IFIE

ISRAELI FORUM FOR IMPACT ECONOMY

BLENDED FINANCE MECHANISMS FOR ECONOMIC RECOVERY AND GROWTH

GSG IMPACT

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INTRODUCTION

Since the outbreak of the war on October 7th, Israeli society has been facing various challenges related to the war and its resulting damages, socially and economically. These challenges cross sectors and affect Israel's northern and southern border residents, as well as Israeli society. Key challenges include the destruction of infrastructure and buildings on the borders, the impact on evacuated communities, and economic damage resulting from political instability, manifesting in employment and business disruptions, particularly affecting small and micro businesses. Besides the economic challenges, we are also witnessing social challenges, primarily within members of evacuated communities, but more broadly among citizens dealing with a sense of insecurity and a severe impact on their resilience.

CRISIS AS AN OPPORTUNITY FOR GROWTH

Despite the challenges, every crisis is an opportunity for repair, rebuilding, and improvement. The current crisis presents an opportunity for growth and renewal. Joint action by the three sectors—public, business, and social--can ensure positive outcomes in various fields, from economic development and employment to innovative and sustainable housing and infrastructure that will enable rebuilding and the prosperity of communities in the north, the south, and nationwide.

In the weeks following the war's outbreak, we witnessed extraordinary mobilization by citizens, civil society organizations, and the business sector to create immediate solutions to emergency situations. Since October, over a billion dollars have been raised by philanthropic entities in Israel and the Jewish diaspora. Organizations within civil society adapted their activities to urgent needs as they emerged, and business organizations donated equipment and goods worth millions of shekels and contributed hundreds of thousands of volunteer hours.

Even now, about ten months since the war began, approximately eighty percent of businesses in Israel have expressed their intentions to participate in the rehabilitation process, and the percentage of volunteering citizens remains significantly higher than in the past[1]. The Israeli government has approved a budget of 14 billion shekels, including an additional allocation of 5 billion shekels for the rehabilitation of the Gaza periphery through the Tkuma Directorate. The government is expected to approve extensive budgets for the rehabilitation of the north and broader economic recovery in the future[2].

[1] The October 7th War and Its Impact on Society and the Economy in Israel, Taub Center, 2023.
[2] The Strategic Plan for the Rehabilitation, Renewal, and Development of the 'Tkuma' Region and Its Population, 2024-2028, Tkuma Directorate, 2024.

We believe this is a crucial opportunity to create blended finance mechanisms that will enable the government to collaborate with philanthropic organizations and attract significant capital from the private sector. This approach can substantially leverage government funds and build robust public-private partnerships. The scope of the economy's needs requires a significant shift in thinking, including cooperation in planning, execution, and financing.

In the past, the government used to issue calls for proposals allowing business and social organizations to provide services and complement its activities with a philanthropic envelope that provides additional services. Blended finance tools offer a different approach. Government and philanthropic funds create favorable economic conditions for substantial private-sector investment. Thus, the private sector participates not only in execution but also in financing, enabling a significant expansion of activities.

This paper presents the feasibility of government involvement in establishing a blended finance fund in Israel. Such a fund can leverage government funds to raise business and philanthropic capital focused on results, enabling unique activities that are not possible when each sector operates independently. Beyond increasing the capital invested in the economy’s social and environmental needs, joint efforts offer additional advantages such as removing barriers, streamlining processes, and preventing inefficiency due to a lack of coordination between the entities operating in the field.

The first chapter of this paper will briefly present the rationale for blended finance models. It will review various models and how countries and development bodies use them as effective tools for promoting policies and solving social and environmental challenges.

The second chapter will present three investment areas that can be promoted as pilots for blended finance, enabling the mobilization of private capital to support the government's rehabilitation efforts. This chapter will outline the primary challenges in real estate, green infrastructure, and employment. For each of these areas, we will briefly describe the market failure that necessitates blended finance, the potential to leverage government funds to raise additional capital, and the stakeholders who can participate in and contribute to such a pilot’s success. At the end of the chapter, we will propose that promoting blended finance models in these areas can increase short-term budgets for rehabilitation, thereby laying the groundwork for establishing a government blended finance fund in the future.

The third chapter will detail the rationale for establishing a blended finance fund to promote rehabilitation. It will examine the activities of such funds in other countries, focusing on the case study of Big Society Capital in England, which has achieved significant results. This chapter will explore the various structures relevant to such a fund in Israel and the potential sources of its funding.

Finally, the document's summary will present an action plan that progresses along two paths: a direct path for promoting blended finance projects for rehabilitation and a long-term path focusing on building the infrastructure for establishing a national blended finance fund.

CHAPTER 1

BLENDED FINANCE

Blended finance has gained momentum and is currently adopted in various countries, including developed nations such as Australia[3] and the United Kingdom[4], and is widespread in developing countries like Kenya, India, Vietnam, Uganda, Nigeria, Ghana, Indonesia, South Africa, the Philippines, among others[5]. The blended finance market size is currently estimated at $217 billion[6].

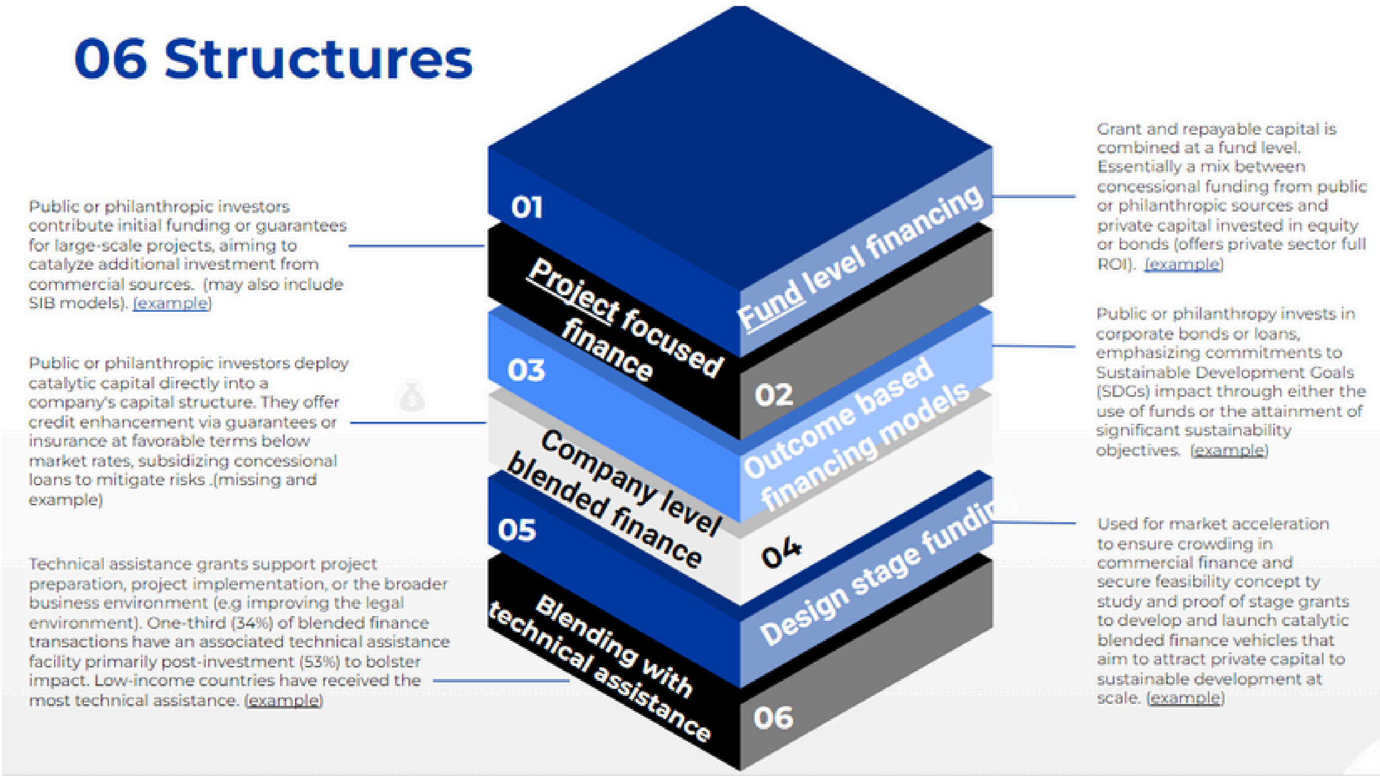
Blended finance mechanisms combine private, government, and philanthropic capital to increase the resources invested in promoting social and environmental goals, enhancing the effectiveness of actions taken to achieve them. This approach merges risk-tolerant capital with capital requiring market returns, allowing for increased capital and promoting effective solutions that maximize the impact of investments.

Essentially, blended finance solutions enable public and social initiatives to benefit efficient financing mechanisms typically found in the private sector. Just as the capital market, which provides investments and loans, serves as the central source of growth for the private sector, blended finance mechanisms leverage the advantages of the capital market for public and social purposes, allowing for improvement and expansion.

Blended finance relies on catalytic capital from government and philanthropic sources to attract private capital, thereby increasing the volume of investment in important social and environmental initiatives. Blended finance tools allow different players to invest together so that each organization receives its desired return. Private investors receive attractive financial returns, impact investors receive a combination of financial return and social or environmental impact, and government or philanthropic entities achieve a more significant social or environmental impact for the same amount of funding.

[3] Australian Government's Department of Foreign Affairs and Trade. Australia's development program, Blended Finance. Retrieved from the website on 27/06/2024.
[4] Better Society Capital. Our approach to blended finance. Retrieved from the website on 27/06/2024.
[5] The State of Blended Finance 2021. Convergence, 2022.
[6] Convergence. Retrieved from the website on 18/07/2024.

Various blended finance tools currently operate at the project, company, fund, or even mega-fund level. Some common models include:



1 **Fund Level Financing:** Philanthropic or government investment in impact investment market development, market education, and infrastructure building is crucial to ensure quality investment conditions. Approximately one-third (34%) of blended finance deals include a technical support component.

2 **Project Focused Finance:** Developing blended finance tools requires preliminary market research and adapting the tools to the local context. This includes developing a legal framework that enables blended finance and ensures commitment to social and/or environmental goals. Properly designed tools create attractive conditions that draw investments from the private market.

3 **Outcome based Financing Models:** The concept of results-based blended finance has gained traction with the increasing popularity of sustainability-linked bonds (SLBs) and social impact bonds (SIBs), including development impact bonds (DIBs). These financial products provide funding for social or environmental programs from private investors who receive a return paid by a third party if the program meets its targets. Results-based blended finance requires initial agreement on the social or environmental goals to be measured and who will pay for them and provide the return to investors.

The bond return depends on the level of outcomes, so the more effective the project, the higher the return investors receive. This form of financing is growing in many countries and serves as an efficient allocation tool for public resources, linking payment to desired outcomes. Recently, the next generation of results-based financing has emerged in the form of SLBs. For example, in 2021, E-Distribuzione (part of the Enel Group) received a €600 million loan from the European Investment Bank (EIB) with a rising/falling interest rate mechanism based on Enel's ability to limit its greenhouse gas emissions to less than 148 gCO2eq/kWh by 2023. A local example includes a social bond aimed at increasing the number of graduates in 4 and 5-unit mathematics in the city of Rahat, where the Ministry of Education committed to paying for successful graduates, or a green bond issued by Bank Hapoalim.

4 **Company-Level Blended Finance:** Governmental or philanthropic investors invest directly in companies that promote defined social or environmental goals. They can invest directly in the company or offer better credit terms through guarantees or insurance, enabling loans under more favourable conditions than those offered in the private market. These benefits are typically provided to companies that promote social and/or environmental goals defined by the investors and may sometimes be contingent on agreed-upon results. For example, in 2019, the EIB provided a €490 million loan to Terna to improve the reliability and quality of Italy's electricity grid, bringing the EIB's total loan to Terna to €2.15 billion. Since improving the electricity grid promoted defined goals under the EIB's mandate, they provided a loan with better terms than the market for a longer duration. This loan enabled the company to raise the remaining capital needed for the project under better conditions and meet its energy-saving targets set at the project's start.

5 **Design Stage Funding:** To promote large-scale projects that advance defined social or environmental goals, government budgets and philanthropic capital can be used to create an initial capital layer that absorbs the risk through guarantees or insurance, thereby creating more attractive financing conditions that draw private investors to the project. In this way, a relatively modest government budget can be leveraged to generate significant investment. For example, in 2018, MIGA's risk insurance arm supported the world's largest solar power plant in Egypt by offering $210 million in financial guarantees to international companies contracted to build the solar fields[7].

[7] CFO Coalition for the SDGs. Principle 3: Integrated SDG corporate finance, Mapping Examples of Corporate Blended Finance. Retrieved from the website on 27/06/2024.

6 **Blending with Technical Assistance:** Governmental or philanthropic investors provide initial catalytic capital below market return, lowering capital costs or reducing commercial or political risks through a protective layer for private investors, making investments that would otherwise be considered risky or insufficiently profitable more attractive to private investors. Israel pioneered using this tool when it established the initiative funds that propelled the high-tech industry forward through joint investment by the government and the private sector.

* **Wholesale Fund:** A Wholesale fund for impact investments is a dedicated fund designed to expand the impact investment market, understanding that an effective market requires various financing solutions, funds, and tools operating alongside financial intermediaries specializing in specific areas. Wholesale funds are typically based on a governmental funding source, such as dormant accounts, but sometimes also incorporate philanthropic capital. This model will be expanded on in the third chapter of the report.

Summary

Blended finance models enable the combination of various financing types, including grants, subsidized loans, guarantees, insurance, and investments. This approach is particularly important when there are market failures due to political instability, perceived high risk, or conditions of uncertainty and lack of information. Combining different types of capital creates different layers within the same instrument, allowing for various levels of risk and return suitable for different types of investors. While private investors are primarily interested in financial returns, public and philanthropic investors aim for both financial returns and social and/or environmental returns. This differing incentive structure allows for unique combinations. Properly constructed blended finance tools allow government and philanthropic financing to absorb higher levels of risk, attracting private financing to initiatives defined by the government and supported by philanthropy.

In the next chapter, we will examine how blended finance models can significantly expand financing for credit, green infrastructure, and real estate, and the economic feasibility of models in these areas.

CHAPTER 2

BLENDED FINANCE MODELS FOR CREDIT, REAL ESTATE, GREEN INFRASTRUCTURE, AND EMPLOYMENT

This chapter will examine the potential of using blended finance tools in four areas identified by the Accountant General as having national importance and economic feasibility: real estate, credit, green infrastructure, and employment. For each area, we will briefly present the need for governmental support and how blended finance can maximize the value of government investment by leveraging additional capital and improving cross-sector cooperation around agreed goals.

2.1 REAL ESTATE

Following the events of October 7th, approximately 30,000 residents were evacuated from the Gaza periphery and about 120,000 residents from Israel's north. The return of these residents to their homes is one of the government's top priorities. Additionally, there is a need to strengthen these areas and attract new families through various incentives. Urban renewal processes play a key role in these areas' social, economic, and security-related rehabilitation.

The Challenge of Financing Urban Renewal in the Periphery

The real estate sector in general and urban renewal in particular requires multi-sector cooperation due to the need for significant capital. Even before the events of October 7th, urban renewal in the periphery was challenging due to rising interest rates and lower returns compared to real estate returns in Israel's center. As a result, only ten percent of the country's raze and rebuild projects were carried out in the North and South[8]. Despite the economic potential of urban renewal, the financial incentives are insufficient to attract private investors to the North and South. Furthermore, the uncertainty in security following October 7th has increased the risk and reduced the attractiveness of these investments. Therefore, there is a significant need for governmental support and blended finance models to reduce the risk and make projects more attractive.

[8] Report on Urban Renewal for 2023, Governmental Authority for Urban Renewal, 2024.

Government investment in the rehabilitation and urban renewal of the Gaza periphery [GC1] and Israel's north is of national security, social, and economic interest. Significant budgets have already been allocated for this purpose within the framework of the Tkuma Directorate and other programs. In this chapter, we will review the advantages of joint financing models, through which governmental financing can be leveraged as a catalyst to attract additional private and philanthropic capital to these areas.

Advantages of Blended Finance

The advantages of blended finance models are twofold. First, government capital can be leveraged to attract philanthropic and business capital, significantly increasing the volume of investments in joint projects. Second, the efficiency and experience of the private sector in promoting large real estate projects can be used alongside the in-depth knowledge and familiarity of social organizations with target communities. This will enable effective and meaningful public participation processes[9].

Despite the significant damage to the communities in the north and south over the course of the war, we believe that a crisis is also an opportunity for better and more comprehensive rebuilding. The development of a blended finance model will transition urban renewal processes in the from unprofitable to feasible for developers while requiring them to meet security, environmental, and social standards. Government support and incentives are provided in exchange for developers' commitment to green, fortified, and socially inclusive construction standards.

Significant public participation processes and community investment can help communities move from helplessness to action and leadership in the rehabilitation process, strengthening the community's fabric and its residents' resilience. A relatively modest investment in schools, culture, community spaces, and personal security can significantly impact each neighborhood's branding, ultimately reflected in rising land prices and returns for investors. Blended finance models can encourage developers to invest in these aspects, turning urban renewal processes into drivers of resilience and regional development[10].

[9] Philanthropy and Impact Investments in Financing the Social Model of Urban Renewal, Ettinger, Zeev, and Peet, 2022.
[10] Guide to Public Participation in Planning Processes, Policy Formulation, and Decision-Making in Local Government, Forum 15, 2021.

Examples from Around the World

Examples from the USA and Europe show that when social, governmental, and private organizations work together, effective projects can be achieved at a high level of construction and maintenance, meeting defined social and environmental needs. However, this requires coherent government policy and the setting of unified social goals alongside an ecosystem of organizations in the social real estate and impact investment fields that can support these projects and manage housing complexes meeting the diverse needs of different populations[11].

In the United States, Europe, and Australia, blended finance models in the real estate sector are yielding impressive results, with real estate constituting a significant segment of the impact investment market in these countries. For example, initiatives by the American Department of Housing and Urban Development (HUD) have successfully promoted sustainable and affordable housing, leveraging $3 to $5 of private capital for every government dollar[12].

In England, an interesting place-based investment model has developed, through which private developers collaborate with local authorities and community organizations to develop weakened areas with potential. This model addresses real estate, business, education, and more in an integrated manner. It is particularly relevant for strengthening and rehabilitating Israel’s northern and southern regions, as it leverages real estate investments as part of an overall regional development process that addresses diverse population needs and allows for the pooling of governmental, private, and philanthropic resources.

[11] Affordable Housing in Israel, Developing an Ecosystem in Israel, Aryeh, Zeev, and Ben-Shahar, 2022.
[12] CFO Coalition for the SDGs. Principle 3: Integrated SDG corporate finance,
Mapping Examples of Corporate Blended Finance.Retrieved from the website on 27/06/2024.

Examples from Israel

In Israel, several organizations and projects lead social urban renewal initiatives. For example, Jindas promotes social urban renewal projects in Lod, combining government, private, and philanthropic financing. The Hadarim Fund, in collaboration with the "Eretz Ir" organization, promotes urban renewal projects in the Hadar and Beita neighborhoods in Haifa. The Metsudot company strengthens the community fabric in the Negev and Galilee through the establishment of new settlements and the development and construction of public buildings and housing units, raising resources from social investors who see value in Zionist settlement in the Negev and Galilee.

These organizations distinguish themselves by promoting innovative models in community real estate and adopting a regional-community perspective beyond single buildings or projects. This approach addresses the planning of public and community spaces and buildings. In the short term, this requires extensive investment in community work, partner engagement, and promoting complex development processes with various stakeholders. However, these organizations have shown that deep community work creates high levels of partnership, reduces the social risk associated with urban development, and generates significant long-term value for the community and the region, reflected in rising real estate values.

These initiatives demonstrate the significant potential of municipal, business, and social partnerships in raising diverse investments, including a mix of impact and regular investments, while promoting integrative regional development that benefits communities and meets strict environmental and social standards. However, in the absence of agreed government standards, each organization focuses on different aspects and measures itself independently. The in-depth impact assessment tool for urban renewal projects developed by the Geiger Center and Social Finance Israel (SFI) can serve as a basis for government standards in the field.

In the absence of comprehensive policy and a developed ecosystem, pioneering entities in Israel face many challenges beyond the difficult interest environment, including bureaucratic barriers and high uncertainty regarding government requirements and benefits. Security uncertainty creates additional delays and significantly raises the risk level. Therefore, the continued existence and expansion of these models and their extension to the periphery, the Gaza periphery, and the north depend on continued government commitment

A dedicated fund can significantly promote this pioneering activity by supporting existing organizations and creating incentives for larger real estate bodies to adopt principles of high-quality green, fortified, and socially inclusive construction in large-scale projects.

Conclusion

Given the centrality of the real estate field and the success of place-based investment models, we recommend conducting a pilot in the housing sector to support joint projects of local authorities, urban renewal administrations, and real estate developers in several target cities such as Sderot and Beersheba in the south and additional cities in the North. Further research is needed to model the fund to create an attractive balance between risk and return according to the selected target cities. In principle, the fund can provide a combination of grants and loans under favourable conditions that will allow developers to flexibly and adaptively realize government benefits and public budgets. Additionally, a layer of tax relief or guarantees against loans can be included to hedge the high interest rate environment.

It is important to note that alongside economic incentives, the government also has a significant role in removing barriers, easing bureaucratic processes, and providing clarity to investors and developers.

2.2 BLENDED FINANCE FOR BUSINESS CREDIT

Background: In recent years, the share of small and micro businesses in the overall business credit market has declined, even as their contribution to GDP has risen[13]. In 2022, approximately 54% of small and medium-sized businesses required credit, but less than half (48%) received the full amount they requested. There was an increase in the rate of businesses experiencing credit shortages, with micro businesses facing a credit squeeze at a rate of 37%, compared to 18% among small businesses and 11% among medium-sized businesses. The interest rate hikes starting in April 2022 led to increased credit costs, with small businesses having turnovers of 5-10 million shekels experiencing the largest increase in credit costs (62%). This trend intensified in the first quarter of 2023[14], while in the second and third quarters, before the events of October 7th, the credit balance for micro and small businesses decreased[15].

Israel's small and micro business sector is among the hardest hit economically by the war. These businesses typically depend on one person, and in their absence – the business collapses. This is the case when a small business owner (or their spouse) is called for reserve duty, as well as in cases of evacuation from border areas in the north or the Gaza periphery. The high uncertainty in various areas of life has impacted these businesses more than medium and large businesses, which have a greater capacity to absorb extreme events.

[13] Periodic Report, The State of Small and Medium-Sized Businesses in Israel, 2023, Ministry of Economy and Industry, Small and Medium Business Agency, 2023.

[14] Review of Credit for Small and Medium-Sized Businesses for 2022 and the First Quarter of 2023, Small and Medium Business Agency, Ministry of Economy and Industry, 2023.

[15] Bank of Israel Report 2023, Bank of Israel, 2024.

Providing loans and credit to these populations can, in the first stage, give them breathing space to cope with the new reality and, in the second stage, focus on the rehabilitation of businesses, bridging the damage caused to them by the war, and leveraging the untapped potential among these populations to transition to higher-paying jobs. Without accessible credit solutions, thousands of households may find themselves losing their primary source of income and moving from a state of economic independence to dependence on the state and benefits. Tailored credit provision can prevent this deterioration and subsequently enable the identification of opportunities for growth. However, for this to happen, the government and other intermediary bodies must get involved. This chapter will identify the market failures preventing these populations from receiving the necessary credit and loans and propose possible blended finance models to address them.

Challenges in Providing Credit to Small Businesses

Providing credit to small businesses is often unattractive to lenders for several reasons:

- Meticulous underwriting is required across various business areas.
- The loan granting process requires many work hours relative to the loan size.
- Lenders frequently deal with clients who lack financial knowledge, resulting in a high rate of unapproved applications.
- Borrowers often operate as self-employed or small business owners, mixing business with household finances.
- Small businesses and micro businesses struggle to provide collateral.
- Managing multiple small debtors generates significant collection activities relative to the debt amounts.
- There is a need for wide geographical distribution and building trust with diverse populations.

In addition, the current period presents unique challenges:

- Small businesses have a smaller safety margin, so any change in cash flow has a more significant impact on their financial stability.
- Small businesses have fewer staff, limiting their ability to back up employees called for reserve duty or dealing with personal or family crises.
- They have fewer resources to cope with prolonged uncertainty.

These challenges result in credit bodies being unwilling to provide loans to small businesses, and when they do, they tend to charge high interest rates compared to other sectors in the economy. Despite professional underwriting indicating that these businesses can service the debt, the absence of accessible credit options pushes some borrowers into gray market solutions, creating a cycle of debt and dependence.

Government Recognition and Support

The Israeli government recognizes the importance of small and micro businesses to overall economic stability and the productivity of diverse populations. These businesses offer significant opportunities for underemployed populations, such as Arab women and Haredi men[16], who face greater difficulties in obtaining credit due to trust barriers and cultural gaps.

Over the years, the government has made numerous decisions to promote the small business sector in Israel during normal times, understanding it as a vital growth engine for the economy. The Accountant General’s Office in the Ministry of Finance, in collaboration with the Small and Medium Business Agency, operates a loan fund with state guarantees for small and medium-sized businesses at favourable market interest rates and terms. The Small and Medium Business Agency's Maof network provides various additional services, such as subsidized business consulting, professional courses, and specific grants for computing needs or participation in investment costs of ventures[17].

[16] Business Entrepreneurship in the Haredi Community, Small and Medium Business Agency, Ministry of Economy and Industry, 2019.
[17] Small and Medium Business Loan Fund with State Guarantees, Update for

In the first months after the outbreak of the war, the government, in collaboration with the Bank of Israel, promoted several initiatives to ease the credit conditions provided to small and micro businesses through banking and non-banking credit[18]. Preferential credit was also provided with philanthropic support and in collaboration with various funds such as Ogen, Koret, Nes, Or Le'Eshkol, and Spark_IL. Additionally, the loan fund with state guarantees included a reserve duty track for small businesses owned by reserve soldiers[19], and several additional steps were taken to create more flexible repayment frameworks and allow various regulatory reliefs to make credit terms more flexible. For example, at the beginning of the war, the Supervision Department at the Bank of Israel initiated a framework to defer loans for three months without interest or fees for residents living up to 30 km from the Gaza Strip, evacuees, bereaved families, and reserve soldiers. This framework was extended by another three months at the end of the year.

Through various aid frameworks, small and micro businesses received about 10 billion shekels in credit by the end of February 2024. These solutions provided an immediate response to businesses' need to keep their heads above water, understand the new reality, and cope with the immediate implications of the security situation and reserve duty reality. However, as the war approaches its first anniversary, many business owners have come to understand that more extensive and proactive measures are needed to rehabilitate damaged businesses and adapt other businesses to a changing reality to allow stabilization and growth. These adaptations require higher investments and additional credit, creating complexity in balancing credit for already small businesses. Several bodies currently offer credit to small and micro businesses, and given the effectiveness of these solutions, it is worth continuing and expanding them.

[18] Bank of Israel, Assistance Program for Small and Micro Businesses, retrieved from the website on 27/06/2024.
[19] Small and Medium Business Loan Fund with State Guarantees, Update for Small and Medium Business Owners (as of June 1, 2024).

Proposal for Blended Finance Credit Tracks

Blended finance tracks with government support can help entities willing and able to provide credit to small businesses create various responses to the needs of different businesses during this period. Blended finance tracks will allow these entities to sell the credit portfolio to institutional or business bodies and, in return, provide new credit. Government-blended finance can increase the activity volume and its attractiveness to investors, enabling these bodies to offer credit under conditions tailored to the needs of small and micro businesses during this complex period.

It is possible to create various blended finance tracks that will suit businesses with different risk profiles and provide a response to a wide range of businesses that currently do not receive adequate or optimal service from the banking system.

<u>First Track - Small businesses with a turnover of up to 12 million shekels</u>

Institutional bodies will be able to purchase asset-backed bonds. The underlying asset will be a credit portfolio established by the credit body and sold in a true sale transaction to a special purpose company (SPC) owned by the bondholders along with the credit body. The bonds' repayment will be secured for investors by a predictable and defined cash flow from the credit portfolio.

To achieve a high bond rating and offer institutional entities a solid and attractive instrument, the securitization transaction will include different layers of debt. The senior debt layer will be rated by a rating company before being offered to institutional entities. This layer will be protected by a subordinated layer ("junior debt") offered to qualified investors seeking increased returns and involving higher risk. Both investor layers will be protected by a cushion layer composed of the credit body's equity. This layer will be backed by a state guarantee absorbing 85% of credit losses. Any credit losses in the loan portfolio will be absorbed by the cushion layer until it is fully depleted (including the state guarantee), and only then will they be deducted from the cash flow paid to junior debt investors. Ultimately, only in the case of extreme credit losses, will the senior debt investors will be affected.

Example model with numbers for illustration:

Layer	Percentage	Amount
Senior Debt	60%	120 million NIS
Junior Debt	25%	50 million NIS
Cushion	15%	30 million NIS
Total	**100%**	**200 million NIS**

Proposed distribution of cushion:

Source	Percentage	Amount
Equity	15%	4.5 million NIS
State Guarantee	85%	25.5 million NIS
Total	**100%**	**30 million NIS**

As per the above illustration, a state guarantee of 25.5 million shekels, which will only be utilized in an extreme scenario, will enable the raising of 170 million shekels from investors. By allocating 2 billion shekels for state guarantee securitizations – 78 billion shekels can be raised from institutional bodies and other investors, which will be reinvested in the economy as credit for small and micro businesses. Most of the money will return to the state and can be used for new securitizations.

<u>Second Track - Micro or very small businesses in the Arab and Haredi sectors</u>

This track will offer credit ranging from 150,000 to 250,000 shekels at a subsidized interest rate below prime. This track will be intended for businesses with a turnover of up to 5 million shekels. It will also address businesses that currently do not meet the requirements to receive credit in other frameworks through a flexible and professional human underwriting process that identifies the real potential of vulnerable small businesses capable of repaying if given flexible and tailored conditions.

To allow for flexible credit tailored to the period's needs, the fund aims for a 90% repayment threshold, meaning the fund itself can absorb relatively high non-repayment rates of up to 10%. To enable these conditions, the bond will appeal to impact investors or institutional investors interested in investing through ESG channels and willing to settle for relatively low returns. To create an investment with a risk level suitable for the relatively low profitability, a layered bond will be built that includes a philanthropy layer below the investment layers to ensure a high level of security for top layer investors. This layer will be backed by a state guarantee absorbing 85% of credit losses. In this way, all credit losses in the loan portfolio will be absorbed by the cushion layer until it is fully depleted (including the state guarantee). Only then will they be deducted from the cash flow paid to impact investors in the top layer.

Example model with numbers for illustrative purposes only

Layer	Percentage	Amount
Senior Debt (Impact Investors)	60%	60 million NIS
Philanthropy	25%	25 million NIS
Cushion	15%	15 million NIS
Total	**100%**	**100 million NIS**

Within this track, it is possible to actively reach out to business owners in the Arab and Haredi sectors, in collaboration with funds such as KIEDF, which have geographical coverage and cultural familiarity with these populations. This allows for credit accessibility and adaptation to these populations' unique needs. Providing this credit under favorable conditions will give micro and small businesses the necessary support for renewed growth and resilience during this period.

2.3 BLENDED FINANCE FOR ESTABLISHING GREEN ENERGY INFRASTRUCTURE

Background: The State of Israel recognized the need to diversify its electricity production sources as early as 2002, when the Ministerial Committee decided to encourage the establishment of facilities for generating energy from renewable sources. In 2020 and alongside many other countries, Israel set a goal for generating electricity from renewable energy –30% by 2030[20].

In addition to the environmental advantages of relying on renewable sources for energy production, there are significant benefits to the stability of energy supply. The importance of this issue was magnified following the events of October 7th with the need to rehabilitate the western Negev, establish energy supply independence and reliability[21],even during crises, and increase productivity and opportunities to expand activities and life in this region.

Needs and Gaps Among Key Stakeholders

Kibbutzim and Moshavim in the Western Negev - These communities rely on agriculture and see the establishment of renewable energy facilities as a significant source of security and economic stability. Significant challenges include the lack of regulation allowing for the direct supply of electricity to communities without relying on the central power grid. Additionally, appropriate transmission infrastructure is needed, with an emphasis on burying power lines, following the failure of above-ground power lines on October 7th. It is also critical to lay transmission infrastructure from the Western Negev northwards to the rest of the country and beyond, l essential for Israel's energy independence and the future possibility of Israel supplying energy to European countries. The lack of economic incentives and financing options increases the dependence of western Negev communities on private developers, disadvantaging them with respect to realizing the projects and deriving future economic value from them.

[20] Department of the Accountant General at the Ministry of Finance, Renewable Energies in Israel – General Background. Retrieved in July 2024.

[21] The Strategic Plan for the Rehabilitation, Renewal, and Development of the 'Tikkuma' Region and Its Population, 2024-2028, Tikkuma Administration, 2024.

1.Several initial projects already established in dual-use (or agro-solar) systems, including the installation of photovoltaic cells above agricultural crops, aim to maximize economic value from the land while benefiting the crops, demonstrating greater economic potential for landowners and ensuring the continuation of agriculture in this region, contributing to Israel's food security[22].

Private Developers - Several companies from the business sector collaborate with kibbutzim and settlements in the Western Negev to establish and operate facilities that generate solar and other forms of energy from waste. These developers provide both the required financing for establishment and the technology and professional management of the construction, operation, and maintenance of these facilities. Examples of companies operating in this region to establish renewable energy facilities include OPC Energy, Energix, Doral Energy, and Shikun & Binui Energy.

Innovators in Renewable Energy - Israel's technological innovation strengths are also evident in this sector, with startups in the energy field raising over $400 million[23] between June 2023 and June 2024. This figure is particularly significant given the difficulties faced by startups in the high-tech industry during this period due to the judicial reform, the events of October 7th, and the months of fighting since. Startups in this field can greatly benefit from collaborating with communities on pilots, experiments, and technology implementations. Innovative technologies can improve the efficiency of electricity solutions and support innovative and dual-use applications, adding value to investments. Integrating innovative technologies will help increase energy independence, energy storage, and cost savings from infrastructure and maintenance.

[22] Interview with Haim Yellin, former Head of Eshkol Regional Council, former Member of Knesset, and current Business Advisor for Doral Energy, from 16/06/2024.
[23] Startup Nation Central, Energy Tech Landscape Map 2024, retrieved from the website in July 2024.

Relevant Government Ministries and the Tkuma Directorate - The Ministry of Energy is promoting long-term planning for the Tkuma region, which includes advancing energy independence and redundancy, promoting green energy, and developing innovation in these fields. According to this plan, increasing the resilience and energy independence of the region will be achieved by "developing Tkuma's ability to function as an 'energy island' when necessary, generating, supplying, and consuming electricity independently of the national grid." This will be accomplished through the development of energy management capabilities, the establishment of local renewable energy, the development of regional electricity and backup grids, the restoration of water infrastructure, the connection of natural gas infrastructure, energy storage, and the creation of microgrids[24].

As part of the Tkuma Directorate's budget, 300 million shekels will be invested in emergency energy infrastructure, including burying power lines, enabling independent distribution within communities, and developing solar energy and subsidies for home energy storage systems[25]. Blended finance models can help leverage this government investment to raise additional private capital, increasing the investment scale to 1.2 billion shekels. This would expand the project scope to additional areas or providing a more comprehensive energy response in the Tkuma region itself.

With the development of a strategic plan for the rehabilitation, renewal, and development of the Tkuma region under the Tkuma Directorate, there is an opportunity to address bureaucracy, coordination, and synchronization challenges among different government ministries and authorities. These challenges can slow down and complicate the development processes that are necessary to strengthen western Negev’s energy independence. The high awareness and urgency to address these emerging challenges become significant accelerators for developing the required infrastructure. Ensuring sufficient financial platforms is a necessary complementary criterion to avoid hindering these accelerated processes.

[24] Principles of Long-Term Planning for the Tikkuma Region, Ministry of Energy and Infrastructure, 2023; Microgrid: Background and Issues for Discussion, Knesset Research and Information Center, 2023.
[25] Lecture by the Tkuma Directorate at the Milken Center Lab on June 18, 2024.

Opportunity in Blended Finance

There is a tremendous need for financing green infrastructure projects to achieve the sustainability goals set by OECD countries as part of the UN's Sustainable Development Goals (SDGs). A UN report on the subject estimates a financing gap of about one trillion dollars per year until 2030.

Blended finance models allow shifting financing reliance to the private sector and reducing the funding need from the public sector. To achieve this, a clear framework and comprehensive policy are needed to enable continuous, rapid action, and enrich the research and data demonstrating the efficiency and economic feasibility of these projects to attract additional capital.

Blended Finance Models for Green Infrastructure

Blended finance models enable greater reliance on private capital and reduce the funding need from the public sector. To achieve this, a clear framework and comprehensive policy are required to enable continuous and rapid action. Additionally, research and data demonstrating the efficiency and economic feasibility of these projects can be used to attract additional capital[26]. Below are several possible models for blended finance of green infrastructure.

1 <u>Green Bonds</u> - In 2023, Israel completed its first green bond issuance led by the Ministry of Finance’s Accountant General. This 2 billion-dollar bond will provide capital for financing projects that significantly contribute to Israel's sustainability goals. The high demand for the bond, totaling six times the issuance amount, coupled with high global investor demand to increase investments in such projects (sometimes at the cost of lower returns), indicates an opportunity to raise additional capital through this model[27].

[26] OECD Blended Finance Guidance for Clean Energy, OECD, 2022.
[27] Department of the Accountant General at the Ministry of Finance, the Accountant General has successfully completed the issuance of a green bond in international markets. Retrieved from the website in July 2024.

2 Collaborative Revenue Bonds (CRBs) - This model is based on an agreement between the private investors funding most of the project and the public entities that will receive most of the project's future value. The public entities will pay returns to investors based on the profit or savings expected from the project, such as reduced insurance premiums, lower operating costs, increased revenue from services, reduced greenhouse gas emissions, job creation, and others. This type of project requires an initial financial assessment of the benefits for the various public entities, called "co-benefits." Subsequently, an agreement that determines the conversion ratio between the benefits and payments from the various beneficiaries is sign, and a model is built, including payments to investors based on different milestones. The main advantage of this financing model is that it allows the future value of environmental benefits to various entities to be capitalized and translated into current financing. It also distributes repayment and return payments to investors among different public entities, easing the budgetary burden on each entity[28].

3 Creating a Fund for Project Financing from Electricity Sales/Taxes - In this model, a fund is composed of tax revenues and/or income from the sale of surplus electricity produced in the local authority/defined area. This fund will be used t0 finance future projects' establishment, operation, and maintenance. One significant advantage of the fund model is that after some time, the fund becomes a revolving fund. Returns from repaid loans eliminate the need for additional money needing to be invested. Rather, future income from taxes and electricity sales can be reallocated. Another advantage comes from establishing and managing a comprehensive blended finance fund so that no additional overhead or bureaucracy is required to manage a specific fund Financing Climate Resilience, HKS, Pages 13-14, 2019.

4 Credit Risk Transfer (CRT) - The model is based on pooling several small projects that individually would struggle to find financing mechanisms due to high risk. The pooled projects provide guarantees to raise additional capital or available capital to provide liquidity for specific project stages. Development banks like the EBRD can be a source for such financing. Another option is to seek philanthropic contributions that will provide catalytic capital, serving as an efficient mechanism to mediate and attract larger commercial investors to enter this market. Different mechanisms might provide solutions for this model, to be described below.

[28] Financing Climate Resilience, HKS, 2019.

2.4 BLENDED FINANCE FOR EMPLOYMENT

In contrast to the credit, green infrastructure, and real estate sectors, the main challenge in employment, particularly for Haredi men and women, is less financial and more systemic. In other words, significant changes are needed in the educational systems that prepare these populations for the labor market. Additionally, various forms of support that incentivize businesses to move to the periphery and employ local residents is essential. For these reasons,it would be more appropriate to develop financial responses as part of a broader strategy that addresses these challenges. Without systemic solutions, the likelihood of individual training programs creating significant impact while providing returns to investors may make these investments less viable.

Conclusion

This chapter has demonstrated the feasibility and potential of blended finance to raise significant capital and promote effective multi-sector solutions on the other in the areas of credit, real estate, and green infrastructure.

- In the credit sector, blended finance can help provide small and micro businesses accessible credit under favorable conditions, particularly those owned by marginalized populations that do not receive adequate service from banks.
- In the real estate sector, blended finance can support urban renewal with high security, environmental, and social standards. The government can take advantage of blended finance's benefits to set high standards in these areas. Public participation processes are particularly important in rehabilitation, as they allow residents to take a leading and empowering role in the rebuilding process, strengthening community resilience.
- In the green infrastructure sector, there is potential to leverage government investments and expand investment through various financing tools. Collaborative work with technology companies offering innovative solutions can create added value and more efficient solutions.

In all three sectors, blended finance tools expand investment volumes through leverage, strengthen cross-sector partnerships, and improve work processes between the public and private sectors.

Despite blended finance tools’ potential, their initial establishment can be complex. Success depends significantly on the availability of a developed impact investment market and the government's ability to allocate substantial and appropriate resources for these investments. For these reasons, several countries have developed wholesale funds for blended finance investments.

The next chapter will discuss these funds’ advantages and structure and present a case study of the oldest operating fund in England -Big Society Capital.

CHAPTER 3

WHOLESALE FUNDS FOR BLENDED FINANCE AND THE BETTER SOCIETY CAPITAL (FORMERLY BIG SOCIETY CAPITAL) CASE STUDY

Wholesale Funds (Impact Investment Wholesaler Funds)
Wholesale funds are an intermediate tool for pooling resources for blended finance on a broader and more regulated scale. Similar to the tools presented in the first chapter, a wholesale fund aims to generate investments with financial returns and measurable social/environmental impacts. However, unlike the previously mentioned instruments, the wholesale fund operates on a larger scale. It contributes to the entire market's development by investing in intermediary funds and making direct or indirect investments in companies, organizations, or projects addressing various social and environmental challenges. The wholesale fund plays a significant role in developing the impact investment market and promoting blended finance for social and environmental goals in areas such as housing, education, health, infrastructure, and others.

A wholesale fund has four main characteristics that allow it to promote the market--directly through investments and attracting additional investors, and indirectly through supporting other players and promoting reliable measurement tools. The four main activities of a wholesale fund include:

1 **Investments** – The wholesale fund invests directly in specific companies or indirectly through funds or intermediaries.

2 **Raising Additional Capital** – The wholesale fund leverages government investment by raising significant capital from other private, foundational, and institutional investors.

3 **Promoting Social and Environmental Impact Measurement** – The fund measures, manages, and reports on impact and financial data, promoting quality measurement and transparency norms and practices.

4 **Market Development** – The wholesale fund aims to develop the impact market by influencing policy, raising awareness, strengthening various market organizations, and supporting additional players.

ŋThe fund’s success is measured by its ability to promote the market by increasing supply and demand. A successful wholesale fund will ultimately lead to market growth in terms of the number of players participating, its volume of investments, and the resulting social and environmental impacts. To understand the impact of a wholesale fund, we will examine the case of Better Society Capital, established in England in 2011.

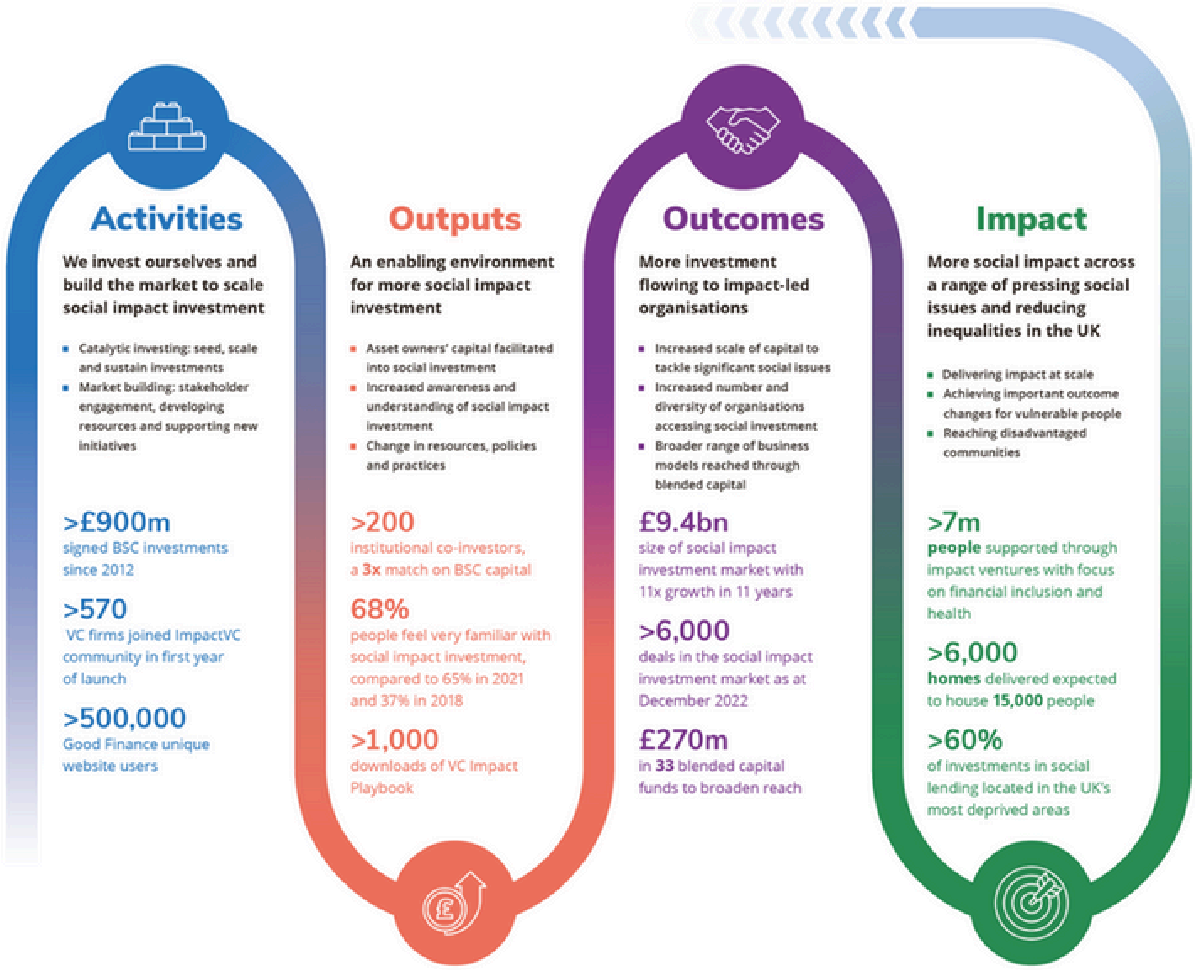
Case Study - Better Society Capital (formerly Big Society Capital)

Better Society Capital (BSC) is a British wholesale fund that aims to increase the amounts of money invested in social issues and inequality by investing in entities generating impact investments and opening doors for additional investors to join. The fund was established in 2012 at £600 million, divided into £400 million from dormant British accounts and £200 million from four British banks. The fund also has a sub-fund called the "Foundation for Social Investment," which invests in smaller social ventures.

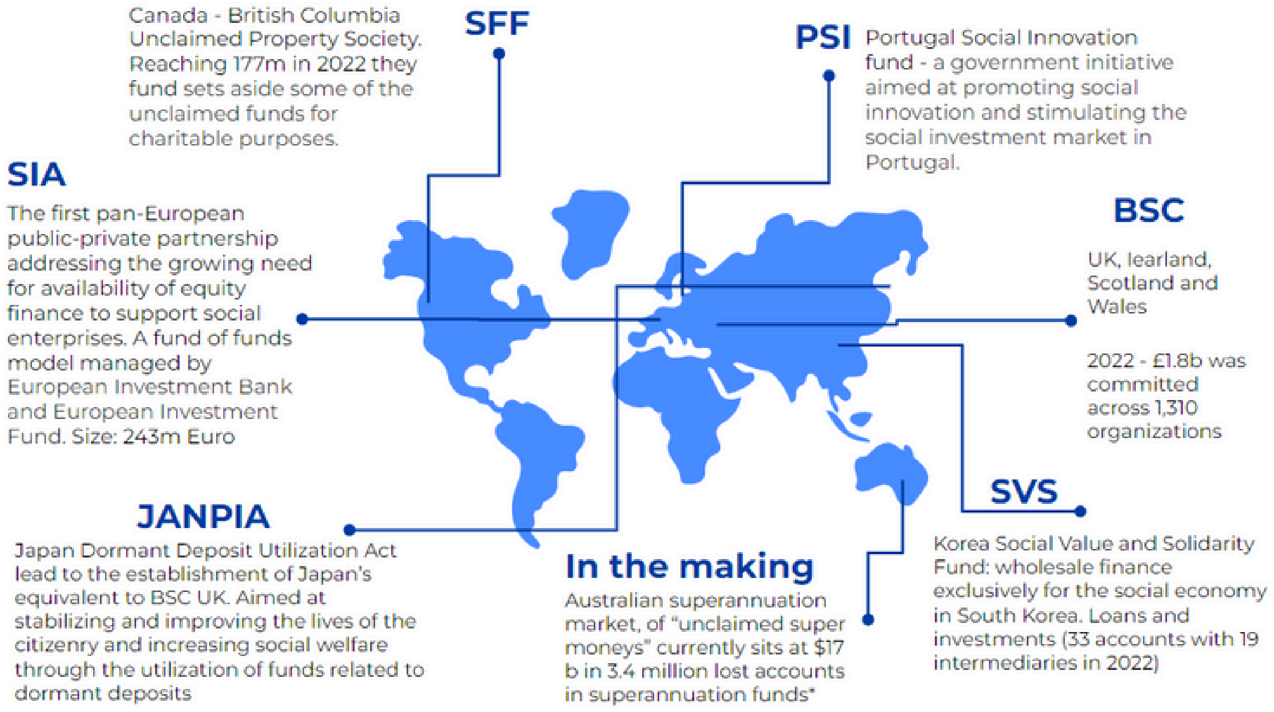
With the fund’s help, over £2.5 trillion has been invested so far, with every £1 invested by BSC attracting an additional £3 from other investors. The fund has a net profit of £16.1 million and an average return of 2.6% on invested capital. The amounts invested by the fund have impacts in various fields, including education, employment, housing, public buildings, welfare, mental health, arts, sports, environment, and others.

Additionally, the impact investment market in Britain has grown elevenfold over the last ten years, with BSC playing a central role in bringing additional players into the market and engaging mainstream investors in impact investments using catalytic capital. BSC actively participates in public policy discussions through its data. That said, despite all this, Britain still faces a shortage of approximately £480 million in catalytic capital each year.

BSC has many future expansion plans in several areas, aimed at building a broad results-based system that will replace traditional public service systems and succeed in addressing complex social issues.



Currently, several prominent wholesale funds, apart from Better Society Capital, use financial tools for social or environmental goals:



<u>(EIF) The European Investment Fund's Social Impact Accelerator (SIA):</u> The fund ensures financing for small and medium-sized enterprises (SMEs) in Europe and includes various financial tools designed to serve this purpose. Over the past decade, it has created specific tools for social enterprises as well. One of these tools is the SIA (Social Impact Accelerator), which includes €243 million and serves as a wholesale fund within the EIF. Most of the SIA's funds come from the EIF and the European Investment Bank, with the rest from other public financial institutions in Europe[29]. The EIF aims to build a market where social enterprises of various types and stages can raise capital for their needs.

(PSI) Portugal Social Innovation: A wholesale fund that exists to accelerate the social investment market. It is an initiative of the Portuguese Government that mobilizes €150 million from the European Social Fund to support over 693 innovative ventures[30]. The fund has four financial tools aimed at financing projects that offer solutions to social problems.

[29] GSG Impact. The GSG and partners collaborate on a ground-breaking research project to identify SDG-driven tech innovation ecosystems (2024). Retrieved from the website on July 2024.
[30] Portugal Social Innovation. Retrieved from the website on June 2024.

(DUF) Japan's Designated Utilization Foundation (JANPIA): Japan's wholesale fund, established in 2019, receives about ¥70 billion (€470 million) annually from the state, mainly from dormant accounts. Its goals are to support social activities that help children and young people, people experiencing social and daily challenges, and support community renewal. The fund collaborates with intermediary organizations that distribute funding to organizations, through grants, loans, and investments in social ventures.

Korea Social Value and Solidarity Fund: South Korea's wholesale fund was declared a foundation in 2018. It raised private donations along with targeted funding of 300 billion (approximately $375 million) over five years. It intends to operate similarly to Better Society Capital's strategy, focusing on intermediaries to operate grants, debt, private equity, and guarantees in various social sectors. The fund technically operates independently of the government, although the government, as its main funder, leads aspects of its design[31].

Canada's Social Finance Fund (SFF): Canada's wholesale fund, announced in 2018 and operational since 2021, is valued at $755 million. It aims to accelerate the growth of Canada’s social finance market. It supports greater access to flexible financing for nonprofits, social enterprises, cooperatives, and social organizations, helping them increase their social and environmental impact[32].

[31] Building Impact Investment Wholesalers, GSG Impact, 2018.
[32] Government of Canada. About the Social Finance Fund. Retrieved from the website on June 2024.

Sources of Funding for Wholesale Funds

The funds for a wholesale fund can come from various sources, including dormant accounts, public financial institutions, the government, institutional investors, and philanthropy.

- **Dormant Accounts**: In some countries, laws regarding dormant accounts allow the government to collect these funds after a certain period of inactivity and use them for social capital markets. In the UK and Japan, laws define dormant accounts and the conditions for using them to finance their dormant funds versus wholesale funds [33]. The advantages of dormant accounts include introducing previously inaccessible money into the social capital market. This public money can be invested by the government without expecting a return to promote social or environmental goals. However, using dormant account funds may raise public concerns about losing their accounts. Banks may oppose this because they could lose potential profits from using the dormant accounts themselves. Moreover, using these funds requires legislation, a process that demands significant time and support. The flexibility of use also depends on the nature of the legislation

- **Public Financial Institutions:** These institutions invest in public goals and may understand the wholesale fund's goals and strategy better than governments or banks. When a wholesale fund operates under the financial umbrella of an institution, the institution can provide credibility and an investment process, saving the wholesale fund from building it from scratch. These institutions already invest large sums to achieve public goals, understand social investment, and are familiar with the field, allowing them to act quicker than other players, such as the government. That said, some of these institutions have narrowly defined missions focusing on economic growth and employment. They may feel that social or environmental impact is beyond their mandate.

[33] Building Impact Investment Wholesalers, GSG Impact, 2018.

- **Government:** Governments can fund wholesale funds through grants or investments. Drawing money from the government budget can signal the government’s commitment to impact investments, attracting desirable attention Governments can also settle for lower returns, allowing more flexibility in the wholesale fund's investment terms. However, governments may face economic pressure, not budget the fund adequately, or operate slowly, with bureaucracy or rigidity.

- **Institutional Investors:** These investors can be a significant source of capital for wholesale funds, but only under competitive return conditions. The advantage of investments from institutional investors is their ability to operate relatively quickly and efficiently, bringing expertise and a solid investment strategy to the table. The downside is that raising funds from multiple institutional investors requires coordination, which takes time and energy. Additionally, institutional investors have return expectations, making it difficult for the fund to be flexible.

- **Philanthropy and Private Donors:** Most wholesale funds will likely seek to raise funds through governments and public financial institutions. However, in some countries, such as those with well-established philanthropic sectors, philanthropic funds may be sought to invest in wholesale funds. Philanthropic funds can provide capital that prioritizes impact goals over financial returns. They may expect a return without profits or even that’s less than the sum invested, allowing the wholesale fund to invest more flexibly (e.g., in higher-risk areas). The wholesale fund can also raise funds from wealthy individuals, as in the case of the India Impact Fund of Funds[34].

[34] Building Impact Investment Wholesalers, GSG Impact, 2018.

Establishing a Wholesale Fund in the Country Includes the Following Steps:

- Gaining the support of professional and political levels for establishing a wholesale fund, identifying a budget source, and if necessary, changing legislation to allow the use of funds for establishing a wholesale fund.

- Raising additional capital to create a significant leverage effect on the fund, as well as developing attractive investment products and tracks that draw philanthropic support, but mainly extensive investments from private and institutional investors. The advantage of a wholesale fund is its scale and diversification, making it an attractive investment option for investors.

- Establishing professional management by building the fund structure, including equipping senior management with knowledge in the fields of investment and impact, implementing internal controls and compliance, and setting up an external impact committee.

- Developing tools to measure, manage, and report impact and financial data that can support the market and establish clear norms for investors.

- Developing an investment strategy by mapping potential intermediaries and funds that can be included in the wholesale fund, determining the terms and conditions for investment, considering financial, social, and environmental goals.

- Developing a support ecosystem for the impact market by influencing policy, raising awareness, building coalitions, and supporting additional players in the field.

In Israel, the possibility of establishing a wholesale fund was examined, and the potential was recognized by various professional levels in the Ministry of Justice and the General Guardian, as well as by the Ministry of Finance and the Prime Minister's Office. Steps were taken to explore the possibility of allocating inheritance funds to this initiative, but it has yet to mature.

Due to the complexity of establishing a wholesale fund, the process of doing so for the rehabilitation of Israel’s South and North is expected to take over two years. Given the urgent needs arising from said rehabilitation efforts, we propose progressing on a parallel track. First, focused projects in the fields of real estate, credit, and infrastructure where blended finance pilots can be created should be identified. Concurrently, the feasibility of establishing a wholesale fund with a fixed budget base that can build on insights generated from the pilots to create a more significant initiative for long-term rehabilitation efforts should be examined.

This proposal will be discussed further in the summary chapter.

SUMMARY

The mobilization of the social, business, and public sectors for social and economic needs following October 7th is transitioning from an immediate response to medium and long-term rehabilitation. One way to institutionalize cross-sector cooperation is by constructing blended finance mechanisms, which hold the potential for measurable long-term economic, social, and environmental rehabilitation.

The rehabilitation process is already underway despite the fact that the war continues to wage and there is particularly high uncertainty in the North. There is a need to create immediate yet flexible responses. For this reason, we believe that working in parallel on a national rehabilitation fund based on blended finance while promoting pilots in selected areas provides the necessary flexibility to progress under current uncertainties.

The Israeli Forum for Impact Economy, even before the events of October 7th, and more so since, has identified significant interest among various entities--philanthropists, private investors, and others--to work collaborate on achieving national goals. Since October 7th, the desire and the need to work together, pool rehabilitation efforts, and harness the unique capabilities of all sectors to ensure measurable economic, social, and environmental rehabilitation have increased. Mechanisms to strengthen private-public action, including blended finance, present a practical opportunity to create partnerships that combine capital with each sector’s relative advantages. Partnerships can help improve collaborative work efforts, remove barriers, and promote practical and sustainable solutions. All these will contribute to strengthening trust among various entities, as well as between the public and these entities.

The Israeli Forum for Impact Economy proposes leading a multi-stage process:

A. Building Pilots:

- July-October 2024: In the first phase, three pilot projects with national priority in the target areas will be selected. For each area, a working group of content experts will formulate an initial economic model tailored to market needs.

- October 2024-December 2024: In the second phase, work teams will be established, including representatives from the government, private investors, and philanthropists. These teams will examine the investment needs and constraints of the various entities and formulate dedicated blended finance structures for the project, as well as agreed-upon social and/or environmental goals, mapping bureaucratic barriers and government financing opportunities.

- January 2025: In the third phase, social and environmental goals will be agreed upon, and a structured measurement plan will be developed to evaluate them.

- February-May 2025: In the fourth phase, the financing proposals will be presented for approval by professional authorities in the government, and integrated investment mechanisms will be established based on the previous phase, i.e., creating a legal entity if necessary, channeling capital from various sources, selecting representative leaders for the mechanism, and implementing the financing for projects according to a structured plan. Measurement and orderly reporting of the defined economic, social, and environmental goals throughout the project's life.

B. Building a National Rehabilitation Fund Based on Blended Finance:

In parallel with the pilots' promotion, a strategic work team will be established to examine the optimal structure for an Israeli wholesale fund that will consolidate the pilots and serve as a basis for continued social and environmental investments and promoting the ecosystem.

The fund development process will include:

- July-October 2024: Comprehensive research on different models from around the world, including interviews with these funds' leaders and initiators from the business, public, and philanthropic sectors.

- November 2024-April 2025: Establishing a work team including stakeholders from the government and the private sector to develop a framework for building the wholesale fund. This framework will include identifying funding sources, overcoming regulatory barriers, and submitting legislative amendments[GC1] . The team will also establish national economic, social, and environmental goals, and develop an investment strategy accordingly.

- May 2025 onwards: Establishing the national rehabilitation fund as an independent entity and all that entails.

Members led by the Israeli Forum for Impact Economy's management team are committed and mobilized to lead the development processes and support the implementation of this proposal. We are confident that this combined and practical proposal can offer a new horizon in the mission of national economic, social, and environmental rehabilitation, creating a new social contract between different sectors and between the state and its citizens. The extensive accumulated experience of the global network of GSG Impact and G7 equips us with the knowledge, connections, and tools to promote the matter in a substantive, professional manner and impartially, benefitting all stakeholders.

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AUTHORS

- Aya Navon, Head of Research, Israeli Forum for Impact Economy
- Elad Lubitz, Legal Advisor, Ogen Group
- Asaf Rosenheim, Director, Profimex
- Eshal Peleg, Research Assistant, Israeli Forum for Impact Economy
- Reuven Sabati, Research Assistant, Israeli Forum for Impact Economy
- Hila Leihirt, Impact Investment and International Development Consultant
- Vanessa Vacherins, CEO, Israeli Forum for Impact Economy (IFIE)
- Omri Borrel, CEO, IMpact IMagine
- Sagie Balesha, CEO, Ogen Group
- Ruth Moatti, Herzog Fox & Neeman

INTERVIEWS AND PROFESSIONAL CONSULTATION

- Ila'il Davidoff, SFI
- Bella Alexandrov, Yad Hanadiv
- Yaron Neufernder, SFI
- Michal Kabcnik, SFI
- Noa Yaayon, Paie Foundation
- Noa Yuval Maoz, Hadarim Fund
- Smadar Berman, Hadarim Fund
- Adi Azaria, Koret
- Rami Sheinfeld, Yad Hanadiv

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