UNLEASHING FINANCING FOR NATURAL CLIMATE SOLUTIONS: AN OPPORTUNITY FOR IMPACT AND FINANCIAL RETURNS

KEY EVENT HIGHLIGHTS

Opening Remarks

USAID’s Draft Climate Strategy 2022-2030 was released for public review, highlighting bold new goals and targets, including (but not limited to):

- Mobilizing US$150 billion in public and private finance for climate by 2030.
- Supporting structural changes that improve participation and leadership for Indigenous Peoples, local communities, women and youth in climate action in at least 40 partner countries by 2030.

Natural climate solutions will play a key role in achieving the goals set out in the strategy.

Given the scale of the climate challenge, there is a need to leverage all resources and recognize these challenges go well beyond what public funding alone can provide.

Blended finance can serve as a catalytic tool to work with the private sector to reduce risk and attract financing that might otherwise not be focused on the climate.

Panel Discussion

Natural Climate Solutions, Revenue Models, and Market Trends:

- The majority of natural climate solutions financing is in sustainable commodity production; as of 2020, the market size has reached US$228 billion for certified forest products and US$190 billion for certified agricultural goods.
- While the gaps in financing are wide, they represent a significant market opportunity. For example, estimates reach as high as US$2.3 trillion for the market opportunity for food and agriculture systems by 2030.
- Lack of investible pipeline is often cited as a significant challenge. There is a role for USAID and other donors to help design and pilot new solutions to strengthen the pipeline. This could be through creating a track record, capacity building, technical assistance, etc.
Relevance of Blended Finance Solutions:

- Blended finance is a structuring approach that leverages public or philanthropic capital to mobilize private investment into sustainable development.
- The “blending” of capital is not a panacea, but an approach with many pathways to achieving objectives.
- There is a strong role for USAID and other donors to help design/pilot new solutions to build out a strong pipeline.
- We must prioritize confronting challenges and risks associated with deploying blended finance effectively, particularly given that such concerns are compounded in sustainable forestry and land use settings.
- Natural capital solutions often require a market systems lens to address these underlying challenges. Blended finance approaches can address one aspect of a complex system.

Case: Amazon Biodiversity Fund (ABF):

- Launched in 2019, ABF is a private equity and impact investment fund with Mirova Natural Capital, intending to raise approximately $65 million in private capital. The fund seeks to conserve biodiversity in the Amazon by investing in sustainable production supply chains and related conservation enterprises.
- ABF is the first of its kind in the Amazon and USAID played a critical role to support the fund's establishment from start to finish, particularly through the co-design process.
- ABF Objective: Provide venture and growth finance for businesses that have a transformational, positive impact on biodiversity and communities in the Legal Amazon.
- Focused on mitigating risk to attract investments, support strong pipeline development, and to ensure social and environmental safeguards, and impact.
- The private-sector led Partnership Platform for the Amazon (PPA) harnesses market-led solutions to conservation and is supporting pipeline development (incubation and acceleration), networking, and technical expertise.
- By partnering with private sector companies, PPA helps to develop and identify innovative solutions for sustainable development and biodiversity conservation of the Amazon.
- Current Status: 2 investments made, 1 expected soon, 2 more by December (5 by end of 2021), with a large pipeline of >20 investments.

**MODERATED Q&A**

**Project Development**

**Q:** How do we establish projects to ensure a positive impact on the ground? What impact metrics need to be established so that the right kind of data is collected to measure this impact?

**A:** For ABF, a robust co-design process focused on selecting indicators and how to measure them, incorporating them into the bylaws of the fund itself, and a parallel MEL approach and instruments to measure long-term biodiversity.

**A:** Consider design, strategy, documentation, governance structures that ensure technical and expert feedback, and processes for good practices in management.

**Q:** What considerations should be given related to ensuring an enabling environment suitable for mobilizing private capital?

**A:** It’s important to understand what ingredients are needed for structuring blended finance vehicles. More broadly, blended finance is a transitioning tool that can lead to policy change.
# Community Adoption

**Q:** How did you encourage landowners to adopt practices that improved biodiversity since it is often not something that generates financial returns? Was there a community inclusiveness layer of impact?

**A:** In Brazil, a community-based approach was needed to demonstrate the effectiveness of investible pipeline and generate investment interest.

**A:** We provided technical assistance to educate multiple generations of farmers to better understand and access investment opportunities.

# Sustainability and ABF

**Q:** To what extent is the Mission team certain of the self-sustainability of the ABF equity fund?

**A:** We looked at different options on the probability of success, but ultimately had to accept a high degree of risk. Since ABF was created, it certainly has grown; another investment fund has been created, and we've seen success in attracting companies and working effectively with the private sector.

## WEBINAR RESOURCES

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## Mobilizing Finance for Development (MF4D) Webinar Series Resources

| Mobilizing Finance for Development – A Comprehensive Introduction |
| Mobilizing Finance for Development (MF4D) Self-Paced Online Course |
| Vignettes Handbook – Mobilizing Finance for Development |
| Finance Wiki on Marketlinks |

## Further Reading

| Blended Finance for Sustainable Landscapes - Chemonics, Dalberg, KOIS Technical Brief |
| Full Series of Blended Finance Technical Briefs |
| Chemonics Center for Private Sector Engagement |
| Chemonics Blog Series: |
| • From Billions to Trillions: Using Blended Finance for Scaling Impact in Climate and Health |
| • How Chemonics is Mobilizing Finance for Development |
| Catalyzing Private Finance for Climate Action: Learning Brief |
| Unlocking Private Capital for Nature-Based Solutions in Emerging and Frontier Markets |