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WORLD ECONOMIC FORUM

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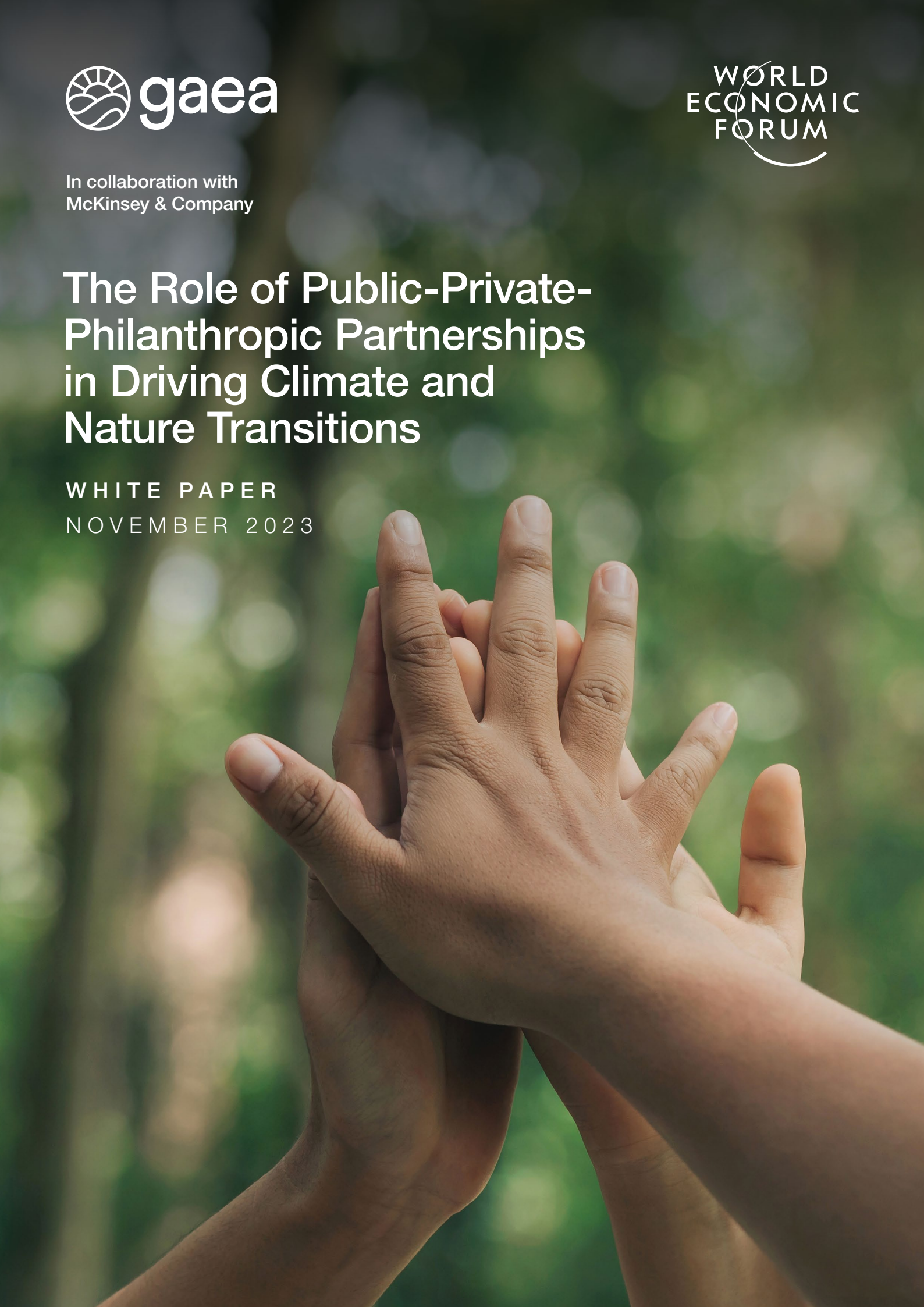
McKinsey & Company

The Role of Public-Private-Philanthropic Partnerships in Driving Climate and Nature Transitions

WHITE PAPER

NOVEMBER 2023



Images: Getty Images

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Foreword

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At the time of this paper's publication, we are almost four years into the United Nations' "Decade of Action", whose goal is to accelerate sustainable solutions to the world's biggest challenges – from eradicating poverty to tackling climate change. Yet, progress has to-date not been commensurate with the ambition.

On the climate front, the world needs to halve carbon emissions by 2030 if the objectives of the Paris Agreement are to be met. However, four years in, emissions are still rising, the climate finance gap is growing (especially for emerging economies), the loss of critical nature systems and species continues, and lives and livelihoods are increasingly impacted by extreme weather events and environmental degradation.

The need for action has never been clearer. This action can only succeed through collaboration on an unprecedented global scale, including new, innovative partnerships, bringing together a more diverse set of stakeholders and making use of their respective strengths.

That is exactly what the World Economic Forum's Giving to Amplify Earth Action (GAEA) initiative seeks to stimulate – especially as it relates to the unique strengths of public-private-philanthropic partnerships. This paper was created as a partnership between McKinsey & Company and the World Economic Forum as part of the GAEA initiative. It is part of a growing body of research examining ways to advance a more orderly, climate and nature transition. It focuses specifically on partnerships between public, private and philanthropic actors or "4P models". These partnerships, which often also feature social sector anchors and executors, are an emerging model designed to address the complex, multistakeholder and systems shifts required to support climate and nature transitions.

Creating these models can be complex, requiring significant collaborative efforts and runway. Our research aims to support the creation, sustenance and scaling of these partnerships by exploring where to focus their efforts and how to ensure their success. We hope this paper will help leaders across the private, public and philanthropic spectrum identify opportunities for high-impact partnerships for just climate and nature solutions. We hope it gives them the confidence to partner with others for outsized impact and, crucially, save time in forming partnerships, as it's time that we can scarcely afford to lose.

Executive summary

Partnerships bringing together the public sector, the private sector and philanthropies (4P models) are emerging to address climate and nature challenges. This research suggests a framework to help identify solution focus areas where 4P constructs are most needed, well-suited and justify the coordination effort. The paper presents a point-in-time view, recognizing that solution focus areas will evolve. It does not preclude other ideas that already have momentum or high potential for impact, including those specific to particular geographies or markets.

Key findings include:

As cross-sectoral and multistakeholder collaborations, 4P models are well-suited to address complex climate and nature challenges. System-level transformation requires a broad set of actors coming together around well-defined objectives, with a longer-term perspective, and appetite for experimentation. The more than 50 4P models that have emerged in the past 20 years (ranging from a debt-for-nature swap in the Seychelles to energy initiatives in Sub-Saharan Africa) indicate progress but also highlight scaling and other challenges.

A framework resting on three pillars of materiality, suitability and feasibility can help identify or assess priority areas of focus for 4P models. A systematic approach based on the analysis of existing 4P models highlights three main categories of pre-conditions.

- **Materiality** emphasizes directing 4P models towards areas with the greatest societal needs and potential for benefit. Materiality focuses on countries, systems and sectors that have the greatest needs, the lowest capacity to respond and most to gain in terms of impacts on livelihood and well-being.

- **Suitability** ensures that 4P solutions chosen match the strengths of this form of collaboration and align with the interests of the partners. Focus areas are chosen based on their stage (beyond exploratory but not yet ready for commercial adoption) and on their impact and scalability potential (including socioeconomic co-benefits).

- **Feasibility** ensures a proposed 4P model aligns with its ambitions and intended outcomes. This depends on defining an appropriate scope, attracting an “anchor” stakeholder, allocating capital and resources commensurate with its ambitions, and for the partners to align on questions of risk, return and impact.

31 solution focus areas emerge from applying this framework to over 130 potential climate and nature solution sets and six sectors globally. The analysis is informed by four planetary boundaries: climate change mitigation, biodiversity loss, forest cover loss and freshwater consumption. Resulting solutions are concentrated in power, agriculture and forestry, and land conservation. The full report contains six deep dives from the Philippines (phasing out coal); Indonesia (restoring degraded mangroves); Brazil (improving pasture and animal health); United States (ensuring equitable access to electrified transport); Thailand (mitigation of rice production); and India (expanding clean cooling).

The analysis suggests five learnings for successfully implementing 4P models:

- Establishing an anchor partner for robust governance and initial funding.

- Combining opportunistic and longer-term strategies to support lasting change.

- Building on pre-existing models to accelerate start-up and validation.

- Highlighting and exploiting how climate and nature solutions can address other sustainable development goals including health, poverty and equity.

- Ensuring adequate resources and runway to support innovative 4P constructs.

Introduction

4P models could drive 31 solution areas, which account for 30% of global emissions and total land area.

The pressing need for climate and nature action is increasingly felt across the world. In response, governments and companies have been multiplying commitments and actions in areas such as the net-zero transition, biodiversity loss prevention and broader natural capital preservation.[1] These have, in turn, accelerated the momentum for public-private partnerships that combine the public sector's ability to create enabling conditions with the private sector's scaling ability. For their part, philanthropies are increasingly turning their attention to climate and nature as key challenges in their own right and as intimately linked to the core issues of equity and development that have long been at the heart of their agenda.

There are early signs of the public, private and philanthropic sectors – often alongside the social sector, including non-profit organizations (NGOs), non-profits and community organizations – embracing such partnerships to tackle systemic climate and nature challenges. These public-private-philanthropic partnerships or "4P models" have ranged from transactional financing to industry-targeted initiatives to wide-ranging knowledge-sharing platforms. They often (but not exclusively) focus on emerging economies.

This paper is part of an effort by the Giving to Amplify Earth Action (GAEA) initiative at the World Economic Forum, together with its knowledge partner McKinsey & Company, to develop a framework for such multistakeholder models based on a data-driven analysis of more than 50 existing partnerships and hundreds of climate and nature solutions, alongside dozens of expert interviews. The full framework, which can be accessed here, is intended to help ensure that time, energy and resources are directed towards solution focus areas that justify the significant collaborative effort.

A total of 31 solution focus areas were identified among almost 135 global climate and nature solution sets that are primed for high and immediate impact through 4P models. Solution areas within the power, agriculture and forestry, and land conservation sectors consistently demonstrate high potential for impact across multiple geographies, this analysis found. This should not come as a surprise as these sectors are central to climate and nature transitions, have cascading influence across all parts of the global economy, and feature proven (but not yet widely adopted) climate and nature solution focus areas with high socioeconomic co-benefits and potential for scale.

Collectively, these 31 identified areas globally account for an estimated 30% of global emissions and 30% of total land area. Thus, effective action by 4P models could have significant positive impact.[2] To illustrate the high-level takeaways from the analysis, the full framework report delves deeper into six cases that highlight how solutions ranging from supporting energy transitions to mangrove restoration can benefit from 4P models.

These partnerships are evolving rapidly, and collaboration with the GAEA initiative continues to build a library of use cases and high-impact solution focus areas. While this paper seeks to be neither prescriptive nor a comprehensive assessment, nonetheless, it is hoped it will contribute to the growing debate about the best way for different societal actors to collaborate on essential questions relating to the future of the planet.

BOX 1

Scope and limitations of materiality and suitability analysis

This paper presents a point-of-time view of 4P models and their areas of focus, which may change over time. The global solution focus areas identified by the analysis are not meant to preclude the potential of new models to succeed nor to exclude other ideas that already have momentum. In some geographies and markets, the answers will be different. Rather, this analysis seeks to highlight solution areas requiring urgent intervention and where 4P models could serve as major systems change unlocks.

Further, this research has limitations and continues to evolve, and this paper should not be taken as the final word on the topic. For example, this analysis prioritizes the largest areas for 4P model intervention. This inherently requires setting thresholds for the various criteria. Changing these thresholds (particularly as new information becomes available) would affect solution focus areas that are prioritized.

Moreover, this analysis has been ordered sequentially, which is not always how ideas are prioritized in the real world. Solution focus areas that may seem less suited based on one part of the framework but more suited based on the remaining criteria could still result in a successful 4P model. For example, some 4P models focus on decarbonizing shipping. Although shipping did not pass the first stage of the suitability analysis, existing 4P models show that it would pass through the remainder of the framework. Similarly, a number of 4P models focus on early-stage technologies, which would also not pass the first stage of the suitability threshold.

Accordingly, this list of solution focus areas is not meant to be exclusionary. Ideas that have emerged organically could be taken through the rest of the framework to ensure impact, particularly those areas that attract significant interest across the public, private and philanthropic sectors.

1 Climate and nature challenges lend themselves to multistakeholder collaborations

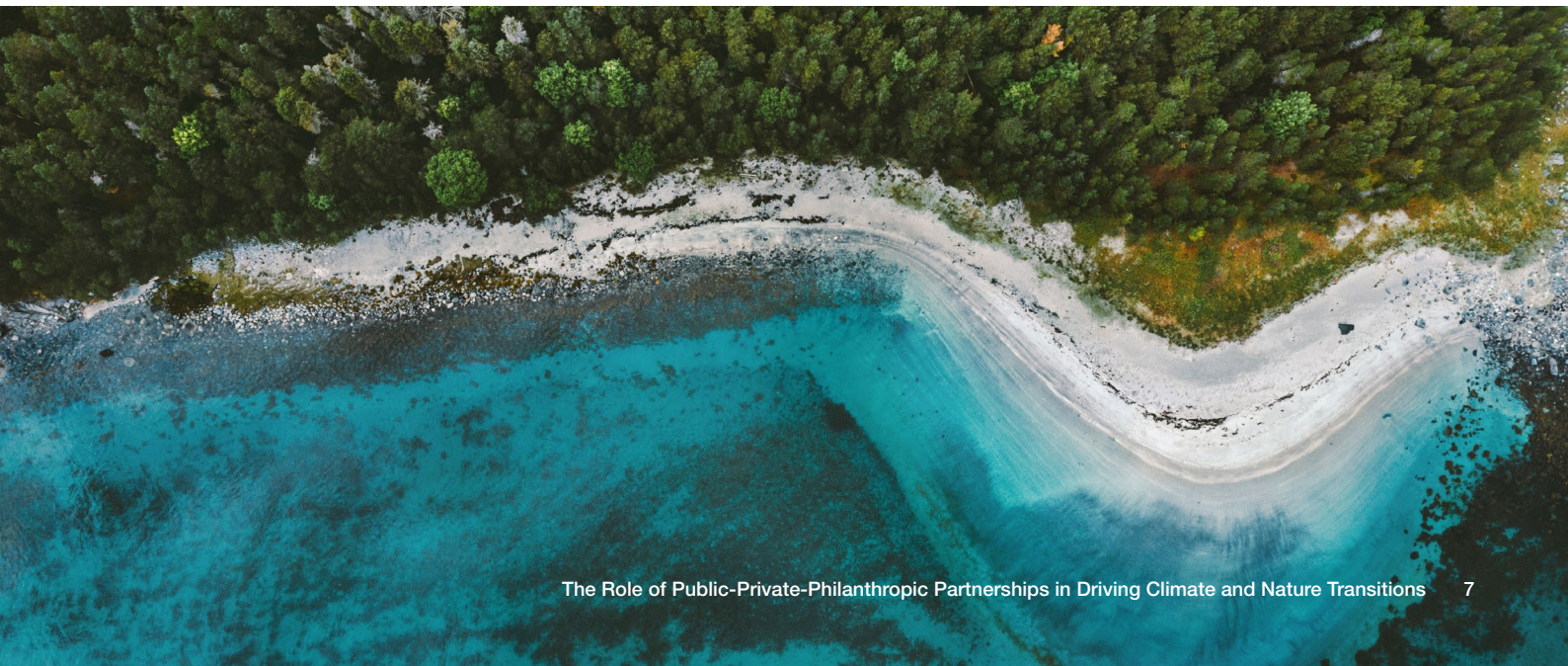
More than 50 4P models launched over the past two decades show promise but also challenges of the construct.

> The social sector can ensure solutions are delivering impact for all stakeholders, including women, children, indigenous communities and other marginalized groups.

Solving climate and nature challenges entails deep, system-level transformation. This, in turn, requires an understanding of the needs and constraints of a broad and diverse set of actors, the ability to bring them to act together around well-defined objectives, the willingness to take a long-term perspective to allow for action today with benefits in the future, the ability to run a robust day-to-day operation with a team whose duties include ensuring the partnership stays on track with its initiatives, and an appetite for experimentation and risk-taking. 4P models – which by their nature bring together many actors, each with different capabilities and strengths – are well suited to address these issues.

- The public sector can enact policies, put in place incentives and support mechanisms, and invest funds to support solutions and create stable and positive enabling conditions for further investments.
- The private sector can establish business models and mobilize resources to grow and deploy solutions at scale, as well as change procurement and sourcing practices.
- Philanthropies can make use of their higher risk tolerance, longer time horizons and knowledge of intergenerational and equity issues to invest in solutions that are not yet widely adopted.
- The social sector, when brought into the partnership, can ensure solutions are delivering impact for all stakeholders, including women, children, indigenous communities and other marginalized groups.

More than 50 such 4P models within the climate and nature space have emerged in the last decade, providing a sign of early progress in tackling some issues jointly. The 2022 Belize debt-for-nature swap, for example, brought together the government of Belize, the International Monetary Fund and the United States International Development Finance Corporation in the public sector; Credit Suisse in the private sector, alongside The Nature Conservancy in the social sector. By reducing Belize's external debt by 10% of gross domestic product (GDP), the swap allowed fiscal resources to be reallocated towards marine protection.[3]



In Sub-Saharan Africa, the decade-old Power Africa is a US-government-led partnership that brings together political leaders, companies and financial institutions to increase energy access and low-carbon economic growth in the region.[4] In the last 10 years, Power Africa has supported 37.5 million new connections and has closed on 14,000 megawatts (MW) of clean energy projects.[5]

The 4P model, while most often deployed in emerging economies, can also be effective in advanced economies: Breathe London, whose pilot was funded by the Clean Air Fund, aims to improve air quality in the City of London. Current partners include the Social Innovation Partnership, Clarity, Bloomberg Philanthropies and the Mayor of London.[6] The work from Breathe London and other cities will be expanded on through Breathe Cities, an initiative between Bloomberg Philanthropies, Clean Air Fund and C40 Cities to improve air quality across cities globally.[7]

For all their successes, the examples to date also bring to light the challenges of properly defining and executing such partnerships. Among the issues are the time and resources inherent in bringing multiple stakeholders to the table. By their very design, 4P models require multiple actors to come together simultaneously with aligned interests and a willingness to roll up their sleeves to act and experiment with novel approaches. Many 4P models have taken years to get off the ground or found it hard to maintain both funding and action momentum over the many years it can take to seed 4P model action and see its fruits. These challenges highlight how 4P models are not a universally effective mechanism only when the right conditions are met. In the face of the huge climate and nature issues that must be addressed in this decade, 4P partnerships can make important contributions. Still, they must be carefully targeted to where they are most critically required and best suited.

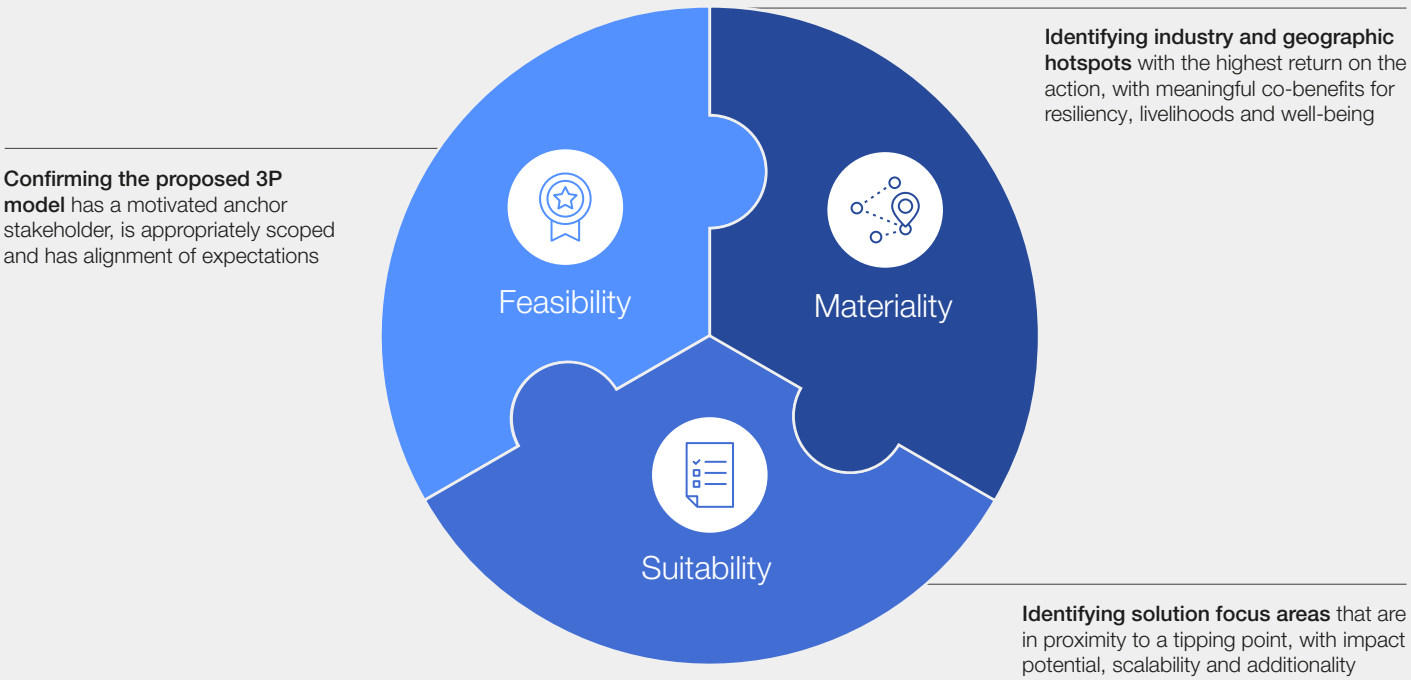
2

Materiality, suitability and feasibility provide a framework for evaluating priority areas for 4P models

Effective 4P models can achieve alignment across all partners by pushing towards positive market tipping points in proven solutions.

Based on the findings of the analysis of 4P models, a framework is proposed to evaluate the materiality, suitability and feasibility of such partnership concepts (see Figure 1). Materiality and suitability are assessed at the level of the solution focus area of a potential partnership, while feasibility is evaluated in the context of a particular partnership concept, considering the geography, scope and other design choices the partnership will entail.

FIGURE 1 **4P model concepts are evaluated through a framework of materiality, suitability and feasibility**



Source: McKinsey & Company

> To scale or manage larger 4P models that feature multiple partners with varying objectives and tolerances, flexible participation structures can help address inevitable misalignment.

Prioritizing materiality ensures that any 4P models – which come with high transaction costs to form and run partnerships in terms of time, energy, and financial and human resources – are directed towards areas with the greatest need and potential for positive impact on people and the planet. Analysis suggests that one dimension is most critical here: choosing solution focus areas that have the highest return on the action, with meaningful co-benefits for resilience, livelihoods and well-being.

4P models can maximize impact return relative to effort by focusing on the most significant climate and nature challenges in geographies with the lowest capacities to address them. Existing 4P models illustrate this prioritization, with 87% focused on emerging economies, which can be less able than advanced economies to deliver solutions independently. The analysis also suggests that solution focus areas that spur progress on co-benefits, including climate adaptation, economic development and health – in addition to mitigation – could give rise to broader coalitions of stakeholders and greater receptivity by local communities. They also have the potential to better use or expand existing efforts that aim to address present economic development, infrastructure or health efforts. About 40% of existing climate- and nature-focused 4P models, for example, reference socioeconomic co-benefits in their mission statements – reflecting the growing interest of all three sets of stakeholders in finding solutions that address both people and the planet.

The second part of the three-part framework is suitability. Focusing on suitability ensures that the time, energy and resources invested in developing and scaling partnerships are well matched for the strengths of this form of collaboration and where interests are aligned. Critically, solution areas that are proven but still building towards positive tipping points of adoption and scale are mostly likely to align commercial and impact interests across each of the partners' interests and, therefore, constitute the most commonly seen examples of 4P models. Underscoring this alignment, more than 95% of reviewed 4P models focused on rolling out established technologies rather than on innovating. These partnerships mainly seek to address challenges by unlocking investment (71%) or supporting the creation of new markets (31%) based on proven solutions.

Additional proxies for suitability include the capacity and potential to scale and replicate across multiple sectors and geographies. A total of 71% of 4P models have either evolved or aimed at the outset to have a multinational focus, enabling successful models and learnings from one geographic context to be spread to other countries.

The third part of the framework is feasibility. This layer of the framework starts to evaluate whether a 4P model in consideration is set up for success once materiality and suitability are already established around its intended ambition. Three high-level dimensions of feasibility are most critical: first, the presence of at least one anchor partner who is willing to put real time and resources into forming and driving the partnership; second, whether the capital, governance and resources that each of the partners provides are aligned with the scale of solution(s) in focus; and third, formal alignment across all participants on what constitutes success, including acceptance of associated risk, return and impact. These questions bring into view whether the 4P model will have adequate runway and momentum – and whether it is "right-sized" to its ambitions.

On the question of anchor stakeholders, analysis suggests that at least one motivated actor is needed to put 4P models together and/or drive action. Philanthropic actors play this role frequently but not exclusively. This "anchor" must be willing to experiment with approaches and models beyond what they have historically attempted. For example, the Drive Electric Campaign emerged from ClimateWorks Foundation's work in transport. It made significant investment to convene key stakeholders, which ultimately led to the formalization of the campaign with a broader coalition of philanthropic partners.[8] In the case of larger 4P models, either at the outset or soon following the partnerships' establishment, a social sector actor or jointly established operating body drives action through funding from the public, private and/or philanthropic sectors.

Second, partnerships need to ensure that the scale of capital and efforts are matched with the scale of impact and solutions at hand. For instance, a smaller-scale 4P model may be better suited to address a single challenge in a specific market. For example, the Seychelles Conservation and Climate Adaptation Trust, a fund created from a debt-for-nature swap in the Seychelles, supports ocean conservation and adaptation through the disbursement of typically less than $1 million in annual grants.[9] That initiative operates at a much smaller scale than, for example, Initiative 20x20, which seeks to restore 50 million hectares of land in Latin America and the Caribbean by 2030, and has more than 85 partners that represent more than $3 billion in private investment.[10]

The third dimension underscores the need to align on a joint definition of success at the outset and preparing for the risk, return and impact implications for each actor. To scale or manage larger 4P models that feature multiple partners with varying objectives and tolerances, flexible participation structures can help address inevitable misalignment. For example, the Food and Land Use Coalition (FOLU) has established multiple core partnership platforms but also welcomes affiliate platforms to encourage a diversity of collaborators and participants.[11]

3

Applying the framework approach reveals that 31 out of 134 4P models are primed for impact

4P models are well suited to address solutions in power, agriculture, forestry and land conservation across multiple geographies.

The analysis in this paper covers climate change mitigation, biodiversity loss, forest cover loss and freshwater consumption – four planetary boundaries for which sufficient data for quantitative comparisons exists.[12] A review of six country archetypes and 18 industries in six economic sectors identified 29 "hotspots" that met the materiality indicator of featuring high-need areas with low capacity to meet these challenges and significant socioeconomic co-benefits.

Within these 29 hotspots, 134 potential solution sets were identified and evaluated for suitability with 4P models. These included 102 climate and 32 nature solution focus areas. Of these, 31 solution sets were found to have high potential at a global level, primarily in the power sector, agriculture and forestry sector, and land conservation space. (see Table 1).

TABLE 1

Overview of focus areas close to positive tipping and suitable for 4P model intervention

These 31 areas account for an estimated 30% of global emissions and 30% of total land area.

Thus, effective action by 4P models in these focus solution areas could have a significant impact.

Long list of focus areas		At tipping point	Impact potential (including urgency, unit impact and socioeconomic co-benefits)	Scalability of solution focus areas	Additionality of solution focus area	Solution focus areas well-suited for 4P models	Potential solution focus areas for 4P models
Power	Fossil fuel decarbonization (5)	5	3	2	1	1	– Phase out unabated coal electricity generation
	Solar (3)	3	2	2	2	2	– Increase utility scale solar capacity – Increase distributed solar capacity
	Wind (2)	2	2	2	2	2	– Increase onshore wind capacity – Increase offshore wind capacity
	Other low-carbon power (7)	6					
	Enabling technologies and infrastructure (6)	6	2	2	1	1	– Increase number of microgrids and overall microgrid capacity
	Demand measures (1)	1	1				
Transport	Vehicle switching (7)	7	4	3	2	2	– Increase adoption of passenger and commercial light-duty EVs – Increase adoption of medium- and heavy-duty commmmercial EVs
	Fuel switching and efficiency (4)	3	2	2			
	Enabling infrastructure and systems (4)	2	1	1	1	1	– Expand EV charging infrastructure
	Mode shift and demand measures (4)	2					
Agriculture and forestry	Livestock (4)	4	1	1	1	1	– Improve animal health
	Crops (9)	9	2	2	2	2	– Increase seed efficiency – Increase irrigation efficiency
	Forest management (6)	6	6	2	2	2	– Improve forest management – Prevent forest fires
	Demand measures (4)	4	2	1	1	1	– Reduce food waste and loss
Industry	Cement (9)	8	1	1	1	1	– Reduce demand for cement through use of alternative building materials
	Iron and steel (6)	5	1	1	1	1	– Electric arc furnace (EAF) use in steel production
	Oil and gas (5)	5	1	1	1	1	– Increase leak detection and repair to reduce fugitive emissions
	Waste (11)	9					
	Mining (5)	5	1	1			
Agriculture and forestry	Land protection or restoration (4)	4	3	3	3	3	– Improve management and effectiveness of protected areas and other effective area-based conservation measures (OECMs) – Expand protected areas and OECMs – Restore degraded land
	Ecosystem protection from outside threats (2)	2	2	1	1	1	– Expand invasive species control
	Irrigation efficiency (3)	3	3	3	2	2	– Expand drip irrigation – Expand other water conservation agricultural practices (such as reservoir covers)
	Land use efficiency (7)	6	4	2	2	2	– Increase agroforestry (crops) – Expand advanced seed technology
	Pollution reduction (6)	6	4	3	3	3	– Reduce crop fertilizer use (due to overuse) – Incease use of nitrogen inhibitors – Expand regenerative agriculture (cover crops, crop rotation, no-till, etc.)
	Credit markets (1)	1	1	1	1	1	– Expand credit markets
Supply	Freshwater conservation (9)	8	4	1	1	1	– Expand rainwater harvesting (utility and distributed)

Agriculture-based economies · Forestry-intensive countries · Emissions-intensive producers · Fossil fuel resource producers

Downstream-emissions manufacturers · Services-based economies · (x) Number of focus areas · Focus area progresses to next filter · Selected for prioritization

Source: McKinsey & Company

Conclusion: 4P models will require careful implementation, building on past lessons while focusing on opening windows of opportunity

Examining the range and variety of 4P models already in operation today reveals five key (but not exhaustive) lessons:

First, it is important to establish an anchor stakeholder and robust governance. Forming novel 4P models in high-need geographies and systems will require an anchor partner who can take a long-term view and provide some of the start-up capital and runway to the multi-year process of getting a 4P model off the ground and into action through a strong central "secretariat" and a set of robust operational procedures.

Second, it is judicious to seize the moment and momentum of change. 4P model strategy and results frameworks are not well established given the nascency of the model itself, but best practice entails creating a dual-pronged strategic model. This combines a shorter-term opportunistic strategy that takes advantage of moments when political will and funding momentum come together and, at the same time, a long-game strategy to building the infrastructure, enabling conditions and behavioural shifts to support lasting change.

Third, 4P models should ideally build on a pre-existing base. Refining, expanding or scaling existing 4P models to meet emerging strategic priorities may be more effective than starting from scratch – and more conducive to harnessing smaller pockets of funding from new sources such as family offices, corporate foundations, city and regional governments, and small- and medium-sized enterprises.

Fourth is the value of building a wide tent. To harness a wider pool of funding and channels of impact, 4P models should consider and communicate the potential of climate and nature solutions to address other Sustainable Development Goals, including those on health, poverty and equity. This is not merely a matter of communication, but can affect both the "what" and the "how" of the partnership.

Fifth, first-of-their-kind constructs require significant resources to build, including capital and institutional capacity. Not all structures can scale appropriately, so the right resources must be deployed in order to achieve impact. This lesson is particularly relevant for novel Just Energy Transition Partnerships (JETPs), which have attracted significant interest and capital towards transforming the globe to low-carbon pathways while promoting an equitable transition for the people affected by this pathway, energy access but have so far managed to enable the decommissioning of only a single plant responsible for 5% of the project's 2035 target.

By building on the most effective elements of public-private partnership models, making use of the distinctive strengths of each actor, and incorporating broader knowledge of intergenerational and equity issues, these multistakeholder collaborations known as 4Ps can make a significant contribution to tackling the most pressing issues of the time.

Appendix

A1 Bibliography

Please see the full report here for the full bibliography.

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Acknowledgements

The research team was led by Nick Kingsmill alongside Maya Berlinger, Lennart Joos, Devin Lee, Floris Leijten, Noma Moyo, Elizabeth Rolfes and Markus Walther.

Many experts within McKinsey provided valuable input and expertise: Rui Chen, Charlie Dixon, Duko Hopman, Joshua Katz, Jake Wellman and Dee Yang.

The authors wish to thank the many individuals representing public, private and philanthropic perspectives, including members of the World Economic Forum's GAEA initiative who generously contributed their time, expertise and perspectives. Special thanks are extended to World Economic Forum collaborators, including, Alfredo Giron, Pedro Gomez, Jack Hurd, Akanksha Khatri, Braulio Morera, Nicole Schwab, Tania Strauss and Anna Zampa.

Production

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Endnotes

1. McKinsey has published extensively on these topics. Recent reports include: McKinsey & Company, *The net-zero transition: What it would cost, what it could bring*, 2022; McKinsey & Company, *The global energy transition: A region-by-region agenda for near-term action*, 2022; McKinsey & Company, *Nature in the balance: What companies can do to restore natural capital,* 2022.
2. The emissions number was calculated based on the emissions associated with the relevant sub-sector in prioritized geographies. For example, the calculation includes emissions from fuel combustion in fossil fuel resource producers, services-based economies and downstream-emissions manufacturers for the transport solution focus areas. The land number was calculated based on the relevant land area covered by the prioritized hotspots.
3. Under the agreement, a subsidiary of The Nature Conservancy lent funds to Belize to buy back a $553 million bond, representing the government's entire stock of external commercial debt, at a discounted price. It financed this by issuing $364 million in "blue bonds" in a sale arranged and underwritten by Credit Suisse. The United States International Development Finance Corporation provided insurance. This allowed the loan to have a low interest rate, a 10-year grace period during which no principal is paid, and a long maturity of 19 years. In return, Belize agreed to spend about $4 million a year on marine conservation until 2041. For details, see: Owen, Nicholas, "Belize: Swapping Debt for Nature", *IMF Country Focus*, 4 May 2022. Given the role of philanthropy among The Nature Conservancy's donors, this social sector presence is considered to be relevant for the philanthropic sector.
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