance of managing their resources efficiently, restoring damaged ecosystems and introducing innovation to enable sustainable use in the future[84].

Family office: Investment vehicle set up by entrepreneurial families seeking to manage financial or real estate assets with the mission of preserving them through efficient management[85].

Philanthropy: is used in a broad sense to refer to all non-profit activities, including private donations of resources, but also civic activism, volunteer activities in nonprofit organizations and even paid work in such organizations[86].

Innovative Financing: Innovative Financing involves non-traditional applications of solidarity, public-private partnerships and catalytic financing mechanisms that (i) support fundraising by tapping into new sources and engaging investors beyond the financial dimension of development as development partners and stakeholders; or (ii) provide financial solutions to development problems on the ground[87].

Sustainable financing: Strong financial backing at national, state and local levels.[88] Mobilization of public, private and transnational resources; financial resilience in the face of social, environmental and governance risks; and expertise in the conduct of investigations related to the recovery of assets derived from corruption.

Impact Investment Fund: An Impact Investment Fund makes investments and is managed to create a positive social and environmental impact alongside (not instead of) a financial return[89].

UN Multi-Partner Fund: A Multi-Partner Fund is a type of pooled funding modality under the United Nations Development Group (UNDG)

[81] FYNSA. (2021). ¿Qué es la deuda Mezzanine y por qué es una oportunidad de negocios a nivel local? Fynsa.com. https://www.fynsa.com/newsletter/que-es-la-deuda-mezzanine-y-por-que-es-una-oportunidad-de-negocios-a-nivel-local/
[82] Bestinver. (2022). Deuda senior. Bestinver.es. https://www.bestinver.es/terminos/deuda-senior/
[83] BBVA, (2015).Communications. ¿Qué es la deuda subordinada? BBVA. https://www.bbva.com/es/la-deuda-subordinada/
[84] ¿Qué es la economía azul y cómo ayuda al planeta? (2022, agosto 8). Santander.com; Santander Bank. https://www.santander.com/es/stories/economia-azul
[85] Garrigues, M. P. (s/f). ¿Qué es un Family Office? Garrigues. Recuperado el 24 de octubre de 2023, de https://www.garrigues.com/es_ES/noticia/que-es-un-family-office
[86] Argandoña, A., & Marín García, S. (2018). Filantropía y RSC. Servicio de Publicaciones de la Universidad de Navarra.
[87] Citi Foundation. (2014). Innovative Financing for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes. Citigroup.com. https://www.citigroup.com/rcs/citigpa/akpublic/storage/public/innovative_financing_for_development.pdf
[88] OECD. (2012). Financiamiento Sostenible. En Evaluaciones de Políticas Nacionales de Educación: La Educación Superior en la República Dominicana 2012 (pp. 131–142). OECD.
[89] Espinosa, P. (2023). Impact. Moonfare.com. https://www.moonfare.com/pe-masterclass/impact-funds

governance mechanism, in which multiple UN organizations participate and which is designed to receive contributions from donors to support specific development results at the country, regional or global level. Donor resources are pooled and held in trust by the designated Administrative Agent (AA) to fund projects/programmatic allocations implemented primarily by participating UN organizations that use their own policies and operating procedures for implementation[90].

Fundraising: It is a strategic and systematic process that organizations use to raise financial resources or in-kind support to fund their activities, projects or initiatives. This process may involve seeking donations from individuals, companies, foundations, governments or other sources, as well as implementing fundraising strategies such as events, campaigns, grants and partnership agreements. Fundraising is essential for the sustainable functioning of non-profit organizations, NGOs, cultural and educational entities and any entity that requires external funding to fulfil its objectives and mission. Effectively managing fundraising involves identifying sources of funding, cultivating relationships with donors, and effectively communicating the impact of funds raised.

Guarantee: A (partial) guarantee is the commitment of a Guarantor to back up and make payment in case of default of the enterprise. A (partial) guarantee can play an important role for impact enterprises as it represents a mechanism to increase security and facilitate the mobilization and investment of private capital, thus promoting financial access[91].

Repayable (or convertible) grant: A grant given to an organization which, if it proves to be (commercially) successful beyond a certain level, must be repaid in full or in part[92].

Impact: The degree to which a project, action or event has an effect or incidence on another individual, society or society as a whole organization directly or indirectly. These alterations contribute to the well-being or detriment of the recipient of the affection[93].

Gini index: The Gini index measures the income inequality of a population, taking values between 0 and 1. The value 0 corresponds to the situation of least inequality, which would be reached if all people had the same income. A value of 1 indicates the most unequal situation, which would be reached if only one person had the total amount of income. income and the rest of the population had nothing[94].

INNpulsa: Agency for entrepreneurship and innovation of the National Government of Colombia[95].

Investing "with" impact (impact investing): Impact investing is an enforces that aims to contribute to the achievement of measurable positive social and environmental impacts. It has emerged as an important opportunity to mobilize capital towards investments that pursue quantifiable positive social,economic or environmental impact alongside financial returns[96].

[90] UNDG. (2015). UNDG Guidance on Establishing, Managing and Closing Multi-Donor Trust Funds. Unsdg.un.org. https://unsdg.un.org/download/46/254
[91] GARANTÍA (PARCIAL). (2022, septiembre 21). Finanzas innovadoras. https://finanzasinnovadoras.org/instrumentos/garantia-parcial/
[92] DOEN foundation - convertible grants. (2023, octubre 21). GET.Invest. https://www.get-invest.eu/fund/doen-foundation-convertible-grants/
[93] Editorial Etecé. (2023). Impacto social - Qué es, concepto, tipos y ejemplos. https://concepto.de/impacto-social/
[94] CEPAL. (s/f). Portal de desigualdades en América Latina. Cepal.org. Recuperado el 24 de octubre de 2023, de https://statistics.cepal.org/portal/inequalities/incomes.html?lang=es&indicator=3289
[95] Nosotros – Innpulsa. (2023). Innpulsacolombia.com. Recuperado el 24 de octubre de 2023, de https://www.innpulsacolombia.com/nosotros/
[96] IFC. (2023). Impact investing at IFC. IFC. https://www.ifc.org/en/our-impact/impact-investing-at-ifc

Innovative Financing Mechanisms or Innovative Financing Instruments: New and complementary sources of resources in governments, the private sector, social organizations and civil society, in order to promote a more efficient and effective form of financing of initiatives that generate social impact and tie the flow of resources to the achievement of results, thus diversifying the risk among the different actors involved[97].

Philanthropic organization: Those organizations with assets coming from the same person, family or groups of people (related to each other), whose management allows them to act self- sufficiently for the benefit of society, either through the execution of their own projects, the channeling of resources to third parties or a combination of both strategies[98].

Impact-linked financing: A method of raising capital that can be of a different nature and allows some expected outcomes to be set in advance (such as the number of individuals who obtain and remain in formal employment) and, based on these targets, to set the remuneration that providers will receive for the delivery of predictable and verifiable outcomes[99].

Equity: The value of an investor's stake in a company, represented by the proportion of its shares. Owning shares in a company provides shareholders with the possibility of capital gains and dividends. In addition, it also gives shareholders the right to vote on corporate actions and elections for the board of directors[100].

Convertible Notes: These are contracts whereby an investor lends money to a start-up with the aim of receiving a consideration within a specific period. This consideration may consist of the repayment of the principal, with fixed or variable interest, or the conversion of the loan amount into shares or equity in the start-up. The convertible loan is therefore one of the simplest and quickest ways for start-ups to obtain financing[101].

Subordinated loans: A subordinated loan is a simple catalytic instrument that can help channel capital into impact businesses. It can be incorporated into a capital structure or an instrument that combines debt and equity that ranks below pre-funded debt, but above common equity in the order of seniority. The ranking determines who will be paid first in the event of bankruptcy, and follows a system of cascading payments, whereby pre-funding creditors are paid first, followed by junior creditors if and only if they have been paid in full in full for everything owed to the pre-funding creditors[102].

Revenue-based financing: A method of raising capital for a company from investors who receive a percentage of the company's ongoing gross revenues in return for the money they invested[103].

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Subsidy: Subsidies are amounts received by the company as aid from the State or other entity without the expectation of a financial return. The purpose of a subsidy can be: To finance expenses or the fixed structure, to guarantee a return, to compensate a deficit, etc. By their nature, they can be non-refundable or refundable and, by their nature, monetary or non-monetary[104].

Green taxonomy: The green taxonomy is a system of classification of economic activities and assets that contribute to the achievement of the country's environmental objectives and commitments. The taxonomy incorporates a set of definitions aimed at supporting different actors in the public and private sector, such as bond issuers, investors, financial institutions, public entities, among others, in the identification and evaluation of investments that can meet environmental objectives and that can be considered green or environmentally sustainable in Colombia[105].

Investment vehicle: Any instrument, product or method that an investor acquires or uses in order to invest some capital in it and thereby earn a return[106].

Venture debt: This is a start-up oriented loan where most of the loan consists of debt that is repaid with interest and a small fraction is dedicated to acquiring equity in the company[107].

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10

ANNEX NO. 2

Preliminary mapping of actors involved in innovative financing mechanisms

Foundation (NGO)

- Let's Share with Colombia
- ConFederation of Colombian Chambers of Commerce - ConFecámaras
- Cuso International
- DiaFora
- National Federation of the Deaf of Colombia
- Action Fund
- ACUA Foundation
- Alpina Foundation
- Andes Foundation
- Bolivar Foundation - Davivienda
- Capital Foundation
- Compaz Foundation
- Corona Foundation
- Otero Liévano Foundation
- PLAN Foundation
- A New Beginning Foundation
- United Colombia Venezuela Foundation - FUNCOLVEN
- Lumar Life Foundation
- Kuja Kuja
- Lica Colombian Autism League
- RainForest alliance
- Support you
- SVX
- Throwing X Colombia
- United Way Colombia
- University of Los Andes
- Externado University
- World Wildlife Fund - WWF

Social Enterprise

- Action For Her

Governmental Organisation

National

- Agency for Reincorporation and Normalisation - ARN
- Mayor's Office of Bogotá
- APC Colombia
- National Environmental Licensing Authority
- Bogotá Chamber of Commerce
- Administrati ve Department of the Civil Service
- Colombian Oil Company - Ecopetrol
- Higher School of Public Administrat ion - ESAP
- National Federation of Departments
- Colombia in Peace Fund
- Multi-Partner Fund
- INNPULSA COLOMBIA
- Colombian Institute of Anthropology and History - ICANH
- Colombian Institute of Family - ICBF
- Ministry of Trade, Industry and Tourism
- Ministry of Education
- Ministry of Justice
- Colombian Ministry of Foreign Affairs
- Ministry of Labour
- National Natural Parks of Colombia
- Personería de Bogotá
- District Secretary of Environment
- Superintendencia Financiera de Colombia
- Road Maintenance Unit
- Victims Unit
- National Open and Distance University - UNAD

International

- Japan International Cooperation Agency - JICA
- IDB / IDB Lab
- British Embassy in Colombia
- Embassy of Canada in Colombia
- Embassy of Denmark
- Embassy of Portugal
- Embassy of Japan
- FHI[360] Suma Social Programme
- United Nations Children's Fund - UNICEF
- United Nations Office on Drugs and Crime - UNODC

- Office of the United Nations High Welfare Commissioner for Refugees - UNHCR
- Food and Agriculture Organisation of the United Nations - FAO
- International Organization for Migration - IOM
- United Nations Development Programme - UNDP
- World Food Programme - WFP
- USAID's Suma Social Programme
- European Union in Colombia
- US Embassy INL10

Company or private entity

- Agrowth Colombia
- AlphaMundi
- Athena impact
- Azai Consultants
- B Venture Capital
- Balum S.A.
- Banco de Bogotá
- Building Markets
- CAPAZ
- Caracol TV
- Productive Colombia
- ConTREEbute
- CORE
- Minuto de Dios Corporation
- CrossBoundary
- DELOGICA
- Développement International Desjardins
- Burial place
- Consciousness & Business Scale
- School of Business Administration – EAN
- Forbes Colombia
- GbF - Blooming Roots
- Susana López Hospital in Valencia
- INERCON
- Innpactia
- Investor
- Invest in Bogota
- INVICTUS consultants
- Invictus Ideas that Connect Wills
- SAS
- Latimpacto
- Latinvestco Investment Banking S.A.
- Link Capital Partners
- Motopack SAS BIC
- Pelpak S.A
- Pop design and production
- RedExpertos C&S
- REDGESCOM
- Naturally, it turns out that Bic sas
- Emprender Magazine
- Nutresa Services
- Terrasos
- Trace Global
- Tratú
- University of La Sabana
- La Salle University
- EAFIT University
- Valorydinero
- WhereNext

Coooperative Society

- Sustainable Change Corporation
- Corporation With Local Tact
- Contigo Colombia Corporation
- FEDEAGROBATATAS
- SOLOXHOY

Association (NGO)

- Asociación Agropecuaria Urabá Grande
- Colombian Association of Capital Cities - Asocapitals
- Association of Family and Business Foundations - AFE
- Asociación Forjando Futuro para todos
- National Association of Industrialists - ANDI
- Asovicdes
- National Advisory Board Colombia - NAB Colombia

11

ANNEX NO. 3

Blended Finance Case – DEVIMAR

Autopista al Mar 1

ADEVIMAR - Autopista al Mar 1

The construction of the Autopista al Mar 1 in Colombia, financed by the IDB Invest, of the Grupo The Inter-American Development Bank is an outstanding example of efficiency and financial concession in strategic projects. This ambitious project, located in the department of Antioquia, has not only strengthened the road infrastructure, but has also generated a significant economic and social impact.

Efficiency and cost effectiveness:
Autopista al Mar 1 has stood out for its efficiency and cost-effectiveness in infrastructure investment. With financing of around US$143 million, the project has achieved a 40.35% progress in all its interventions, which include the expansion and improvement of 176 kilometers of track, a tunnel of 4.6 kilometers and 46 viaducts. This efficient approach has allowed the project to make notable progress, bringing economic and connectivity benefits to the Antioquia region. This project not only seeks to strengthen the road infrastructure, but has also generated more than 2,200 jobs, directly and indirectly benefiting the population[108].

Generating systemic change and mindset:
The Motorway to the Sea 1 has contributed to systemic change by strengthening connectivity between the production and population centers of Antioquia and the Colombian Caribbean coast.
In addition, it is poised to link with future port developments in the Urabá Gulf, furthering the vision of a more integrated and efficient transport system. This project also raises the standards of road safety and service, fostering a mentality of development and improvement

108 BID Invest. (2019). BID Invest financia la Autopista al Mar 1 en Colombia para mejorar la conectividad vial del país. Idbinvest.org. https://idbinvest.org/es/medios-y-prensa/bid-invest-financia-la-autopista-al-mar-1-en-colombia-para-mejorar-la-conectividad-vial

in transport infrastructure.

Articulation and collaboration:
The financial management of the project involved a variety of institutions, both national and international. Successful collaborations with institutions such as the Financiera de Desarrollo Nacional (FDN), CAF, KFW IPEX-Bank of Germany, Société Générale of France and BlackRockhave been instrumental in the progress of the project.

This effective collaboration has enabled progress on key works, such as the dual carriageway between Medellín and Santa Fe de Antioquia and the Túnel de Occidente. International awards such as "Road Financing OF the Year" and "Infrastructure Financing OF the Year: Andes" highlight the relevance and innovation of this project.

Innovation:
Autopista al Mar 1 is an example of innovation in infrastructure development and financing. It has demonstrated how strategic investment, collaboration and careful planning can generate a significant impact on connectivity and regional development. This project has been a driver of economic growth in the Antioquia region and has opened up new employment opportunities. It has also paved the way for future projects in Colombia that seek to address infrastructure and connectivity challenges in innovative ways.

The case of Devimar represents a Blended Finance mechanism by combining private investment and social capital to achieve a comprehensive impact on the sustainable development of the region fishing and aquaculture in Colombia. The added value was the combination, under competitive financial conditions, of a significant volume of resources from the private sector for a strategic project for the country's development. The attraction of financing in local currency, which was a relevant need for the project given its income generation in Colombian Pesos, stood out. This mechanism attracted investment capital of close to USD 700 million from the private and development sectors, both in USD and COP from CAF, Financiera de Desarrollo Nacional (FDN), Instituto de Crédito OFicial de España (ICO), KFW, IDB Invest, Société Générale and BlackRock Debt Fund.

Expected development contributions: 176 kms of roads built, improved and/or rehabilitated and 3,245,000 users[109].

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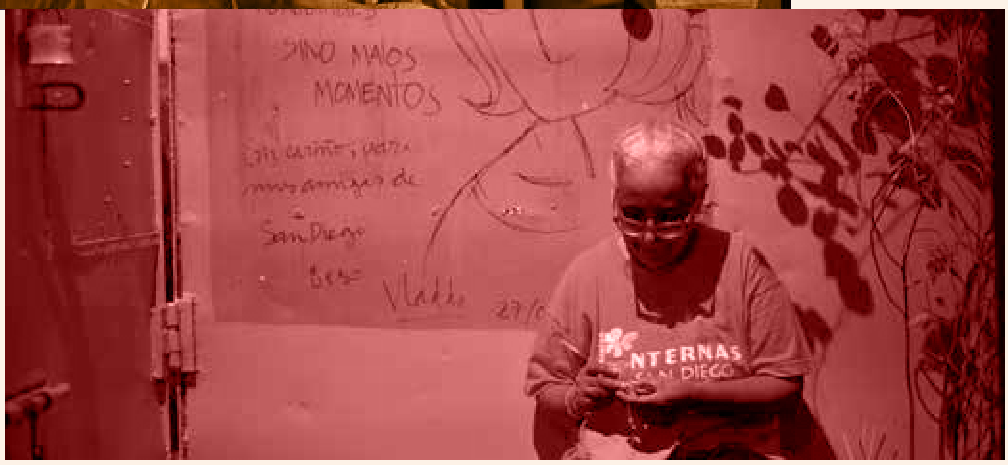
APC Colombia

Innovative Development Finance Mechanisms in Colombia:
A study for the future

Review of what, how, when and why of these mechanisms and their learning.



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