DATA BRIEF

BLENDING IN CONSERVATION FINANCE

OCTOBER 2019

HIGHLIGHTS

- Biodiversity conservation supports healthy and productive ecosystems, which provide goods and services critical to the survival and well-being of all species (e.g., food, oxygen, clean water). Best estimates suggest that $300-400 billion is needed globally per year to preserve ecosystems against the threat of climate change.
- According to the Convergence database, there have been 30 blended finance transactions focused on conservation, which represent aggregate financing of $3.1 billion. This Brief only includes blended finance transactions that explicitly seek to foster biodiversity and not those that may have an indirect impact on biodiversity.
- To date, blended finance transactions with conservation mandates have largely focused on sustainable agriculture and sustainable forestry / reforestation. These transactions mobilize additional financing for activities like conservation agriculture, forest management, and reforestation projects that foster local ecosystems.
- Blended finance transactions focused on conservation have largely been pooled vehicle structures and have been quite large in size, concentrated in the $50-250 million range, with a median size of $87.5 million. Latin America and the Caribbean has been the most targeted region.
- Blended finance transactions focused on conservation have commonly relied on multiple forms of concessional capital. Design-stage grants have been key for conservation projects: transactions analyzed have been nearly twice as likely to benefit from design-stage grants. Governments have been the key source of concessional capital for these transactions.

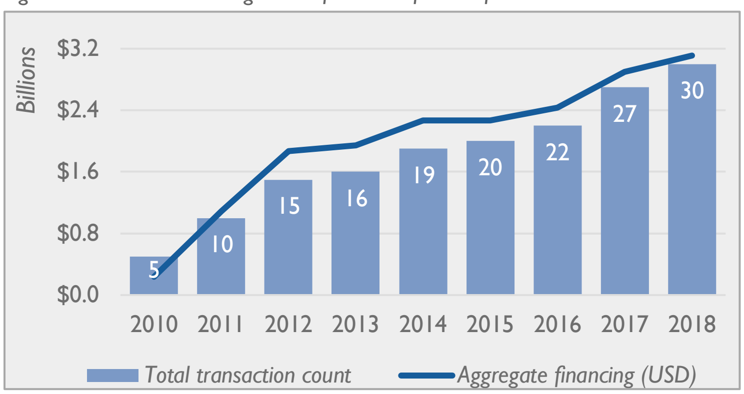
Blended finance is one approach used to attract additional sources of capital to biodiversity conservation; but now it's time to scale

Biodiversity conservation supports healthy and productive ecosystems, which provide goods and services critical to the survival and well-being of all species (e.g., food, oxygen, clean water). Best estimates suggest that $300-400 billion is needed globally per year to preserve ecosystems against the threat of human activities and climate change; yet, current flows to conservation projects only total around $52 billion. Moreover, conservation efforts to date have been almost entirely funded by grants, donations, and government budget.

Conservation finance is a set of mechanisms for investing in ecosystems, generating additional, long-term, and more diversified sources of capital for biodiversity conservation. It is a growing practice that aims to monetize environmental externalities, demonstrating that preserving ecosystems is not only affordable, but profitable in the long-term. However, conservation can be a slow and risky business that takes decades to realize, verify, and capitalize on ecosystem benefits. Blended finance is one important tool that can be used to manage key risks and mobilize private sector investment in conservation projects.

This Brief considers how blended finance approaches have been deployed in conservation finance to date. According to the Convergence database, there have been 30 blended finance transactions focused on financing conservation projects, which represent aggregate financing of $3.1 billion. This includes solutions for a diverse set of conservation projects, from reforestation to ocean waste management. This Brief only includes blended finance transactions that explicitly seek to preserve / foster biodiversity and does not include transactions that may have an indirect positive impact on biodiversity (e.g., financing for sustainable agriculture).

Figure 1: Market size and growth of blended finance for conservation

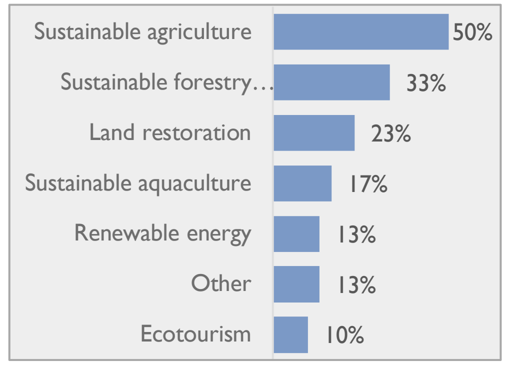


ANALYSIS

Blending for conservation has mostly focused on sustainable agriculture

To date, blended finance transactions with conservation mandates have largely focused on sustainable agriculture and sustainable forestry / reforestation. These transactions mobilize additional financing for activities like conservation agriculture, forest management, and reforestation projects that maintain and/or foster local ecosystems. Land restoration as a result of pollution, deforestation, salination or natural disaster is another important issue area where blended finance has been used, accounting for about a quarter of blended finance solutions for conservation. Other transactions have been focused on aquaculture, ecotourism, sustainable apparel, and water conservation.

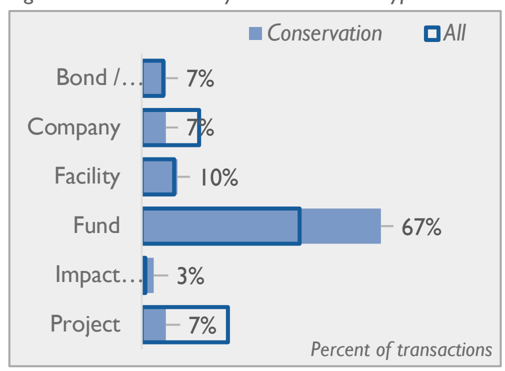
Figure 2: Transactions by conservation activity(ies)



Pooled solutions have been most common in blending for conservation

Nearly 85% of blended finance transactions with a conservation mandate have been pooled vehicle structures. The vast majority (i.e., two-thirds) have been blended funds, including both structured debt and equity funds. Funds (and other pooled vehicle structures) have taken both a wide lens, focusing on conservation broadly across multiple sectors, as well as a narrow lens, focusing on a specific conservation issue like oceans or sustainable coffee. Blended finance solutions for conservation have been relatively less likely to be companies or projects. It can be noted, however, that companies and projects are largely the direct beneficiaries of pooled vehicles.

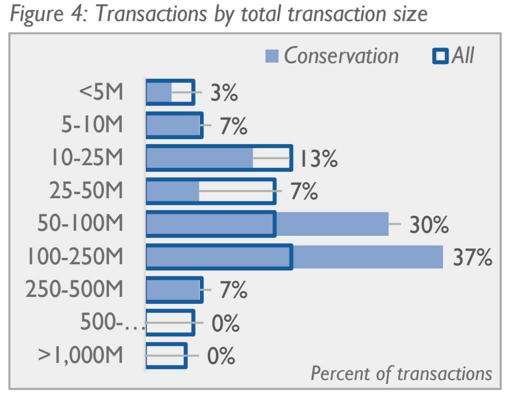
Figure 3: Transactions by blended vehicle type



Conservation solutions have hit a scalable size: $100-250 million

Blended finance transactions for conservation have been concentrated in the $50-250 million range, with a median size of $87.5 million. These solutions have been more than twice as likely to be $100-250 million in total size, compared to all blended finance transactions captured in Convergence's database. These larger typical transaction sizes could indicate strong potential to scale private sector investment in this space. This trend in total transaction size is logical given the typical vehicles seen above: the concentration of pooled vehicle solutions. That being said, there have been no blended finance transactions for conservation above the $500 million threshold.

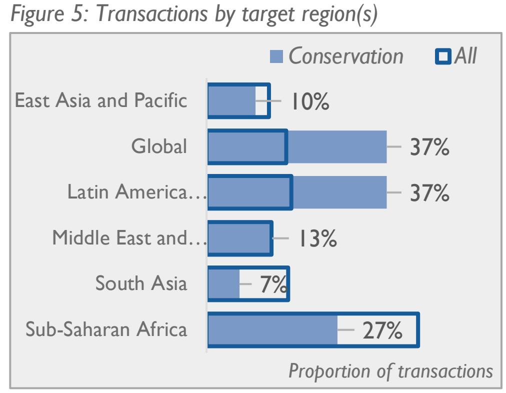
Figure 4: Transactions by total transaction size



Blending for conservation has been most common in LAC

Across blended finance transactions for conservation, Latin America and the Caribbean has been the most commonly targeted region, with 37% of transactions focused in full or part on these countries. As one of the world's biodiversity "superpowers", Latin America and the Caribbean is already a leader in conservation regulation with nearly <u>one-fifth of its land under protection</u>. In addition, another 37% of blended finance transactions have been global in nature, which reflects the number of pooled vehicles and specialized mandates in the conservation space. The countries most frequently targeted have been Colombia, Ecuador, Guatemala, Indonesia, Kenya, and Mexico.

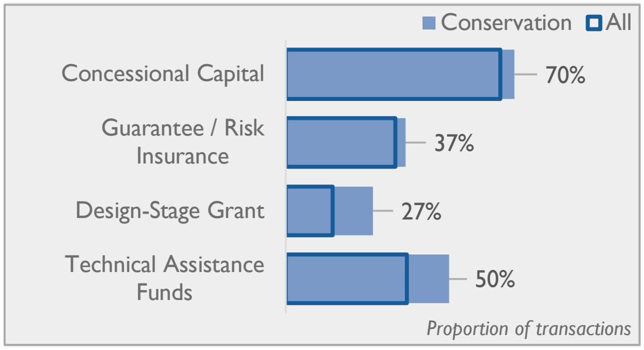
Figure 5: Transactions by target region(s)



Design-stage grants have been key for conservation

Blended finance transactions focused on conservation have commonly relied on multiple forms of concessional capital. Concessional debt or equity appears in 70% of transactions, with a fairly even split between the two. Relative to all blended finance transactions, solutions for conservation have been nearly twice as likely to benefit from design-stage grants. It can take time and resources to design finance mechanisms that generate cash flows, establish lawful and equitable land claims, and develop measurable targets. Grants deployed for technical assistance alongside investments have also been common.

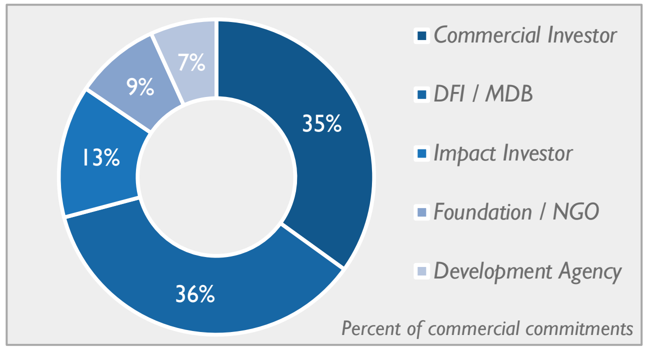
Figure 6: Transactions by blending archetype(s) deployed



Banks, corporates, and DFIs have been key financiers

Each blended finance transaction has mobilized capital from one or more private sector investors. More than one-third of commercial commitments to these transactions have been from commercial investors, primarily banks and corporates. An equal proportion of commercial investments have been provided by MDBs and DFIs. The most frequent providers of commercial capital have been European Investment Bank (EIB, 8 commitments), the Netherlands Development Finance Company (FMO, 6), Overseas Private Investment Corporation (OPIC, 4), Finnfund (3), and Danone (3).

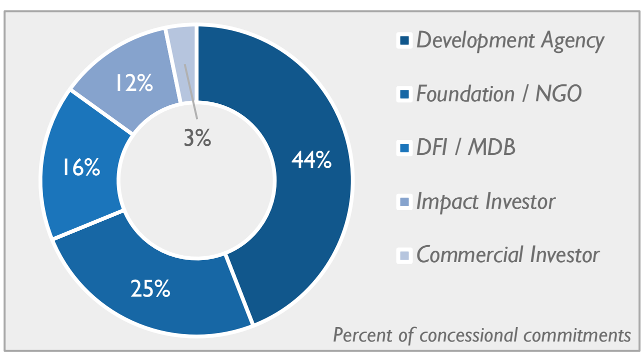
Figure 8: Commercial capital commitments by type of organization



Governments have most clearly prioritized ecosystems

Concessional capital for blended finance transactions focused on conservation has been most commonly provided by development agencies and multi-donor funds (44% of commitments), followed by foundations and NGOs (25% of commitments). MDBs and DFIs have also deployed concessional capital to these transactions, primarily from donor funds under management and alongside their own commercial investments. The most frequent providers of concessional capital have been USAID (8 commitments), the Global Environment Facility (GEF, 7), and IDB Lab (5).

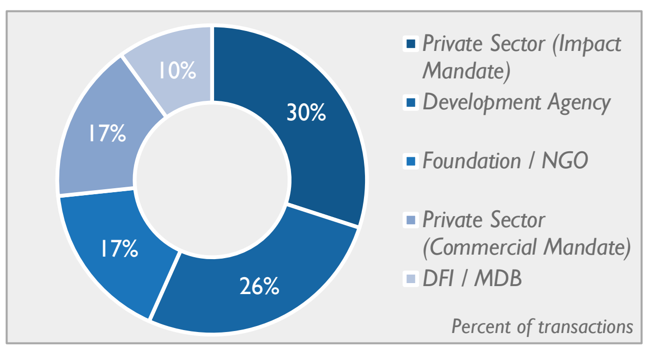
Figure 7: Concessional capital commitments by type of organization



Private sector also a prominent deal sponsor for solutions

Approximately half of blended finance transactions focused on conservation have been led by the private sector, with 30% of transactions sponsored by impact-oriented firms. Development agencies and foundations / NGOs have also played a role in advancing this area. The largest share of deal sponsors has been those domiciled in the U.S. (37% of transactions), followed by the Netherlands (20%), and France (17%). The Nature Conservancy (TNC) (3 transactions), Danone (2), Mirova-Althelia (2), and Terra Global Capital (2) have all been at the forefront of piloting blended finance solutions for ecosystem conservation.

Figure 9: Deal sponsors by type of organization



REFLECTIONS

Conservation finance is a growing field of practice that seeks to grow and diversify sources of capital for biodiversity. However, conservation finance faces various challenges in attracting commercial capital from the private sector, including the types of barriers that affect the broader impact investing market (e.g., lack of standards for measuring impact, high transaction costs, and small project sizes). There are also additional challenges unique to conservation finance, such as:

(i) generating sizable cash flows in the short-term;
(ii) the inherent complexity and unpredictability of natural systems; and
(iii) the multifaceted nature of many questions related to land use, particularly its objectives and its governance.

The field of conservation finance is continuing to innovate and mature. Blended finance is one important tool to mobilize additional private investment in ecosystem conservation. This Brief seeks to benchmark the use of blended finance approaches in conservation, including where, how, and who is participating. The analysis here demonstrates that blended finance is not new to conservation finance and that there is a growing body of evidence that can be used to refine and scale solutions with demonstrated success. Anecdotally, Convergence sees strong momentum behind conservation finance – among members and the broader community – given its critical role in climate change mitigation and adaptation.

METHODOLOGY AND NOTES

1. **Convergence's database:** Convergence maintains the largest and most detailed database of blended finance transactions in developing countries that have reached financial close. Given the current state of information sharing, it is not possible for this database to be fully comprehensive. Efforts have been made to capture all relevant blended finance transactions; however, there are likely more transactions that have not been captured.
2. **Scope of available data:** This Brief analyzes 30 blended finance transactions that explicitly focus on ecosystem conservation in developing countries. The practice of conservation finance focuses more broadly on both developed and developing countries, and the figure cited on page 1 refers to total financing required. This Brief also does not include transactions that may have an indirect positive impact on biodiversity (e.g., financing for sustainable agriculture without an explicit conservation mandate). The conservation focus is similarly identified and grouped through keyword analysis.
3. **Target region and countries:** Convergence tracks region and country data by stated region(s) and countries of focus at the time of financial close, not actual investment flows. Often, regions and countries of eligibility are broader than those explicitly stated.